CITY OF
OAKLAND
Office of the City Auditor

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Audit
REPORT

Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

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August 19, 2026

RE: Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

Residents of Oakland, Mayor Lee, Council President Jenkins, Members of the City Council, City Attorney Richardson, and Interim City Administrator Lake:

The Office of the City Auditor (Office) has completed a performance audit of the City's financial management of its Capital Improvement Program. The audit report, titled *Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery*, is enclosed.

In FY 2024-25, at the request of the Director of Transportation, the City Auditor initiated an audit of the financial management of capital projects to evaluate the financial management of the City's Capital Improvement Program to assess internal controls over the timely, appropriate, and cost-effective use of capital funds. The audit reviewed capital projects from FY 2022-23 through FY 2024-25.

Capital projects are long-term investments to build, replace, or improve assets such as buildings, roads, parks, traffic signals, sewers, and drainage lines. They provide a link between long-range strategic plans and current needs, and extend the useful life of an asset or increase its value. From FY 2022-23 through FY 2024-25, the City spent about $330 million on capital projects.

We found that the Public Works and Transportation departments, which facilitate the City's Capital Improvement Program, need current and formally adopted policies and procedures to manage key aspects of capital projects. The Construction Management Manual is the City's primary guidance to managing capital projects but does not currently reflect updated or best practices in areas including approval requirements for time adjustment and negative balance change orders, Orders-to-Proceed between $10,000 and $25,000, and change orders or amendments issued under on-call contracts. Furthermore, the City does not have a comprehensive policy to guide the use of on-call contracts, which are intended for smaller projects or address emergency needs. Other challenges to capital project financial management include staff vacancies, which have led to instances in which individuals holding multiple key project roles erodes segregation of duties, and the lack of a centralized project management system, which would support monitoring of and reporting on all capital projects.

The Public Works and Transportation departments can also strengthen controls over the payment process for capital projects. We found limited review over the work of Resident Engineers, who are responsible for reviewing and approving construction-related change orders and processing payments. Lack of review and unfamiliarity with the City's markup policy resulted in overpayments on change orders. The Public Works and Transportation departments can address this issue by developing a process to independently verify payments comply with contract terms and review documentation for subcontractor expenses as needed.

The City has also been slow in processing payments to contractors. During FY 2022-23 through FY 2024-25, the City took an average of 47 days to process selected invoices, longer than City and state requirements.[1] The Public Works and Transportation departments can improve processing timelines by ensuring payment forms are updated and requiring contractors to submit invoices to the City's online portal for processing invoices (AP Portal). To ensure funds are available for payments on change orders, the departments should also require staff to reserve funds for executed on-call change orders within a defined timeframe.

Bond funds are the primary funding sources for the Capital Improvement Program. The City has not provided adequate oversight of Measure KK and Measure U bond funds, which amounted to $165 million in spending from FY 2022-23 through FY 2024-25. The City has not yet conducted annual required audits of the use of these funds, and we identified two instances in which the City processed bond payments without proper review. Finance Department management reports it will start audits for fiscal years 2024-25 through 2026-27. The Public Works and Transportation departments, in coordination with the Information Technology Department, should also enhance the online portal for processing bond funds (AP Portal's Trustee Payment Dashboard), to flag potential errors in financial statements.

Finally, the City has not developed a long-term capital plan in recent years, which limits effective planning and budget allocation. While short-term planning can expedite project initiation, it can increase costs and extend timelines. The Government Finance Officers Association (GFOA) recommends that governments maintain long-term capital project financial plans spanning five to 25 years or more. In 2024, the Finance Department outlined objectives for a 10-year capital plan for the City within its proposed Consolidated Fiscal Policy. The City should develop, adopt, and update a 10-year capital plan.

In a time when the City is facing significant fiscal challenges, it is important that it manages its resources efficiently and effectively beyond the short-term. This audit provides 17 recommendations to improve capital project oversight, strengthen financial controls, and promote long-run strategic planning.

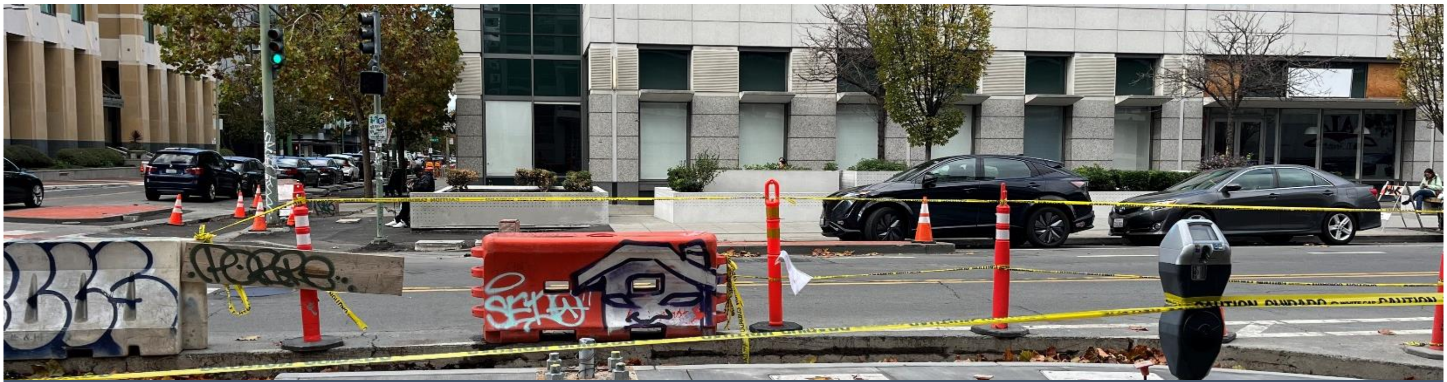
We thank the City Administration, including staff in the Public Works, Transportation, and Finance departments, for their cooperation and insight during the audit process.

Sincerely,

Michael C. Houston
City Auditor

[1] California Public Contract Code Section 20104.50 and Section 7107 require any local agency that fails to make a payment within 30 days after receiving an undisputed and properly submitted payment request on a construction contract to pay interest at 2 percent per month.

Cc:
Liam Garland, Director, Public Works
Jimmy Mach, Acting Assistant Director, Public Works
Josh Rowan, Director, Department of Transportation
Bradley Johnson, Director, Department of Finance
David Jones, Administrator, Treasury Bureau
Tony Batalla, Director, Information Technology



REPORT HIGHLIGHTS

Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

Background

The City of Oakland's Capital Improvement Program guides the construction, repair, and replacement of City assets, including transportation systems and street infrastructure. In FY 2024-25, at the request of the Director of Transportation, the City Auditor initiated an audit on the financial management of the City's Capital Improvement Program to assess internal controls over the timely, appropriate, and cost-effective use of capital funds.

What We Found

We found that the Public Works and Transportation departments are not consistently following construction management policies due to an outdated and non-comprehensive Construction Management Manual and inadequate staff training. The Manual, the City's primary guide to managing capital projects, has not been formally adopted and does not reflect updated or best practices in approval requirements, change orders, and other areas. The City also does not have a comprehensive policy on the use of on-call contracts. In addition, vacancies have also led to difficulty maintaining segregation of duties among staff and a lack of a centralized project management system poses a challenge in monitoring and reporting on projects. When processing payments, the City has had insufficient controls that led to overpayments to vendors and interest on late payments. Additionally, the City does not have a policy to reserve funds for on-call change orders in a timely manner. The largest source of capital project funding comes from bonds, but the City has not yet conducted required annual audits for Measure KK and Measure U, and we identified one instance in which the City charged a payment to an incorrect fund, reflecting the need for stronger oversight. Finally, the City lacks a long-term capital plan, limiting its ability to manage projects and resources strategically. To improve oversight, the City should implement a long-term capital plan and the departments should submit updates to the City Council on the status of capital projects at least annually.

What We Recommend

We made 17 recommendations to improve capital project oversight, including updating project management policies, training staff, developing guidance for using on-call contracts, centralizing project management, and maintaining segregation of duties. These recommendations also strengthen financial controls over the payment process and promote more thorough project planning to make the most of the City's resources for capital improvements over the long run.

Independent City Auditor. Reporting Directly to the Residents.

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Introduction

The City of Oakland's Capital Improvement Program guides the construction, repair, and replacement of public assets, including the updating of transportation systems and street infrastructure for the City. The construction, repair, and replacement of these public assets is called "capital projects."

In FY 2024-25, at the request of the Director of Transportation, our Office initiated an audit of the financial management of capital projects to evaluate internal controls over the timely, appropriate, and cost-effective use of capital funds. This audit focuses on the use of change orders, on-call contracts, and bond funding for capital improvement projects. We evaluated capital projects planned in FY 2022-23, FY 2023-24, and FY 2024-25 to assess the policies and practices of the Public Works and Transportation departments regarding change orders, on-call contracts, invoice payments, and project funding. We also highlighted cost drivers of the City's capital projects.

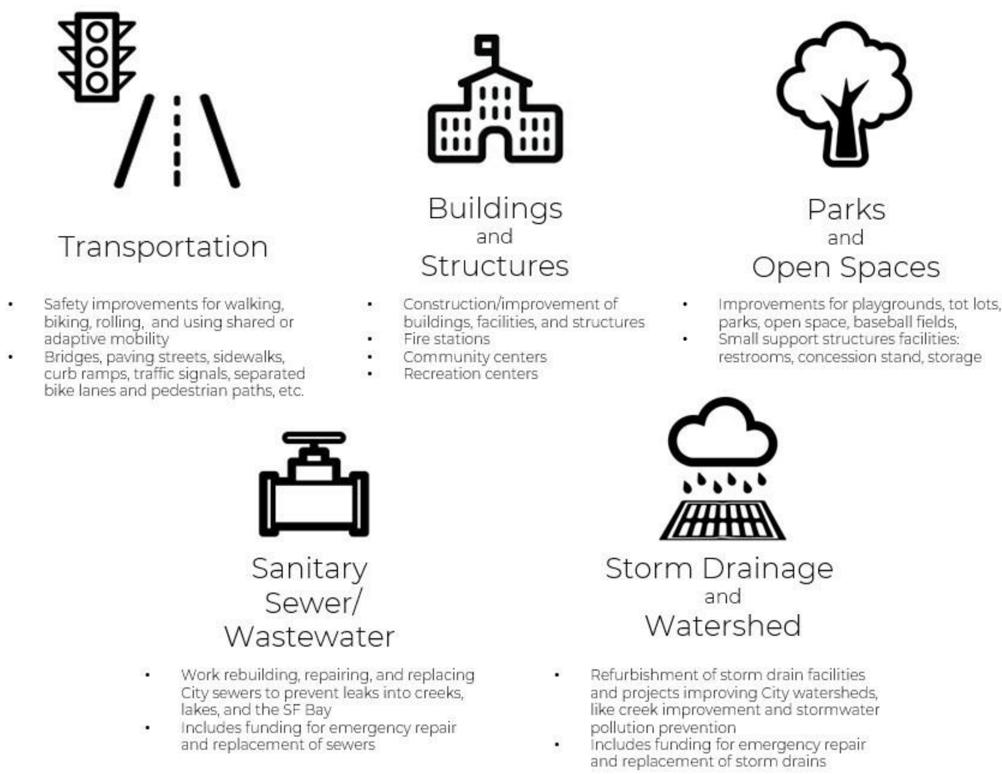
Background

The Public Works and Transportation departments oversee the City of Oakland's Capital Improvement Program (CIP), which guides the City's long-term decisions regarding the construction, replacement, and repair of City assets, as well as street and transportation improvements.

Capital Projects Enhance Citywide Public Infrastructure

Capital projects are long-term investments in assets such as buildings, roads, parks, traffic signals, sewers, and drainage lines. Capital projects have a useful design life of at least ten years and a minimum cost of approximately $100,000. Exhibit 1 shows different types of capital projects.

Exhibit 1: The Capital Improvement Program Strengthens Transportation, Facilities, and Parks Infrastructure



Source: City of Oakland Capital Improvement Program website screenshot from https://www.oaklandca.gov/Government/Capital-Improvement-Program.

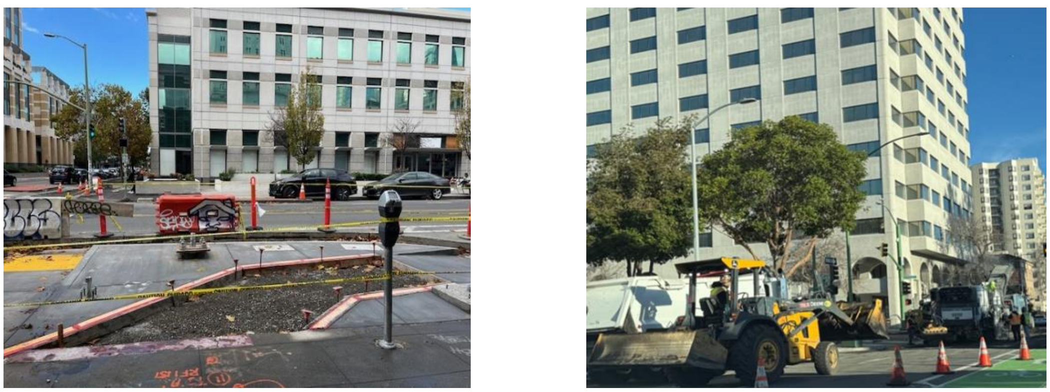
Capital projects differ from maintenance projects in that the latter usually involve smaller costs or scale and focus on more urgent, short-term repairs (see Exhibit 2).

Exhibit 2: Capital Projects Enhance an Asset's Long-Term Value Whereas Maintenance Projects Ensure Existing Assets Remain Operational

Capital Projects	Maintenance Projects
• Create or expand upon an existing asset with a multiphase contract • Provide a link between long-range strategic plans and current resources/needs • Planned for in the biennial policy budget • Extend the useful life of an asset and/or increase its value	• Repair relatively minor but urgent damage to an asset • Short-term efforts to preserve the original state of a capital asset • Mostly routine • Conserve the operational capabilities of City property

Source: Auditor summary based on information on the City's Capital Improvement Program website.

Exhibit 3: Examples of Capital Projects Include Street Improvements on 14th Street and Paving on Jackson Street



Source: Auditor photos taken on November 18, 2025 and January 8, 2026.

Capital Projects Are Long-Term Investments that are Delivered through Open Bid or On-Call Contracts

The City relies on contractors to deliver capital projects through two different types of contracts.

- **Open bid contracts** are contracts for capital projects typically valued at or above $250,000. Bidding is open to vendors.
- **On-call contracts** are typically for smaller projects and only pre-qualified contractors can bid for these contracts. On-call contracts do not have specific scopes but are categorized around general types of anticipated construction or consultant services. Once a competitive request for proposals (RFP) process is complete, City departments then assign the pre-qualified contractors to complete the specific scopes of work. [1]

[1] Refer to Finding 1 for more information regarding on-call contracts.

Capital projects involve construction activities, which include rehabilitation, alteration, conversion, extension, demolition, or other improvements to the City's assets, including building, sewer, transportation, street infrastructure and other long-term investments.[2] Capital projects also entail professional services, including project planning and civil design and engineering, which provide a recommended course of action. Professional services may also include verbal or written expertise.[3]

The Public Works Department and the Department of Transportation are Responsible for Managing the Capital Improvement Program (CIP)

The Public Works Department oversees capital projects for public assets, including buildings and structures, parks and open spaces, sanitary sewers/wastewater systems, storm drainage, and watershed management. The Department of Transportation manages transportation and street-related projects like roads and sidewalks.

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[2] The City awards construction contracts to the lowest responsible bidder. According to Municipal Code 2.04.060, the lowest responsible bidder is, in addition to offering the lowest price, a bidder who is qualified, reliable, and capable of performing the work, providing future maintenance, and demonstrating satisfactory past performance on contracts with the City.

[3] According to Municipal Code 2.04.051, "The selection and award of contracts for professional services shall be based on demonstrated competence and qualifications for the types of services to be performed, at fair and reasonable prices to the City." Section 2.04.010 states that these services must be performed by licensed consultants, architectural or engineering personnel, or other individuals with unique or special training, education, or skills.

Box 1

Key Staff Roles in Managing Capital Projects

Several staff in the Public Works and Transportation departments are involved in managing capital projects, but two roles are particularly important: the Project Manager and Resident Engineer.

Project Managers are largely involved with facilitating the administrative processes for capital projects. Their responsibilities include:

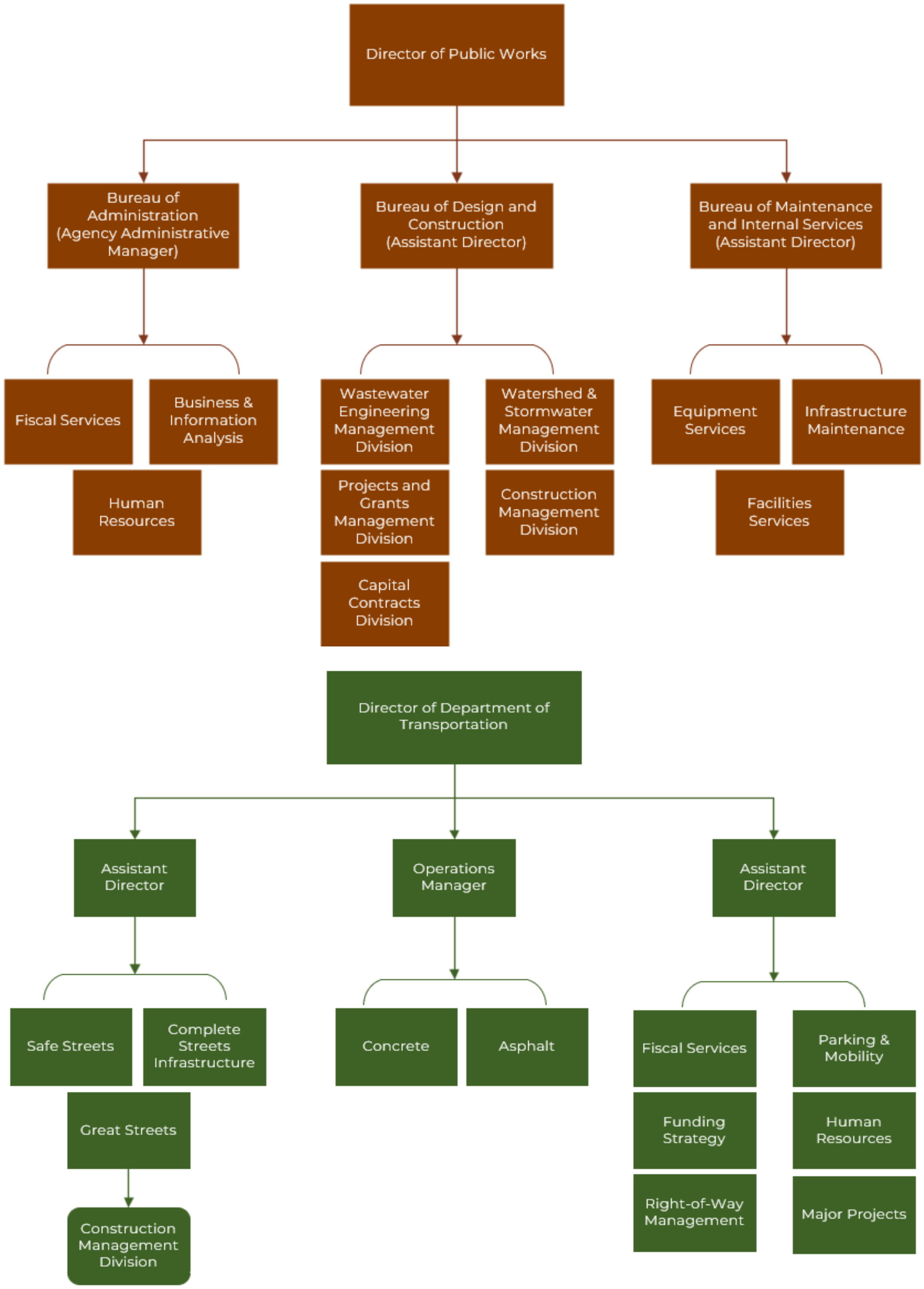
- Designing projects during the design phase
- Helping facilitate the contract solicitation process, including advertising and reviewing project bids, and the contractor selection process *
- Monitoring funding for capital projects
- Reviewing and approving changes to the capital projects
- Reviewing and approving work under on-call contracts
- Reviewing and approving professional services invoices and identifying funding codes for construction and professional services payments

Resident Engineers communicate directly with contractors to manage capital projects before and during the construction phase. Their responsibilities include:

- Preparing projects for the construction phase
- Monitoring project status and maintaining project documentation
- Communicating and coordinating with contractors
- Preparing and approving changes to the capital projects
- Reviewing and approving construction invoices

* A project manager depends on the support and services of others during the contract solicitation process, including placing legal ads, placing bid documents online, bid opening, and evaluating project bids for compliance with local requirements. The project manager receives information regarding the results of the bid and then is responsible for initiating the contract award process.

Exhibit 4: Bureaus Under the Public Works and Transportation Departments Coordinate to Manage Capital Projects



Source: Auditor summary of the organizational charts of the Public Works and Transportation departments.

Different Teams Collaborate with Project Managers to Deliver Capital Projects

Several stakeholders are involved in managing capital projects. **Project Managers** support the development and delivery of capital projects by facilitating the contract solicitation process, maintaining project scope, schedule, and budget (see Box 1). Project Managers are assigned within either Transportation or Public Works based on whether the project pertains to street improvements or public works.

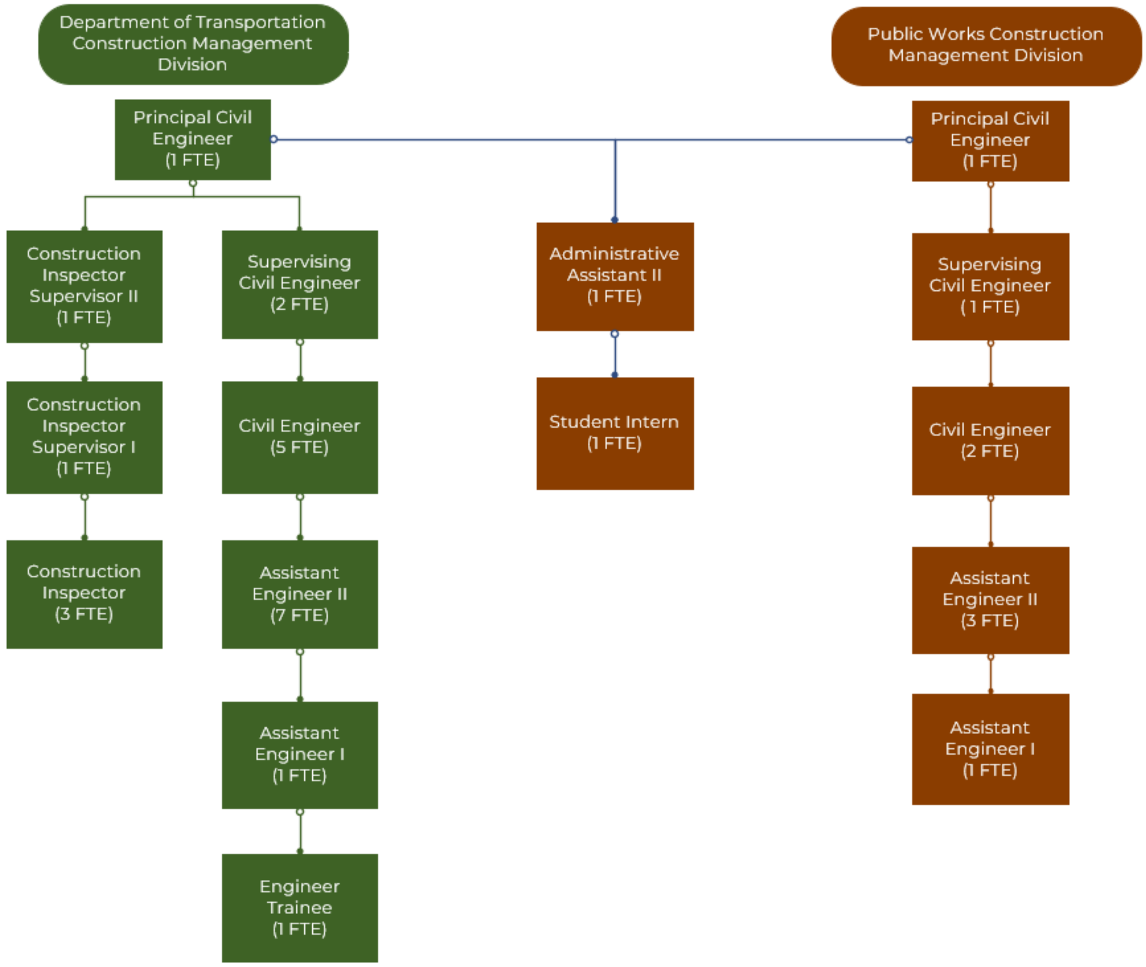
The **Construction Management Division** in each department manages the construction of most capital projects, following the guidelines outlined in the Construction Management Manual.[4] This Division is primarily responsible for supervising and managing on-site construction activities, mainly through Resident Engineers and their supervisors (see Box 1). Their tasks include overseeing changes to the capital projects, processing payments, reviewing claims, conducting inspections, reporting on projects, and handling project closeout.

Prior to FY 2025-26, the Construction Management Division was under the Public Works Department and was responsible for construction execution for both Public Works and Transportation departments' capital projects. Under the old structure, when a Department of Transportation project advanced to the construction phase, responsibility for the project transitioned to Public Works. However, the City has since begun separating the division into two sections—one under the Department of Transportation and one under Public Works.[5]

[4] The City's "Manual of Construction Management Practices," or Construction Management Manual, provides a structured framework for managing capital projects. The Manual was originally developed by the Public Works Construction Management Division in the 1990s and the Division revised the Manual in 2019.

[5] This decentralization process is ongoing as of the date of this audit report.

Exhibit 5: The City Separated the Construction Management Division in FY 2025-26



Source: Auditor summary of the Construction Management Division's organizational chart. Note that both the Assistant Engineer and Civil Engineer positions function as Resident Engineers. The Civil Engineer is a broad position that can include responsibilities in design, planning, project management, and construction. A Civil Engineer may serve in roles such as Design Manager, Project Manager, or Resident Engineer.

The **Capital Contracts Division**, housed within the Public Works Department, administers CIP contracts for both the Public Works and Transportation departments, including on-call contracts.[6] It is also responsible for assisting Project Managers in developing Requests for Proposals/Bids that follow state and City guidelines.[7]

[6] Staff reported that during FY 2022-23 and FY 2023-24, the Department of Transportation experienced a backlog of over 40 contract requests submitted to the Capital Contracts Division. With a backlog continuing to remain. As a result, staff stated that construction contract execution can take up to a year after Council approval, increasing the likelihood that contractors will not honor bid prices.

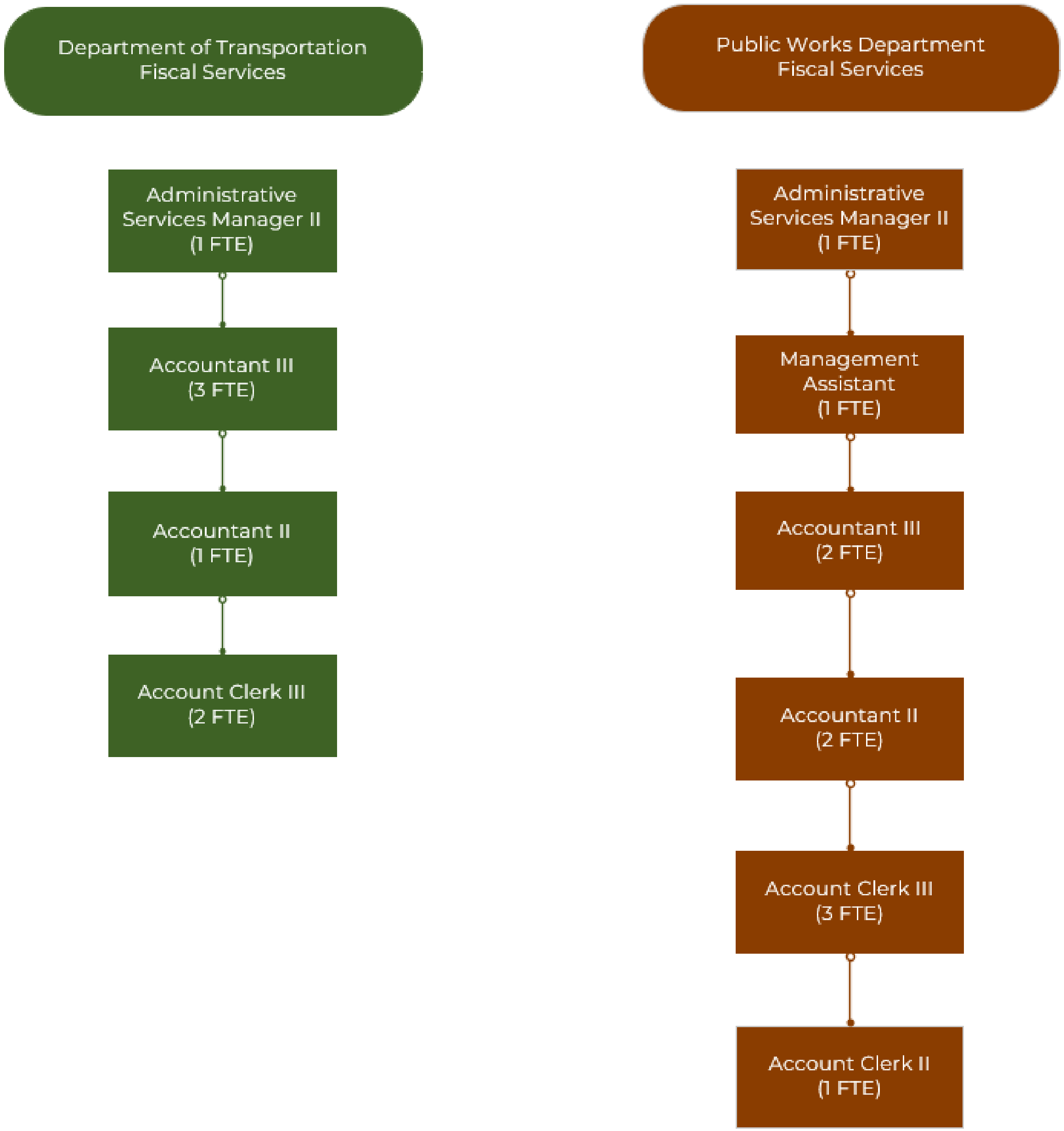
[7] A Request for Proposal (RFP) is a formal solicitation document outlining requirements and inviting potential suppliers to submit detailed proposals. RFPs are commonly used for complex or specialized procurements where factors other than just price need to be considered.

A bid is a response submitted by a contractor to an invitation for bids issued by the City for needed goods, services, or public projects.

Fiscal Services teams from the Public Works and Transportation departments review capital project payments submitted by Resident Engineers. Projects assigned to either department may not necessarily be reviewed by fiscal staff within the same department. For instance, the Public Works Fiscal Services team may process construction-related invoices for a Transportation project, since the Public Works team is responsible for executing construction activities and verifying work completion. However, while the Public Works Fiscal Services team processes construction-related invoices, the funding source for transportation projects remains with the Department of Transportation. [8]

[8] When a construction project is not performed by the Public Works Construction Management Division (CMD)—such as sidewalk construction—the Fiscal Services team from the Transportation Department will manage the payments. Fiscal Services staff in the Department of Transportation also processes invoices related to consulting services for contracts that are overseen by Project Managers in the Department. More information on the payment process is in the Capital Project Phases section of this Background.

Exhibit 6: Fiscal Services Staff from Public Works and Department of Transportation Process Capital Project Payments



Source: Auditor summary of team structures from the Public Works and Transportation departments' organizational charts.

Capital Projects Go through Five Phases, from Identification to Closeout

The City delivers capital projects through five phases: identification, budgeting, pre-construction, construction, and closeout. During each phase, the Public Works and Transportation departments work with clients and other stakeholders, including the community, business owners, and utilities. Appendix A illustrates the five phases in flowcharts.

1. Identification: Capital projects in the Capital Improvement Program originate from the biennial budgeting process or from urgent public or departmental needs, which are identified prior to the upcoming biennial budget cycle. Third-party assessments and public input also shape project needs. The Capital Improvement Program Working Group evaluates and scores capital projects using a CIP Prioritization model, which the City adopted in 2018 (see Exhibit 7).[9] This prioritization model scores project feasibility based on factors such as equity, economic benefit, and public collaboration. In conjunction with these scores, the City also considers available funding sources, including bonds, capital improvement impact fees, grants, and department allocations.

Exhibit 7: CIP Prioritization is Based on Nine Factors, with Equity and Health & Safety Being Key Determinants

Source: Auditor screenshot from the City of Oakland Capital Improvement Program website.

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[9] The Capital Improvement Program Working Group oversees the development and prioritization of capital projects for the Capital Improvement Program and is comprised of staff from the Public Works Department, the Department of Transportation, and Department of Race & Equity.

2. Budgeting: Once prioritized, capital projects are submitted to the Finance Department's Budget Bureau for review and approval during the biennial budget cycle. The City Council reviews and adopts the CIP budget every two years.

3. Pre-Construction: At this stage, capital projects undergo planning and design, constructability review, design finalization, and design and specification approval before going out for bid.[10] The City is required to advertise and solicit bids for contracts of $50,000 or more. [11]

Through the bidding process, the City awards construction contracts to the lowest responsible bidder that fulfills the City's small and local business requirements (unless the City Council waives these requirements).[12] Contracts under $250,000 require City Administrator approval while contracts of $250,000 or higher need City Council approval. Once the contract is executed, the City issues a Notice-To-Proceed letter to the contractor, which permits them to start construction.

4. Construction: The contractor completes the project under the supervision of City staff. The City pays the contractor progress payments based on the contract terms and the amount of work the contractor completes.

The payment approval process involves the Resident Engineer, Project Manager, Fiscal Services staff, and either the Treasury Bureau or Controller's Bureau within the Finance Department, which issue payments.[13] Contractors submit invoices via the City's AP Portal or by email.[14]

"Change orders," which are for modifications to the project, may arise during the construction phase.[15] The level of approval for change orders differs based on dollar threshold and type of changes proposed.[16]

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[10] A constructability review examines project plans and specifications from start to finish to identify potential obstacles before finalizing the design and putting the project out to bid.

[11] All bidding and contracting activities must adhere to the Oakland Municipal Code (OMC) Section 2.04, the California Public Contract Code, applicable Council Resolutions, and the Brooks Act. The Brooks Act is a federal policy that requires all contracts for architectural and engineering services to be negotiated based on demonstrated competence and qualifications for the required professional services, as well as fair and reasonable pricing.

[12] Oakland Municipal Code § 2.04.050 states that "The contract shall be let to the lowest responsible bidder, as defined herein, by the City Council at any time not exceeding sixty (60) calendar days after bid opening. The City Council may reject any and all bids and waive informalities or minor irregularities in the bids."

[13] The Resident Engineer is responsible for verifying completed construction work and confirming the payment amount with the contractor before invoice submission. The Project Manager will then work with Fiscal Services to confirm funding. After reviewing payment requests, Fiscal Services submits them to the Finance Department's Treasury Bureau (for bond-funded projects) or Controller's Bureau (all other funding sources). For more information on the payment process, See Finding 2.

[14] The AP Portal is the City of Oakland's Invoice Payment Portal, where contractors upload their invoices to request payment. For more information on the payment process, see Finding 2.

[15] The change order process starts when there is an identified need. Sometimes, change orders may arise from Requests for Information from the contractor, which may include design clarifications, differing site conditions, constructability issues, or request for design change or substitutions. Change orders can also be proposed by other public agencies, private individuals, and City staff.

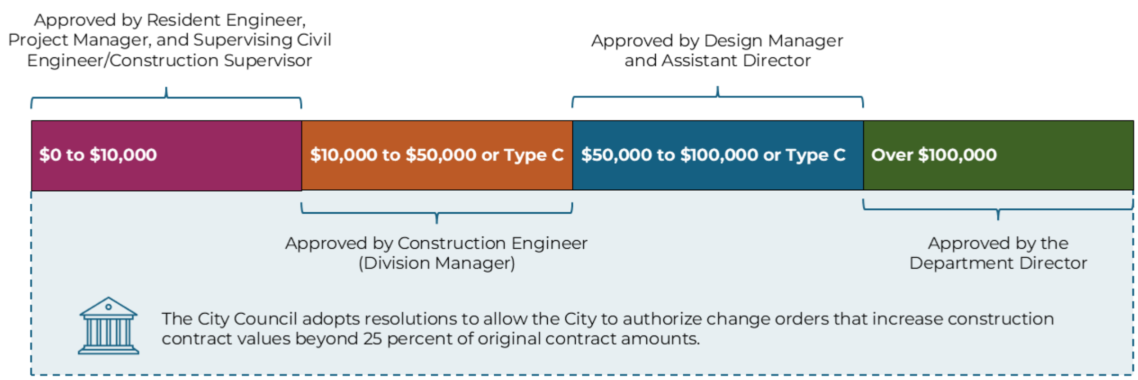
[16] Resident Engineers use a Contract Change Order (CCO) template to prepare change orders. If proposed changes exceed $2,500, a change order memo is also required to provide rationale and context.

The Construction Management Manual provides guidance on approvals for change orders:

- **All Change Orders**: Resident Engineer, Project Manager, and Supervising Civil Engineer/Construction Supervisor
- **Over $10,000 or Type C**: Division Manager[17]
- **Over $50,000 or Type C**: Design Manager and Assistant Director
- **Over $100,000**: Department Director
- **Exceed 25 percent of original contract value**: The City Council adopts a resolution to increase the change order limit to authorize change orders beyond 25 percent of original construction contract value.[18]

Approval thresholds are cumulative; for instance, change orders exceeding $100,000 require approval from the Resident Engineer, Project Manager, and Supervising Civil Engineer/Construction Supervisor, Construction Engineer (Division Manager), Design Manager, Assistant Director, and Department Director.

Exhibit 8: Change Orders Require Varying Levels of Approval Based on Dollar Value and Type of Change Order



Source: Auditor summary of change order approval levels based on the Construction Management Manual.

For major scope changes over $25,000, formal pre-approvals in the form of Change Order Authorization Requests, are required to issue change orders. Depending on their dollar amounts, Change Order Authorization Requests require varying levels of approval.[19]

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[17] "Type C" refers to issues in the contract documents that prevent the intended work from being completed as planned due to ambiguities, conflicts, errors, or omissions in the plans and specifications that result in extra costs.

[18] We observed that the City Administrator approved increasing the task order amount when amendments exceed 25 percent of the original value for on-call professional service task orders. According to Department of Transportation staff, the Capital Contracts Division established this practice informally and it is not official policy. In August 2025, the Department of Transportation decided to stop following this practice and is no longer requiring City Administrator approval for amendments that meet this threshold. See Finding 1.

[19] Once Public Works staff receive the change order price quote from the contractor, the Resident Engineer works with the Project Manager and the design team to evaluate the cost to make sure it is fair to both parties. The City accepts the price quote or negotiates to reduce the cost.

Exhibit 9: Change Order Authorization Requests (COARs) Require Varying Levels of Approval Based on Dollar Value

Source: Auditor summary of the Construction Management Manual. Approval thresholds are cumulative; for instance, if an amount exceeds $100,000, it requires approval from the Construction Management Unit, Project Manager, Division Manager, Assistant Director, and Director.

Change Order Authorization Requests (COARs) require different levels of approval based on their dollar amounts:

- **All Change Order Authorization Requests:** Construction Management Division and Project Manager
- **$25,000 to $50,000:** Division Manager
- **$50,001 to $100,000:** Assistant Director
- **Above $100,000:** Department Director

For critical work, the Resident Engineer may authorize the contractor to begin extra work before a change order is officially executed. This occurs through an Order to Proceed (OTP). Finding 1 contains additional information on OTPs.

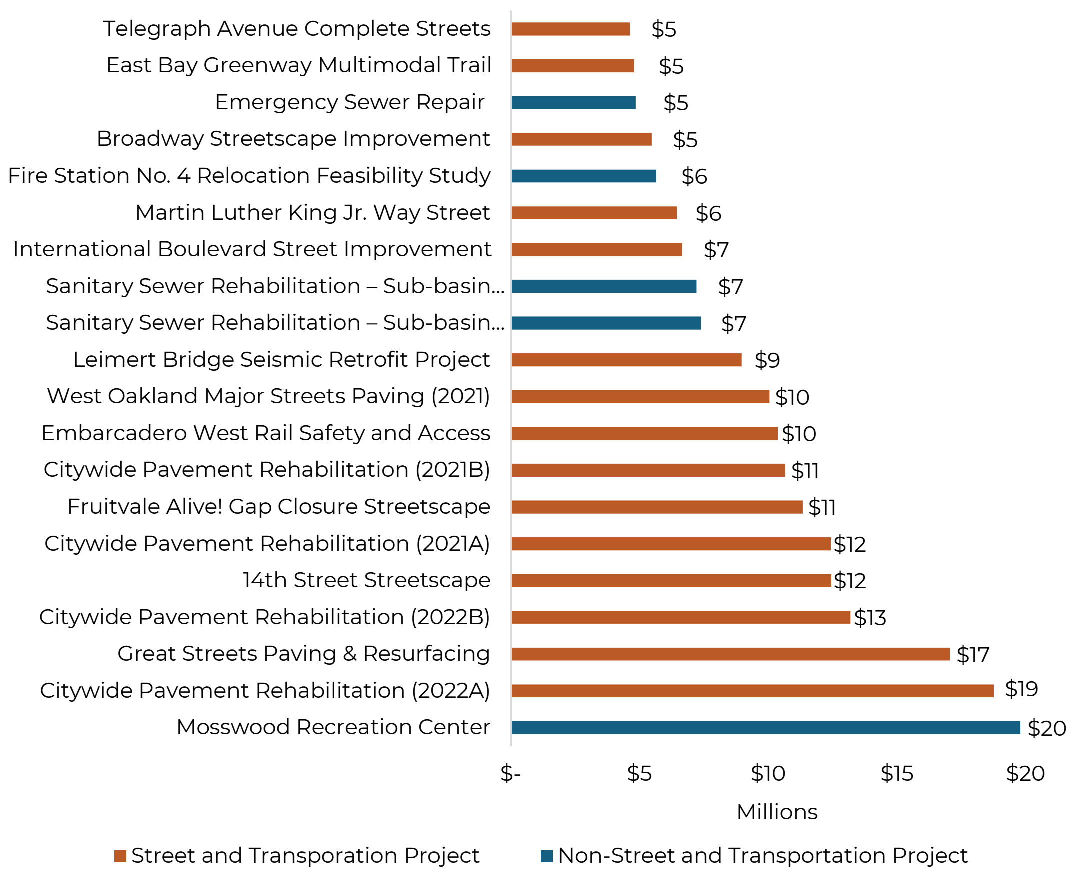
5. Closeout: The project concludes with the City filing a Notice of Completion at the Alameda County Recorder's Office to legally accept the work. The City processes final payments once the Notice of Completion has been posted for 35 days without any outstanding claims.

The City Spent about $330 Million on Capital Projects from FY 2022-23 through FY 2024-25

Budgeting for the Capital Improvement Program is separate from the Public Works and Transportation departments' operational budgets. According to staff, having distinct budgets helps ensure appropriate allocation of resources for both capital project delivery and departmental operational needs.[20]

The City spent approximately $65 million in FY 2022-23, $116 million in FY 2023-24, and $149 million in FY 2024-25, totaling about $330 million on capital projects.

Exhibit 10: From FY 2022-23 through FY 2024-25, 75 Percent of the Capital Projects in the Top 10 Percent by Expenditures Were Related to Streets and Transportation



Source: Auditor summary of data from the City's financial management system, Oracle. Expenditures data captured 187 capital projects in scope for FY 2022-23 through FY 2024-25. For presentation purposes, only the top 10 percent of capital projects by expenditures are displayed and the expenditures are rounded to the nearest million.

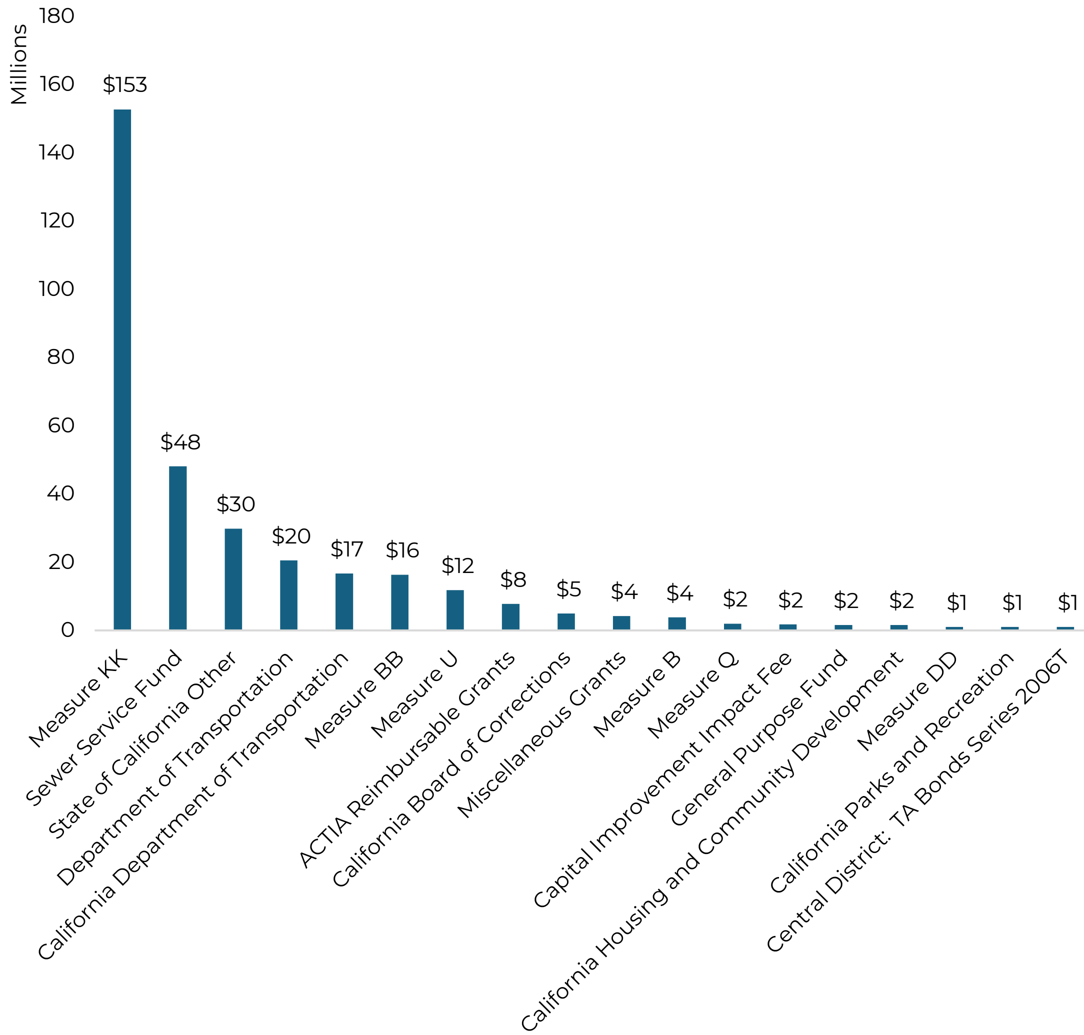
Bond Measures are the Primary Funding Source for the Capital Improvement Program

The City utilizes various types of funding to support the Capital Improvement Program, with the primary source of funding coming from bond measures, including Measure KK, Measure U, and

[20] Some capital projects are budgeted using a "parent-child" project structure, in which "child" projects are smaller components of larger "parent" projects. The City first allocates funds to parent projects, with departments subsequently distributing smaller amounts to child projects. There is no limit to the number of child projects that can be associated with a single parent project. While the City's overall budget documents describe allocated amounts by parent project, the departments maintain a list of child projects.

Measure DD. The use of these funds may be restricted to broad use categories. The City also receives federal, state, and other external funding sources.

Exhibit 11: Measure KK was the Largest Funding Source of Capital Projects from FY 2022-23 to FY 2024-25



Source: Auditor summary of capital project expenditures for FY 2022-23 through FY 2024-25 based on expenditure reports from the City's financial management system (Oracle). A fund with a negative balance, Fund 2163, was omitted because its balance reflected an adjustment for prior year expenditures and was immaterial to this analysis. For presentation purposes, nine funding amounts below $1 million have also been omitted.

The largest source of bond funding for the Capital Improvement Program has been Measure KK, accounting for 46 percent of the total amount spent on capital projects from FY 2022-23 through

FY 2024-25, or $153 million.[21] Over that same period, the City spent $12 million of Measure U funds, accounting for 4 percent of total City spending on capital projects.[22]

The Sewer Service Fund (Fund 3100) is another major contributor to the Capital Improvement Program, accounting for 15 percent ($48 million) of the total the City spent from FY 2022-23 through FY 2024-25. These funds are intended to go to the acquisition, construction, reconstruction, relocation, maintenance, operation, and repair of the City's sewer facilities, as well as associated administrative fees.

Box 2

Commonly Used Terms

Open bid Contract: A contract for a capital project typically valued at or above $250,000. Bidding is open to any vendor.

On-call Contract: On-call contracts are typically for smaller projects and only pre-qualified contractors can bid for these contracts. On-call contracts do not have specific scopes but are categorized around general types of anticipated construction or consultant services. City departments then assign the pre-qualified contractors to complete the specific scopes of work.

On-call Task Order: An order for services issued under an established on-call contract.

Change Order: A document that formalizes a modification to a contractor's scope of work in a construction contract. The City issues change orders when the scope, schedule, materials, or cost of a project must be altered.

Amendment: A formal modification to a contractor's scope of work in a professional services contract. The City issues an amendment when the scope, schedule, or cost of a project must be altered.

Order to Proceed (OTP): A formal authorization to contractors that grants them to begin additional work while the City is in the process of issuing a formal change order.

Change Order Authorization Request (COAR): A written authorization required before the City issues an Order to Proceed (OTP). A COAR is a formal pre-approval that permits the work to move forward once the City issues an Order to Proceed. (OTP). Project managers are required to prepare COARs for any work over $25,000 that involves an Order to Proceed (OTP).

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[21] Oakland voters approved Measure KK in 2016. This measure authorized the City to issue $600 million in general obligation bonds to support affordable housing and infrastructure, including streets and roads, facility projects, anti-displacement initiatives, affordable housing preservation, and associated staff costs.

[22] Voters approved Measure U in 2022, which authorizes the City to issue $850 million in general obligation bonds. Similar to Measure KK, the City can use Measure U funds for affordable housing preservation, transportation projects, Citywide facility improvements, additional enhancements, and related staff costs. The City sold about $101 million in Measure U bonds in FY 2023-24 and $334 million for roads, parks, and housing in FY 2025-26.

Finding 1: The City Can Adopt More Comprehensive Systems, Policies, and Practices to Improve Consistency, Oversight, and Segregation of Duties for Capital Project Management

Summary

The Public Works and Transportation departments, which facilitate the City's Capital Improvement Program (CIP), do not have sufficient policies and procedures to manage key aspects of capital projects from bidding to construction. The Construction Management Manual is the primary guide for staff in managing capital projects, but the guidance it provides is not comprehensive or contains policies that differ from practice. The departments should revise the Manual to clarify approval requirements for time adjustment and negative balance change orders, Orders to Proceed between $10,000 and $25,000, and change orders or amendments issued under on-call contracts. The Manual should also include the updated contingency approval requirement, and the Public Works and Transportation departments should formally adopt and regularly review the Manual to ensure its policies remain relevant.[23] Additionally, the City should establish a policy specifying when and how the City should use on-call contracts and on-call task orders, including defining when extending on-call contracts is appropriate.

In addition to the lack of guidance, inadequate staffing has also posed challenges to managing capital projects. Vacancies have led to some staff assuming dual roles in managing capital projects, which can erode segregation of duties.[24] To prevent staff from holding conflicting roles, the Public Works and Transportation departments should develop a segregation of duties policy and configure their payment processing platform to prevent the same staff from both initiating and approving payments. In addition, the departments should provide training to staff on these policies. Finally, the Public Works and Transportation departments should establish a centralized system or tailor existing systems to track all the City's capital projects and regularly generate reports to monitor the progress and cost of capital projects.

[23] Contingency refers to an additional dollar amount (determined by a percent of contract value) included in the contract budget to address unexpected conditions or changes that may arise during construction or professional services.

[24] Segregation of duties is an internal control that separates incompatible responsibilities related to authority, custody, and accounting of operations among different individuals. This practice prevents any one person from reviewing, processing, and authorizing work or payments, thereby reducing the risk of fraud, waste, and abuse.

Box 3

Note on compiling and sampling capital projects

Because the City does not currently have a comprehensive list of its capital projects, we compiled our own based on documents provided by the Fiscal Services teams of the Public Works and Transportation departments. We identified a total of 235 capital projects from FY 2022-23 through FY 2024-25. Despite efforts to merge all available sources, the list may still be incomplete and observations in this report may not be projectable to the entire population of capital projects.

We selected various judgmental samples to test internal controls over the City's change order process, on-call contracts, invoice payments, and fund transactions. These samples were not mutually exclusive and included certain projects multiple times for different types of review. To review change orders, we selected 13 capital projects and reviewed the 92 change orders associated with those projects. These projects included both on-call and open bid contracts. For specific analysis of on-call contracts, we reviewed 23 on-call contracts out of 90 total. This sample included 26 on-call task orders and 44 on-call change orders and amendments.

To assess internal controls over the City's financial processes, we sampled 28 invoices from 235 capital projects and 28 payment transactions related to Measure KK, Measure U, and the Sewer Service funds.

Findings 1 through 4 reflect our observations from these samples. Because these samples were judgmentally selected, results may not be projected to the entire population. Observations on the internal controls process, however, may be interpreted to broadly cover the departments of Transportation and Public Works for the period reviewed. See the Objectives, Scope & Methodology section at the end of the report for more detail.

The Construction Management Manual is the Primary Source of Guidance for Managing Capital Projects and Needs to be Updated and Formally Adopted

The City's Construction Management Manual provides guidance to staff in managing capital projects and outlines the functions and duties of the Construction Management Division. (See Appendix A for flowcharts of the capital project management process). A review of the Manual offered the following observations:

- **The Manual specifies different contingency percentages than are used in practice**. In general, projects with change orders that exceed certain percentages (contingency percentages) of their contract base values require City Council approval. The Manual sets these percentages based on contract price thresholds, with contracts between $500,000 and $2 million limited to a 20 percent contingency, and contracts above $5 million limited to a 10 percent contingency without Council approval (Exhibit 12). Contingency percentages in the Manual appear to differ from what occurs in practice. According to management, staff use a 25 percent contingency percentage to determine whether to seek approval of a change order from the City Council (Exhibit 12).

Exhibit 12: The Construction Management Manual Does Not Align with the City's Standard Contract Provision on When the City Council Must Approve Change Orders

Per Construction Management Manual:

Authority to Approve Contract Change Orders

City Council Authorization

Staff may change the plans, specifications, character of the work, or quantity of work, provided the total arithmetic dollar value of all such changes, both additive and deductive, does not exceed 25 percent of the original contract price (or as is specified in the contract documents) for projects with a contract value of less than $500,000. Should it become necessary to exceed the following limitations listed below unless otherwise stated in the contract, Council authorization is required.

Contract Price	Change Order Limitation
$5 Million and over	10% of the contract price
$2 Million to $5 Million	15% of the contract price
$500,000 to $2 Million	20% of the contract price
Less than $500,000	25% of the contract price

Per Contract Specification:

3-2 CHANGES INTIATED BY THE AGENCY.

3-2.1 General.

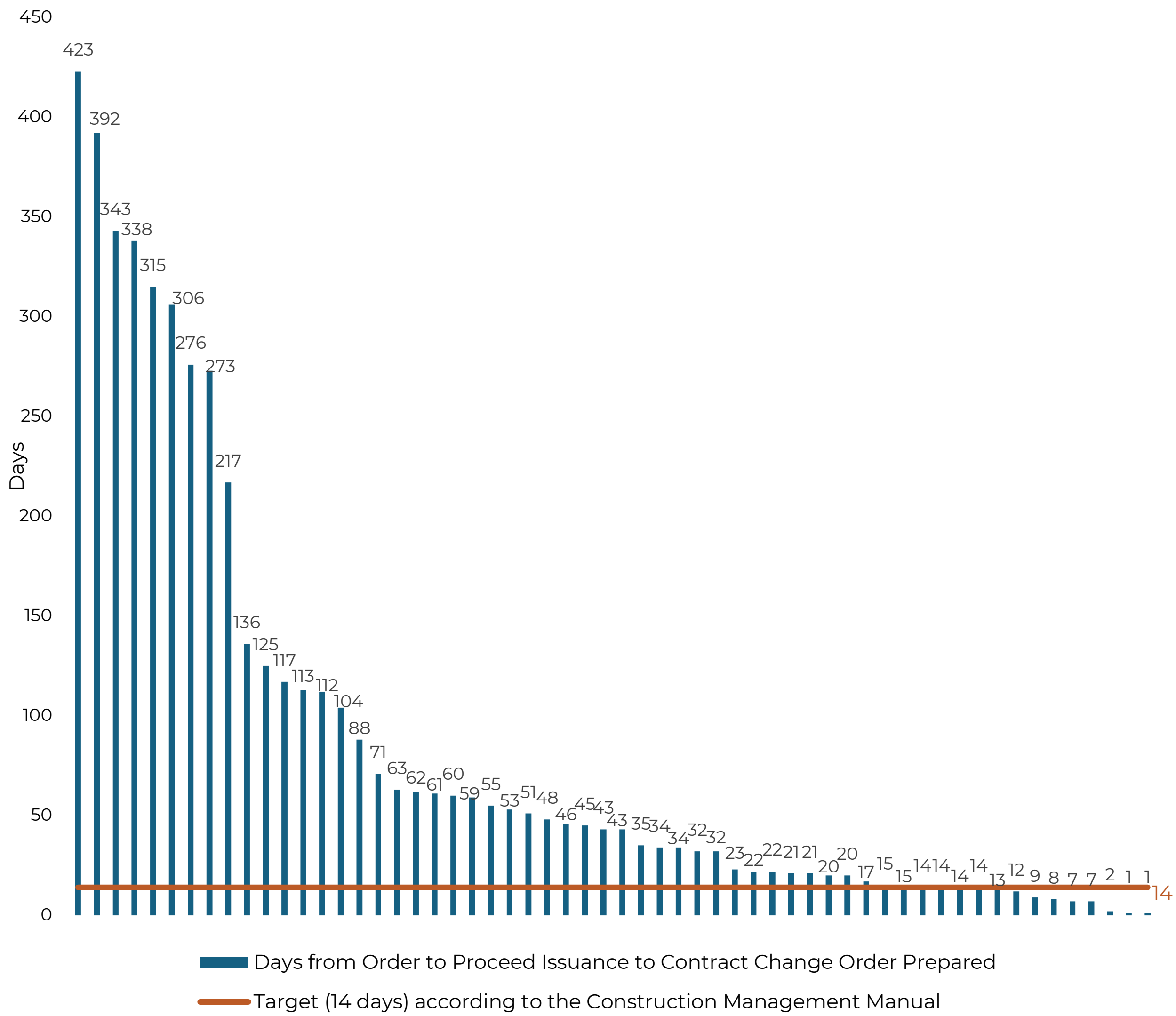
The Agency may change the plans, specifications, character of the work, or work quantity, provided the total arithmetic dollar value of all such changes, does not exceed 25 percent of the contract price.

The Agency delegates to the City Administrator or his/her designee the authority to approve such changes. Should it become necessary to exceed this limitation, the change shall be by written change order between the Contractor and the agency and shall be approved by the City Council.

Source: Auditor reproduction of the City's Construction Management Manual and excerpt from an executed City contract for a construction project.

- **Staff report that timelines to issue change orders within the Manual's guidelines are not realistic.** The Manual currently requires that the City prepare official documents authorizing changes to original scopes of work, costs, and/or project timelines within two weeks (14 days) of when the cost and time impacts of an Order to Proceed are determined. As Exhibit 14 shows, the process to issue change orders takes much longer in practice, with reviewed projects taking an average of 79 days and a median of 35 days to issuance. Management stated that 30 days, rather than two weeks, is a more reasonable goal.

Exhibit 13: For Selected Projects, the Average Time to Issue Contract Change Orders was 79 Days, with a Median of 35 Days



Source: Auditor analysis of 66 Orders to Proceed (OTPs) from FY 2022-23 through FY 2024-25 across 13 change orders. Each bar represents a distinct Order to Proceed (OTP). For this exhibit, we compared the prepared dates of the OTPs to those of the Contract Change Orders (CCOs) and excluded four zero values. Three negative values were excluded from the graph and calculations. These occurred because Orders to Proceed (OTPs) were issued after Contract Change Orders (CCOs) were prepared. In these cases, the CCOs were approved several weeks or months after the CCOs were prepared and issuing an OTP was reasonable to allow critical work to commence. These change orders were judgmental samples selected based on monetary value, expenditure types, and contract types. Due to limitations in sampling, observations may not be projectable to the entire population of capital projects (see Box 3).

- **The Public Works and Transportation departments have not formally adopted the Manual**. Although staff report using the Construction Management Manual as the primary source of policies and procedures in managing capital projects, the Public Works and Transportation departments have not formally adopted the Manual. During the audit, staff reported that the Construction Management Division is working with an external consultant to update the Manual. After updating the Manual, the Public Works and Transportation departments should formally adopt the Manual to enforce the policies.

Recommendation 1: The Public Works and Transportation departments should adopt the Construction Management Manual and regularly review and update the Manual to ensure its policies remain relevant.

The City Does Not Have Comprehensive Guidance on Required Approvals for Change Orders and Orders to Proceed

The City currently lacks a comprehensive and consistent policy for approving change orders in the following areas:

- **The Construction Management Manual lacks a policy on review and approvals for time adjustments and negative-balance change orders.**[25] This gap results in varying approval processes. For example, two different time adjustments that occurred with similar extensions were approved at different levels—one by just the Construction Manager, and the other by the Construction Manager and Project Manager. In addition, there is no policy for obtaining approval for negative-balance change orders. For instance, one change order that reduced the contract amount by $195,000 was approved by the Construction Management Division and not the Department Director; by contrast the Manual requires the Department Director to approve all change orders with an increase of $100,000. Meanwhile, the Department Director approved another change order that reduced the contract amount by $1.5 million. Approvals for negative change orders help ensure that project scopes are reduced appropriately.

- **There is no formal guidance on on-call task order amendments for professional services approval.**[26] Due to the absence of a formal policy, staff at the departments of Public Works and Transportation follow different practices for approving on-call task order amendments. According to the Capital Contracts Division (CCD), amendments exceeding 25 percent of the original task order amount should be approved by either the City Administrator or City Council, with contract amounts below $250,000 requiring City Administrator approval and contract amounts above $250,000 requiring City Council approval.

  Department of Transportation staff, however, noted that this policy to obtain City Administrator or City Council approval for task order amendments is not a formal requirement, but rather was stated in an internal email from the Capital Contracts Division to Department of Transportation staff in January 2024. This email stated that professional service contracts awarded through formal solicitation (i.e., over $50,000)

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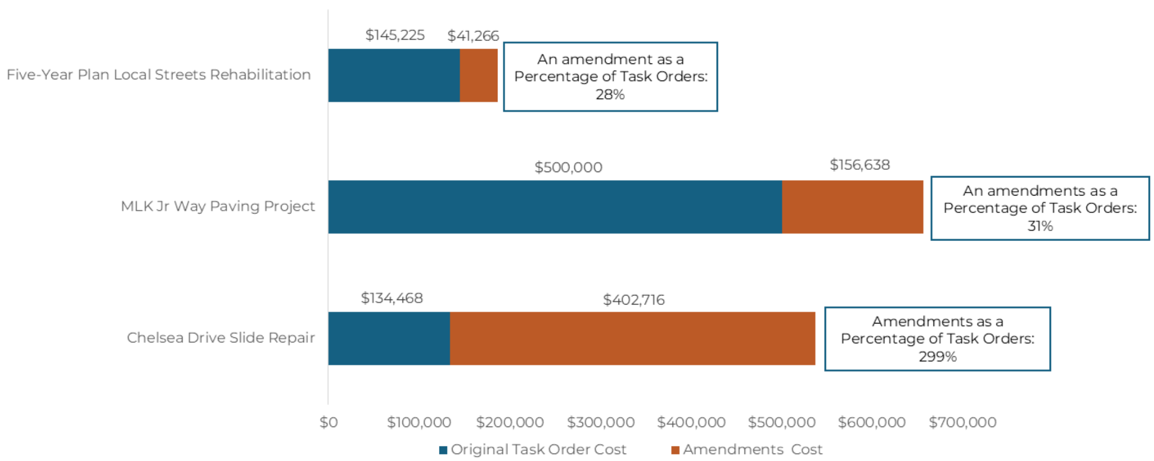
[25] Time adjustments are changes to a project's initially contracted timeline and negative-balance change orders reduce the amount of a contract, typically due to reductions to the scope of work.

[26] An on-call amendment refers to a modification made to an on-call professional services task order.

should not have amendments that exceed the original Council-approved contract amount unless the Project Manager obtains additional Council approval. In addition, the email specified that the 25 percent limit does not apply to amendments to professional services contracts. Later, an email from management at the Department of Transportation in November 2025 made a similar announcement that the 25 percent requirement for on-call task order amendments no longer applied, but only after August 2025.

The lack of formal guidance and changes to internal practices have resulted in inconsistent procedures among staff. For instance, contrary to the CCD's recommended practice that amendments increasing the original task order amount by over 25 percent be approved by either the City Administrator or City Council, three on-call task orders' amendments in the audit sample did not receive specified approvals. Two on-call task orders below $250,000 with amendments above the 25 percent threshold did not receive City Administrator approval and one task order above $250,000 with amendments exceeding the 25 percent threshold was approved by the City Administrator but not the City Council (Exhibit 14).

Exhibit 14: Three On-Call Task Orders' Amendments for Professional Services Exceeded the 25 Percent Limit



Source: Auditor analysis of on-call contracts sampled for the audit. The amendments reviewed were issued under the sample of on-call contracts described in Box 3. We selected a judgmental sample of on-call task orders based on monetary value, expenditure type, and contract type. Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3). Amendments as a percentage of the task orders is the ratio of the amendment dollar amount divided by the original task order amount. One on-call task order amendment related to the sampled task order for the Five-Year Plan Local Streets Rehabilitation is dated October 2023. There are three on-call task order amendments related to the sampled task order for Chelsea Drive Slide Repair, with the latest amendment dated June 2023. A justification to amend the MLK Jr Way Paving sampled task order by more than 25 percent of the original task order amount was approved by the City Administrator, but not by the City Council, in October 2024.

- **A lack of specific formal guidance on when to obtain City Council approval contributed to construction change orders for a paving project moving forward without City Council approval despite increasing the original work order amount by over 25 percent.** In January 2024, the Capital Contracts Division sent an email to the Public Works and Transportation departments stating that sometime in the future, staff should obtain City

Council approval for change orders under as-needed contracts that exceed 25 percent of the individual work order amount, rather than the original contract amount. However, it did not specify when this new requirement would go into effect. Because of the lack of clarity, staff expressed confusion over which practice or policy should be followed for construction change order approval. For example, an as-needed contract for the West Oakland Major Street Paving project had change orders that increased the original contract amount by $1.9 million, which was equivalent to a 26 percent increase in the original work order amount ($7.3 million) and a 15 percent increase in the original contract amount ($12.7 million). The change orders did not go to City Council for approval, in part because no clear formal guidelines exist.

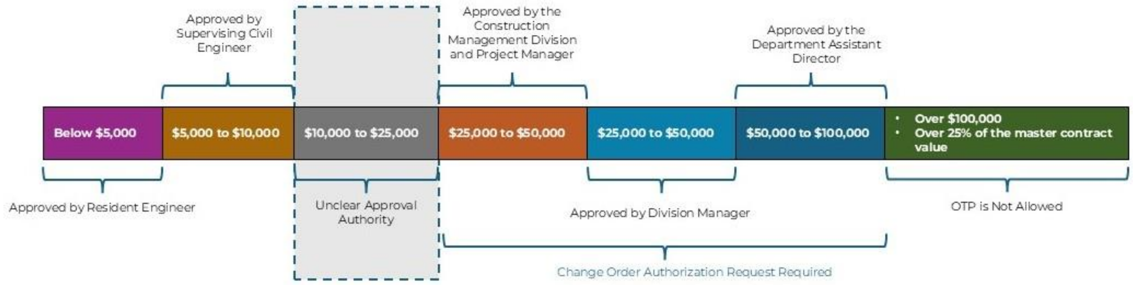
- **The Manual does not have clear approval requirements for Orders to Proceed (OTPs).** Orders to Proceed authorize contractors to begin work before official change orders are processed. The Construction Management Manual describes approval requirements based on dollar amount; for instance, the Resident Engineer can approve an Order to Proceed for work costing less than $5,000, but work between $5,000 and $10,000 must obtain the approval of the Supervising Civil Engineer. For work above $10,000 and less than $25,000, the Construction Engineer in practice approves Orders to Proceed. However, the Manual does not explicitly state this authority, only stating that the Construction Engineer can "proceed with the work with an Order to Proceed issued by the Resident Engineer."[27]

  In addition, the Manual appears to conflict on the authority of the Supervising Civil Engineer. It states that the Supervising Civil Engineer can approve work valued below $10,000, as well as being able to approve work on behalf of the Construction Engineer, which implies that the Supervising Civil Engineer can also approve work above $10,000 up to $25,000. Staff observed that this approval authority is contradictory and plans to revise the Manual to clarify the Supervising Civil Engineer's authority on approving Orders to Proceed.

  Of 65 Orders to Proceed reviewed from FY 2022-23 through FY 2024-25, 15 fell within the $10,000 to $25,000 range (Exhibits 15 and 18). Reflecting the lack of clarity described above, these Orders to Proceed had varying approvals, signed off by the Construction Engineer, Supervising Civil Engineer, or both.

[27] Work between $25,000 and $100,000 requires a Change Order Authorization Request to issue an Order to Proceed. The Construction Management Manual does not allow the Public Works and Transportation departments issue Orders to Proceed for work above $100,000 or above 25 percent of the contract value.

Exhibit 15: Required Approval for Orders to Proceed (OTP) between $10,000 and $25,000 is Unclear



Source: Auditor summary of the Construction Management Manual. Approval requirements are cumulative, meaning that Orders to Proceed must also obtain approvals required for lower amounts (i.e., an Order to Proceed of $21,000 must also obtain approvals from the Construction Engineer or Supervising Civil Engineer, in addition to Resident Engineer).

- **The Manual does not provide guidance for issuing Orders to Proceed under on-call contracts.** For two on-call construction task orders, the Public Works and Transportation departments issued six Orders to Proceed (OTPs) over $25,000 without the required pre-approvals. According to management, these exceptions were partly due to insufficient guidance. One exception occurred when staff used Orders to Proceed under an on-call contract to execute a new work order as a change order. The remaining five Orders to Proceed were issued because the project scope and design were not fully developed before the City initiated the bidding process.[28] The Manual does not state the approvals required in these specific situations.

To ensure that scope changes and additional expenses are sufficiently reviewed, the Public Works and Transportation departments should create formal policies to define approval and review requirements for time adjustments, negative-balance change orders, and change orders for on-call contracts. Caltrans requires its Division of Construction to approve any change order that exceeds $350,000 in total absolute value, or for any modification that results in a time adjustment of more than 10 percent of original working days or more than 19 working days, whichever is greater. The City could implement a similar approach.

Having a formal requirement to obtain approvals for change orders and Orders to Proceed mitigates risks associated with inflated costs, inadequate planning, or “scope creep.”[29] While change orders are a normal component of the construction process and can help the City address specific and unforeseen issues, without sufficient review they can result in higher costs to the City.

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[28] In the latter case, the contractor provided price quotes for work that had not been clearly specified before and the updates involved negotiations between the contractor, Resident Engineer, and design team to agree on costs.

[29] Scope creep may occur when contractors submit low bids to win a contract, expecting to recover profits later through a series of change orders.

Recommendation 2: The Public Works and Transportation departments should update the Construction Management Manual to specify approval requirements for:

- Time adjustment change orders

- Negative balance change orders

- Orders to Proceed within the $10,000 to $25,000 range

- Change orders issued under on-call contracts.

The City Does Not Have Centralized Guidance on How to Use On-Call Task Orders and On-Call Contract Extensions

From FY 2022-23 through FY 2024-25, the City spent $105 million, or 41 percent of its total contracted capital project spending, on on-call contracts (Exhibit 16). In a review of 25 on-call contracts, 44 percent (11 contracts) issued task orders exceeding $1 million, most of which were for paving projects.[30]

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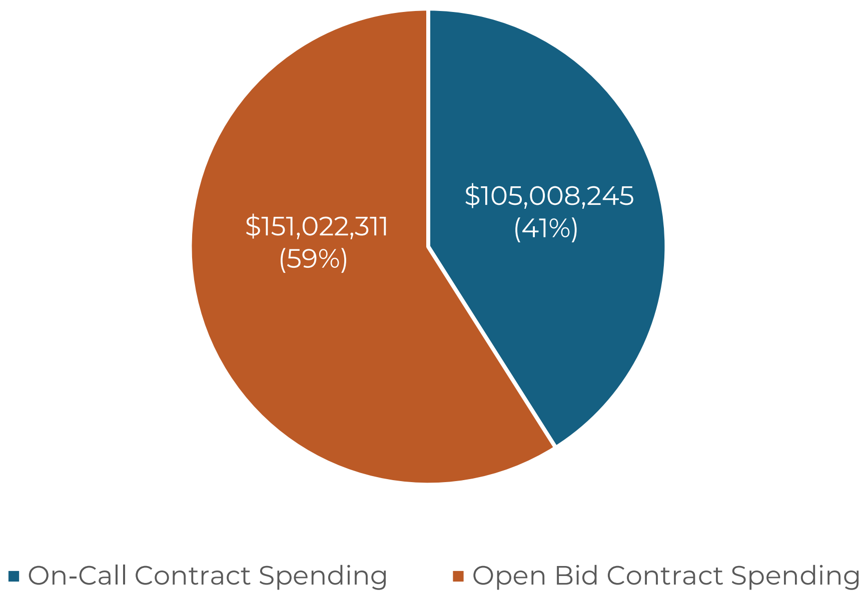
[30] According to Department of Transportation staff, beginning in 2019, the Department introduced a contracting method called "as-needed contracts." As-needed contracts are functionally similar to on-call contracts, except that the scope and bid prices of as-needed construction contracts are set at the time of open bidding. Open bidding is used to award the contract but not to issue work orders. For both on-call and as-needed contracts, location or timing of the work is not set until the City issues task or work orders and contractors under these contracts may be awarded work for multiple capital projects. Like an on-call task order, an as-needed work order is awarded through limited competition, as opposed to an open bid contract for a public project, which is open to all bidders. Our review found that as-needed contracts are recorded as "on-call" contracts in the City's financial system, project bid documents, and Capital Contracts Division's records. Moreover, as-needed contracts are not mentioned or regulated in the City Municipal Code. Interviews with Department of Transportation management and staff indicated disagreement about whether as-needed contracts should be considered on-call contracts. Based on the similarity of as-needed contracts to on-call contracts, we determined it was reasonable to include as-needed contracts when calculating expenditures of on-call contracts.

Exhibit 16: On-Call Contracts Account for 41 percent, or $105 Million of the City's Total Contracted Capital Projects Spending from FY 2022-23 through FY 2024-25



Source: Auditor analysis of capital projects spending on construction and professional services between FY 2022-23 and FY 2024-25 based on data from the City's financial management system.

On-call contracts are regulated by City Council Resolutions. Through these Resolutions, the City Council authorizes on-call contracts by establishing a maximum contract value and a set period. The City Administrator is authorized by the Resolutions to award contracts based on the intended use and the approved contract amount specified in the resolutions. For example, Resolution 88327 authorized the award of on-call construction contracts to four contractors, with a maximum total contract amount of $12,686,200 each for paving services. For more data on the City's spending on the on-call contracts, refer to Appendix B.

Although on-call contracts can help the City address unanticipated and/or urgent needs, the City does not currently have established guidance that describes how to use on-call task orders and on-call contract extensions:

- **There is no centralized or general guidance on when the City should use on-call contracts and how to structure them.** According to staff, on-call contractors should be used for smaller, urgent, or emergency projects and not for large capital construction projects or projects that involve complex design as this can limit competition and increase costs. Currently, Project Managers initiate the process of creating an on-call contractor list when they identify a need, but there is no formal guidance on how to determine whether the need is better met as an on-call or formal procurement or how to scope the contracts. For instance, in FY 2022-23, the City established a list of on-call contractors for "general construction services" to include a broad range of construction work.[31] While the intent was to compile a list of on-call contractors to address a variety of work, using on-call bidding for this large scope might lead to higher costs to the City due to contractors needing to outsource work outside of their specialties. According to staff, having a more specialized scope would have cultivated more competition among contractors that do similar work and resulted in lower costs. In another example, staff expressed concerns about the City using the on-call process to assign large paving contracts.[32] In FY 2024-25, the City spent a notably higher proportion of its capital project spending on on-call services than a nearby jurisdiction.[33] Although cities have different needs, establishing guidance can allow the City to be more prudent in its use of on-call contracts. This guidance could include reasonable cost thresholds for different categories of work (e.g., sewer, sidewalk, paving), as well as thresholds for Small Local Business Enterprises and Very Small Local Business Enterprises.[34]

- **There is no existing guidance on when the City should issue on-call task orders, potentially yielding higher costs to the City due to reduced competition.[35]** As mentioned above, on-call task orders should be used for small or emergency projects. The City has not formalized this approach, which has led to the City using on-call task orders for large or non-emergency projects. While there are Council Resolutions that describe maximum contract values and defined contract periods for on-call contracts, these Resolutions do not place limits on the circumstances under which the City should issue task orders under those contracts. Multiple staff expressed concerns about the use of on-call task orders in cases when formal bidding may be more appropriate. Staff in the Capital Contracts Division stated that they discuss proposed task orders with Project Managers to

[31] Resolution 89738 was adopted by the City Council to specify that on-call contracts for "general construction services" can be awarded by the City Administrator if they do not exceed $1 million or $4 million, depending on the size of the project. Note that while this on-call contract was for "general construction services," the guidance in the Resolution only applies to the on-call contracts it awards under this specific resolution, not to all on-call construction services.

[32] The largest paving contract within the reviewed sample of on-call contracts were $15 million (one time).

[33] In FY 2024-25, the City of San Leandro spent 11 percent of approximately four million dollars, or $451,100, on on-call task contracts. In FY 2024-25, the City of Oakland spent 40 percent ($49 million) on on-call contracts. While both cities have different populations and infrastructure needs, the notable difference in proportions spent on on-call contracts suggests that there could be room to adjust Oakland's spending allocation and define what is considers reasonable and appropriate use for on-call contracts.

[34] One City Council resolution required Council approval at different cost thresholds for two "tiers" of firms, with the lower tier intended to increase accessibility for Small Local Business Enterprises and Very Small Local Business Enterprises. However, staff noted that the approach did not achieve its intended effect because the cost thresholds were still too high for Small Local Business Enterprises and Very Small Local Business Enterprises to bid. Appendix B discusses the City Local and Small Local Business Enterprises Program in more detail.

[35] As of the period of the audit scope (FY 2022-23 through FY 2024-25). In September 2025, during the audit, the City issued a policy for the procurement of on-call professional services, but that policy does not describe when using on-call professional services contracts will be appropriate based on the nature of the work. There is no formal policy for the procurement of on-call construction contracts.

determine whether to proceed with on-call or formal bidding but their determinations are not consistently followed and receive pushback from department leadership.

In addition, the City does not have a policy on the maximum allowed amount for task orders, which could risk the use of on-call task orders for larger projects at higher costs and reduced competition. On-call contracts are governed by individual City Council Resolutions whose details are proposed on a case-by-case basis by Project Managers.[36] In a sample of on-call task orders reviewed, among the largest were $8.4 million and $7.3 million for paving and $4.5 million for sewer work. By contrast, the City of San José's municipal code limits individual on-call task orders to below $730,000, with that city's Public Works Department employing a more restrictive internal limit of $200,000. Similarly, the City of Oakland could set limits that reflect its needs for on-call task orders.

- **There is a lack of independent review and unclear approval authority for on-call task orders.** Similar to contracts for public projects, on-call task orders are distinct contractual commitments that feature their own defined scopes of work.[37] However, on-call task orders, regardless of their dollar amounts, are not required to be reviewed and approved by the City Administrator or City Attorney despite specifying new project scopes.

  The authority of the Capital Contracts Division (CCD), which is responsible for facilitating solicitation for on-call and formal procurements for capital contracts, is also not clear. Although CCD is meant to serve as a control over the City's bidding decisions, staff explained that CCD's direction is not always followed. For example, in FY 2022-23, a Project Manager did not follow CCD's direction to pursue a competitive process for an on-call paving contract for professional services valued at $234,000, instead issuing a non-competitive on-call task order under an existing on-call paving contract. A memo was later issued by the CCD describing conflicting views among staff on whether a non-competitive on-call task order was appropriate for this particular use.[38] The memo ultimately recommended that:

    - All on-call contracts should be reviewed, approved, tracked, and managed by Capital Contracts prior to issuance of the task order to consultants and contractors, including their advertisement, and issuance of task orders, contract amendments and task order amendments.

[36] Through these Resolutions, the City Council authorizes on-call contracts by establishing a maximum contract value and a defined contract period. The City Administrator is authorized by the Resolutions to award contracts based on their intended use and the approved contract amount specified within each Resolution, as long as the contract value does not exceed the maximum amount as set in the Resolutions.

[37] Due to the nature of on-call work, original on-call contracts are awarded without a defined scope of work. The City issues task orders to define these scopes.

[38] In March 2023, the Capital Contracts Division issued an interoffice memo to inform the directors of the Public Works and Transportation departments about this exception to contracting practices with the City's on-call paving engineering services, specifically regarding a direct award of a task order on a professional services on-call contract.

- All as-needed contracts should be reviewed, approved, and tracked by Capital Contracts including verification of work order scope and unit price.[39]

According to staff, while on-call task orders can address immediate needs, their shorter timelines and reduced bureaucratic requirements prioritize speed over open competition which can lead to lower bids. Especially for larger, planned projects, staff have expressed that the shorter process for on-call task orders may be used to circumvent procurement procedures for formal bidding.

Given the risks associated with reduced internal controls and to address unclear approval authority, the City Administrator should establish an independent review process and provide clear and consistent guidance regarding the review, approval, and delegated authority for on-call task orders. Additionally, the City Administrator should empower the Capital Contracts Division to enforce those requirements. The Capital Contracts Division is currently developing a Procurement Manual for the Public Works and Transportation departments to provide formal guidance for construction and professional services capital contracts, which might include the appropriate use of on-call contracts. To help prevent the misuse of on-call contracts and task orders, the City Administrator should ensure that the Procurement Manual includes clear requirements for review and approval and that those requirements are applied consistently across departments.

- **There are no existing policies or procedures that define allowable duration for on-call contract extensions.** While some resolutions for on-call contracts require City Council approval if contract amendments or extensions increase contracts' total value, the City does not currently have a policy that specifies how long an on-call contract can be extended. In our review of contracts associated with on-call task orders, 13 out of 19 sampled contracts were extended. Staff granted these extensions for a variety of reasons, including long project delivery timelines, reconciling items on change orders, processing final payments, taking advantage of on-call professional service contracts nearing expiration, avoiding lapses in services while the staff work to issue new on-call contracts, and obtaining more support to offset staffing vacancies.[40] The duration of these extensions ranged from 127 days to 4 years (see Exhibit 17).

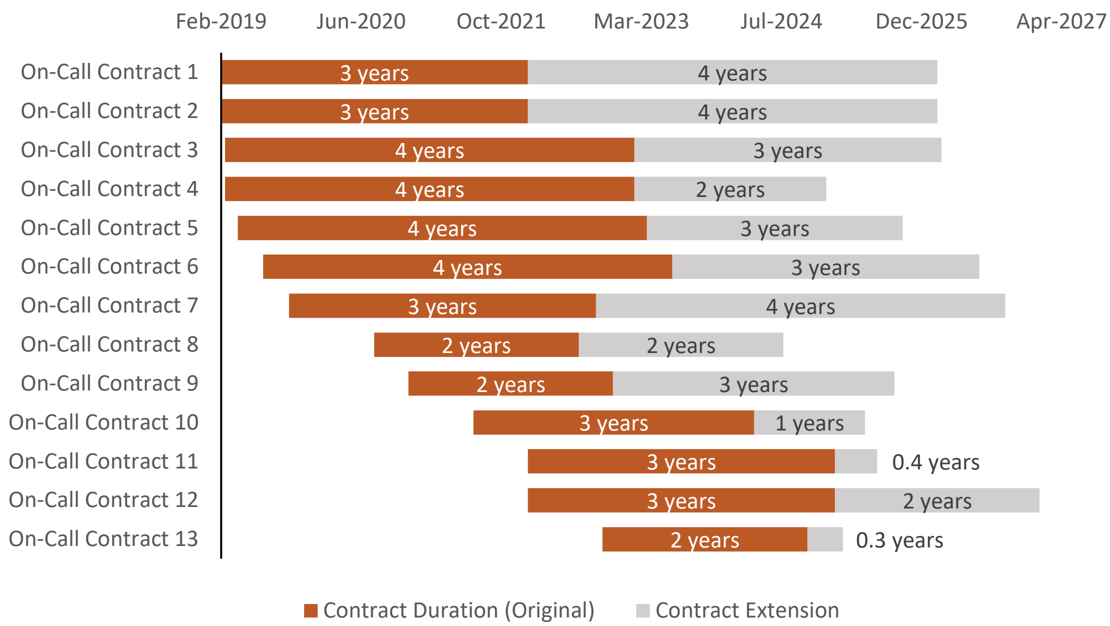
  Contract extensions may raise concerns about equity and fair competition, as they limit opportunities for other contractors to work with the City. In addition to limiting competition, repeated renewals of on-call contracts over multiple years can lead to higher costs for the City. As an example, a contractor requested a bid price adjustment for

[39] An "as-needed contract" is a contract with a contractor for a specified type of work, but the location or the timing of the work is not set. For example, a new sidewalk or sidewalk restoration could be an as-needed project.

[40] The 2024-2025 Alameda County Grand Jury report titled, "Oakland's Potholes: A Bumpy Road and Inadequate Oversight," highlights how the City's contracting delays have affected road repairs. The report states that the Jury became aware of "inordinate and inexplicable delays lasting as long as 10 months in getting contracts completed and executed" which "contributed to hampering pothole and road repairs." The report can be found at this link: https://grandjury.acgov.org/wp-content/uploads/2025/06/2024.2025-Alameda-County-Grand-Jury-Final-Report.pdf.

increased costs via a change order after being awarded paving on-call task orders during the contract renewal period. This change resulted in an extra cost of $304,471 for no additional work.[41]

Exhibit 17: On-call Contracts were Extended an Average of Two Years, with the Longest Extension being Four Years



Source: Auditor analysis of on-call contracts sampled for the audit, as described in Box 3. The contracts' start dates and extension dates were determined by the dates on executed contracts and amendments. We selected a judgmental sample of on-call task orders based on monetary value, expenditure type, and contract type. Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

While extending contracts provides additional time for staff to complete projects, particularly with vacancies, extensions increase administrative oversight needs as well as overall project costs. Currently, the City tracks on-call contract timelines using a report from the City's financial system (Oracle). According to staff, the Bureau of Administration within the Public Works Department emails a quarterly report detailing remaining allowable contract amounts and timelines to the department's Division Managers and administrative staff. This report helps ensure that the City has sufficient time to either extend the contract or solicit a new one.

Renewal needs and timelines can be planned for. The City of San José tracks contract timelines in weekly meetings and staff report that they do not extend master contracts for on-call construction, instead allowing the contract to lapse and procuring a new contract. The Public Works and Transportation departments should implement similar

[41] The contract, signed in December 2020 and set to expire in December 2022, was subsequently extended to August 2025. While we did not assess whether the increased amount was appropriate, this example illustrates the potential cost impact of extending a contract rather than opening a new contract for bid.

measures to ensure timely renewal of on-call contracts and prevent excessive extensions. The departments should establish a policy on when to initiate new on-call contracts or extend existing ones. To implement this approach, staff recommended that the departments designate responsibility for managing on-call contracts in a way that does not rely on a single individual.

To address unclear approval authority, the City Administrator should establish a policy on when the City should use on-call contracts and on-call task orders.

Recommendation 3: The City Administrator should establish a policy on when the City should use on-call contracts and on-call task orders. These should outline control activities, such as acceptable usage, independent review process and approval authority, and dollar thresholds.

Recommendation 4: The Public Works and Transportation departments should establish guidelines for determining when to extend existing on-call contracts or initiate new ones.

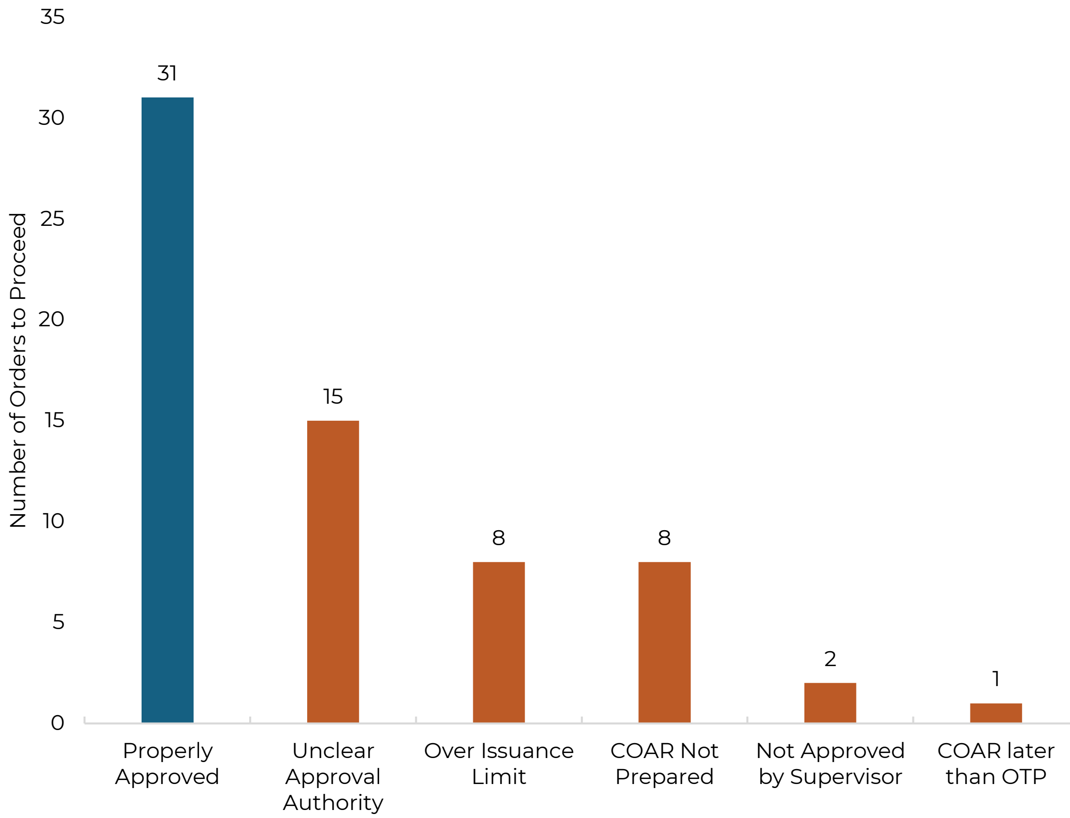
Staff are Not Consistently Following Policies in the Construction Management Manual

A review of change orders, on-call task orders, and Orders to Proceed (OTPs) revealed multiple instances of staff not following established policies in the Construction Management Manual. These observations include:

- **Over half (34 out of 65) of sampled Orders to Proceed were not issued in line with requirements in the Construction Management Manual.** These instances included not preparing a Change Order Authorization Request for scope changes over $25,000, issuing change orders over issuance limits, not obtaining approval from supervisors, and the Change Order Authorization Request being issued after the Order to Proceed (see Exhibit 18).[42]

[42] This sample included 15 out of 65 Orders to Proceed between $10,000 and $25,000 for which the Manual did not state a clear approval, as shown in Exhibit 18. We did not count these as “in compliance” with requirements, as this outcome reflects a deficiency in internal controls.

Exhibit 18: About Half of Reviewed Orders to Proceed Issued from FY 2022-23 through FY 2024-25 Lacked Required Pre-Approvals or Were Over the City's Issuance Limits



Source: Auditor analysis of change orders sampled for the audit. The Orders to Proceed reviewed were issued under the sampled change orders described in Box 3. "COAR" stands for Change Order Authorization Request and "OTP" stands for Order to Proceed. "Unclear Approval Authority" indicates that change orders fell within $10,000 to $25,000, a range for which the Construction Management Manual did not specify clear review or approval requirements. We selected a judgmental sample of change orders based on monetary value, expenditure type, and contract type. Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

- **Construction-related change orders did not consistently have contract change order memos to describe proposed modifications to the work.** The Manual requires construction-related change orders over $2,500 to have a contract change order memo that is "thorough enough so that someone unfamiliar with the project can review the change order and determine the justification for the work, the reasonableness of the compensation, and the provision for time extensions."[43] In a judgmental sample of 42 on-

[43] Contract change order memos differ from the justification memos for professional services change orders mentioned above, in that contract change order memos are more routine, and approval authority depends on the amount, while justification memos for professional services change orders are simply approved by the City Administrator.

call change orders, none of the 11 on-call change orders over $2,500 were issued with the required contract change order memos.[44]

- **One change order within the reviewed sample lacked required approvals.** For change orders over $50,000, the Manual requires approval from the Assistant Director and Design Manager. However, there was one instance in which a change order of over $50,000 was not signed by the Assistant Director and Design Manager.[45]

- **Multiple on-call task orders and change orders lacked required approval.** Although the Manual does not specify approval requirements for on-call task orders, the task order form itself states certain approval requirements. A review of 25 on-call task orders found that 10 task orders lacked the required approvals, including authorization from the Capital Contracts Division, Assistant Director, and/or Department Director. Included in these cases were six instances in which on-call task orders lacked approval from the Capital Contracts Division. In addition, five out of 44 change orders were not approved by the Capital Contracts Division.

- **In one instance, staff issued a task order to extend the contractor's existing work, rather than issuing an amendment.** While task orders are mainly used to initiate projects, amendments are typically used to change the scope of current on-call professional services work. In FY 2022-23, an amendment totaling $304,811 was issued as a new task order under a different on-call engineering paving contract when the original contract had reached its capacity. In this case, issuing a task order circumvented higher-level review and competition.

More frequent training should be provided to staff. According to the Public Works Construction Management Division leadership, the Division has offered weekly Manual training to new hires, hosts weekly and monthly meetings to discuss lessons learned, areas to improve, and relevant administrative procedures. Supervisors may also meet with individual staff to provide training in specific areas. Staff explained that training efforts have lapsed due to staff capacity and vacancies. Inconsistencies in managing capital projects suggest that staff could benefit from more regularly scheduled training opportunities to ensure they remain informed of the policies and procedures to deliver capital projects.

Regularly creating and reviewing reports can also strengthen the departments' ability to monitor change order costs. The City of San José has created an in-house capital project management

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[44] The Construction Management Manual states that the requirement for contract change order memos applies to "change items" over $2,500. Staff report that in practice they only apply this requirement to change items under public construction contracts. For change under on-call construction contracts, the "Reason for Change" section in the executed change order provides justification for the change. Staff plans to update the Manual to reflect current practices.

[45] A change order under the Leimert Bridge Seismic Retrofit project was issued for $65,438.67 during FY 2024-25.

system to oversee and track capital projects. Every six months, San José staff generate a report to review the status of change orders that includes change order type, amount, time adjustments, and approval history across all capital projects.

Currently, the Public Works Department reviews total costs of change orders when processing payments for individual projects. However, for overall reporting and monitoring purposes, the Public Works and Transportation departments should adopt an approach similar to San José's by regularly comparing cumulative change order totals against original contract prices and checking that costs are recorded under the appropriate contracts. These reports should describe the work related to each change order and indicate whether the cumulative amount exceeds the 25 percent threshold requiring City Council review. In addition, these reports should include work descriptions and statuses, time adjustments, total costs, payments, and estimated completion timelines. Furthermore, management should also train relevant staff in these procedures to ensure they obtain appropriate approvals and evaluate staff adherence to these procedures through performance evaluations as needed.

Recommendation 5: The Public Works and Transportation departments should generate regular reports to enable management to monitor change orders in aggregate for appropriateness and cost. These reports should include work descriptions, work statuses, time adjustments, total costs, payments, and estimated completion timelines.

Recommendation 6: To increase the consistency of capital project financial management practices, the Public Works and Transportation departments should train staff on policies in the Construction Management Manual and monitor staff compliance with the policies through performance evaluations, as needed.

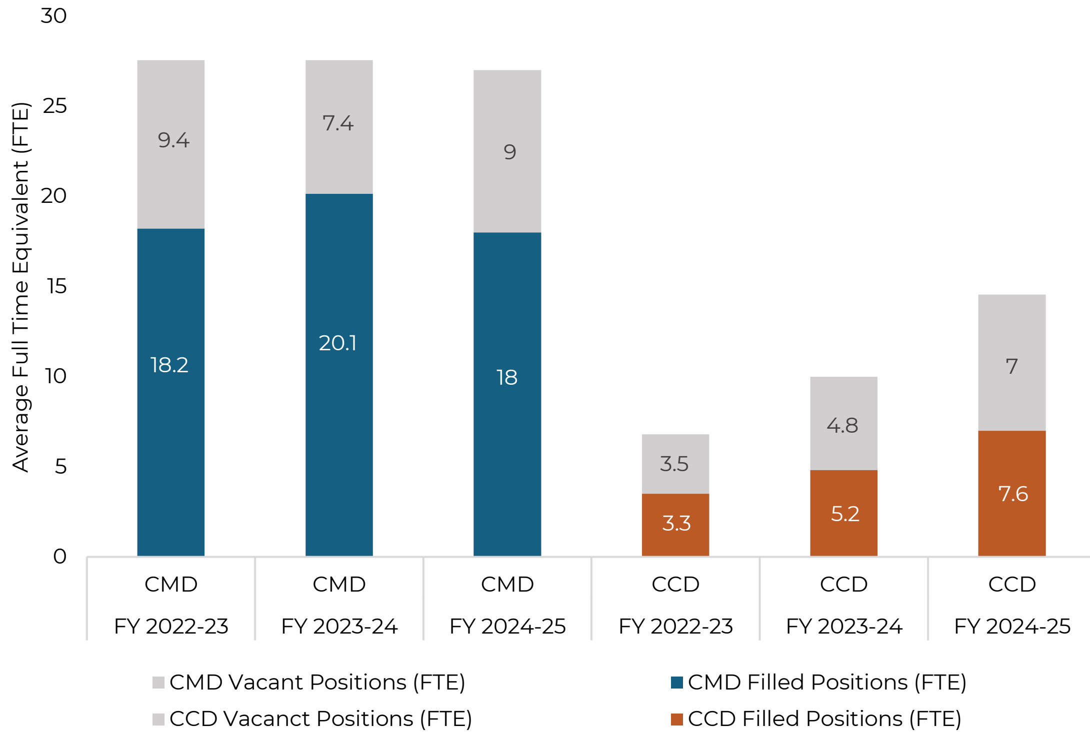
Vacancies in the Construction Management Division, Capital Contracts Division, and Fiscal Services Have Resulted in Staff Simultaneously Holding Multiple Key Roles

Vacancy rates have been persistently high for the Construction Management Division and Capital Contracts Division since FY 2022-23.[46] Approximately half of the Construction Management Division's Civil Engineer positions have remained vacant over the past three fiscal years and in FY 2024-25, the Division had 9 vacancies out of 27 FTE (fulltime equivalent positions). The Capital Contracts Division has also experienced vacancies, with its vacancy rate increasing from FY 2022-23 through FY 2024-25. In the latter fiscal year, the Capital Contracts Division had 7.6 vacancies out of 14.6 FTE. These vacancies included a manager position in FY 2022-23 and various

[46] We calculate the vacancy rate as the proportion of unfilled authorized positions out of total positions (including frozen positions). One position was frozen in the Capital Contracts Division during FY 2024-25, and no positions were frozen in FY 2022-23 or FY 2023-24. From FY 2022-23 through FY 2024-25, no positions were frozen in the Construction Management Division or the Fiscal Services Teams in the Public Works and Transportation departments.

administrative analyst positions that have remained unfilled over the last three fiscal years (see Exhibit 19).

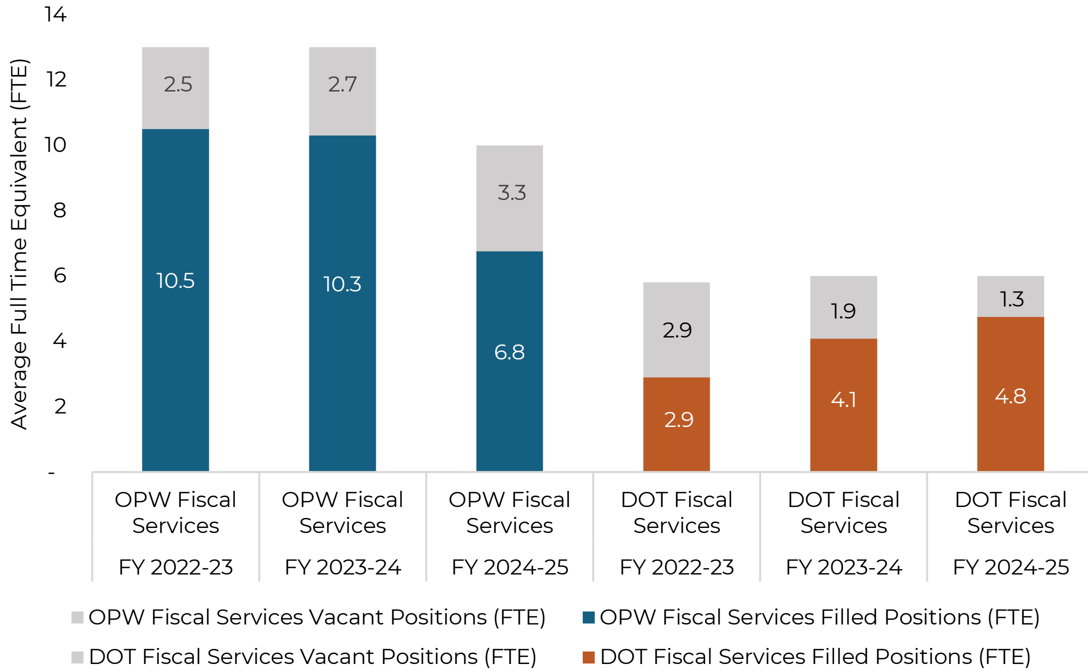
Exhibit 19: The Construction Management Division (CMD) and Capital Contracts Division (CCD) Faced Staffing Challenges from FY 2022-23 through FY 2024-25



Source: Auditor analysis of position control reports for FY 2022-23 through FY 2024-25. Several monthly reports were unavailable, including those for July 2022, July 2023, and July to September 2024. FTE may not be a whole number because it is reported as an annual average based on available data. CMD stands for Construction Management Division and CCD stands for Capital Contracts Division.

The Fiscal Services teams in the Public Works and Transportation departments have also experienced high vacancies. In FY 2024-25, the Fiscal Services team in Public Works had 3.3 vacancies out of 10 FTE and the Fiscal Services team in the Transportation department had 1.3 vacancies out of 6 FTE (see Exhibit 20).

Exhibit 20: The Fiscal Services Teams in the Public Works and Transportation Departments Have Experienced High Vacancy Rates Since FY 2022-23



Source: Auditor analysis of average positions and vacancies in Oakland Public Works (OPW) and Department of Transportation (DOT) based on the City's monthly position control reports for FY 2022-23 through FY 2024-25. Some monthly reports were unavailable, including those for July 2022, July 2023, and July 2024 through September 2024.

Vacancies within the Construction Management Division, the Capital Contracts Division, and both Fiscal Services teams have led to some staff assuming dual roles in financial management of capital projects. For example, one employee served as both the Assistant Director of Oakland Public Works and the Capital Contracts Division Manager, while another individual functioned as Project Manager, Design Manager, and Design Supervisor. In another case, vacancies within the Department of Transportation's Fiscal Services team led to accountants rotating as acting fiscal managers and reviewing their own work.[47] This arrangement limits the effectiveness of preventing unauthorized payments, with individuals occupying more than one role in the payment process. Although assigning dual roles offers temporary operational support, these arrangements may result in reduced review of project decisions, overreliance on certain staff members, and introduce potential conflicts of interest.

In addition to compromising segregation of duties, vacancies can delay projects. In 2023, staff reported at the Affordable Housing & Infrastructure Bond Public Oversight Committee that staffing shortages in the Department of Transportation led to delays in in-house design and

[47] After the prior fiscal manager retired in September 2021, the Department of Transportation's Fiscal Services lacked consistent oversight until a new manager started in January 2024.

paving. The Alameda County Grand Jury also found that vacancies have delayed paving projects, with the vacancy rate for paving and street repair jobs often exceeding 20 percent in Oakland. [48]

These effects highlight the need for strategic recruitment and retention efforts in a challenging hiring environment. The Public Works and Transportation departments should prioritize addressing vacancies and develop actionable plans to attract and retain qualified personnel.[49] Meanwhile, both departments should also develop a policy to ensure that no single person oversees multiple stages of capital project construction and finances. This policy can include processes to ensure that work is independently reviewed and subject to minimum approval signatory requirements. To ensure this happens, the Public Works and Transportation departments should configure the AP Portal to ensure that no single staff has control over multiple aspects of the payment process (such as both submitting and approving payments).

Recommendation 7: The Public Works and Transportation departments should implement a comprehensive segregation of duties policy that includes independent oversight, minimum approval signatory requirements, and designated alternate approvers for staff serving in acting roles.

Recommendation 8: The Public Works and Transportation departments, in coordination with the Information Technology Department, should configure the AP Portal to prevent individual staff members from holding multiple roles in the payment process.

The City Does Not Have a Centralized Project Management System for Capital Projects

The City currently uses multiple tools to track capital projects. These include SharePoint for document storage, Excel for construction status and cost tracking, Virtual Project Manager (Virtual PM) for daily activity logs, and AP Portal and Oracle for financial management. Disparate

[48] This summary is derived from the 2024-2025 Alameda County Grand Jury report titled, “Oakland’s Potholes: A Bumpy Road and Inadequate Oversight.” The report can be found at this link: https://grandjury.acgov.org/wp-content/uploads/2025/06/2024.2025-Alameda-County-Grand-Jury-Final-Report.pdf

[49] In the 2024-2025 Alameda County Grand Jury report titled, “Oakland’s Potholes: A Bumpy Road and Inadequate Oversight,” the Alameda County Grand Jury attributed high vacancies in the Department of Transportation to the City's lengthy hiring process, competition from private employers, and delays by the City's Finance Department in filling positions. The report can be found at this link: https://grandjury.acgov.org/wp-content/uploads/2025/06/2024.2025-Alameda-County-Grand-Jury-Final-Report.pdf

information in multiple systems prevents staff from generating comprehensive reports or producing a central list of capital projects, on-call contracts, and change orders.[50]

Because of the lack of centralized project management, staff do not keep comprehensive records of on-call task orders which limits visibility for project oversight and cost control. During this audit, the Capital Contracts Division did not have complete records for on-call task orders. Out of 30 capital projects, seven did not have associated documents fully uploaded to SharePoint. In these cases, information was outdated or missing, including on-call change order files or Excel files that the Capital Contracts Division uses to monitor expenditures, contract timelines, and project progress for on-call contracts.

In 11 out of 13 projects sampled, Resident Engineers did not consistently maintain Construction Management logs.[51] Out of 13 capital projects, 11 had outdated or incomplete construction management logs or did not have one at all.[52] In addition, contractors had not consistently submitted daily logs in a timely manner.[53] According to Construction Management Division staff, some daily logs were submitted as late as six months after the fact or only at project completion. Submission delays impede staff from accurately tracking work performed by the contractor and require the Residential Engineer to retroactively verify information against inspection records.

Maintaining updated projects and cost logs is essential to enabling staff to effectively manage projects and detect potential issues early. Tracking these are especially important since neither the City's financial system (Oracle) nor the AP Portal track change orders and on-call task orders. Information gaps prevent staff from conducting meaningful cost analyses or generating accurate expense reports for change orders or on-call task orders, as well as monitoring for overspending or cost manipulation.

In general, the City does not have a reliable way of tracking overall capital project expenditures.[54] Staff indicated that some reports from Oracle do not fully reflect project expenditures; in one

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[50] For transportation and street projects, the Department of Transportation budgets at the program level, using a "parent-child" structure: Parent projects are listed in the main budget reports, but Child projects are not. Similarly, the Public Works Department uses the parent-child structure for some sewer capital projects. We obtained a list of these Child projects directly from the Public Works and Transportation Fiscal Services teams and used combined this list with budget reports to compile the audit population. See Box 3 for the methodology used to create samples from this population.

[51] Construction Management logs are used to track construction status, project scope changes, and total costs.

[52] Five projects did not have logs and six had outdated or incomplete logs.

[53] These logs document labor and resources used each day and are required for change orders compensated on a time-and-materials basis.

[54] A $7,585 invoice from May 2024 for Citywide Street Resurfacing (Great Streets) was paid as a direct payment outside of the City's Procure-to-Pay system and did not comply with Administrative Instruction 1021, which restricts direct payments to goods and services of $500 or less and excludes purchases with planned or contract purchase orders. Although this invoice exceeded the expense threshold and was associated with an existing purchase order, the Department of Finance approved this exception due to urgent circumstances. However, as a result, this payment did not have a standard purchase order number in Oracle, which reduces the City's ability to effectively track capital project expenditures.

report that showed purchase order transactions, an expenditure of over $74,000 was not listed under the correct purchase order, but in another report based on capital projects, the expenditure was correctly captured under the correct project. According to staff, Project Managers may use these Oracle reports to help them track project expenditures by comparing the reports to spreadsheets the Project Managers maintain on their own. However, this approach could result in errors and makes it difficult to analyze data in aggregate. A centralized system can help to provide complete and accurate expenditure reports, allowing tighter oversight of actual expenditures.

The lack of a centralized system makes it challenging to monitor projects and maintain oversight. As mentioned in Box 3, the City does not currently have a comprehensive list of capital projects, and staff must manually complete and compile project documents, statuses, and costs—which does not often occur due to the time and effort involved. In one case, staff issued a change order and forgot about it, later issuing a second change order that did not list the costs from the first change order.[55] Having a reliable system to track project statuses and costs can prevent this type of situation and ensure change orders are recorded in one place.

One system, Virtual PM, is designed to help monitor construction capital projects, which have features that allow users to upload documents, monitor payments, and track change orders.[56] Staff reported that the system was only used to support the City's project operational management, including managing project submittals, requests for information, and daily inspection reports.[57] However, not all capital projects were stored in the platform. In addition, Public Works staff reported that they discontinued use of Virtual PM in November 2025 and Public Works is transitioning to managing capital projects using a new system, PMWeb.

According to Public Works staff, PMWeb is designed for planning, design, budgeting, and reporting.[58] Currently, the Public Works Department uses PMWeb to track schedules and generate quarterly reports on budgets and total expenditures based on financial data in Oracle. However, due to current technical limitations, only construction projects under open bid construction contracts are set up in PMWeb; the system does not currently include on-call and professional service contracts. The Public Works Department is working toward using PMWeb for all its construction projects.[59]

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[55] Change order forms list expenses from previous change orders under the same project to help track project cost.

[56] The Virtual PM is a third-party platform for agencies to track and manage projects.

[57] According to the Construction Management Manual, project submittals show the quality, size, type, location, or model number of materials or devices supplied by the contract. Examples of submittals are shop drawings, catalog cuts, rug samples, tile samples, and concrete mix designs.

[58] PMWeb is a third-party web-based platform for agencies to plan and manage projects.

[59] Staff reported that leadership turnover has delayed the addition of new functionality and that PMWeb remains in a testing phase as a management tool.

The Government Finance Officers Association (GFOA) recommends that jurisdictions plan and design systems to collect, store, analyze, and report on capital project data. In building these systems, jurisdictions should identify relevant data for external and internal stakeholders and use these systems to regularly monitor projects' progress and financial activity.[60] The Public Works and Transportation departments should develop or implement a system, such as PMWeb, to track project costs, scopes, schedules, funding, contract requirements, and staff roles, as well as report on project status. The system should allow staff to track overall project expenditures and maintain oversight, including monitoring activities of each project and flagging potential errors or inappropriate expenses.

Recommendation 9: The Public Works and Transportation departments, in coordination with the Information Technology Department, should develop and implement a centralized project management system or tailor existing systems to monitor the statuses of capital projects and maintain oversight. This system should include built-in instructions, workflows, and mandatory fields to ensure policy compliance and identify potential errors or indicators of noncompliance.

[60] The Government Finance Officers Association (GFOA) published "Capital Project Monitoring and Reporting" to provide guidance on establish policies and processes for capital projects monitoring and reporting. See https://www.gfoa.org/materials/capital-project-monitoring-and-reporting

The GFOA acknowledges the significant impact of capital projects on a jurisdiction's finances and operations and the importance of sound management processes: "Given their scale and cost, these capital projects can represent a significant undertaking for local governments. Consequently, governmental entities should establish policies and procedures to support effective capital project monitoring and reporting to assist in the management of these significant projects. Such efforts can improve financial accountability, enhance operational effectiveness and promote citizens' confidence in their government."

Finding 2: The City Can Streamline and Improve Management of its Payment Process for Capital Projects

Summary

The Public Works and Transportation departments can strengthen controls over the payment process for capital projects. Resident Engineers are responsible for reviewing and approving construction-related change orders and processing related payments. Resident Engineers' significant authority enables them to influence key decisions involving change orders and payments. Furthermore, the limited review of Resident Engineers' work, combined with their unfamiliarity with the City's markup policy, has resulted in overpayments on change orders. To address this issue, the Public Works and Transportation departments should develop a process to independently verify that payments comply with contract terms and formalize reviewers' responsibilities. Furthermore, to ensure accurate payments for subcontractor expenses, the departments should request and review documentation for these expenses from the contractor as needed.

The City has also been slow in processing payments to contractors. The invoices reviewed took an average of 47 days to process, which exceeds City and state requirements.[61] The Public Works and Transportation departments can improve their processing timelines by ensuring payment forms are updated and requiring contractors to submit invoices to the City's online portal for processing invoices, AP Portal.

Finally, the departments can strengthen budget management of capital projects by requiring staff to reserve funds for executed on-call change orders within a defined timeframe, which ensures that funds are available for the change orders.

Limited Oversight of Resident Engineers Increases the Risk of Incorrect Payments

When change orders occur, the Construction Management Manual specifies that contractors can receive various markups in labor, materials, equipment rentals, other expenditures, and for work performed by subcontractors. Exhibit 21 shows the allowable markup percentages.

[61] California Public Contract Code Section 20104.50 and Section 7107 require any local agency that fails to make a payment within 30 days after receiving an undisputed and properly submitted payment request on a construction contract to pay interest at two percent per month.

Exhibit 21: Contractors Can Receive Various Markups for Change Orders

Items	Markup Rate
Contractor	
Labor	33 percent
Materials	15 percent
Equipment Rentals	15 percent
Other Items and Expenditures	15 percent
Subcontractor	
Work below $5,000	15 percent
Work over $5,000	(15 percent x $5,000) + 7.5 percent of remaining work

Source: Auditor summary of markup terms in the Construction Management Manual.

Resident Engineers are responsible for ensuring that markups are correctly applied to construction-related change orders. In general, Resident Engineers have authority to review and approve change orders and process related payments.[62] They can also direct contractors to begin extra work under $5,000 without additional approvals. In addition, Resident Engineers communicate with contractors to discuss anticipated costs and invoice amounts before contractors submit the invoices.

The significant authority of Resident Engineers allows them to influence key decisions in change orders, cost authorizations, and payment approvals. And although they work under the oversight of supervisors, staff reported that the supervision may not be consistent. In addition, Resident Engineers have varying interpretations of the City's markup policy.

Without review, the significant discretion of Resident Engineers increases the risk of incorrect payments and inappropriate changes to project scope. Between FY 2022-23 and FY 2024-25, we found that the City overpaid $35,086 for seven capital projects out of 46 reviewed capital projects (see Exhibit 22).[63] This amount included incorrectly applied markup rates for subcontractor work, duplicate markup payments, and other incorrectly applied markup rates.[64]

[62] Resident Engineers approve construction-related invoices and Project Managers approve professional services invoices.

[63] The seven capital projects were identified during sampling for change orders, on-call task orders, and invoice payments (see Box 3 for methodology). Our review of on-call task orders and invoices was limited to a sample of on-call change orders and invoices, rather than a comprehensive review of all those associated with these seven capital projects. As a result, the $35,086 may only reflect a portion of the total overpayment for these seven capital projects.

[64] Overpayments stemmed from the following: (1) a 15 percent markup was applied to all subcontracted work instead of the contractual rates (15 percent for the first $5,000 and 7.5 percent for the remainder) or (2) applied duplicate markup; or (3) inconsistently applied markup rates, with labor marked up at either 35 percent or 21 percent, and other contractor work at 21 percent, all of which deviated from the contract.

Exhibit 22: The City Overpaid Contractors $35,086 for Change Orders from FY 2022-23 through FY 2024-25

Project	Subcontractor Invoice Amount	Expected Markup Payment	Actual Markup Payment	Overpayment
Mosswood Recreation Center	$295,164	$38,892	$54,025	$15,133
Fruitvale Alive! Gap Closure Project from E12th to Alameda Av	$55,769	$6,232	$9,735	$3,503
Oakland Citywide Pavement Rehabilitation Project (8.0 Miles)	$141,745	$31,542	$33,205	$1,663
Leimert Bridge Seismic Retrofit	$62,629	$5,447	$9,394	$3,947
Sanitary Sewer Rehab Sub Basin 82-005	$40,372	$13,323	$18,168	$4,845
Fruitvale Alive! Gap Closure Project	$41,610	$46,008	$48,209	$2,201
SS Rehabilitation Sub-Basin 56-01	$99,877	$17,180	$20,974	$3,794
			Total	**$35,086**

Source: Auditor summary of audit results based on a judgmental sample of change orders across 46 capital projects based on monetary value, expenditure types, and contract types. Due to limitations in sampling, observations may not be projectable to the entire population of capital projects (see Box 3).

Overpayments can be attributed to unfamiliarity with the City's markup rules and lack of adequate review. Management reported that they rely on Resident Engineers to review construction invoices before Project Managers submit the invoices to Fiscal Services for payment processing. To ensure invoices are adequately reviewed, the Public Works and Transportation departments should identify and assign an independent reviewer to review each payment before processing.[65]

Recommendation 10: The Public Works and Transportation departments should implement a process to independently verify each payment aligns with the contract terms (such as markup terms). The departments should also formalize the reviewer's responsibilities in their policies and procedures.

Lack of Documentation of Subcontractor Expenses Limits Management's Ability to Verify Correct Payment Amounts

Currently, the City does not require documentation of expenses for subcontractor work. While the Construction Management Manual states that prime contractors should report the payments they make to subcontractors, the Manual does not require prime contractors to submit actual

[65] Upon being made aware of these issues, management also committed to training staff as part of a "lessons learned" initiative.

copies of subcontractor invoices.[66] The City has processes to ensure subcontractors are properly paid. These include Resident Engineers reviewing completed work before invoices are submitted, contractors submitting subcontractor payment reports, and a compliance review by the Department of Workplace and Employment Standards at project close-out to confirm reported labor payments.

However, there have been observed weaknesses in these controls. The City of Oakland 2024 Disparity Study found that some prime contractors are not submitting subcontractor payment reports as required.[67] In addition, we identified one instance in which the City paid a prime contractor solely based on the amount listed in the invoices submitted by the contractor without a subcontractor payment report.

Issuing payments without subcontractor invoices and payment reports could increase the risk of overpayment. Although this is not a standard practice, the Public Works and Transportation departments should consider requiring contractors to provide supporting documentation (i.e., subcontractor invoices) for subcontractor payments. By requiring prime contractors to submit documentation of subcontractor expenses, management can independently verify that only appropriate expenses are reimbursed.

Recommendation 11: The Public Works and Transportation departments should establish procedures to review and validate subcontractor expenses as needed.

Underutilization of the AP Portal May Result in Incorrect Payments and Lengthy Invoice Processing Times

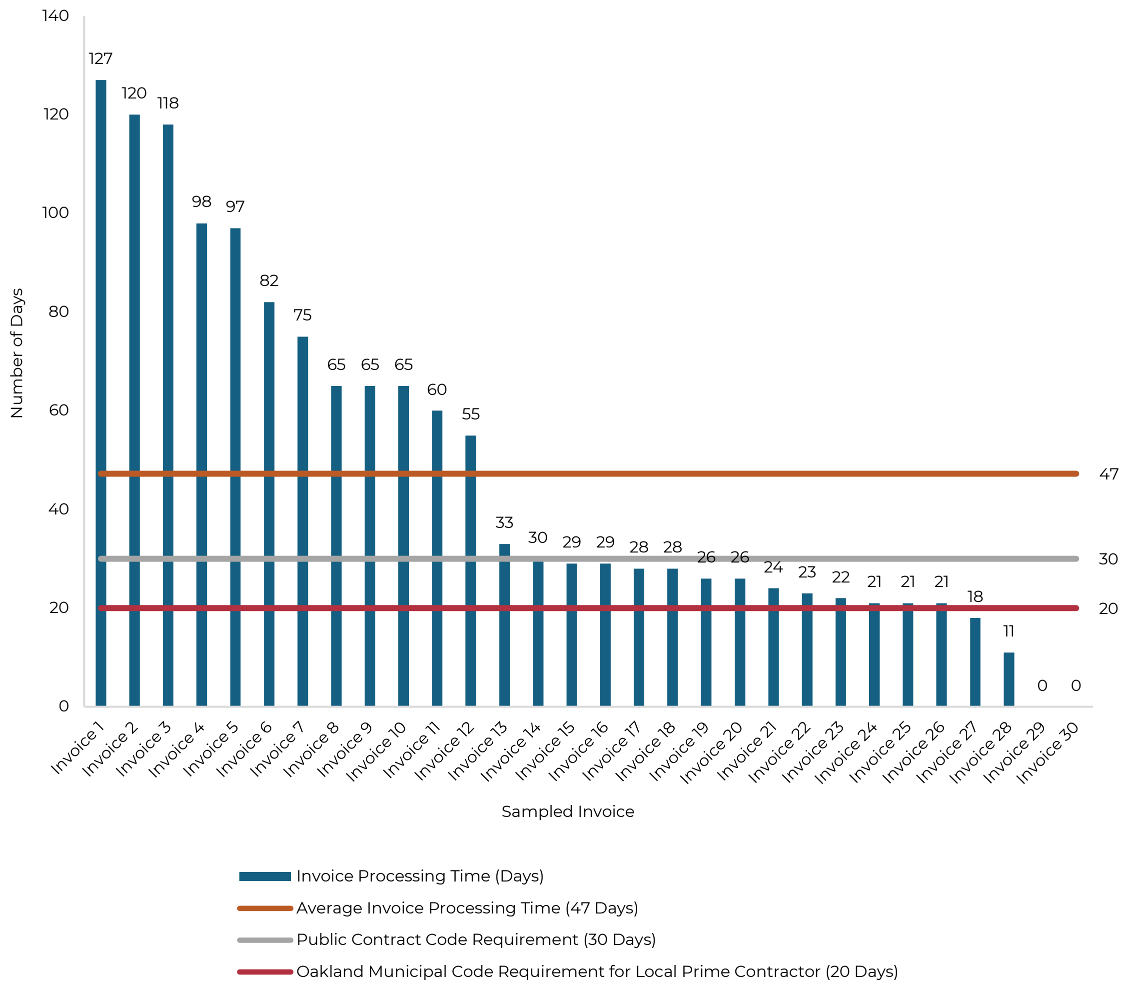
The City's payment process is long. For the reviewed invoices, the City took an average of 47 days to process them, as shown in Exhibit 23. According to the Oakland Municipal Code §2.06.060, if the City fails to pay a local prime contractor within 20 days of receiving an undisputed invoice, the local prime contractor "is entitled to interest penalty in the amount of ten percent of the improperly withheld amount per year for every month that payment is not made." For non-local prime contractors, the California Public Contract Code Section 20104.50 and Section 7107 require any local agency that fails to make a payment within 30 days after receiving an undisputed and properly submitted payment request on a construction contract to pay interest at 2 percent per month.

[66] According to Oakland Municipal Code §2.06.010: "A prime contractor is a contractor who is directly or in privity of contract with the City of Oakland." The City's Local and Small Local Business Enterprise Program defines a local prime contractor through requirement that the contractor: (a) must have a substantial presence in the Oakland geographic region; (b) current permits, and current on fines and fees owed; (c) valid documents certifying business operations (i.e. contracts, bills, etc.)

[67] City of Oakland 2024 Disparity Study, conducted by Mason Tillman Associates, Ltd.. Link: https://www.oaklandca.gov/Government/Departments/City-Administrator/2024-Disparity-Study

Because the City needs to pay interest for late payments, lengthy processing times are a liability to the City. Delays in payment for one capital project resulted in the City paying $66,000 in interest.[68]

Exhibit 23: During FY 2022-23 through FY 2024-25, the City Took an Average of 47 Days to Process Selected Invoices, Longer than City and State Requirements



Source: Auditor analysis of invoices sampled for the audit described in Box 3. Processing days are calculated as the number of days between the invoice date listed on the invoices and the payment date stated in the City's financial management system. We selected a judgmental sample of on-call task orders based on monetary value, expenditure type, and contract type. Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

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[68] The $66,000 late interest payment was for the Oakland Citywide Pavement Rehabilitation Project. The City did not pay the contractor within 30 days for 12 invoices. As a result, contractors requested late interest payments and submitted a Notice of Potential Claim of over $100,000, which initiates potential legal proceedings. The City subsequently entered good-faith negotiations with the contractor, ultimately resolving the disputed interest charges at $66,000. The total contracted amount with the contractor, including change orders within the audit scope, was approximately $9.3 million. Of this, $8.6 million was invoiced and subject to interest for late payments.

Reasons for long processing times are staff vacancies (as discussed in Finding 1), the length of time to get permissions to withdraw bond-issued funds, and the current invoice submittal process. Since all invoices must be uploaded into the AP Portal, in 2023, the Public Works Fiscal Services team began requiring all Public Works capital project contractors to have an account in the AP Portal. However, according to management, some contractors do not submit their invoices via the AP Portal and instead email their invoices, which contributes to delays as staff must upload invoices to the platform on their behalf. Management explained that even though they have AP Portal accounts, contractors opt to email invoices because they find the AP Portal difficult to register for or use. To help minimize payment processing times, both the Public Works and Transportation departments should require all capital project contractors to directly upload invoices to the AP Portal, with the departments offering training to contractors on using the AP Portal as needed.

The Public Works and Transportation departments can also streamline payment processing times by ensuring that their payment forms are up to date. As of March 2024, the Department of Workplace and Employment Standards announced it was no longer going to review invoices for payment.[69] Despite the change occurring about two years ago, the Public Works and Transportation departments have still not updated the payment template to reflect this new process.[70] Prior to the City's process change in March 2024, at least five mid-project invoices were processed without approval from the Department of Workplace and Employment Standards. These occurrences involved five out of 28 reviewed invoices that were paid from FY 2022-23 through FY 2023-24, totaling $4,043,268.[71] To reduce confusion and ensure the payment process proceeds smoothly, the Public Works and Transportation departments should update this form and other relevant templates to reflect current approval requirements and regularly review forms moving forward.

Recommendation 12: To ensure consistent documentation and timely processing of payments, the Public Works and Transportation departments should require contractors to submit invoices in the AP Portal before issuing payments. The Public Works and Transportation departments may consider providing technical support and training to contractors in using the AP Portal.

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[69] The interoffice memo, "DWES Compliance Reviews on Construction Projects," was dated March 8, 2024 and stated that the Department of Workplace and Employment discontinued mid-payment reviews for capital projects because they are not mandated to do so by the Local and Small Local Business Enterprise Program or the Oakland Municipal Code.

[70] The Prompt Payment Invoice Transmittal Form was outdated and indicated that the Department of Workplace and Employment reviews invoices when they are at or exceed 50 percent of the total contract amount, even though this requirement no longer applied after March 8, 2024.

[71] Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

Recommendation 13: The Public Works and Transportation departments should regularly update payment documents, including the Transmittal Payment Form and other related payment support templates, to reflect and streamline the current invoice payment process.

The City Does Not Have Guidance on Reserving Funds for Executed On-Call Change Orders

The Public Works and Transportation departments lack formal written policies for managing and recording funds when executing on-call change orders. Although staff acknowledged that it is a best practice to reserve funds at the time of signing a change order, they do not consistently do this. Instead, because there is no formal requirement to reserve or encumber funds when executing on-call change orders, Project Managers who do not provide a funding code when submitting a change order to Fiscal Services may cause the City to issue change orders for which funding is not available. Four out of 28 transactions reviewed indicated that funds were not reserved when the City issued the change orders.[72] These cases involved payments for the Department of Transportation paving projects in which funds for the change orders were not reserved until the invoices were received.

Reserving funding at the time of change order execution ensures funds' availability, which helps the Public Works and Transportation departments manage and track their remaining funds. To improve these departments' ability to manage their capital project funding, they should require funds to be reserved for executed on-call change orders within a defined timeframe.

Recommendation 14: The respective Fiscal Services teams in the Public Works and Transportation departments should adopt a policy to encumber funds for on-call change orders within a defined timeframe.

[72] Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

Finding 3: The City Can Improve its Oversight of Bond Funds

Summary

The City has not provided adequate oversight of Measure KK and Measure U bond funds, which are the primary funding sources for the City's Capital Improvement Program. We identified instances in which the City processed bond payments without proper review, including one transaction that was incorrectly assigned to a bond fund and one transaction that was incorrectly charging a transportation project payment to a fund reserved only for the City's sewer facilities. In addition, the City has not conducted annual required audits of the use of these funds. Management reports that they will start audits for FY 2024-25 through FY 2026-27. The Public Works and Transportation departments, in coordination with the Information Technology Department, should also enhance the online portal for processing bond funds (AP Portal's Trustee Payment Dashboard), which the City uses to review payment requests for bond funds, to prevent potential errors, such as by limiting selectable fund types in the system based on project type.

The City Should Strengthen the Management of Bond Fund Use

As described in the Background, bond measures are significant sources of funding for Oakland's capital improvement projects. Legally, Measures KK and U require bond payments to be disbursed only after a payment request has been signed and approved and a requisition number has been issued. All expenditures eligible for bond funds should be processed through a requisition and then approved in the AP Portal's Trustee Payment Dashboard. These requirements help to ensure that bond funds are used appropriately and can be tracked.

One case illustrates the importance of a thorough reconciliation process, which serves as a safeguard to ensure that bond funds are disbursed after receiving required approval. The Public Works Department charges the Department of Transportation when its staff use City-owned vehicles to inspect construction projects, which is an eligible expense for Measure KK funds. However, staff did not include in its regular reconciliation process,[73] one instance of vehicle usage by Transportation staff to inspect a paving project. As a result, the City's financial system reported that $1,201 was paid using Measure KK funds in FY 2023-24, though staff indicated that the actual expense was paid by cash. This misallocation led to a negative cash balance and the need to

[73] The Fiscal Services team pays for vehicle usage fees using cash, then captures these expenses during the reconciliation process and submits an approval request to the trustee of the bond funds. Once the trustee approves the expenditures, a requisition number is created by the Public Works and Transportation departments that allows bond funds to reimburse the transaction. In this instance, staff did not capture the $1,201 during a regular reconciliation process. Because of this, no requisition numbers were created, and the City processed the payment for vehicle usage as general spending rather than bond fund spending.

correct this discrepancy.[74] Staff noted that the fact that the transaction did not result in an actual withdrawal from bond funds demonstrated that the City's requisition approval controls functioned as intended.

The Public Works and Transportation departments should strengthen their oversight of the use of bond funds and enhance review processes to ensure the use of bond funds is properly approved. The Public Works and Transportation Fiscal Services teams and the Finance Department's Treasury Bureau can review the reconciliation process and identify areas for improvement to prevent missed expenditures that required Trustee approval to ensure all bond funds are properly approved.[75]

The City Appears to Lack Adequate Controls for Payments Using Restricted Funds

The City's funding for capital projects is often restricted by specific legal requirements. However, there appear to be insufficient controls to ensure that payments are charged to the correct funds, in accordance with relevant requirements. For example, we identified one instance of the City incorrectly charging a transportation project payment to a fund that can only be used on the City's sewer facilities.[76]

While the amount associated with this misclassification was relatively small, the error reflects the need for stronger oversight to ensure compliance with funding restrictions. Proper cost allocation is essential to maintaining accurate financial records and promote transparency, accountability, and reliable financial management. The Finance Department's Treasury Bureau and Fiscal Services teams in the Public Works and Transportation departments should ensure that all costs are charged to the correct fund in accordance with applicable regulations and fund use restrictions.

Strengthening review and approval controls prior to posting expenditures will help prevent errors. The Treasury Bureau, along with the Public Works and Transportation Fiscal Services teams, and the Information Technology Department staff should configure the AP Portal's Trustee Payment Dashboard to flag potential errors and misspending related to bond fund payments for staff review. The system should also include criteria that restrict selectable fund types based on project type.

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[74] The City Attorney's Office, Treasury Bureau, the Department of Transportation Fiscal Services team, and the external financial auditor were notified of these issues. The Treasury Bureau has requested the Department of Transportation Fiscal Services to correct the funding source for this transaction.

[75] A trustee is a financial institution appointed by the bond issuer (i.e., the City) to represent and protect the interests of bondholders. For the Measure KK 2017 series, the trustee was Bank of New York Mellon Corporation. For the 2020, 2022, and 2023 series, the trustee was US Bank.

[76] The payment amount was $3,360. After being notified of the error, the Public Works Fiscal Services team corrected it in January 2026.

Recommendation 15: The Finance Department's Treasury Bureau and the Fiscal Services teams in the Public Works and Transportation departments, in coordination with the Information Technology Department, should enhance the AP Portal's Trustee Payment Dashboard to flag potential errors and misspending related to bond fund payments by introducing additional criteria, such as limiting selectable fund types in the system based on project type.

The City Did Not Conduct Required Annual Audits of Measure KK And Measure U Funds Prior To FY 2024-25

As described in the Background section of this report, bond funds have been the largest sources of funding for capital projects. To ensure the proper allocation of bond funds, Measure KK requires an annual audit to be conducted by the Finance Department, and Measure U requires an annual independent audit by an external entity. However, prior to FY 2024-25, the City did not conduct formal audits of Measure KK or Measure U expenditures.[77]

The City's lack of annual financial audits not only makes the City out of compliance with these measures' bond agreements but may allow errors or inappropriate use of bond funds to go undetected. A 2024–25 Alameda County Grand Jury Final Report on street repaving recommended that the City conduct an audit of Measure KK and present the findings to the City Council, as well as conduct an external audit for Measure U.[78] In addition, management acknowledged the issues and engaged an external entity to conduct independent audits for measures KK and U for fiscal years 2024-25 through 2026-27.

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[77] Our Office is not responsible for conducting audits of Measures KK and U. However, we acknowledged the Grand Jury's recommendation and provided a response indicating support for such audits.

[78] This summary is derived from the 2024-2025 Alameda County Grand Jury report titled, "Oakland's Potholes: A Bumpy Road and Inadequate Oversight." The report can be found at this link: https://grandjury.acgov.org/wp-content/uploads/2025/06/2024.2025-Alameda-County-Grand-Jury-Final-Report.pdf

Finding 4: Short-Term Planning May Affect the Effectiveness of Capital Projects Delivery

Summary

Although the City has some long-term planning efforts, the City does not have a comprehensive long-term capital plan, which limits effective planning and budget allocation. Tight budgets and upcoming grant deadlines can result in narrower project scopes, and projects may be put out for bidding before designs are complete. While short-term planning can expedite project initiation, it can increase costs, extend timelines, obscure inadequate preparation, and cause additional change orders. In contrast to other jurisdictions that have passed multi-year capital plans, the City has not developed one since FY 2022-23. The Government Finance Officers Association (GFOA) recommends that governments prepare and maintain long-term capital project financial plans spanning five to 25 years or more. In 2024, the Finance Department outlined objectives for a 10-year capital plan for the City within its proposed Consolidated Fiscal Policy. The City should develop, adopt, and update a 10-year capital plan.

The Lack of a Long-Term Capital Improvement Plan Hinders the City's Ability to Plan for Capital Project Spending

The City currently adopts its capital budget on a two-year cycle similar to other jurisdictions.[79] However, while other jurisdictions have passed multi-year capital plans, the City has not developed one since FY 2022-23.[80] The City is engaged in several long-term planning initiatives, including the 2022 5-Year Paving Plan, the Asset Management Implementation Plan and updated Sanitary Sewer Management Plans (revised in FY 2019-20) and a Sewer Consent Decree, which requires specific rehabilitation work from 2014 through 2036. Additional planning efforts, including the Sanitary Sewer Master Plan and a sewer rate study, are scheduled for completion in FY 2026-27. The City should expand its planning efforts to adopt a comprehensive approach to all capital projects aligned with best practices recommended by the Government Finance Officers Association (GFOA), as outlined below. This initiative will help establish a long-term capital improvement strategy for the City's capital investments.

Although short-term approaches may address immediate concerns, they generally lead to overall increased costs and operational inefficiencies. According to the GFOA, jurisdictions that do not prepare multi-year capital planning or fail to account for the impact of projects on operating budgets, will likely face more severe budget constraints. These constraints can hinder further spending on important capital projects as well as on infrastructure maintenance and replacement.

As an example, an on-call task order was issued in 2024 for the Citywide Small Trash Capture Device Installation Project with only partial funding. According to the Department of

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[79] Riverside, Pleasanton, Berkeley, San Leandro, San José, and San Francisco also adopt biennial capital budgets.

[80] For example, San Francisco and San Leandro have adopted 10-year capital plans and Pleasanton, Berkeley, Riverside, and San José have adopted 5-year capital plans. Before FY 2022-23, the City adopted five-year capital budgets.

Transportation, the budgeted bond fund proceeds were unexpectedly postponed so that the Public Works and Transportation departments were unable to fully fund the project. The on-call task order amount was reduced from $1.9 million to $660,000, resulting in fewer trash trapping devices installed in Oakland.

A long-term capital plan can improve how the City allocates capital funding sources over an extended period and avoid unanticipated budget shortfalls. The GFOA recommends local agencies "prepare and adopt comprehensive, fiscally sustainable, and multi-year capital plans to ensure effective management of capital assets." These plans "[identify] and [prioritize] expected needs based on a strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs." The GFOA recommends these plans to cover periods ranging from five to 25 years or more.

Although the City has not adopted a long-term capital improvement plan, the City's Finance Department in 2024 proposed a Consolidated Fiscal Policy that outlines objectives for a 10-year capital plan for the City, including identifying the long term need to repair, maintain and increase the City's capital assets, forecasting the financial needs and project delivery milestones over a 10-year period, and adopting a 10-year financing plan for the Capital Improvement Program. This proposed capital plan can help the City better allocate funds for capital projects, as well as provide information on how capital funds have been spent. The City should consider adopting the Finance Department's proposal for a 10-year capital plan to better manage its capital assets over the long-term.

Recommendation 16: To better align the City's capital improvement planning processes with best practices, the Public Works and Transportation departments, in coordination with the Finance Department, should recommend the City Council adopt a 10-year Capital Improvement Project plan.

The City has Opened Bidding on Projects that Were Not Fully Designed, which Has Led to Additional Change Orders

The City has advanced some capital projects to construction prior to completing sufficient design. Management explained that bond and grant regulations require the City to use some funds within a specific timeframe, or the funding will be lost. As a result, some Project Managers reported that the Public Works and Transportation departments have put certain projects out to bid before they were fully designed. [81] While this approach can help the City meet funding deadlines, out of 92

[81] This practice was not reported consistently across Project Managers. One stated that they only advertise and bid capital projects with final designs that have been reviewed by multiple parties.

instances reviewed in which change orders were issued, five could have been avoided with more thorough pre-construction planning.[82]

A challenge in completing project designs is gathering essential information from other parties early in the planning process. For instance, according to City staff, PG&E typically requires finalized project plans before providing drawings (i.e., of the electrical network) that could inform project design.[83] This delay in obtaining drawings from PG&E has caused the City to initiate change orders for some capital projects after the bidding process, leading to higher costs and limiting competition for the full scope of these projects. Out of 92 change orders reviewed, two change orders were related to PG&E, which provided the drawing and final plans later than the bidding. Staff stated that if PG&E's drawing and plans were included in the original contract documents at bidding, the City could secure a more competitive bid.

This challenge is compounded by the fact that the City does not have a long-term plan for some capital projects, which are often driven by immediate budget pressures or urgent infrastructure needs. While a short-term approach can speed up project initiation, it tends to overlook the longer-term cumulative impacts of change orders in cost and time.

A long-term capital improvement plan, as well as regular reporting and monitoring on the progress of capital projects can help limit unnecessary change orders. The GFOA recommends jurisdictions report on project status and activities annually.[84] In line with this best practice, the Public Works and Transportation departments should provide annual progress reports on all capital projects and the capital improvement plan. This reporting can help the City monitor the progress and costs of projects, help identify any potential red flags with change orders, and ensure effective planning within budgetary constraints.

Recommendation 17: To improve oversight and visibility into the City's progress in delivering capital projects, the Public Works and Transportation departments should provide regular reports to the City Council on the progress of the City's capital improvement plan and active capital projects at least once annually.

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[82] We reviewed the reasons for the 92 change orders and, based on their nature identified 11 for which there did not appear to be adequate planning before construction began. After consultation with staff, we determined that five of these 11 change orders could have been avoided with more thorough pre-construction planning. Due to limitations in sampling, observations may not be projectable to the entire population of projects (see Box 3).

[83] Staff report that waiting for PG&E could delay the bid process by up to a year.

[84] The Government Finance Officers Association (GFOA) states that essential report components include comparisons of actual results to the project plan, such as project completion percentage, budget spent, milestone progress, contract status, revenue and expenditures, cash flow, funding commitments, available appropriations, and performance measures. Reports should also note significant changes in scope, cost, schedule, or funding. An annual snapshot of key schedule, cost, and funding data is recommended to establish baselines for performance measurement. See https://www.gfoa.org/materials/capital-project-monitoring-and-reporting

Recommendations

RECOMMENDATION 1: The Public Works and Transportation departments should adopt the Construction Management Manual and regularly review and update the Manual to ensure its policies remain relevant.

RECOMMENDATION 2: The Public Works and Transportation departments should update the Construction Management Manual to specify approval requirements for:

- Time adjustment change orders
- Negative balance change orders
- Orders to Proceed within the $10,000 to $25,000 range
- Change orders issued under on-call contracts.

RECOMMENDATION 3: The City Administrator should establish a policy on when the City should use on-call contracts and on-call task orders. These should outline control activities, such as acceptable usage, independent review process and approval authority, and dollar thresholds.

RECOMMENDATION 4: The Public Works and Transportation departments should establish guidelines for determining when to extend existing on-call contracts or initiate new ones.

RECOMMENDATION 5: The Public Works and Transportation departments should generate regular reports to enable management to monitor change orders in aggregate for appropriateness and cost. These reports should include work descriptions, work statuses, time adjustments, total costs, payments, and estimated completion timelines.

RECOMMENDATION 6: To increase the consistency of capital project financial management practices, the Public Works and Transportation departments should train staff on policies in the Construction Management Manual and monitor staff compliance with the policies through performance evaluations, as needed.

RECOMMENDATION 7: The Public Works and Transportation departments should implement a comprehensive segregation of duties policy that includes independent oversight, minimum approval signatory requirements, and designated alternate approvers for staff serving in acting roles.

RECOMMENDATION 8: The Public Works and Transportation departments, in coordination with the Information Technology Department, should configure the AP Portal to prevent individual staff members from holding multiple roles in the payment process.

RECOMMENDATION 9: The Public Works and Transportation departments, in coordination with the Information Technology Department, should develop and implement a centralized project management system or tailor existing systems to monitor the statuses of capital projects and maintain oversight. This system should include built-in instructions, workflows, and mandatory fields to ensure policy compliance and identify potential errors or indicators of noncompliance.

RECOMMENDATION 10: The Public Works and Transportation departments should implement a process to independently verify each payment aligns with the contract terms (such as markup terms). The departments should also formalize the reviewer's responsibilities in their policies and procedures.

RECOMMENDATION 11: The Public Works and Transportation departments should establish procedures to review and validate subcontractor expenses as needed.

RECOMMENDATION 12: To ensure consistent documentation and timely processing of payments, the Public Works and Transportation departments should require contractors to submit invoices in the AP Portal before issuing payments. The Public Works and Transportation departments may consider providing technical support and training to contractors in using the AP Portal.

RECOMMENDATION 13: The Public Works and Transportation departments should regularly update payment documents, including the Transmittal Payment Form and other related payment support templates, to reflect and streamline the current invoice payment process.

RECOMMENDATION 14: The respective Fiscal Services teams in the Public Works and Transportation departments should adopt a policy to encumber funds for on-call change orders within a defined timeframe.

RECOMMENDATION 15: The Finance Department's Treasury Bureau and the Fiscal Services teams in the Public Works and Transportation departments, in coordination with the Information Technology Department, should enhance the Treasury AP Portal to flag potential errors and misspending related to bond fund payments by introducing additional criteria, such as limiting selectable fund types in the system based on project type.

RECOMMENDATION 16: To better align the City's capital improvement planning processes with best practices, the Public Works and Transportation departments, in coordination with the Finance Department, should recommend the City Council adopt a 10-year Capital Improvement Project plan.

RECOMMENDATION 17: To improve oversight and visibility into the City's progress in delivering capital projects, the Public Works and Transportation departments should provide regular reports to the City Council on the progress of the City's capital improvement plan and active capital projects at least once annually.

Objectives

Evaluate the financial management of the City's capital improvement projects including assessing internal controls over the timely, appropriate, and cost-effective use of capital funds.

Audit Scope

The audit reviews capital projects from FY 2022-23 through FY 2024-25.

Methodology

To achieve the above objective, we reviewed relevant management controls and:

- Obtained and reviewed the Capital Improvement Projects budget books for FY 2021-23 and FY 2023-25 to compile a capital project list for FY 2022-23 through FY 2024-25. We also reviewed the FYs 2019-20 to 2020-21 and FYs 2025-26 to 2026-27 biennial budget books for informational purposes.

- Reviewed capital project documents from the Public Works Department's Bureau of Design and Construction for internal controls assessment and compliance with the Construction Management Manual and stated policies and procedures. Documentation reviewed included contract change orders, contract change order memos, Orders to Proceed (OTPs), Change Order Authorization Requests (COARs), CM Logs, on-call task orders, on-call change orders, construction specifications, and related emails for the sampled Public Works and Transportation construction capital projects. We also interviewed staff as necessary to understand exceptions and the reasons for exceptions.

- Reviewed on-call professional services and construction documents from the Capital Contracts Division (CCD) to assess internal controls and compliance with stated policies and practices based on CCD records relating to the project sample. The documentation reviewed included Capital Contracts Division records for on-call professional services and construction, contracts, on-call task order forms, on-call amendments, and related Council Resolutions and emails for the sampled Public Works and Transportation construction capital projects.

- Analyzed financial data from the City's financial management system for capital projects covering FY 2022-23 through FY 2024-25.

- Obtained and reviewed sampled invoices and payment approval history from the AP Portal and its Trustee Payment Dashboard to assess internal controls and payment accuracy. The review included contractor invoices, progress payment forms, Prompt Payment Invoice Transmittals, Schedule G, and other relevant documents for the sampled payments.

- Reviewed the Measure KK and Measure U ballots, bond issuance agreements, and the fiscal agent's certificate. Also reviewed the Sewer Service Fund Consent Decree.

- Analyzed the City's position control reports to understand the Public Works and Transportation departments' staffing.

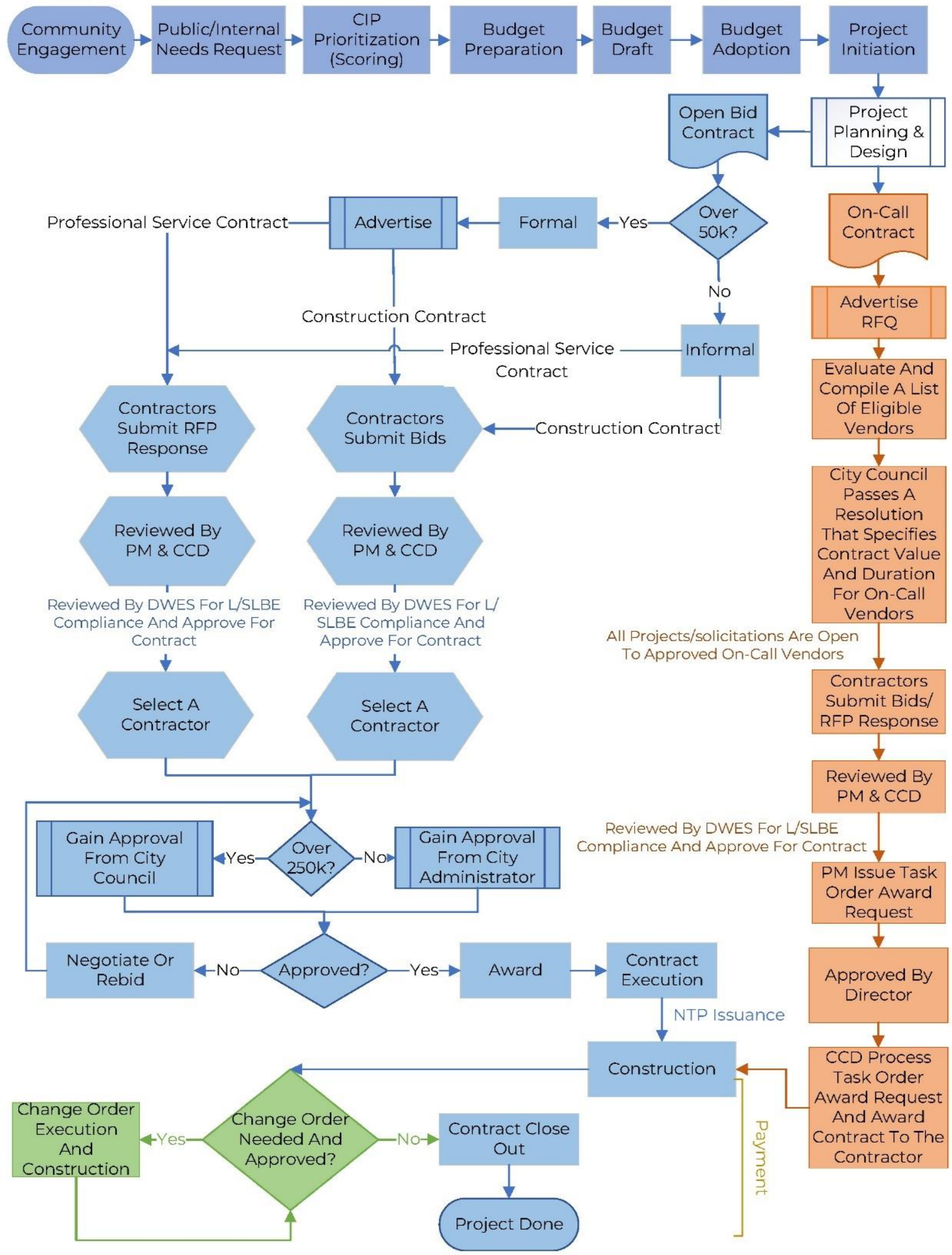
- Interviewed staff in the Public Works, Transportation, and Finance departments to understand relevant processes and procedures.
- Reviewed City Council meetings, reports, and actions related to the City's Capital Improvement Program.
- Reviewed City policies, contracts, and municipal code sections pertaining to contracting and managing capital projects.
- Reviewed the City of Oakland 2024 Disparity Study conducted by Mason Tillman Associates, Ltd.
- Reviewed reports published in 2024-2025 by the Alameda County Grand Jury titled, "Oakland's Potholes: A Bumpy Road and Inadequate Oversight" and "Bad Roads and No Building: Oakland's Budget Problems Mean No Bonds for the City's Needs."
- Benchmarked Oakland's practices with the following jurisdictions to identify best practices:
    - Berkeley
    - Pleasanton
    - Los Angeles
    - Riverside
    - San Francisco
    - San José
    - San Leandro
    - Santa Clarita
- Interviewed staff at the City of San José to understand their practices and policies in San José's Capital Improvement Program.

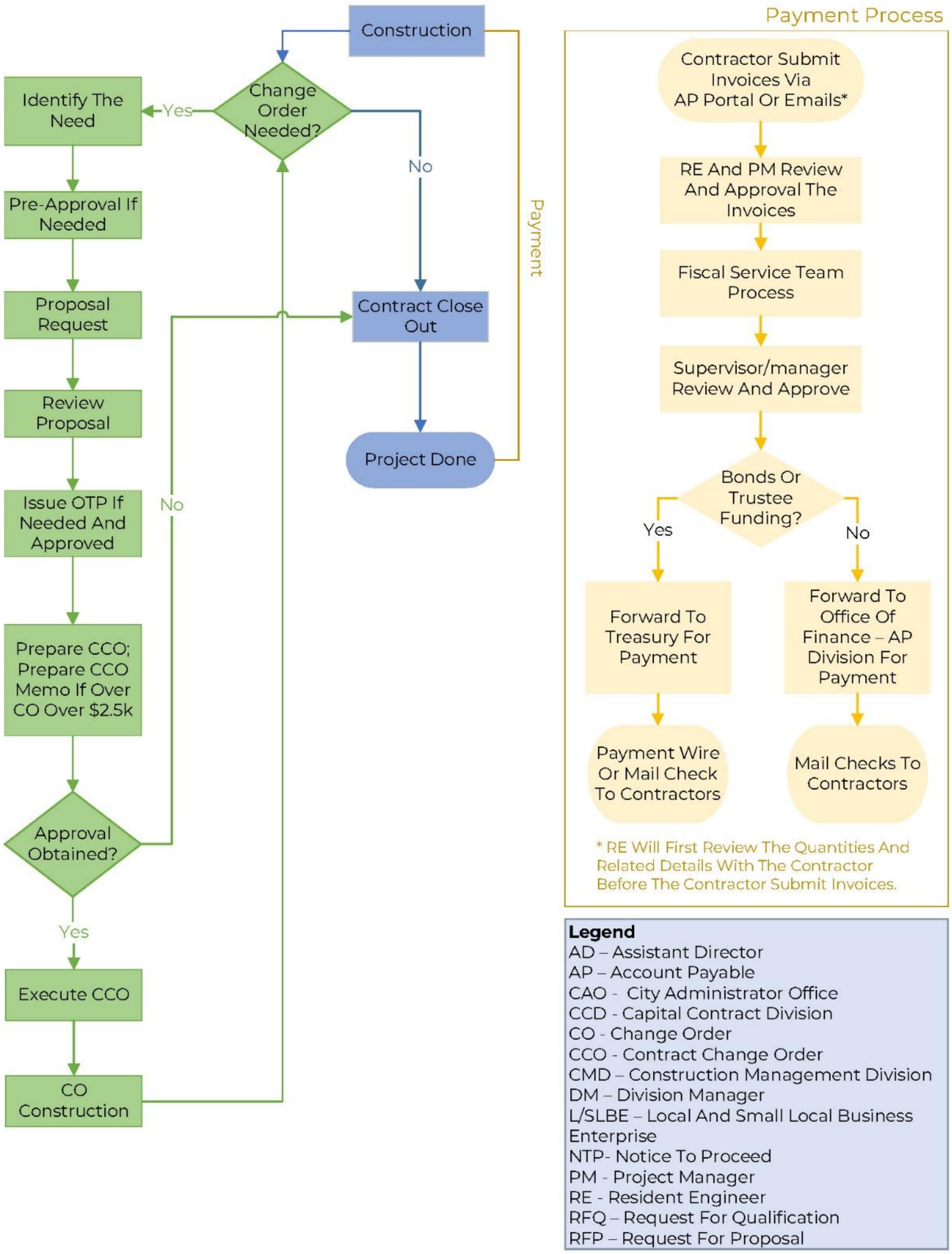
Statement of Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A: Capital Projects are Managed through the Capital Improvement Program, With Defined Approval Stages and Internal Controls Embedded throughout Project Delivery

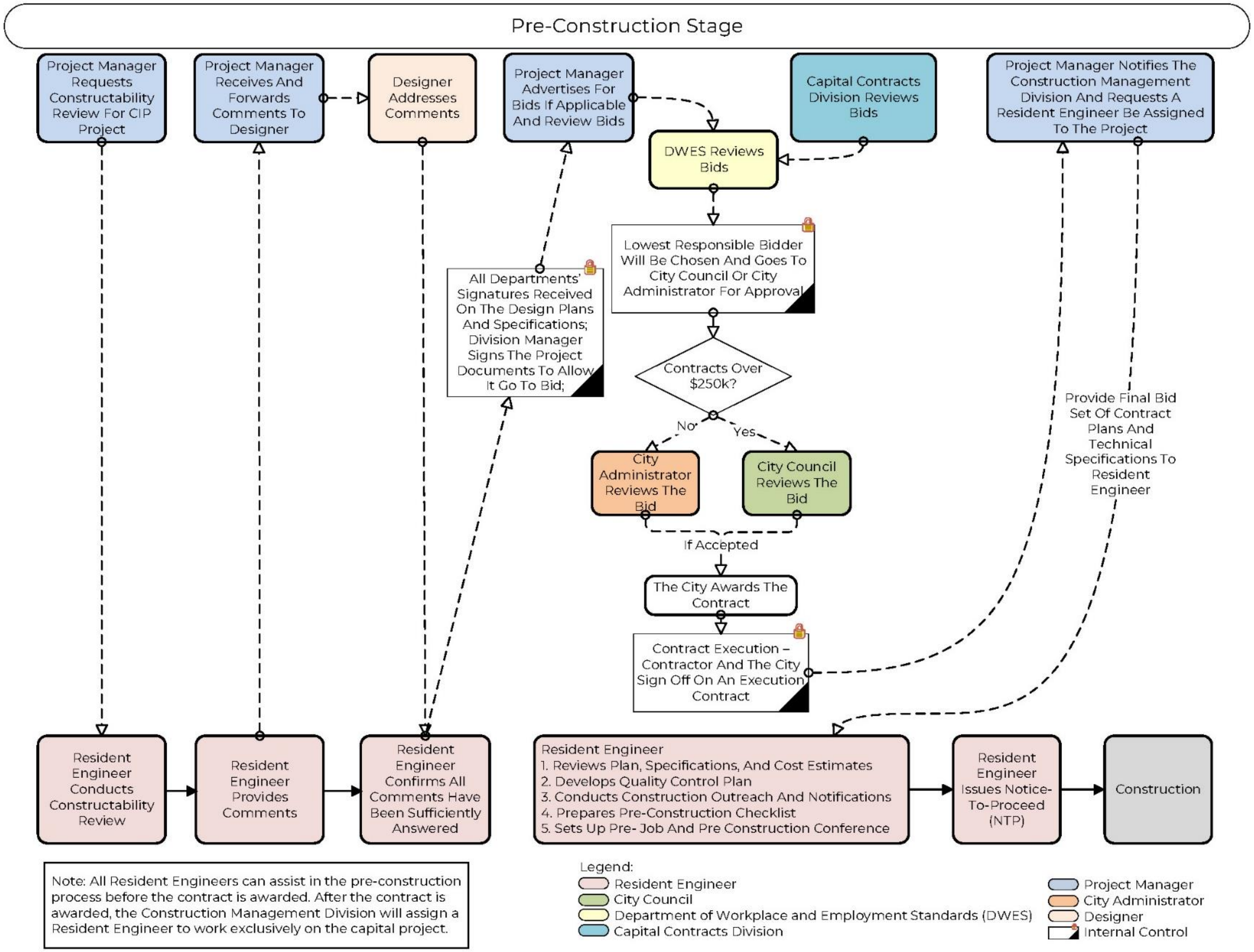
Exhibit 24: Capital Projects Follow a Structured, Five-stage Lifecycle from Initial Planning to Completion

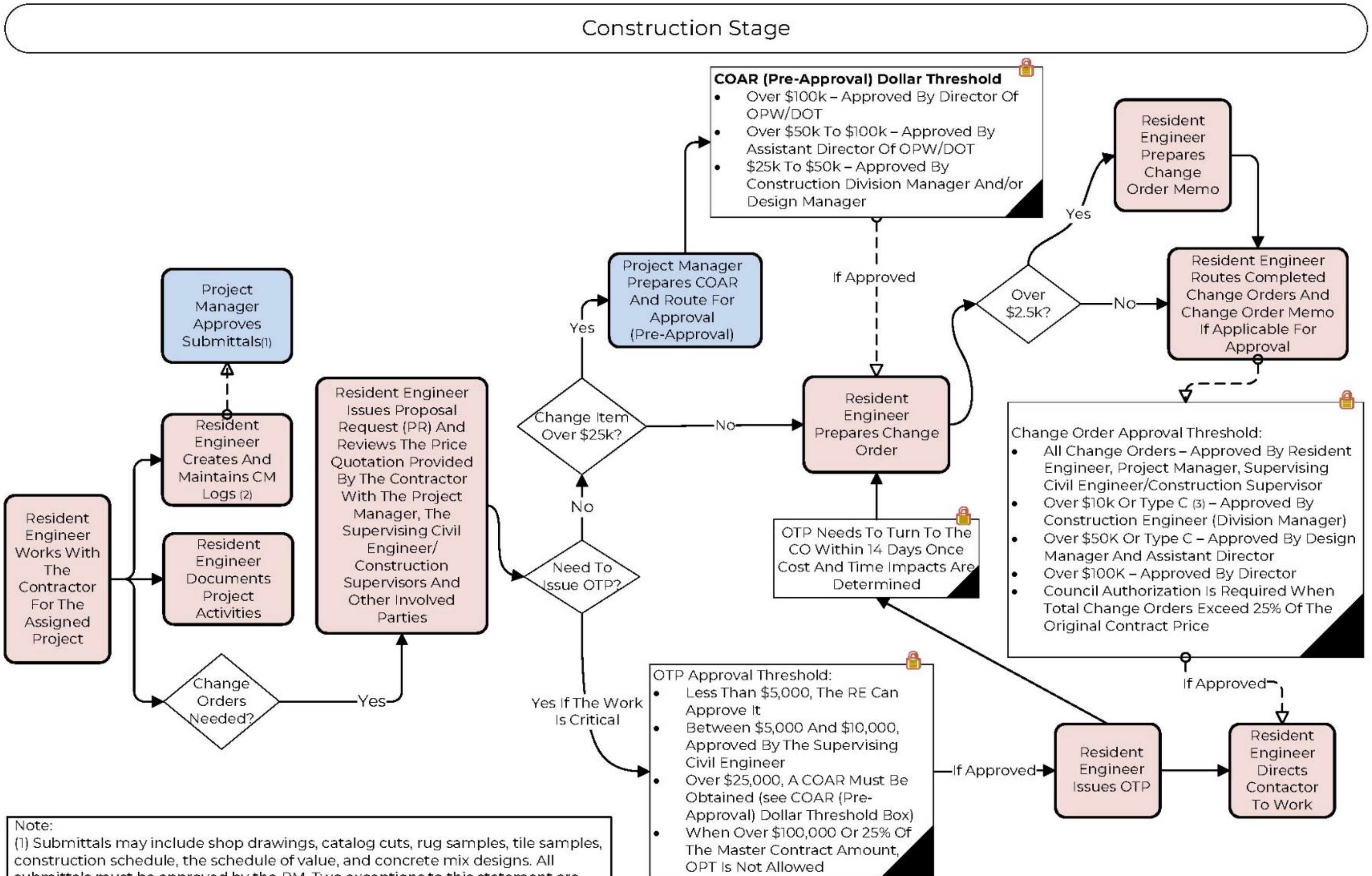




Source: Auditor summary of the City's capital project lifecycle based on interviews with staff, the Construction Management Manual, and a change order flowchart provided by the Construction Management Division.

Exhibit 25: The City Has Internal Controls in Place to Support Compliance of Capital Projects with Laws and Policies

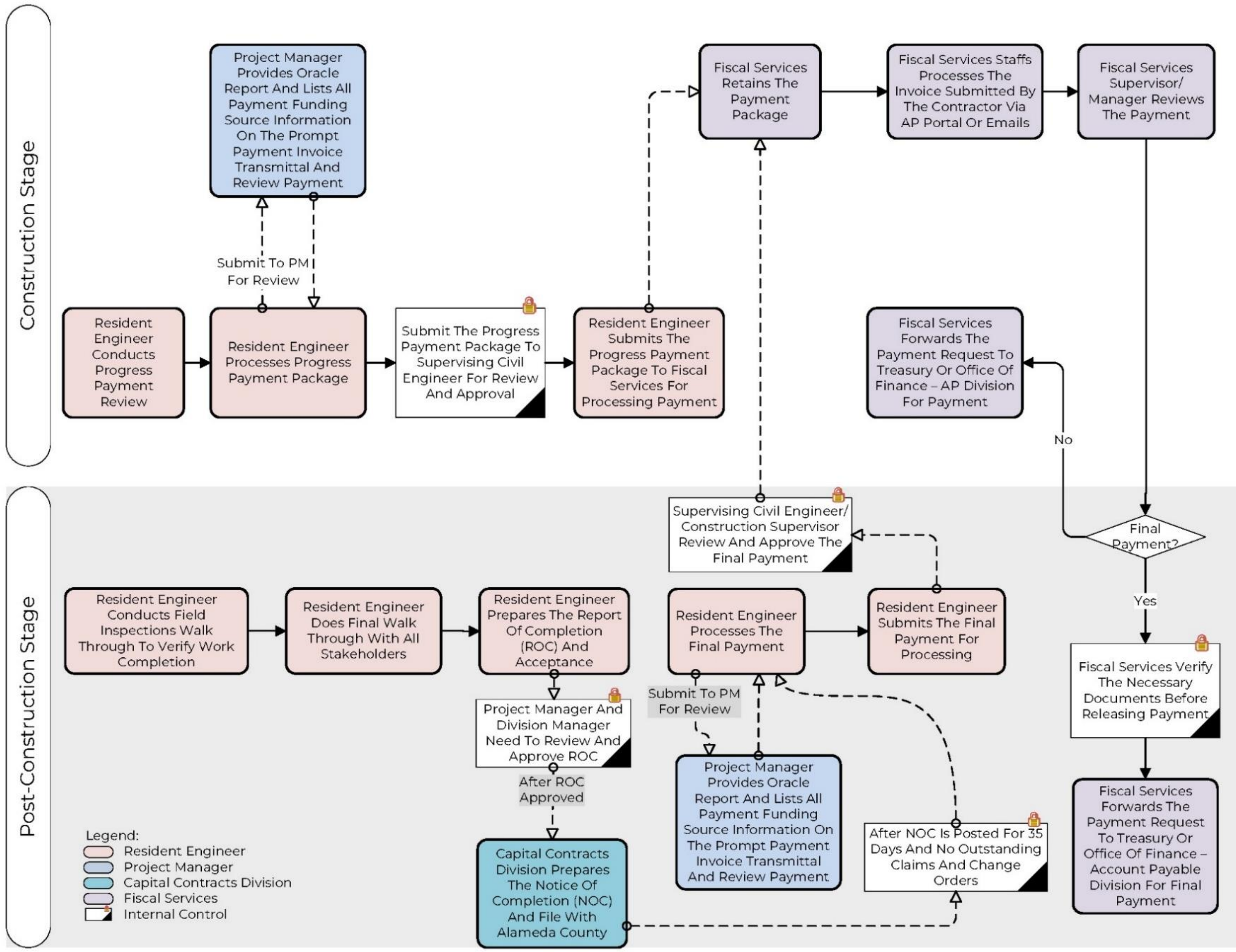




Note:
(1) Submittals may include shop drawings, catalog cuts, rug samples, tile samples, construction schedule, the schedule of value, and concrete mix designs. All submittals must be approved by the PM. Two exceptions to this statement are the construction schedule and the schedule of values. These two schedules are approved by the RE. The RE should always send the PM a copy of the construction schedule and schedule of values for comment, not for approval.
(2) CM Logs include Submittals, RFIs, Proposal Requests, Orders to Proceed with Extra Work, Trends, Allowance Work Orders, Correspondences, Engineer's Supplemental Instructions, and Field Orders.
(3)"Type C" refers to issues in the contract documents that prevent the intended work from being completed as planned due to ambiguities, conflicts, errors, or omissions in the plans and specifications that result in extra costs.

Acronym:
COAR – Change Order Authorization request
DOT – Department of Transportation
OPW – Public Works Department
OTP – Order to Proceed
CM Logs – Construction Management Logs
RFI – Request for Information

Legend:
Resident Engineer
Project Manager
Internal Control



Source: Auditor’s summary of existing internal controls for the City’s capital projects, based on the Construction Management Manual.

Appendix B: City Contracting Processes Present Cost Tradeoffs

The objectives of this audit were to evaluate the financial management of the City's capital improvement projects including assessing internal controls over the timely, appropriate, and cost-effective use of capital funds. With reference to cost-effectiveness, two City contracting practices may be increasing costs through reduced competition. The City's Local and Small Local Business Enterprise Program requirements, as well as the usage of on-call contracts, can contribute to limited competition in the procurement process for capital projects. From FY 2022-23 through FY 2024-25, a small group of vendors secured a high concentration of City contract dollars. A high concentration can indicate lower competition for contracts, and this can in turn increase costs. This appendix addresses tradeoffs associated with these practices as identified by City staff and third party reports.

Oakland's Local and Small Local Business Enterprise Requirements Are Stricter than Other Jurisdictions

Oakland's Local and Small Local Business Enterprise requirements have resulted in only a small group of vendors securing contracts for the City's capital projects and extend project delivery timelines. The Alameda County Grand Jury has reported that the City's strict requirements in its Local and Small Local Business Enterprise programs have led to one department, the Department of Transportation, having difficulty finding qualified contractors who are able to comply with local requirements, at times identifying just one eligible contractor for some projects. Staff has attributed the concentration of capital project spending among a few Oakland vendors to the City's strict local and small business enterprise requirements (Exhibits 27 through 30).

In 1993, the City Council established Oakland's Local and Small Local Business Enterprise Program (L/SLBE Program) to increase contracting opportunities for local and small businesses.[85] To encourage greater participation of small and local businesses in certain City contracts, this program sets minimum requirements for bidding contractors. To qualify, a contractor must ensure that small and local businesses provide at least 50 percent of the contract, with 25 percent going to small businesses and 25 percent going to local businesses.[86] Qualifying bidders receive bid discounts and preferences.

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[85] The City Council established these programs through Resolution No. 69687 C.M.S. and adopted revisions to these programs in 2001 and 2025.

[86] The City of Oakland also has a 50 percent L/SLBE trucking participation requirement based on a list of certified truckers to enhance the participation of locally based trucking firms in city funded public works projects. In the case of construction projects where trucking is warranted, 50 percent of the total trucking dollars must be allotted to certified (Oakland) Local Truckers. A Local Business Enterprise is a business with a commercial or home-based office located in Oakland. The business must have current permits, be up to date on all fines and fees, and possess valid documentation certifying business operations (such as contracts or bills). A Small Local Business Enterprise meets all Local Business Enterprise requirements and, in addition, has tax returns from the most recent three years showing that its three-year average gross receipts are at or below 20 percent of the SBA's size standard for its industry sector.

The program covers construction contracts over $100,000 and professional services contracts over $50,000. For contracts below these thresholds, the City must solicit at least three local firms. Contractors that do not meet the City's requirements may obtain waivers from the City Council.

Compared to other jurisdictions, the City has stricter requirements (see Exhibit 26). The City requires contractors to meet mandatory participation rates before the local and small businesses can receive bid discounts and preferences.[87] For bid discounts, contractors that meet the 50 percent participation requirements receive a 2 percent bid discount. In addition, contractors can receive additional bid discounts:

- 1 percent bid discount for every additional ten percent participation from Local/Small Local Business Enterprises (L/SLBE), up to a maximum total discount of 5 percent,
- 2 percent bid discount for every additional ten percent participation by Very Small Local Business Enterprises (VSLBE), up to a maximum total discount of 10 percent.

Contractors can receive additional preference points as well:

- Two additional preference points for being a Local/Small Local Business Enterprise (L/SLBE), plus one additional preference point for every ten percent above the 50 percent participation threshold, up to a maximum of five preference points, and
- If the contractor is a Very Small Local Business Enterprise (VSLBEs) that meets the mandatory participation rates, it can receive four preference points, plus two additional points for every 5 percent above the 50 percent participation requirement, up to a maximum of ten preference points.

Other jurisdictions provide incentives (preferences and discounts) to local and small businesses. For example:

- San José offers 2.5 to 5 percent credit to small and local businesses, while San Francisco provides a 10 percent bid discount on contracts ranging between $10,000 and $10 million for these businesses.
- Los Angeles and Berkeley grant bid preferences to local businesses.
- San Leandro allows local businesses to deduct 5 or 10 percent from their bid amount.
- Santa Clarita permits local vendors to match the lowest price if their bid is within 10 percent of a non-local bid.

[87] Participation rates are the proportions of funds awarded to small and local businesses out of total contract dollars.

Exhibit 26: The City's Small and Local Business Contracting Requirements are Stricter than those in Other Jurisdictions

City	Who Qualifies	Preference Type, Amount and limitation
Oakland	Certified Local business enterprise and Small Business Enterprise[88]	• **Local and Small Local Enterprise Program (L/SLBE Program) Contracting Requirements** o 50 percent minimum participation by Local Business Enterprise and Small Local Business Enterprise required for: o Construction contracts ≥ \$100,000 o Professional Services contracts ≥ \$50,000 o If contracts are below those thresholds, the City must solicit at least three local firms. o 50 percent must be split to 25 percent Local Business Enterprise and 25 percent Small Local Business Enterprise[89] • **Emergency Work:** 75 percent of emergency contract spending should go to local business; two-thirds of which should be awarded to Small Local Businesses Enterprise. • **Local and Small Local Enterprise Program (L/SLBE) incentives** Bid Discounts: o 2 percent discount for meeting the 50 percent participation requirement o Additional bid discounts for additional participation: up to 5 percent off for Local and Small Local Enterprise (L/SLBE), up to 10 percent off for Very Small Local and Small Local Enterprise (VSLBE) Preference Points: o Two points for achieving the Local/ Small Local Business Enterprise (L/SLBE) requirement and one additional point for every 10 percent above the 50 percent participation requirement, up to five preference points total

[88] In addition to what is listed in this box, the City also provides preference points for other cases:

- Mentor-Protégé Agreements: On a case-by-case basis, the City will allow a 10 percent preference for Mentor-Protégé teams on construction and professional services contracts.
- Joint Venture Agreements (Approved and Project-Specific): On a case-by-case basis, the City will allow an additional 5 percent preference points for Joint Ventures where the junior partner is a certified SLBE or VSLBE.

[89] Small Local Business Enterprise may also satisfy full 50 percent. Very Small Local Business Enterprise (VSLBE) participation is doubled.

City	Who Qualifies	Preference Type, Amount and limitation
		○ Four points for achieving the Very Small Local Business Enterprise (VSLBE) requirement and receiving two additional preference points for every 10 percent above the 50 percent participation requirement, up to ten points total
San José	Local business enterprise (business presence in the County of Santa Clara), and Small business enterprise (35 or fewer total employees)	• Price-based bids: A credit of 2.5 percent for local business and small business respectively of the cost bid. • Non-price bids: A credit equal to 5 percent of the total points used to determine the most advantageous quote or proposal
San Francisco	Certified Small, Micro, or Small Business Administration - Local Business Enterprise based on business size	• Small/Micro Local Business Enterprise get 10 percent discount on contracts between $10,000 and $10 million[90] • Small Business Administration – Local Business Enterprise may receive 5 percent discount based on contracts price and type • Small/Micro/Small Business Administration Local Business Enterprises get 2 percent discount on contracts $10 million to $20 million (not for commodities above $10 million) • Joint Venture gets 5 percent, 7.5 percent, and 10 percent discount based on the Small/Micro participation rate
Los Angeles	A Local Business, a Local Small Business, and/or a Local Transitional Employer	• Los Angeles awards bid discounts and increases evaluation points for vendors that are Local Small Businesses, Local Businesses, and Subcontractors that are Local Small Businesses, with the size of discounts and additional evaluation points varying by contract amount • Contracts ≤ $150,000: ○ Local Small Businesses receive 10 percent bid discounts and an evaluation score increase of 100 percent of total possible evaluation points ○ Contractors that are not qualified as Local Small Businesses but hire Local Small Businesses as subcontractors can receive up to 5 percent bid discounts and an evaluation score increase of 5 percent of total possible evaluation points • Contracts > $150,000: ○ Local Businesses receive 8 percent bid discount and an evaluation score increase of 10 percent of total possible evaluation points, with additional score increase of up to 4 percent if it is a Local Small Business and/or hired Local Small Business Subcontractor

[90] San Francisco also provides additional bid discounts through programs such as the Mentor-Protégé Pilot Program (up to a 1% discount) and the Pilot Neighborhood Local Business Enterprise Program. Under the Pilot Neighborhood Local Business Enterprise Program, a certified Local Business Enterprise (LBE) may receive a 1% bid discount if its principal place of business is located in the same neighborhood district as the project, or a 1.5% discount if located within the same ZIP code as the project. In addition, any bidder may receive a 0.5% discount if at least 50% of its required LBE subcontracting participation is performed by Neighborhood LBEs, and a 1.5% discount if at least 50% is performed by Project ZIP Code LBEs.

City	Who Qualifies	Preference Type, Amount and limitation
		○ Contractors that are not Local Small Businesses but hire Local Small Businesses as subcontractors can receive up to 5 percent bid discount and an evaluation score increase of 5 percent of total possible evaluation points • Preference Cap: The maximum combined preferences that may be awarded to a Bid or Proposal shall not exceed 12 percent, and the value of the combined preferences shall not exceed one million dollars.
Berkeley	Local businesses	• 5 percent preference on bids to local business enterprises for goods (up to $100,000), and for non-professional services (up to $250,000)
San Leandro	Local business or joint ventures with local business (A local business is one whose principal place of business is located within San Leandro)	• 10 percent bid discounts for local business • 5 percent discounts for joint ventures within the city • Discounts are capped at $50,000
Santa Clarita	Any business with a working address within city limits	• If a local vendor's bid is within 10 percent of a non-local bid, Santa Clarita allows the local vendor to match the lowest price if the local vendors are willing

Source: Auditor summary of the small and local business preference policies in Oakland, San José, San Francisco, Los Angeles, Berkeley, San Leandro, and Santa Clarita.

The City of Oakland 2024 Disparity Study published summarized concerns from businesses regarding the City's Small and Local Business program.[91] Through interviews with staff and businesses, the study identified various barriers in contracting opportunities, such as the City not notifying contractors of its intent to award and omitting subcontractors from final contracts that were listed in original bids.[92] The following are other issues that the study outlined:

- The City awarded 40 percent of, or 34, engineering and architectural contracts during the study period to businesses that were not certified as Local or Small Local businesses.
- Local and Small Business Enterprises were listed as subcontractors in bids, but contractors did not actually award the work to the subcontractors.
- The City did not consistently achieve 50 percent participation rate on professional services. [93]
- The City awarded the majority of subcontractor work to businesses that were not Local or Local Small businesses during the study period.
- The City did not meet its minimum 25 percent LBE and 25 percent SLBE participation requirements for construction and professional service contracts.
- The City spent more than 50 percent of its contract amounts on vendors located outside of Oakland.

Although the City's Local and Small Local Business Program is intended to expand contracting opportunities for small and local enterprises, the City of Oakland Disparity Study showed that the program has not appeared to have meaningfully increased participation of these types of businesses in City contracts and might unintentionally limit competition.

Capital project spending data shows that the City has concentrated spending on a few construction contractors (Exhibits 27 and 28). Seven construction vendors—23 percent of the City's total number of construction vendors—each received over $10 million from the City from FY 2022-23 through FY 2024-25, while nearly three quarters of construction vendors received less

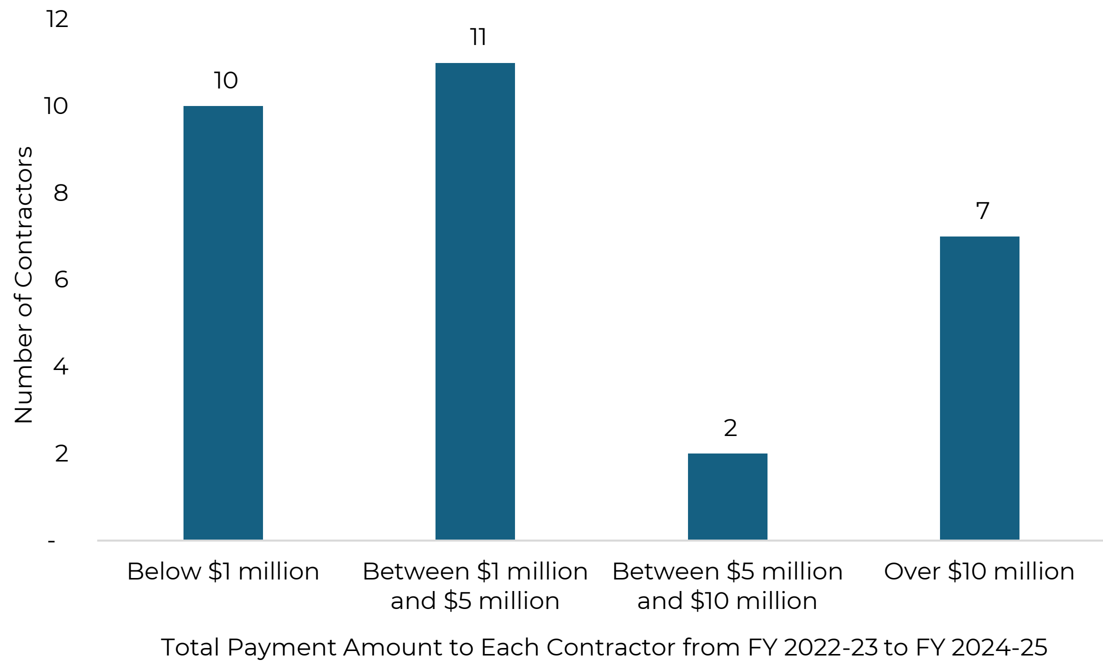
[91] City of Oakland 2024 Disparity Study (Part II) conducted by Mason Tillman Associates, Ltd. The study can be accessed through https://www.oaklandca.gov/Government/Departments/City-Administrator/2024-Disparity-Study. The study period is from July 1, 2016 to June 30, 2021.

[92] Local and small business enterprises were listed as subcontractors in bids, but the prime contractors did not award the work to the subcontractors.

[93] The Disparity Study reported that the City achieved a participation rate of only 22 percent for professional services contracts during the study period.

than $5 million over the same period. Notably, the top two construction vendors accounted for 43 percent of the City's total capital project spending.[94]

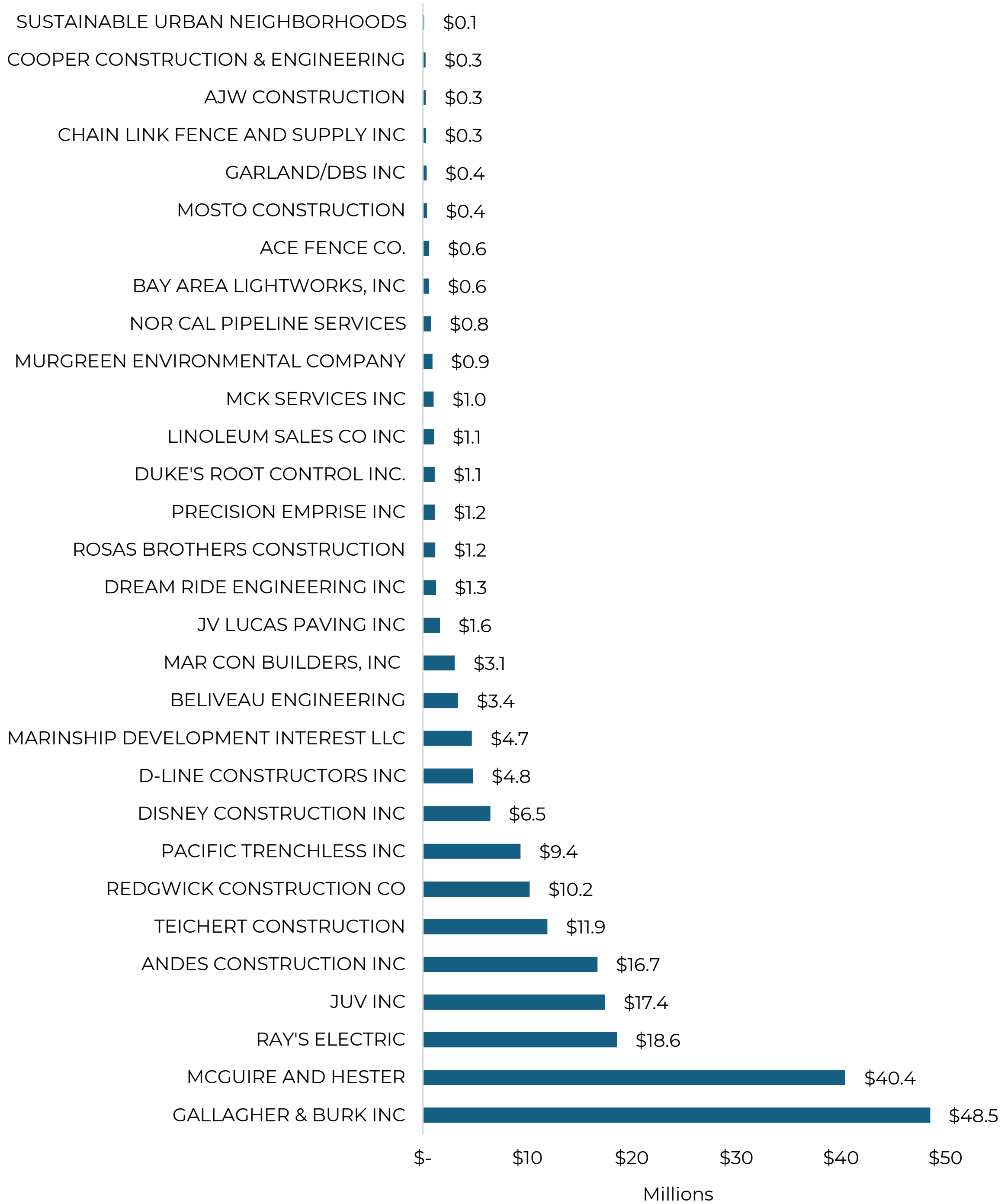
Exhibit 27: 70 Percent of the City's Construction Vendors Received Less than $5 million from FY 2022-23 to FY 2024-25



Source: Auditor analysis of capital projects spending to construction vendors from FY 2022-23 through FY 2024-25 based on the City's financial management system financial data. This exhibit does not include payments to escrow companies for certain construction contracts, as the amount was not significant ($324,448).

[94] Gallagher & Burk Inc. and McGuire and Hester, the City's two highest-paid contractors for capital projects, each received over $40 million, primarily for Department of Transportation on-call task orders (Exhibit 29). Most of these firms' awarded work was through on-call task orders (issued on-call task orders for 15 capital projects and secured one open bid contract for Gallagher & Burk Inc; issued on-call task orders issued for 16 capital projects and secured one open bid contract for McGuire And Hester)

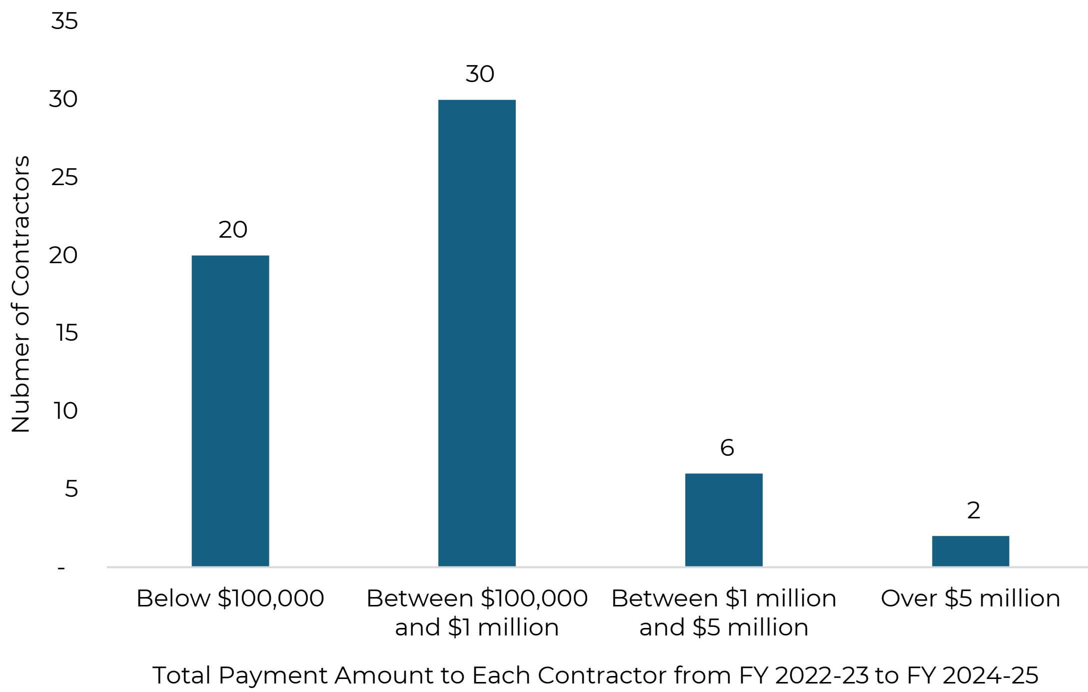
Exhibit 28: From FY 2022-23 to FY 2024-25, 40 Percent of the City's Total Spending on Construction Went to Two Construction Contractors



Source: Auditor analysis of capital project payments to construction vendors between FY 2022-23 and FY 2024-25 based on the City's financial management system financial data. This exhibit does not include payments to escrow companies for certain construction contracts, as the amount was not significant ($324,448).

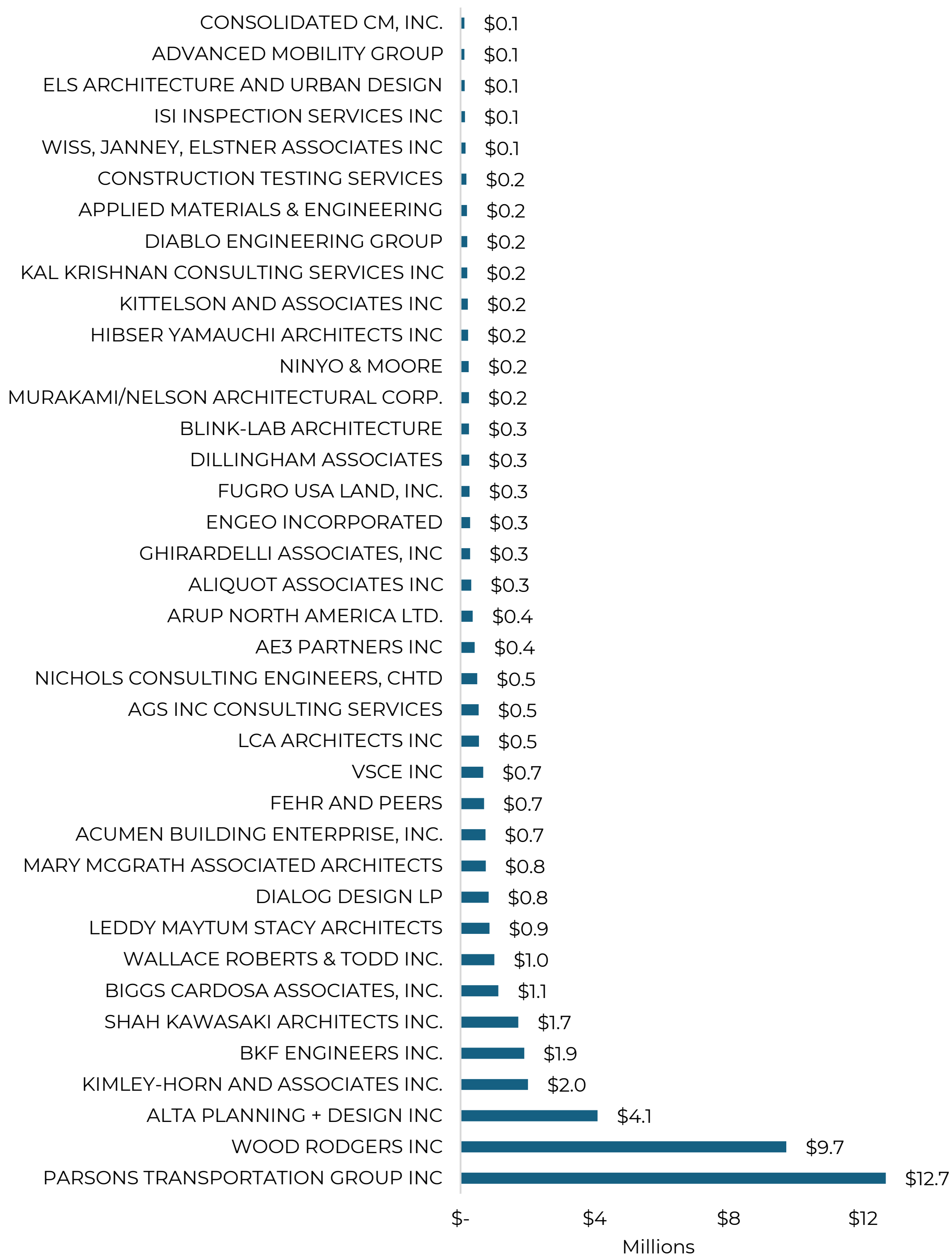
Professional services show a similar concentration, with a small number of vendors capturing a disproportionate share of contract spending (Exhibits 29 and 30).

Exhibit 29: Two of 58 Vendors Received More than $5 Million in Professional Services Spending from the City



Source: Auditor analysis of the City's capital project spending on professional service vendors between FY 2022-23 and FY 2024-25 based on the City's financial management system financial data.

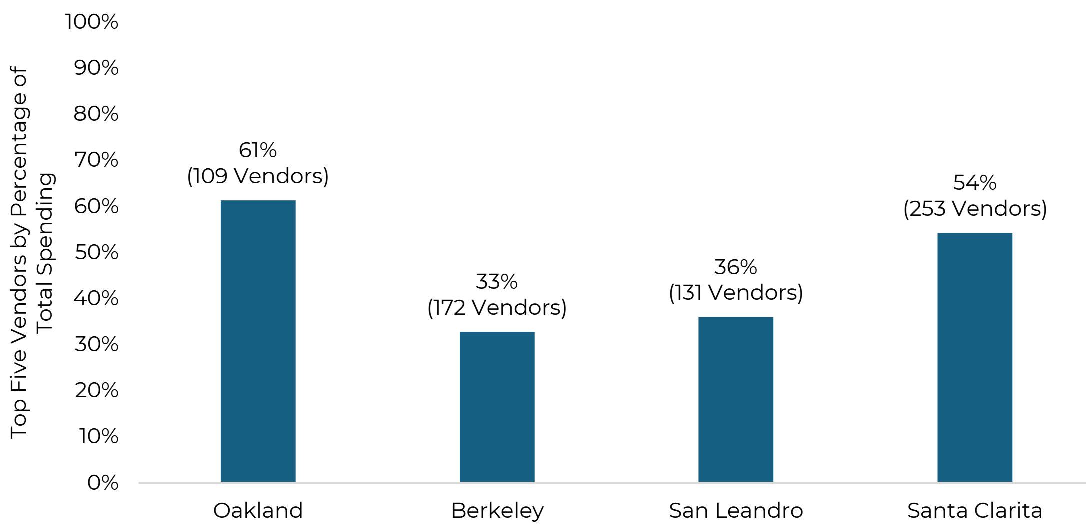
Exhibit 30: Two Vendors Received Nearly Half of the City's Overall Spending on Professional Services from FY 2022-23 through FY 2024-25

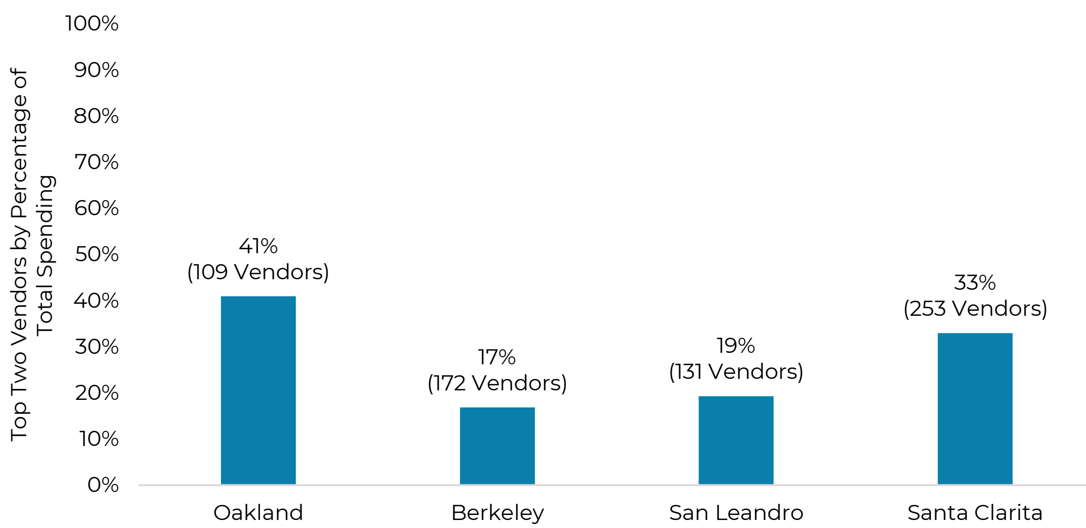


Source: Auditor analysis of the City's capital projects spending on professional service vendors from FY 2022-23 to FY 2024-25 based on the City's financial management system financial data. For presentation purposes, this graph shows only vendors who were paid over $100,000.

In addition, Oakland spends a higher concentration of capital project funds on its top five vendors (including construction and professional services) compared to other jurisdictions. In FY 2024-25, Oakland spent 61 percent of total capital project funds on its top five vendors. In contrast, Santa Clarita spent 54 percent, San Leandro spent 36 percent, and Berkeley spent 33 percent of their total funds on their top five vendors that same fiscal year. Notably, Oakland, the city with the largest population, had the highest amount of capital spending but had the fewest number of contracted vendors (Exhibits 31 and 32).

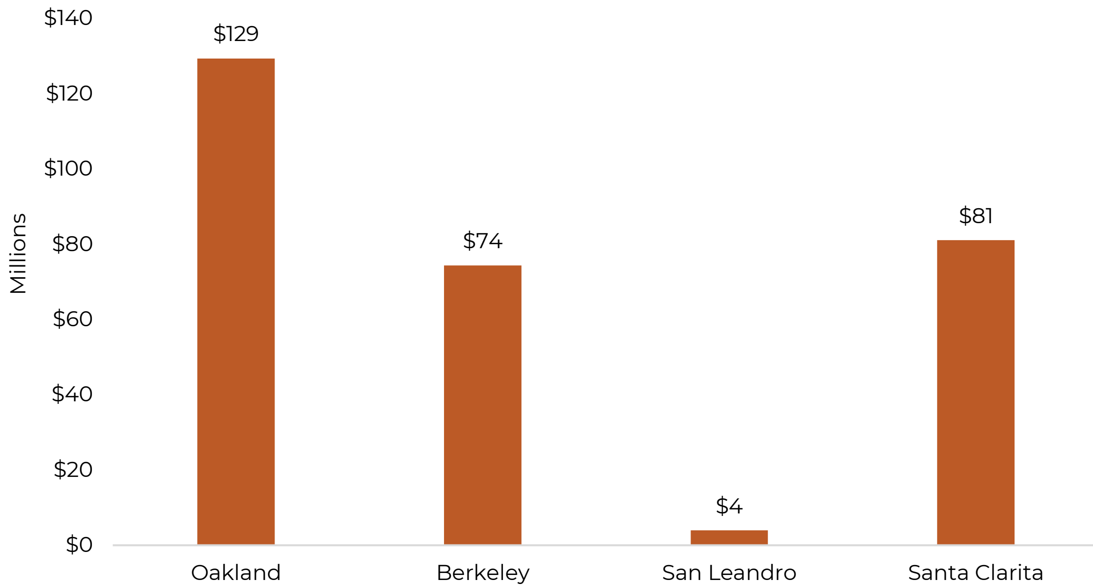
Exhibit 31: Oakland's Top Five and Top Two Vendors Account for a Larger Portion of the City's Capital Project Spending Compared to Other Jurisdictions in FY 2024-25





Source: Auditor analysis of FY 2024-25 capital project spending on capital project contracts in various jurisdictions with financial data obtained from Oakland's financial management system and public record requests from San Leandro, Santa Clarita, and Berkeley. Values were rounded to the nearest whole number. We calculated the percentage by dividing the payments to the top five vendors by total contract spending. Total spending includes both construction and professional service contracts.

Exhibit 32: Oakland has the Highest Capital Project Spending Compared to Other Jurisdictions in FY 2024-25



Source: Auditor analysis of FY 2024-25 capital project spending on capital project contracts in various jurisdictions with financial data obtained from Oakland's financial management system and public record requests from San Leandro, Santa Clarita, and Berkeley. Values were rounded to the nearest whole number. Total contract spending includes both construction and professional service contracts.

Less competition among a small group of contractors can result in higher costs for the City. In a recent report, the Alameda County Grand Jury reported that the City's strict contracting requirements have resulted in less competition, preventing the City from obtaining competitive prices. One City official estimated that the City could save 10 to 15 percent on its projects with greater competition.[95]

The City's implementation of the Local and Small Local Business Enterprise Program (L/SLBE) has increased capital project costs and delayed contracting. However, according to the City of Oakland 2024 Disparity Study, the City awarded the majority of subcontractor work to businesses that were not Local or Local Small businesses during the study period. This observation suggests that the program may not be meeting its goals.

In FY 2021-22, the City received ten bids for multiple paving projects, but none met the Local and Small Local Business Enterprise Program (L/SLBE) requirements. Staff proposed three bidders for award and recommended that the City Council waive the requirement and award $59 million in contracts. Instead, the Council declined and requested staff to return with compliant bids. After negotiations, the City obtained five compliant bids in FY 2022-23. However, because more than

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[95] This summary is derived from a 2024-2025 Alameda County Grand Jury Final Report titled "Oakland's Potholes: A Bumpy Road and Inadequate Oversight." The report can be found at this link: https://grandjury.acgov.org/wp-content/uploads/2025/06/2024.2025-Alameda-County-Grand-Jury-Final-Report.pdf

120 days had passed since the original bids, bidders were no longer bound to their original prices. The City ultimately accepted a ten percent unit price increase, resulting in six million dollars in additional costs and a project delay of one year.

One approach to minimizing costs for contracting capital projects is using qualifications-based selection. This approach involves firms competing for contracts based on their experience and technical expertise, rather than simply offering the lowest bid. The American Council of Engineering Companies has endorsed this approach for promoting quality of work and cost-effectiveness. One analysis of 76 U.S. design-build projects found that qualifications-based selection led to the lowest cost growth and fastest construction speed compared to other procurement methods.[96]

While assessing the Local and Small Local Business Enterprise Program was outside the scope of this audit, we observed that there are other contracting approaches, such as qualifications-based selection, that can minimize the cost of procurement while furthering the City's equity goals by supporting the participation of local and small businesses through incentives (e.g., point advantages and bid discounts), as other jurisdictions do.

Oakland's On-Call Contract Spending Concentrated among A Few Vendors

The use of on-call contracts also limits competition for projects that could otherwise go to bid for small vendors. Since the City only awards these contracts to vendors on a pre-approved list, only a select number of vendors are eligible to compete for on-call task orders.

Limited competition among on-call vendors results in the City's on-call contract spending being concentrated among a small group. From FY 2022-23 to FY 2024-25, two vendors received 51 percent of the City's total on-call spending (Exhibit 33). This on-call contracting process can reduce the number of bids the City receives for larger projects, contributing to higher costs. Staff said that large construction projects (over $5 million) should not be assigned to on-call contracts and should instead be competitively bid, especially since larger firms may favor on-call contracts because the arrangement allows them to place higher bids with less competition. In another jurisdiction, staff reported that public bidding has resulted in cost savings as much as 50 percent.[97]

Although this area was not strictly within the scope of this audit, Recommendation 3 in Finding 1, which recommends that the City Administrator establish a policy on when the City should use on-call contracts and on-call task orders, can help to address these risks and encourage more fair and robust competition for City contracts.

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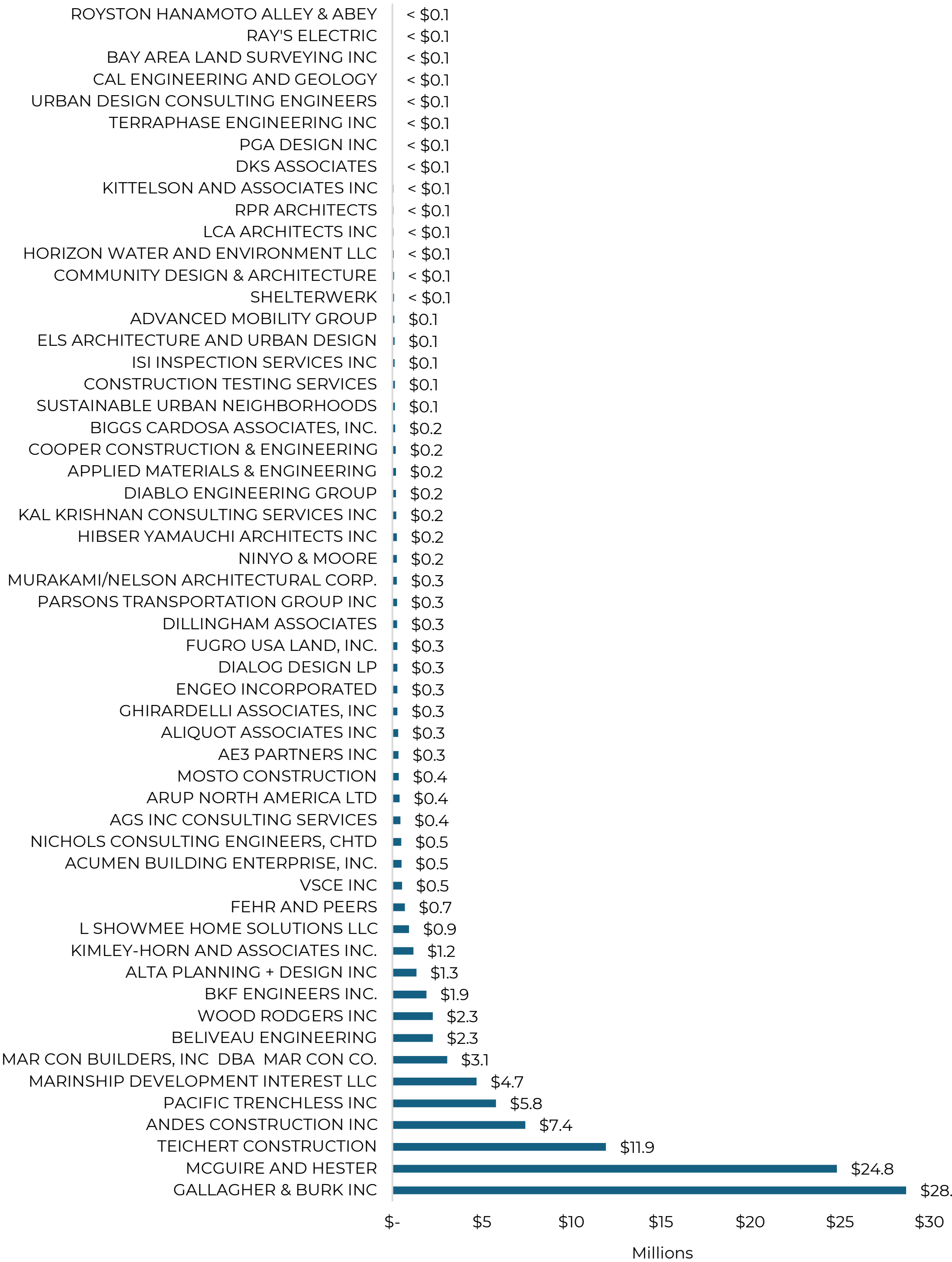
[96] El Wardani, M. A., Messner, J. I., & Horman, M. J. (2006). Comparing procurement methods for design-build projects. Journal of Construction Engineering and Management, 132(3), 230-238.

[97] Staff cited an example from one jurisdiction in which an on-call project was initially assigned to a vendor for about $120 million. When the project was later procured through a competitive process, the jurisdiction was able to contract with another firm for $60 million.

Exhibit 33: From FY 2022-23 to FY 2024-25, Two Vendors Received 51 percent of the City's Total On-Call Spending



Source: Auditor analysis of expenditures on on-call task orders from FY 2022-23 to FY 2024-25 based on the Purchase Order Report from Oracle, the City's financial management system.

Administration's Response

We presented the audit's findings, conclusions, and recommendations to the City Administration, including staff from the departments of Public Works, Transportation, and Finance. The Administration's response to the audit's recommendations is below.

CITY OF OAKLAND

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City Administrator Office (510) 238-3301
Elizabeth Lake FAX (510) 238-2223
City Administrator TDD (510) 238-3254

August 19, 2026

Honorable Michael Houston
Oakland City Auditor
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

RE: City Administrator's Response: Audit of Capital Improvement Program Financial Management

Dear City Auditor Houston

The City Administrator's Office, Public Works, Dept of Transportation and the Finance Department appreciate the opportunity to respond to the **Audit of Capital Improvement Program Financial Management**: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery**. A few key recommendations outlined below:**

- The Public Works and Transportation departments should adopt the Construction Management Manual and regularly review and update the Manual to ensure its policies remain relevant. This addresses seven of the audit recommendations. **(Rec# 1, 2, 6, 7, 10, 11, 14)**
- The City Administrator should establish a policy on when the City should use on-call contracts and on-call task orders. These should outline control activities, such as acceptable usage, independent review process and approval authority, and dollar thresholds. **(Rec# 3)**
- The Public Works and Transportation departments, in coordination with the Information Technology Department, should configure the AP Portal to prevent individual staff members from holding multiple roles in the payment process. **(Rec # 8)**
- The Public Works and Transportation departments should regularly update payment documents, including the Transmittal Payment Form and other related payment support templates, to reflect and streamline the current invoice payment process. **(Rec # 13)**

Attached is the full list of responses to the report's recommendations.

I want to thank you and your staff for the open communication during this audit. Management was kept up to date on all progress. This valuable service keeps the City running smoothly and efficiently.

Sincerely,

Elizabeth Lake
City Administrator

cc: Attachment: City Administration's Recommendation Implementation Plan Matrix

CITY OF OAKLAND

Office of the City Auditor

Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

City Administration's Recommendation Implementation Plan

Rec#	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date for Completion
1	The Public Works and Transportation departments should adopt the Construction Management Manual and regularly review and update the Manual to ensure its policies remain relevant.	Agree. The existing Construction Management Manual will be updated to incorporate audit suggestions and reflect current practice, and adopted by both OPW and OakDOT.	OPW/DOT	February 2027
2	The Public Works and Transportation departments should update the Construction Management Manual to specify approval requirements for: - Time adjustment change orders - Negative balance change orders - Orders-to-Proceed within the $10,000 to $25,000 range - Change orders issued under on-call contracts.	Agree.	OPW/DOT	February 2027
3	The City Administrator should establish a policy on when the City should use on-call contracts and on-call task orders. These should outline control activities, such as acceptable usage, independent review process and approval authority, and dollar thresholds.	Agree. The City's Capital Contracts Division will draft written guidance that includes information responsive to this recommendation, and the City Administrator will review and approve that document.	City Administrator, OPW, OakDOT	January 2027
4	The Public Works and Transportation departments should establish guidelines for determining when to extend existing on-call contracts or initiate new ones.	Agree. See above.	City Administrator, OPW, OakDOT	November 2026
5	The Public Works and Transportation departments should generate regular reports to enable management to monitor change orders in aggregate for appropriateness and cost. These reports should include work descriptions, work statuses, time adjustments, total costs, payments, and estimated completion timelines.	Agree.	OPW, OakDOT	June 2028

CITY OF OAKLAND

Office of the City Auditor

Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

City Administration's Recommendation Implementation Plan

Rec#	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date for Completion
6	To increase the consistency of capital project financial management practices, the Public Works and Transportation departments should train staff on policies in the Construction Management Manual and monitor staff compliance with the policies through performance evaluations, as needed.	Agree. This training will begin after the Construction Manual is updated.	OPW, OakDOT	June 2027
7	The Public Works and Transportation departments should implement a comprehensive segregation of duties policy that includes independent oversight, minimum approval signatory requirements, and designated alternate approvers for staff serving in acting roles.	Agree. The updated Construction Manual will address this recommendation.	City Administrator, OPW, OakDOT	June 2027
8	The Public Works and Transportation departments, in coordination with the Information Technology Department, should configure the AP Portal to prevent individual staff members from holding multiple roles in the payment process.	Agree. The Information Technology Department, in coordination with Finance, Public Works and OakDOT, will develop a configuration plan for the AP Portal that prevents individual staff members from holding multiple roles in the payment workflow.	Finance, ITD, OPW, OakDOT	June 2028
9	The Public Works and Transportation departments, in coordination with the Information Technology Department, should develop and implement a centralized project management system or tailor existing systems to monitor the statuses of capital projects and maintain oversight. This system should include built-in instructions, workflows, and mandatory fields to ensure policy compliance and identify potential errors or indicators of noncompliance.	Partially agree. OPW utilizes PMWeb as a centralized project management system where scope, schedule, budget, and expenditures are reported on for each project. However, staff are not aware of a single software system that delivers everything this recommendation requests; instead, cities use multiple systems (project management, financial management, policies and procedures,	OPW, OakDOT, ITD	June 2028

CITY OF OAKLAND

Office of the City Auditor

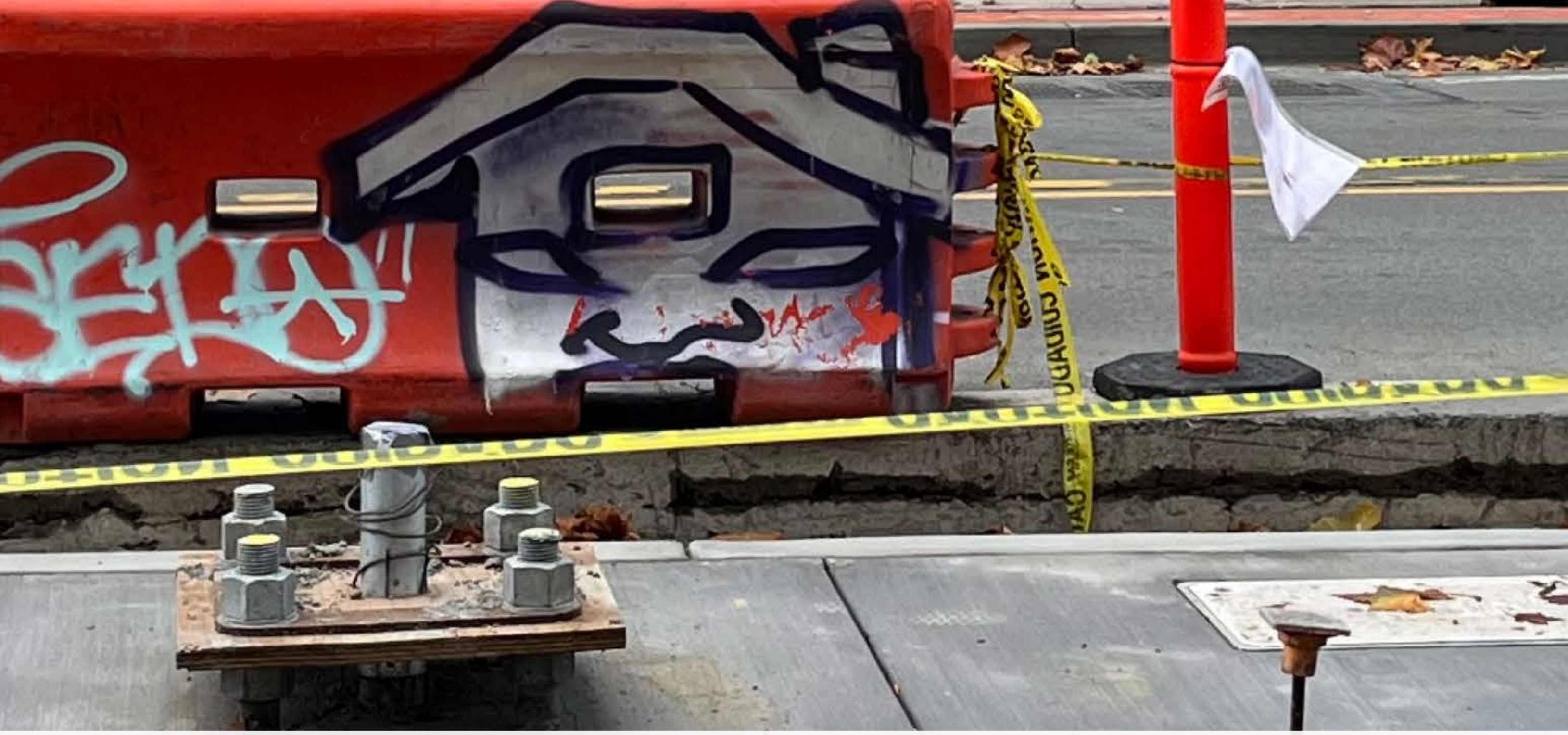
Audit of Capital Improvement Program Financial Management: Implementing Comprehensive Systems, Policies, and Practices to Enhance Oversight of Capital Project Delivery

City Administration's Recommendation Implementation Plan

Rec#	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date for Completion
		etc.) to address these purposes. Additionally, OakDOT and OPW, together with ITD, will explore a centralized system to capture and provide transparent procurement processes.		
10	The Public Works and Transportation departments should implement a process to independently verify each payment aligns with the contract terms (such as markup terms). The departments should also formalize the reviewer's responsibilities in their policies and procedures.	Agree. Construction supervisors and resident engineers will be retrained on proper review of payments/contact terms after the Construction Management Manual is updated.	OPW/OakDOT	June 2027
11	The Public Works and Transportation departments should establish procedures to review and validate subcontractor expenses as needed.	Partially agree. OPW and DOT review subcontractor costs for change order work. However, reviewing subcontractor expenses outside of change order work is not best industry practice as compared to our peer cities. Instead, staff rely on the schedule of bid items from the prime contractor. The updated Construction Management Manual will clarify this.	OPW/OakDOT	June 2027
12	To ensure consistent documentation and timely processing of payments, the Public Works and Transportation departments should require contractors to submit invoices in the AP Portal before issuing payments. The Public Works and Transportation departments may consider providing technical support and training to contractors in using the AP Portal.	Agree	DOT/OPW/DWES	June 2028
13	The Public Works and Transportation departments should regularly update payment documents, including the Transmittal Payment Form and other related payment	Agree. Updates are complete, and future updates will occur as needed.	DOT/OPW	Complete

Rec#	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date for Completion
	support templates, to reflect and streamline the current invoice payment process.			
14	The respective Fiscal Services teams in the Public Works and Transportation departments should adopt a policy to encumber funds for on-call change orders within a defined timeframe.	Agree. The Construction Management Manual update will address this recommendation.	OPW/DOT	February 2027
15	The Finance Department's Treasury Bureau and the Fiscal Services teams in the Public Works and Transportation departments, in coordination with the Information Technology Department, should enhance the Treasury AP Portal to flag potential errors and misspending related to bond fund payments by introducing additional criteria, such as limiting selectable fund types in the system based on project type.	The Finance Department's Treasury Division will work closely with OPW and OakDOT to address controls within the the AP portal.	Finance, OPW, OakDOT	June 2028
16	To better align the City's capital improvement planning processes with best practices, the Public Works and Transportation departments, in coordination with the Finance Department, should recommend the City Council adopt a 10-year Capital Improvement Project plan.	Partially agree. 10-year CIP planning is a very important step. However, this can happen via a mixture of asset-specific plans (e.g., sanitary sewer, storm drain, facilities, paving, streetscape improvements) and more generalized CIP multi-year planning. The planning (not execution) for this work should be completed as part of the next biannual budget.	All departments	June 2027
17	To improve oversight and visibility into the City's progress in delivering capital projects, the Public Works and Transportation departments should provide regular reports to the City Council on the progress of the City's capital	Agree. Existing practice includes annual informational memoranda for the sidewalk and curb ramp capital programs, ,twice-annual informational memoranda	OakDOT, OPW	June 2028

Rec#	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date for Completion
	improvement plan and active capital projects at least once annually.	for the pavement capital program, and annual informational reports regarding the sanitary sewer Consent Decree.		



CITY OF
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Office of the City Auditor

CITY AUDITOR
Michael C. Houston, MPP, CIA

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SCAN ME! | 扫描我 | ESCANÉAME