

FINAL – February 21, 2018
Santa Clara Valley Open Space Authority
Measure Q Expenditure Oversight Committee
2016/2017 Annual Report

This is the second annual report of the Measure Q Expenditure Oversight Committee (MQEOC). The report includes background on Measure Q and the Oversight Committee, findings from required annual reviews, and oversight committee recommendations. Also included is a review of the previous year’s findings and the Santa Clara Valley Open Space Authority (SCVOSA) response.

Background

Measure Q

During November 2014, voters within the Open Space Authority boundaries approved the Measure Q parcel tax. The approval authorized the Authority to levy a tax of \$24 per parcel annually for 15 years. The tax was designed to produce an estimated \$7.8 million per year in additional revenue for the Authority.

Measure Q Expenditure Plan

The SCVOSA published The Open Space, Wildlife Habitat, Clean Water and Increased Public Access Expenditure Plan (Measure Q Expenditure Plan) which summarized how Measure Q funds would be used, identified four program categories within which all funds would be expended, and identified administrative provisions and financial safeguards. The four program areas that are to benefit from this additional revenue were identified in Section B of the Measure Q Expenditure Plan as follows:

- Protect open space, redwood forests, wildlife habitat, scenic hillsides and agriculture land,
- Protect land and restore natural areas around our creeks, rivers and streams to prevent pollution and improve local water quality and supply,
- Open, improve and maintain parks, open space and trails,
- Create urban open space, parks and environmental education programs.

The administrative provisions and financial safeguards in Section C include:

Section C.1[b] – “... an Independent Oversight Committee shall be convened to review the expenditure of all parcel tax revenues collected under this measure...”, and,

Section C.2[f] – “An independent audit shall be conducted to assure that the revenues expended by the Santa Clara [Valley] Open Space Authority under this plan are necessary and reasonable in carrying out its responsibilities under the Plan.”

Expenditure Oversight Committee

The Committee is an independent oversight committee established to review the expenditures of all parcel tax revenues collected under Measure Q. The Oversight Committee consists of seven at-large members appointed by the Open Space Authority Board. Members must reside within the Open Space Authority jurisdictional boundaries, and must not be elected officials of any government, nor employees of any agency or organization that directly benefits financially from the proceeds of the parcel tax. The Committee reviews the Status Report alongside the independent financial audit to provide an independent review of all revenues and expenditures of Measure Q Funds and submits an oversight report and recommendations to the Board.

Meetings will be announced in advance and will be open to the public. The Committee shall meet at least once, but no more than four times per year. The two annual reviews, which are the primary responsibility of the Committee, are:

- Review expenditures on an annual basis to ensure they conform to the Measure Q Expenditure Plan.
- Review the annual audit and report prepared by the independent auditor and submit its recommendations and oversight report thereon.

Committee Members

Frank Cancilla
Hugh Graham
Chris Kangas
Vacant
Jeff Micko
Marilyn Rodgers
Susan Skorey

Required Reviews

1. Review of Annual Expenditures for Conformance to the Measure Q Expenditure Plan

The MQEOC has reviewed the 2016/2017 Annual Measure Q Status Report. In the main, the report conforms to the SCVOSA responses to the 2015/2016 MQEOC recommendations (see Appendix A). However, the MQEOC has found that without additional information, it is still

difficult to determine whether the expenditures were necessary and reasonable for carrying out the responsibilities under the Measure Q.

The 2016/2017 Report is a well written presentation of Measure Q expenses. In the Report, expenditures of Measure Q funds have been categorized to fall within the four programs identified in the Measure Q Expenditure Plan. In conformance with Measure Q Expenditure Plan requirements (Section C.2[d]), administrative expenses (other than the cost of the Oversight Committee) did not exceed 5% of the revenue generated by Measure Q. Grant funding did not exceed 25 percent of revenue. Expenditures for Oversight Committee's activities were one-tenth of one percent (.1%) of the gross proceeds of the parcel tax which is consistent with Measure Q Expenditure Plan Section C.2[g].

In 2015/2016 the MQEOC requested that program expenditures be more fully explained. The OSA responded:

To provide more information on expenditures, the Administration and Budget Committee has directed Staff to include a breakdown of expenditures for each project in the next Annual Measure Q Status Report (reporting for FY 2016/2017). Expected delivery of the report is December 2017.

Staff has also developed and implemented improved processes for project identification and reporting, including development of a project request form that gathers more complete project description information as well as other data used for tracking and reporting.

Projects Expenses

The expenditure report lists expenditures in a total of 65 projects within three Expenditure Plan Categories (EPC). More specific information has been provided with respect to the nature of the expenditures within the EPCs.

The report further subdivides expenditures in support of those projects in seven major expense categories. It is impossible to conclude based on the information provided that the expenditures were necessary and reasonable for carrying out responsibilities under the Measure Q.

Administrative Expenses

Section C.2[d] of the Measure Q Expenditure Plan stipulates that:

No more than 5% of the revenue generated by this measure and provided to the Santa Clara [Valley] Open Space Authority may be used for administrative expenses.

This provision suggests that Measure Q funds will be spent to accomplish tangible results with minimal overhead. The fact that the administrative costs are exactly equal to 5% suggests an accounting strategy whereby administrative costs are allocated up to the limit. Does the District track actual administrative costs associated with Measure Q? It is possible that administrative costs could be expensed to Measure Q irrespective of their basis. How does that strategy ensure that administrative costs paid for by measure Q funds are necessary and reasonable for carrying out its responsibilities under the Plan?

Grants

Measure Q Expenditure Plan Section C.2[g]. stipulates that:

no more than 25 percent of the revenues generated by this funding measure will be made available for this Grant Program.

Grants funding did not exceed 25 percent of revenues generated. Grant allocations were \$1,857,755 which is 23.82 percent of \$7,799,422. However, it is not clear how the Open Space Authority audits or ensures that the expenditure of funds by the grantees are reasonable and necessary. Additionally, it is not clear what the standard is for accepting grant deliverables.

2. Review of the Annual Audit and Report Prepared by the Independent Auditor

As was the case in 2015/16, the annual report did not appear to fulfill the requirement of Section C.2[f] of the Measure Q Expenditure Plan. As stated previously, C.2 [f] states, “An independent audit shall be conducted to assure that the revenues expended by the Santa Clara [Valley] Open Space Authority under this plan are necessary and reasonable in carrying out its responsibilities under the Plan.”

In 2015/2016 the MQEOC recommended, that future audit contracts should require an explicit finding related to Section C.2[f] of the Measure Q Expenditure Plan. The OSA responded:

At the February 23rd Board meeting where these recommendations were presented, it was concluded that Measure Q does not direct that an independent financial auditor conduct programmatic level audit services. This position was reaffirmed by Administration and Budget Committee. However, as noted in Response to Recommendation #1, the Annual Project Status Report will include more detailed project descriptions and financial expenditure information to assist the MQEOC in their annual review of Measure Q expenditures

It is correct that Measure Q does not direct that an independent financial auditor conduct programmatic level audit services. The Measure Q Expenditure Plan does refer to “An independent audit ...to assure that the revenues expended by the Santa Clara [Valley] Open Space Authority under this plan are necessary and reasonable in carrying out its responsibilities

under the Plan.” The Measure Q audit provided by the SCVOSA did not provide that assurance or conclusion. The 2016/2017 Annual Measure Q Status Report does not provide sufficient detail to support a finding that the revenues expended by the Santa Clara Valley Open Space Authority under this plan are necessary and reasonable in carrying out its responsibilities under the Plan. As such, the MQEOC cannot say with certainty that an independent review of all revenues and expenditures of Measure Q Funds has been performed.

Recommendations:

1. In accordance with the Measure Q Expenditure Plan, expand the independent audit procedures to verify that "revenues expended by the Santa Clara [Valley] Open Space Authority under this plan are necessary and reasonable in carrying out its responsibilities under the Plan."
2. Further describe controls on grant funding and deliverables required to achieve project objectives.
3. Elaborate on the accounting procedures for determining administrative costs associated with Measure Q to verify the accuracy of the 5% limitation.
4. Page 7 of the 2016/2017 Status Report has a table summarizing Measure Q expenditures as presented by the annual audit. This table, and by extension, the audit, should conform to the categories used in the individual project reports. Provide further clarity by using either percentages or a pie chart showing each expense category as a per cent or "piece" of the total expenditures.
5. Pages 11-13 of the 2016/2017 Status Report list the projects in each Expenditure Plan Category (EPC). Include page number references to facilitate locating project pages.
6. Provide more columns in the project lists (pp11-13) to allow for more detailed status information such as milestones (new projects), percent completed (in progress projects), targeted restart date (on hold projects). Include a column showing each project's costs as a percentage of the category total.
7. FOR EACH PROJECT, include a list of types of "Outside Services" used. This list should be in order of dollars spent (highest to lowest).
8. Explore opportunities for making open space more accessible to the public in support of Measure Q Expenditure Plan Category 3: Open, Improve, and Maintain Parks, Open Space, and Trails. Expand opportunities for volunteer involvement for trail related activities in support of Expenditure Plan Category 3.