

**SONOMA COUNTY
OPEN SPACE DISTRICT
FISCAL OVERSIGHT COMMISSION**

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February 6, 2014

Board of Directors of the
Sonoma County Open Space
Fiscal Oversight Commission
575 Administration Drive
Santa Rosa, CA 95403

Re: 2013-2014 Annual Report;

Dear Board Members:

This letter constitutes the Commission's Third Annual Report as required by Board of Supervisors Resolution No. 10-0832 dated December 7, 2010. The Report covers the period from April 24, 2013 to date.

Background

Following the voters approval of Measure F in 2006, the Board of Supervisors reorganized the Sonoma County Open Space Authority into the current Commission effective April 1, 2011. As part of that reorganization the Commission is required to perform certain fiscal oversight duties with respect to the use of funds held in the County's Open Space Special Tax Account and to review and comment on the District's annual audit all as set forth in Resolution No. 10-0832.

What follows is the Commission's Third Annual Report to the District' Board of Directors on the Commission's progress in performing its assigned tasks.

Commission's Third Annual Report

1. *Transfer of Funds from the Open Space Special Tax Account to the County's General Fund.* To date the Commission has no information of any such transfer of funds other than for the reasonable value of goods and services provided by the County to the District. In that regard, the Commission has made substantial progress in determining whether all County departments that provide services to the District are doing so pursuant to contracts requiring informative billing with respect to both direct and indirect costs.

2. *Operations and Maintenance Expenditures.* The Commission is required to review District operations and maintenance expenditures for compliance with the 2006 Expenditure Plan and the District's implementing policies. The Commission has been proceeding with this task on a case by case basis by reviewing the District's matching grant and fee transfer transactions. The Commission anticipates completing this task in time for its next annual report.

3. *Procurement Practices.* The Commission has completed a review of the District's procurement practices for the purchase of goods and services from private vendors and has determined that the District is meeting reasonable procurement standards. The District's practice is to follow the County's procurement practices and the General Manager advises that he is satisfied that it meets the District's needs.

4. *Respond to Requests of the Board of Directors for Advice.* To date there have been no requests for advice from the District Board. The Commission has received and dealt with the following matters that were brought to it by the General Manager for comment:

- A. May 11, 2013. The Operating Budget Report for FY 2013-14.
- B. August 1, 2013. The County Auditor's determination in the County's 2013 Comprehensive Annual Financial Report that the District is a component unit of the County.
- C. Comprehensive Annual Financial Report that the District is a "component unit of the County."
- D. September 5 and October 3, 2013. Operation and Maintenance policy workshop.
- E. November 7, 2013. Mitigation policy.
- F. December 5, 2013. Vegetation and topography mapping program update.
- G. January 9, 2014. Work Plan progress report.

5. *Preview District Borrowing Transactions.* To date no preview has been necessary because no borrowing transactions have closed, are pending or are anticipated.

6. *District's Annual Audit.* The Commission has reviewed the Maze & Associates audit of the District's financial statement for FY 2012-13 and has following specific comments:

- A. Page 3. The first bullet under "Financial Highlights" states that the District's net assets total \$385,249,272 as of June 30, 2013. The Commission believes that this is a misleading overstatement because \$272,945,337 of that amount represents the sum of the prices paid by the District for its conservation easements. Because the District dedicates its easements they cannot be sold without a countywide vote or an act of the California Legislature approving the sale. Conservation easements are unique real property interests because they are simply enforceable promises by the

landowner to refrain from certain land uses. As such the District's conservation easements have no market value although they have significant public interest value. The Commission recommends that future auditors footnote this part of the audit so that the public understands the unique nature of conservation easements and is not misled as to the market value of the District's assets.

The Commission has the following general comments. In the interest of making the District's annual audits more readable, informative and understandable by interested members of the public, the Commission suggests that future District contracts for auditing services require the following:

- B. The District's progress in implementing the Expenditure Plan (i.e. acquisitions of interests in open space) should be reported and compared to prior years.
- C. Unnecessary information should be deleted. For instance at pages 3-4 in the Memorandum on Internal Control there are verbatim recitations of four new Governmental Accounting Standards Board statements which have been determined by the auditors to have no "material effect on the financial statements." If this is true then there would not seem to be any reason to mention them let alone recite them verbatim.
- D. The lead paragraph of the audit should be the auditor's professional opinion.
- E. The price paid by the District for the audit should be recited along with a description, in lay terms, of the work done by the auditor to verify the accuracy of the District's financial statements, i.e. the number of people working on the audit and the tasks performed.¹

The Commission recommends that the District include a requirement for greater readability, usable information and transparency in the next RFP for audit services.

7. *Annual Financial Report.* The County Auditor has identified the District as a "component unit" of the County in the 2012-2013 Comprehensive Annual Financial Report (commonly referred to as the "CAFR"). There is a difference of opinion between the Commission and the Auditor on this issue and that difference is explained in the Commission's Second Annual Report.

8. *Appraisal Review.* During the term of this report the Commission has reviewed the following six District real property appraisals for compliance with the District's Appraisal Standards and, when appropriate, has reported its comments to the District's General Manager for consideration by the Board of Directors:

- A. May 2, 2013. Preservation Ranch.
- B. May 2, June 6, September 5 and October 3, 2013. Forestville Forever.

¹ The inclusion in the Maze audit of the price paid by the District for the audit is required by California Government Code Section 7550.

C. September 5, 2013. Yee.

D. November 7 and December 5, 2013 and January 9, 2014. Guerneville Regional Park Phase 2.

E. November 7 and December 5, 2013. Pole Mountain.

F. December 5, 2013. Berliner-Rosen Open Space Easement (partial conveyance to County for Adobe Road signalization).

9. *Compliance with Measure F.* To date, no information has come to the attention of the Commission showing non-compliance with Measure F.

10. *District's Administration of the Stewardship Fund.* This matter has been deferred to the next annual report for the Commission's review of an anticipated consultant's report. An RFP has been circulated by the District and a report is expected during 2014.

11. *Review of the Auditor's Annual Report on the Activities of the District (Government Code §50075.3).* As of the date of this report, the Commission's understanding is that the Auditor has yet to make this report.

12. *Approval.* This Report was approved by the Commission at its regular meeting held on February 6, 2014.

Respectfully submitted,



Todd Mendoza
Commission Chair

cc: General Manager, CAO, Auditor and County Counsel