

## ATTACHMENT A

### **DRAFT SCOPE OF SERVICES** **Agreed Upon Procedures**

(Source: Santa Clara County Counsel)

#### Definitions

Per Health and Safety Code ("H&S") § 34169 (g) (1), an "Enforceable Obligation Payment Schedule" is the list of all former redevelopment agency obligations that are enforceable within the meaning of subdivision (d) of Section 34167.

Per H&S 34171 (h), "Recognized Obligation Payment Schedule" means the document setting forth the minimum payment amounts and due dates of payments required by enforceable obligations for each six-month fiscal period as provided in subdivision (m) of Section 34177.

Note: All references to "redevelopment agency" or "RDA" include the successor agency of the former RDA, as applicable to the relevant time periods under audit.

#### Overview

The firm is expected to provide a comprehensive report that includes all findings. During the course of the work it is expected that the firm will work collaboratively with county staff. The county will closely supervise and provide direction on which procedures will be performed. The procedures could change based on legislative changes, management needs, items uncovered during the audit, etc. Many of the procedures are investigative in nature and require a detail-oriented scrutiny of the documents, facts and circumstances of the transactions.

The nine former redevelopment agencies in the county vary in complexity and scope. Attached to this document is the Enforceable Obligation Payment Schedule for each former redevelopment agency.

Please note that the county has already obtained many of the documents that will be reviewed.

#### Procedures

1. Purpose: to certify the initial Recognized Obligation Payment Schedule  
**Due by March 29, 2012**

The testing below is a two-step process. First, test the Enforceable Obligation Payment Schedule which is the listing of all obligations. Second, test the initial Recognized Obligation Payment Schedule which is a listing of the particular payments that will be made during the next six months.

#### ***To review and certify the Enforceable Obligation Payment Schedule***

- ✓ Review the Enforceable Obligation Payment Schedule prepared by the RDA pursuant to H&S 34169(g) (1) to ensure it was adopted within 60 days of the effective date of this part (by August 30, 2011).
- ✓ For each obligation on the Enforceable Obligation Payment Schedule, ensure the schedule includes:
  - The project name associated with the obligation.
  - The payee.
  - A short description of the nature of the work, product, service, facility, or other thing of value for which payment is to be made.

- The amount of payments obligated to be made, by month, through December 2011 (pushed back to July 1, 2012).
- ✓ For each obligation on the Enforceable Obligation Payment Schedule, identify the legal section that qualifies it for inclusion on the Enforceable Obligation Payment Schedule.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (1), Bonds....., perform the following:

- ✓ Trace the bond to its issuing legislation.
- ✓ Trace the bond to its issuing party. Identify if it is issued by the RDA or other entity.
- ✓ Determine if the issuing legislation qualifies the bond for inclusion on the Enforceable Obligation Payment Schedule.
- ✓ Segregate bond obligations by component, i.e. required debt service, reserve set-asides, other payments.
- ✓ Obtain bond documents.
- ✓ Obtain documentation of bond covenants.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (2), Loans ....., perform the following:

- ✓ Trace each loan to its lawful purpose, for example money borrowed from the Low and Moderate Income Housing Fund. Provide documentation of the purpose.
- ✓ Trace the loan to a required repayment schedule or other mandatory loan terms. Provide documentation of the schedule or terms.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (3), payments required ....., perform the following:

- ✓ Trace each required payment to the source of the requirement. Provide documentation of the source and of the terms.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (4), judgments or settlements ....., perform the following:

- ✓ Trace each judgment or settlement to its source document. Provide documentation and substantiation of the source and of the terms.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (5), "Any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy", perform the following:

- ✓ Trace each agreement or contract to its source document. Provide documentation of the source.
- ✓ Trace each agreement to documentation justifying that it is not void because of a debt limit violation or public policy. Provide documentation of the justification.

For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) (6), Contracts or agreements necessary for the continued administration or operation of the redevelopment agency to the extent permitted by this part, including, but not limited to, agreements to purchase or rent office space, equipment and supplies, and pay-related expenses pursuant to Section 33127 and for carrying insurance pursuant to Section 33134, perform the following:

- ✓ Identify the justification for the obligation. Provide the reason.
- ✓ Trace each agreement or contract to its source document. Provide documentation of the source.

For each obligation on the Enforceable Obligation Payment Schedule, ensure:

- ✓ The obligation was properly an obligation of the RDA as of June 28, 2011 per Health and Safety code Sections 34161 through 34165. Under these codes, the RDA cannot incur new indebtedness or expand existing monetary or legal obligations, amend agreements, contracts, etc. as of June 29, 2011.

For each obligation on the Enforceable Obligation Payment Schedule:

- ✓ Trace it to the FY11 Statement of Indebtedness. List differences.

Identify items on the Enforceable Obligation Payment Schedule that were updated/changed from the original schedule. (Note: most RDAs adopted two or three versions of the Enforceable Obligation Payment Schedule.) Substantiate the reason for the change. Ensure that these items are subjected to all applicable procedures identified above.

***To review and certify the Initial Recognized Obligation Payment Schedule***

- ✓ Obtain the Initial Recognized Obligation Payment Schedule prepared per H&S code 34177 (l) (2) (A).
- ✓ Review the preparation date and ensure it was prepared by March 1, 2012.
- ✓ Review the Initial Recognized Obligation Payment Schedule to ensure:
  - It includes projected dates
  - It includes amounts of scheduled payments for each enforceable obligation
  - The dates and payments are included for the remainder of the time period during which the redevelopment agency would have been authorized to obligate property tax increment had such a redevelopment agency not been dissolved.
- ✓ Trace the obligations on the Initial Recognized Obligation Payment Schedule to the Enforceable Obligations Payment Schedule. List and substantiate reasons for differences.
- ✓ Ensure that all obligations to be paid on the Initial Recognized Obligation Payment Schedule were subjected to the procedures applied above to Enforceable Obligations Payment Schedule.
- ✓ For payments already made, trace the payment amount and date to the documentation of the payment.
- ✓ Verify that payments made by the successor agency were made in accordance with the Enforceable Obligation Payment Schedule and Recognized Obligation Payment Schedule.
- ✓ Pursuant to Health and Safety Code Section 34178, determine which written agreements are valid and bind the successor agency.

2. Purpose: To establish each redevelopment agency's assets and liabilities  
**Due by April 13, 2012**

- ✓ Obtain a summary schedule and detail listing of the redevelopment agency's assets and liabilities as of each of the dates listed below. Total the detail listing to the summary amounts.
  - June 30, 2010
  - January 1, 2011
  - June 30, 2011
  - February 1, 2012
- ✓ Compare each period's assets and liabilities and document the changes.

- ✓ Obtain a listing of the additions and deletions of assets and liabilities for the periods:
  - June 30, 2010 to January 1, 2011
  - January 1, 2011 to June 30, 2011
  - July 1, 2011 to February 1, 2012
- ✓ Sum the activity to ensure: beginning balance plus additions less deletions equals ending balance.
- ✓ For each asset, confirm its existence by either physically observing the asset (preferred) or, if asset is not reasonably available for viewing, obtain documentation confirming the existence of the asset.
- ✓ Provide documentation of the asset cost, date placed in service, current condition, and ownership by the RDA and successor agency.
- ✓ For deletions, obtain documentation of the disposal, including manner of disposal and, if a sale or transfer, the entity or person receiving the asset.
- ✓ Compare transferred assets between 2009-10, 2010-11 and 2011-12. Obtain explanations for major increases.
- ✓ Obtain a list of assets transferred from the RDA. For assets transferred during these periods from the RDA (for example, to the sponsoring community, JPA, or economic development corporation):
  - Provide a listing of all transferred assets, including the item(s) value and entity or person to which the RDA transferred the item.
  - Provide documentation of the reason for the transfer.
  - Identify if the State Controller's Office (SCO) has reviewed the transfer.
  - If reviewed by the SCO, provide results of the SCO review.
  - If not reviewed by the SCO, provide the reason not reviewed.
- ✓ For assets that are Low and Moderate Income Housing Funds:
  - If transferred, obtain documentation of transfer to a successor agency (for example, city or housing authority).
  - If not transferred, provide reason (for example, transferred to the Auditor-Controller for distribution).
  - Provide substantiation of the effect of any subsequent legislation (if passed) on the transfer.
- ✓ Review the audited financial statements as of June 30, 2010, and June 30, 2011.
  - Verify the audit meets the audit guidelines issued by the California State Controller, including a report on the agency's compliance with laws, regulations and administrative requirements.
  - Ensure the audit was conducted in accordance with Government Auditing Standards.
  - Verify the agency received an unqualified opinion on the financial statements; if other than unqualified, document the reasons for the qualification.
  - Obtain copies of the audit, management letter, and any other results/products delivered by the auditors.
  - Trace asset and liability amounts as of June 30, 2010, and June 30, 2011, to the annual financial audit of the Agency. Identify reasons for differences.
- ✓ Perform analysis as follows:
  - Compare the financial statements as of June 30, 2010, to the statements as of June 30, 2011, and January 31, 2012.

- Identify fluctuations in amounts greater than \$5,000. Substantiate reasons for the fluctuations. For this fluctuation analysis, include all amounts (revenue, expense, assets, liabilities, and fund balance).
  - Trace revenue received (for example lease payments received) to the assets that generated the revenue.
  - Read the footnotes. Identify assets.
  - Trace assets identified to the RDA assets as of January 31, 2012. Identify and substantiate reasons for differences.
- ✓ Review expenditures made after June 28, 2011, to ensure they met the conditions of Part 1.8 (commencing with Health & Safety Code Section 34161).
    - For each expenditure, provide its rationale.
    - For each expenditure greater than \$10,000, provide substantiation that it meets the requirements of Part 1.8.
  - ✓ Confirm assets with successor agency personnel.
  - ✓ Ask successor agency personnel of any assets not recorded.
  - ✓ Obtain a written statement from successor agency personnel verifying that all assets have been recorded.
  - ✓ Review RDA board minutes from June 30, 2010 to date, to identify any assets not recorded and liabilities transferred in.

3. Purpose: To document and determine both the amount and the terms of any indebtedness incurred by the redevelopment agency  
**Due by April 18, 2012**

For each indebtedness incurred by the agency that will be transferred to the control of the Successor Agency, i.e. Enforceable Obligations:

- ✓ Trace it to the Initial Recognized Obligation Payment Schedule.
- ✓ Review documentation of the terms of indebtedness. Provide the documentation.
- ✓ Agree it to the liabilities testing in '2' above, as of each of these dates:
  - June 30, 2010
  - January 1, 2011;
  - June 30, 2011 and
  - February 1, 2012.
- ✓ Agree it to the audited financial statements as of June 30, 2010 and June 30, 2011.

4. Purpose: To document and determine each redevelopment agency's pass-through payment obligations to other taxing agencies  
**Due by April 27, 2012**

- ✓ Obtain all pass-through agreements.
- ✓ Obtain a listing of the redevelopment agency's pass-through obligations as of February 1, 2012, including due dates, amounts due, and recipient agency.
- ✓ If pass-through amounts are calculated by Santa Clara County Controller-Treasurer Department, confirm the amount with county personnel.
- ✓ If pass through amounts are calculated by the RDA, obtain a detail worksheet of each calculation. Agree the amounts per the worksheet to the total on the summary. Substantiate that the amount is correctly calculated, for example by performing the following:

- Comparing the calculation to the agreement or law for the pass through.
- Confirming the calculation with county personnel.
- ✓ For pass-through payments listed as of February 1, 2012, and already made, trace the payment amount and date to the documentation of the payment.
- ✓ List payments, including dates and amounts, that will need to be made during FY2012.

5. Other Procedures  
**Due by June 1, 2012**

- ✓ Verify that a successor agency has been appointed, with names of the successor agency oversight board submitted to the State Department of Finance by May 1, 2012.
- ✓ Verify that the successor agency has established the Redevelopment Obligation Retirement Fund in its treasury.
- ✓ Determine and verify that all of the former redevelopment agency assets and liabilities, properties, contracts, leases, books and records, buildings, and equipment that were properly closed out by the former redevelopment agency and transferred to the successor agency.
- ✓ Verify that successor agencies remitted all unencumbered balances of RDA funds to the county controller for distribution to taxing entities, pursuant to Health and Safety Code section 34177(d).

Review Final Recognized Obligation Payment Schedule (ROPS):

- ✓ Verify that the certified ROPS has been approved by the Oversight Board.
- ✓ Obtain a copy of the final ROPS from the successor agency.
- ✓ Verify that the final ROPS was submitted to the County Auditor-Controller, the State Controller, and the Department of Finance by April 15, 2012, and is posted on the website of the successor agency (Health and Safety Code section 34177(l)(2)(C)).
- ✓ Determine the priority and source of payments to be made from the Redevelopment Property Tax Trust Fund pursuant to Health and Safety Code section 34183(a)(2).
- ✓ Obtain a copy of the final statement of indebtedness and note any difference between the Statement of Indebtedness and the final ROPS.
- ✓ Verify that payments were made in accordance with the final ROPS.
- ✓ Identify enforceable obligations on the final ROPS that were not already tested in other procedures, and test in accordance with the procedures above.