

**FINAL – February 27, 2019**

**Santa Clara Valley Open Space Authority  
Measure Q Expenditure Oversight Committee  
2017/2018 Annual Report**

This is the third 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.”

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## **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  
(Vacant)  
Jeff Micko  
Marilyn Rodgers  
Susan Skorey  
Michael Smith

## **Required Reviews**

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

The MQEOC has reviewed the Fiscal Year 2017/2018 Annual Measure Q Status Report. The report is a well written and organized presentation of Measure Q expenditures by program, project and expense category. However, the MQEOC has found that without additional information, it is still difficult to ascertain that individual expenditures, which collectively are the basis of the reported summary values, were necessary and reasonable for carrying out the responsibilities under the Measure Q.

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

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funding did not exceed 25 percent of revenue. Expenditures for Oversight Committee’s activities were one-tenth of one percent (0.1%) of the gross proceeds of the parcel tax, which is consistent with Measure Q Expenditure Plan Section C.2[g].

### **Projects Expenses**

The report lists expenditures in a total of 56 projects within four 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. The expense category breakdown is informative and useful for general oversight and understanding of the SCVOSA operation. However, the cost breakdown provided in the report does not enable concluding that all expenditures were necessary and reasonable for carrying out responsibilities under the Measure Q.

There is also no way to determine which individual projects are meeting their budget and schedule objectives and which ones aren’t. Budget numbers are only presented at the level of major expense categories (page 10) and not at the individual project level. It would improve transparency if information could be added to the individual project sheets in Section II listing the annual budget for each project as well as the annual expenditures. It would also be helpful if information were provided as to whether the individual projects are on schedule, behind schedule or ahead of schedule. Perhaps this information could be added under Status. For example, instead of just saying “In Progress”, it could say “In Progress. On Schedule”.

### **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.

The report clearly describes what expenses are included in administrative costs. However, the provision in Measure Q which limits administrative costs to 5% could be considered deceptive, because it implies effectiveness and control. Implementation of the provision does not necessarily impact total Measure Q administrative spending, but rather the portion of that spending that is actually charged to Measure Q. The Report indicates how the amount of Measure Q funds used to pay administrative costs is limited to 5% and how any remaining balance, associated with actual administrative costs, is charged to other funding sources.

### **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.

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Grants funding did not exceed 25 percent of revenues generated. Grant allocations were \$549,589 which is 7.03 percent of \$7,820,022.

The Annual Report provides a good qualitative description of grant management and control. The report states that:

“Grantees are required to submit final reports confirming completion of the project and project goal results, which the Authority verifies against the grant agreement. During the independent audit, disbursements paid during the fiscal year are reviewed against the grant agreements. Through this process from award to disbursement, the Board provides feedback and approval on the grant awards, staff reviews and processes reimbursements, and the independent auditor examines disbursements to ensure all projects funded by the Authority with Measure Q funds support the urban communities within the Authority’s boundaries and are consistent with the Authority’s mission and objectives of the Expenditure Plan”

If expenditures by grantees are necessary and reasonable then SCVOSA grant funding expenses are necessary and reasonable. It would help the MQEOC determine conformance Section C.2[f] of the Measure Q Expenditure Plan if the independent auditor could provide a conclusive statement to the effect that a significant number of expense records of the grantees were reviewed and found necessary and reasonable. It would also be helpful if an annual performance audit were to be conducted to supplement the annual financial audit, as discussed in the following section.

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

As was the case in 2015/2016 and 2016/17, the annual report did not appear to completely 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.

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**In the 2016/2017 Report, MQEOC Responded:** 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.

**In 2016/2017 the MQEOC recommended:** 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.”

**On July 18, 2018 The OSA responded:** “The Authority cannot direct or influence the independent auditor to conduct or expand its procedures and best practices beyond that applicable to generally accepted accounting principles.”

The MQEOC does not agree. Certainly, if a financial audit is contracted then a financial audit will be delivered. However, the scope of an audit can be customized or a different type of audit conducted to supplement the financial audit. For example, school districts that wish to pass bond measures with 55% voter approval per Proposition 39 (2000) must commit to having both independent financial and performance audits conducted on an annual basis. While a financial audit is conducted to obtain reasonable assurance that financial statements are free of material misstatement, a performance audit is typically conducted to verify that bond proceeds are only used on projects listed in the ballot statement. In the case of Measure Q, an annual performance audit could perhaps be structured 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.”

On January 9, 2019 the FY2017/2018 Measure Q Audit was presented to the MQEOC: The auditor explained their method of reviewing a statistically significant number of transactions as a basis for establishing accounting conformance. Upon questioning, the auditor indicated that the nature or appropriateness of the transactions relative to the mission was also reviewed. If this could be put in writing, it could provide a partial basis for an MQEOC finding of conformance with the requirement of Section C.2[f] of the Measure Q Expenditure Plan. Perhaps a statement could be provided to the effect that a statistically significant number of random transactions were reviewed for relevance and that all of the transactions reviewed appeared to be reasonable for provision of goods and services necessary for the SCVOSA to

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carry out its responsibilities under Measure Q. Additional support for a finding of conformance with the requirement of Section C.2[f] of the Measure Q Expenditure Plan could be provided if the SCVOSA were to contract for a separate annual performance audit to supplement the annual financial audit.

### Review of Recommendations from 2016-17

16-17 MQEOC Report	OSA Response	MQEOC Response
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."	The Budget and Annual Work Plan becomes the guiding document for staff when recording and tracking expenditures for approved projects and goals. The Authority cannot direct or influence the independent auditor to conduct or expand its procedures and best practices beyond that applicable to generally accepted accounting principles.	Perhaps a statement could be provided to the effect that a statistically significant number of random transactions were reviewed for relevance and that all of the transactions reviewed appeared to be reasonable for provision of goods and services necessary for the SCVOSA to carry out its responsibilities under Measure Q. Additional support for a finding of conformance with the requirement of Section C.2[f] of the Measure Q Expenditure Plan could perhaps be provided if the SCVOSA were to contract for a separate annual performance audit to supplement the annual financial audit.
2. Further describe controls on grant funding and deliverables required to achieve project objectives.	The grant agreements include the general terms and conditions of funding as well as a detailed Scope of Work, Project Goals, and Project Budget that are used to evaluate reimbursement requests, project deliverables and work progress. Grantees are required to submit final reports confirming completion of the project and project goal results, which the Authority verifies against the grant agreement. This provides the Authority with the guidelines and controls for administrating the grants.	Is this enough evidence that the practice ensures expenditures within grants are reasonable and necessary? Perhaps a couple of examples would enable the MQEOC to conclude conformance. Direct the independent auditor to provide a conclusive statement to the effect that a significant number of expense records of the grantees were reviewed and found necessary and reasonable. It would also be helpful if an annual performance audit were to be conducted to supplement the annual financial audit.
3. Elaborate on the accounting procedures for determining administrative costs associated with Measure Q to verify the accuracy of the 5% limitation.	"no more than 5% of the MQ revenue (approximately \$400,000) may be used by the Authority to pay for administrative expenses. The Authority's total administrative expenditures per year exceed more than \$400,000.	The report clearly describes what expenses are included in administrative costs. However, the provision in Measure Q which limits administrative costs to 5% could be considered deceptive, because it implies effectiveness and control. Implementation of the provision does not necessarily impact total Measure Q administrative spending, but rather the portion of that spending that is actually charged to Measure Q. The Report indicates how the amount of Measure Q funds used to pay administrative costs is limited to 5% and how any remaining balance, associated with actual administrative costs, is charged to other funding sources.
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.		This was addressed
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.	Subsequent Status Reports will cross reference project IDs and page numbers for easier navigation.	This was addressed, Appendix A

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16-17 MQEOC Report	OSA Response	MQEOC Response
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.	Subsequent Status Reports will include an additional column in the EPC tables to show each project's total funds expended in a fiscal year as a percentage of the category's total expenditures. The Authority's financial accounting system does not have the capabilities to track project milestones, percentage of completion, and/or suspend and restart dates.	This was partially addressed by adding a column indicating % of Fiscal EPC expenditure. Additional information on status was included in the project description. General discussion was provided on page 22 Milestones and progress reflect project management.
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).	Individual project reports in subsequent Status Reports will include an additional line listing the types of outside services used, when applicable.	This was addressed
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.	The Board approved the Fiscal Year 2018/2019 Budget and Annual Work Plan at a publicly-noticed meeting on June 14, 2018. Projects listed in the Annual Work Plan include, among others, public access planning for the Authority's preserves, development of an Open Space Guided Access Plan, and development and maintenance of youth engagement programs.	This was addressed

### **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. Direct the independent auditor to provide a conclusive statement to the effect that a significant number of expense records of the grantees were reviewed and found necessary and reasonable.
3. Modify the figure and table on page 10 of the FY 2017/2018 Status Report to allow direct comparison of budgeted expenses and percentages of total with actual expenditures and percentages for each major expense category. The pie chart in Figure 1 is informative, but only shows budgeted expenses by percentage of total, and is difficult to use because the boxes in the legend are so small. Table 3 is also informative, including both actual expenditures and expenditures as a percentage of total. While it is possible to compare Measure Q budget percentages to expenditure percentages by combining data from Figure 1 and Table 3, it is not possible to compare budgeted expenses to actual expenditures. It is recommended that Figure 1 be deleted and columns added to Table 3 listing budgeted expenses and percentages of total by category.
4. Add information to the individual project sheets in Section II of the FY 2017/2018 Status Report listing the annual budget for each project as well as the annual expenditures. Also provide information as to whether the individual projects are on schedule, behind schedule or ahead of schedule. Perhaps this information could be added under Status. For example, instead of just saying "In Progress", the status could be listed as "In Progress. On Schedule" for a project that is achieving objectives on schedule.