

Santa Clara Valley Open Space Authority Measure Q Expenditure Oversight Committee 2019/2020 Annual Report

This is the fifth 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.

It is noted that this report only reviews Measure Q expenditures. As authorized by Measure T, this committee will review Measure T expenditures beginning Fiscal Year 2021/2022.

The Measure Q Expenditure Oversight Committee (MQEOC) was created as an assurance to voters and taxpayers that an additional degree of scrutiny would be applied to expenditure of Measure Q funds. The Measure Q Expenditure Plan states at C.1 that an independent oversight committee shall be convened to ensure accountability, transparency, and public oversight of all funds collected and allocated under Measure Q. The Measure Q Expenditure Plan lists two responsibilities for the MQEOC:

C.1[d]: The responsibilities of this Committee include:

- Reviewing Plan expenditures on an annual basis to ensure they conform to the Plan.
- Reviewing the annual audit and report prepared by an independent auditor and submitting its recommendations and oversight report thereon.

The MQEOC has reviewed the 2019/2020 Measure Q expenditures and finds that they conform to the Measure Q Expenditure Plan, as further described below.

The MQEOC has reviewed the 2019/2020 independent financial auditor's report and finds that it confirms that Measure Q funds have been collected and allocated according to generally accepted accounting principles.

However, the MQEOC believes that the SCVOSA is not in compliance with Section C.2[f] of the Measure Q Expenditure Plan:

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

The independent financial audit does not review whether expenditures under the plan are necessary and reasonable in carrying out the responsibilities of the Plan.

Because the independent financial audit does not review whether Measure Q funds have been spent in a necessary and reasonable way, the MQEOC does not believe the independent financial audit provides compliance with the Plan. Furthermore, because the audit is not in compliance with

the Plan, the MQEOC cannot ensure transparency of the 2019/2020 Measure Q collection and allocation of funds.

I. 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 agricultural 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, and
- 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.

Expenditure Oversight Committee Members

- David Burckhard
- Hugh Graham
- Jeff Micko
- Marilyn Rodgers
- Susan Skorey
- Michael Smith
- Andrea Wheeler

II. REQUIRED REVIEWS

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

The MQEOC has reviewed the Fiscal Year 2019/2020 Annual Measure Q Status Report. The report is a well-written and organized presentation of Measure Q expenditures by program, project and expense category.

In the report, expenditures of Measure Q funds have been categorized to fall within the four program areas 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% of revenue. In conformance with Measure Q Expenditure Plan Section C.2[g], expenditures for Oversight Committee's activities were one-tenth of one percent (0.1%) of the gross proceeds of the parcel tax.

Projects Expenses

The report lists project expenditures 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 into seven major expense categories. The expense category breakdown is informative and useful for general oversight and understanding of the Authority 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 Measure Q.

An Indication of Completion was included for each Tier One project in the FY 2018/2019 Annual Measure Q Status Report. Beginning with the FY 2019/2020 Work Plan, the Authority added additional details regarding status. Beginning with FY 2020/2021, the Authority will add the projected completion dates to the Annual Measure Q Status Report.

The final FY 2020/2021 dashboard report provided to the Board of Directors will be included in the FY 2020/2021 Annual Measure Q Status Report as an appendix.

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. The Report indicates that the amount of Measure Q funds used to pay administrative costs is limited to 5% and that any remaining balance, associated with actual administrative costs, is charged to other funding sources.

However, the provision in Measure Q that limits administrative costs to 5% could be misleading. Since some administrative costs are assigned to other funding sources, total administrative costs, including costs assigned to Measure Q, may not be necessary and reasonable.

Grants

Measure Q Expenditure Plan Section B.4 stipulates that no more than 25% of the revenues generated by this funding measure will be made available for this Grant Program.

The Annual Report provides a good qualitative description of grant management and control.

Grants funding did not exceed 25% of revenues generated.

However, the details provided in the report are not enough to conclude that expenditures by grantees are necessary and reasonable.

Measure Q Sample Transactions Audit

The MQEOC completed a sample transactions audit process for more insight into the invoicing process, into typical expenses under Measure Q, and to further improve transparency in the Measure Q funding process.

Measure Q Transaction Sampling Process

Twelve (12) transactions were selected for evaluation. They were split as follows:

- 3 expenditures related to land acquisitions
- 3 expenditures related to land improvements
- 3 expenditures related to preserve maintenance and operations
- 3 random expenditures over \$1000

Staff provided a binder containing the backup information corresponding to each transaction (expense purchase order, expense account, vendor invoice, staff approvals, paid bills, and other documentation as needed).

Staff also provided to committee members a transaction cover sheet upon which to document their transaction review and evaluation. The completed transaction cover sheets are attached as an appendix.

Measure Q Transaction Sampling Process Findings

The MQEOC found that all expenses included in the 12 transactions reviewed fell under the four program categories identified in the Plan. The MQEOC found that most transactions were properly documented and approved. For the few transactions that did not have complete documentation, the MQEOC found no indication of improper use of the funds.

Measure Q Transaction Sampling Process Recommendations

Based on the sample transactions audit, the MQEOC made the following recommendations:

- Related to cover sheet
 - Add grant # or project # field
 - Amend Item #6: “Verify a manager and/or Board of Directors has authorized the expense purchase order”

- Rename “Committee Pick” category to “Transactions Over \$1,000”
- Related to documentation
 - Include purchase order (PO) balances on blanket POs.
 - Order documentation in binders as POs first, then Bills
 - Check the readability of the Acumatica PO screenshots before publication
 - Retain the original Acumatica approvals regardless of subsequent changes
- Review oversight procedures of other special districts to see if there are any improvements that can be made in current procedures.
- Require project manager to submit a budget and spending plan, including all projects that include Measure Q funding, and report when total spending exceeds the original budget and why.

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

The MQEOC has reviewed the Fiscal Year 2019/2020 Annual Independent Financial Audit. The report is a complete and organized presentation of the financial audit of Measure Q finances in accordance with generally accepted accounting principles. The MQEOC finds that the financial audit did not disclose any questionable financial practices and that the financial statements provided by the Authority accurately reflect the financial position of the Authority.

However, the independent financial auditor’s consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. The audit states that no deficiencies were identified that they consider to be material weaknesses. However, the audit also states that material weaknesses may exist that have not been identified.

Recommendations from the Oversight Committee on the Annual Audit and Report Prepared by the Independent Auditor

As recommended by the MQEOC in each Annual Report since 2015/2016, the MQEOC recommends that the Authority hire an auditor to conduct 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 MQEOC again points out that this request represents the promise made by the Authority in proposing Measure Q and is required by the voters who approved Measure Q.

The MQEOC recommends that the Authority hire an auditor to review internal control annually so that the independent financial auditor can confirm that there are no material weaknesses.

III. STATUS OF 2018/2019 MEASURE Q EXPENDITURE OVERSIGHT COMMITTEE FINDING AND RECOMMENDATIONS

1. The MQEOC is not an independent auditor and was not established to conduct a detailed review of Authority records. The Authority should obtain an independent auditor in accordance with the Measure Q Expenditure Plan.

STATUS: Not complete, the current independent financial audit does not address the requirement to determine whether expenditures are necessary and reasonable.

2. Based on the Committee's experience with this trial run, suggestions for improving the transaction review process were conveyed to staff.

Increase the number of transactions for review from 11 to 12. This change enables the even division into 3 or 4 review transaction packets containing 4 or 3 sample transactions.

Transactions chosen by the Committee shall be new expenditures not evaluated in past fiscal years

Change the transaction category split as follows:

- Three (3) expenditures related to land acquisitions

- Three (3) expenditures related to open space land improvements

- Three (3) expenditures related to maintenance of facilities

- Three (3) expenditures selected by MQEOC members not among the three prior types and totaling \$1000 or more.

Transaction sample list table provided to committee members include a column for "*Project and Grant number.*"

Transaction materials information, including amounts and descriptions, be provided as consistently as possible.

Cover sheet be changed as follows:

- The invoice category boxes on top and titles conform with #3 above

- Change '*Vendor*' to Vendor/Grantee/Contractor

- Change GL# to Grant#

- Change single column of boxes on the left to 3 columns: Y, N, NA

- Add a comment section

- Have a place at the bottom with a box saying *Y/N transaction consistent with expenditure plan* and with a place for *reviewer name.*

STATUS: Complete

Each year, provide the Committee with additional exposure to Open Space Authority's activities (e.g., an MQEOC field trip to one or more new or proposed open space preserves), and provide information on crucial connections, obstacles encountered, open space staff member experience, etc. That will give the Committee a broader view of OSA undertakings, besides required paperwork, to keep members stimulated.

STATUS: Complete, the Authority is organizing regular opportunities for the MQEOC to go on

field trips and get updated information about current activities in the preserves.

An Indication of Completion was included for each Tier One project in the FY 2018/2019 Annual Measure Q Status Report. Beginning with the FY 2019/2020 Work Plan, the Authority will add the additional information suggested in the previous report to all Tier One Work Plan Projects' status.

STATUS: Partially Complete, the Authority added additional details regarding status. Beginning with FY 2020/2021, the Authority will add the projected completion dates to the Annual Measure Q Status Report.

The final FY 2019/2020 dashboard report provided to the Board of Directors will be included in the FY 2019/2020 Annual Measure Q Status Report as an appendix.

STATUS: Not Complete, the Authority will include the dashboard report in the FY 2020/2021 Annual Measure Q Status Report as an appendix.

IV. 2019/2020 MEASURE Q EXPENDITURE OVERSIGHT COMMITTEE FINDING AND RECOMMENDATIONS

1. The Authority should hire an independent auditor to conduct 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. Given that the Measure T FAQs on the Open Space Authority website stated: "In addition, the appropriate application of funds has been confirmed through careful analysis of our audits by an independent Measure Q Expenditure Oversight Committee," the MQEOC would encourage the Open Space Authority to consider this recommendation once Measure T goes into effect.
2. The Authority should hire an auditor to review internal control annually so that the independent financial auditor can confirm that there are no material weaknesses.
3. Make the following changes to the sample transactions audit:
 - a. Related to cover sheet
 - i. Add grant # or project # field
 - ii. Amend Item #6: "Verify a manager and/or Board of Directors has authorized the expense purchase order"
 - iii. Rename "Committee Pick" category to "Transactions Over \$1,000"
 - b. Related to documentation
 - i. Include PO balances on blanket POs.
 - ii. Order documentation in binders as POs first, then Bills
 - iii. Check the readability of the Acumatica PO screenshots before publication
 - iv. Retain the original Acumatica approvals regardless of subsequent changes
4. Review oversight procedures of other special districts to see if there are any improvements that can be made in current procedures.

5. Require project manager to submit a budget and spending plan, including all projects that include Measure Q funding, and report when total spending exceeds the original budget and why.