



CITY OF OAKLAND
Office of the City Auditor

DATE: October 26, 2023

TO: Mayor Thao, City Council President Bas, Members of the City Council, City Administrator Johnson, City Attorney Parker, and Oakland Residents

FROM: Acting City Auditor Michael C. Houston, MPP, CIA

SUBJECT: **City Auditor's Response To City Council Resolution No. 89757 C.M.S. Regarding Grants Awarded to ESO Ventures.**

BACKGROUND

ESO Ventures is a for-profit, entrepreneurial support organization founded in East Oakland in 2020. The organization offers community and connection, business incubation, entrepreneurial education, coaching, and financial products for early-stage entrepreneurs.

On June 6, 2023, the Oakland City Council (City Council) approved Resolution No. 89757 C.M.S. "requesting the assistance of the City Auditor to provide clarity on the grant funding awarded to ESO Ventures," including the following two grants:

- An \$8 million grant from the State of California (State) to the City of Oakland (City) to fund ESO Ventures (as accepted and appropriated by Council Resolution No. 88877 C.M.S. (2021))
- A \$75,000 grant to ESO Ventures to provide entrepreneurs in underserved communities with capacity-building services and capital to build successful businesses (as awarded by Council Resolution No. 88780 C.M.S. (2021) which included various grants for community-related services and activities.)

Per the City Council's request, the Office of the City Auditor determined how much of the grant funds were spent and for what uses, how much remains, and identified the status reports provided by, or about, ESO Ventures' funding

RESULTS

The Office of the City Auditor found:

- The City ultimately did not receive or administer an \$8 million State grant due to changes in the funding stream, and
- The City paid ESO Ventures the full grant amount of \$75,000 without obtaining assurance that the contract terms were met.

Details of these findings and recommendations are outlined below.

FINDING 1: The City ultimately did not receive or administer an \$8 million State grant due to changes in the funding stream.

The State passed the Budget Act (Act) of 2021 in September 2021, which allocated \$8 million to the City to fund ESO Ventures. In October 2021, the City Council passed Resolution No. 88877 C.M.S. to accept and appropriate the State grant to fund ESO Ventures. This arrangement would have provided the City with the ability to provide oversight of the grant as a pass-through agency.

However, in December 2021, the State and ESO Ventures ultimately signed a contract to administer the grant between the two entities, excluding the City and its ability to oversee the funds. The State, the City Attorney's Office, and the City Administration agreed to this change in the funding stream. The City Council was not informed of this subsequent change despite already accepting and appropriating the grant.

Although this change excluded the City from accepting and appropriating the State funds as outlined in Resolution No. 88877, the State had the authority to determine the best way to allocate the funding. The Act states, "The state entity shall determine the best method for allocation to ensure the funds are used for the purposes specified in this section." However, considering the City Council approved the resolution of the \$8 million State grant, the City Administration should have informed the City Council of the change.

Recommendation 1: The City Administration should establish and follow protocols for informing the City Council of updates regarding significant changes to grants that are accepted and appropriated by City Council resolution.

FINDING 2: The City paid ESO Ventures the full grant amount of \$75,000 without obtaining assurance that the contract terms were met.

Council Resolution No. 88780 C.M.S. (2021) awarded grants to various grantees for community-related services and activities. This included a \$75,000 grant to ESO Ventures to provide entrepreneurs in underserved communities with capacity-building services and capital to build successful businesses.

As of May 2023, the full \$75,000 had been paid to ESO Ventures. The City made its first payment of

\$50,000 in December 2021 and the final payment of \$25,000 in May 2023. While the contract between ESO Ventures and the City required itemized invoices, the invoices provided by ESO Ventures did not detail how the grant was used to support the two 10-week incubator sessions. The invoices only included vague line items for \$25,000 and \$50,000 (See Exhibit 1 below).

Exhibit 1: Invoices Submitted by ESO Ventures to the City of Oakland

DATE	SERVICE	DESCRIPTION	QTY	RATE	AMOUNT
03/01/2023	Oakland Business Incubator	Final \$25,000 of \$75,000 contract for business incubators	1	25,000.00	25,000.00
BALANCE DUE					\$25,000.00
11/17/2021					
Oakland Business Incubator					\$50,000.00
Oakland Business Incubator; \$50,000 of \$75,000 contract for 2 business incubators					

Source: Auditor screenshots of records provided by the Economic & Workforce Development Department

ESO Ventures also did not submit the two required status reports on the grant amount. Rather, ESO Ventures provided the City with a Community Report covering the organization’s activities from September 2020 – December 2022. This report was not specific to the \$75,000 City grant and did not describe the specific uses of the grant award.

The required status report should have detailed information about the grant award including who attended the incubator sessions, where they were held, topics discussed, and more. The City Auditor’s Office requested a report specific to the \$75,000 grant in June 2023, at which point, the City’s Economic & Workforce Development Department requested and received a report from ESO Ventures. The report stated the grant was used towards six months of staffing costs for the Program Director and Community Manager to host the incubator sessions.

Without itemized invoices or timely status reports describing how grant funds were used, the City did not have assurance grant monies were spent as intended. The City should make payments after verifying contract deliverables are met.

Recommendation 2: The City should verify that contract deliverables are met, or document reasons for not meeting them, prior to disbursing the full grant amount.

OBJECTIVE AND SCOPE

The audit reviewed grants awarded to ESO Ventures by Council Resolutions No. 88780 and 88877 C.M.S. Per the City Council's request, the objective of the audit was to determine how much of the grant funds were spent and for what uses, how much remains, and identify the status reports provided by or about ESO Ventures' funding.

METHODOLOGY

We conducted the following work:

- Reviewed Council Resolutions No. 88780, 88877, 89757 C.M.S
- Reviewed relevant sections of the State of California's State Budget Act of 2021
- Consulted with staff from the Economic & Workforce Development Department, City Attorney's Office, and State of California's Governor's Office of Business and Economic Development
- Generated reports from Oracle, the City's financial system, to confirm payments made to ESO Ventures
- Obtained the contract and supporting documentation related to the \$75,000 grant awarded to ESO Ventures

Oakland's City Auditor is an elected official and works for, and reports to, the residents of Oakland. The Auditor's job is to provide oversight to the City's activities. The Auditor has the authority to access and audit City financial and administrative records, plus the policies and procedures of all City agencies and departments.

To make sure this work is done objectively and without bias, the City Auditor is not connected to any other City department and has no day-to-day financial management or accounting duties for the City of Oakland. This autonomy allows for independent analyses, ensuring tax dollars and other resources serve the public interest.

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