

## II. Final Risk Assessment Matrix Phase II

### **(A) Methodology for Completing the Final Risk Assessment Matrix Phase II and Assigning the New Risk Score**

#### **Introduction**

At the end of Phase I, on January 20, 2016, VLS delivered to the District Board of Education the Risk Assessment Matrix. The last column of the Risk Assessment Matrix was intentionally left blank with a New Risk Score to be completed by VLS during Phase II.

The scope of work approved by the District based on the contract executed February 9, 2016, engaged VLS to assign a New Risk Score to the Phase I Risk Assessment Matrix based on the results of the “Test of Controls” (TCs 1-16).<sup>5</sup> The scope of work for Phase II also specified that if the New Risk Score identified was a Medium or High Risk, VLS would also report any recommendations for the District to consider implementing in order lower the New Risk Score to a Low risk.

This “Final Risk Assessment Matrix Phase II,” which is included as **Exhibit II-B**, now indicates the “New Risk Score” assigned by VLS in the last column. Additionally, beginning on page 19, VLS has listed the “Recommendations for the District to consider implementing in order to lower the New Risk Score to a Low risk.”

#### **Methodology for Completing the Final Risk Assessment Matrix Phase II and Assigning the New Risk Score**

By way of background, the Risk Assessment Matrix developed in Phase I had a total of eight columns. The first four columns (A-D) are identified as the Risk Areas based on the initial allegations and complaints by the whistleblower(s), which was the predication for the Phase I assessment. As a recap, the Risk Area section is divided into the following four columns:

- Number (Column A): This column identifies the number assigned by VLS. This number is not an indicator of priority, importance or value.
- Risk Category (Column B): This column identifies the Risk Area categories assigned by VLS based on the allegations, concerns, and questions provided to VLS in Phase I.
- Sub Category (Column C): This column summarizes the allegations, concerns, and questions as provided to VLS in Phase I. These are not findings of VLS.

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<sup>5</sup> See Section III for Test of Controls.

- Risk to the District (Column D): This column identifies, as defined by VLS in Phase I, the potential impact to the District if controls were not in place to prevent the allegation/concern identified in the risk subcategory. This is the potential impact based on the information that was provided to VLS in Phase I.

The remaining columns in the final Risk Assessment Matrix Phase II are as follows:

- Risk Score (Column E): Identified the Risk Score, as defined by VLS in Phase I, that was assigned based on the Phase I assessment performed by VLS. This represented the level of risk to the District for waste, improper expenditure, or fraud (financial irregularity) related to the Bond Program expenditures based on the internal control(s) or lack of internal controls in place, as communicated to VLS, at or near the time the allegation(s) were raised by complainant(s). This column is also labeled in the final Risk Assessment Matrix Phase II as “Risk to District (based on historical controls).”<sup>6</sup>
- Controls to Minimize Risk (Column F): Summarized the District’s internal controls identified by VLS during work performed in Phase I. This is not a comprehensive list of all internal controls that may be in place since the initial allegations, as there may be additional controls that the District adopted related to the risk areas that were not communicated to VLS during Phase I. During Phase I, VLS did not test these controls to ensure that they are implemented and functioning as intended.
- Phase II Scope of Work (Column G): Identified the TC work steps that were approved by the Board for VLS to test, as part of Phase II, to determine whether the internal controls as represented by the District to VLS in Phase I were in fact implemented and functioning properly.<sup>7</sup> FI work steps were also identified in this column.

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<sup>6</sup> To recap from Phase I, the level of risk is defined as follows:

- **Low** – There is a low likelihood that the District may be at risk for waste, improper expenditure or fraud (financial irregularity) related to the Bond Program expenditures, the dollar impact would be low, and the impact on public perception/trust would be low.
- **Medium** – It is possible that the District may be at risk for waste, improper expenditure or fraud (financial irregularity) related to the Bond Program expenditures, the dollar impact may be large, and there may be an impact on public perception/trust.
- **High** - There is a high likelihood that the District may be at risk for waste, improper expenditure or fraud (financial irregularity) related to the Bond Program expenditures, the dollar impact would be significant, and the impact on public perception/trust would be significant.

<sup>7</sup> See Section III for Test of Controls.

- New Risk Score (Column H): This New Risk Score measures the level of risk to the District for waste, improper expenditure or fraud (financial irregularity) related to the Bond Program expenditures based on the results of our testing of the internal controls in Phase II.<sup>8</sup>
- Recommendation (Column I): The recommendation number(s) for the District to consider implementing in order to lower the New Risk Score based on the results of VLS's work.

As noted previously, the last column (H) of the Risk Assessment Matrix Phase I was intentionally left blank with a New Risk Score to be completed by VLS during Phase II. VLS tested these sixteen TCs and, based on the results of the testing, VLS assigned a New Risk Score to the Risk Assessment Matrix Phase II (column H). This New Risk Score is related directly to the allegations and systemic risk areas (Risk Area columns A-D) as specified in the Risk Assessment Matrix Phase II.

For example, if a New Risk Score is identified as a High risk, this indicates that the internal control(s) in place to minimize fraud, waste, or abuse for that particular allegation or concern are either not implemented or the internal control(s) has been implemented, but testing revealed that the internal control(s) is not functioning adequately. Therefore, a High likelihood exists that 1) the District may be at risk for waste, improper expenditure, or fraud (financial irregularity) related to the Bond Program expenditures, 2) the dollar impact would be significant, and 3) the impact on public perception/trust would be significant. Section III, Test of Controls, specifically addresses the internal control areas that have not been implemented or are not functioning adequately.

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<sup>8</sup> As stated previously, each row in the final Risk Assessment Matrix Phase II identifies an issue or allegation communicated to VLS in Phase I. Some of the rows include multiple TC work steps in column G (Phase II Scope of Work), which indicates that the results of multiple TCs may affect the New Risk Score. In these instances, VLS determined the New Risk Score based on the results of the TC work step that was most relevant to the specific issue or allegation. The most relevant TC is identified in column G using colored font to match the New Risk Score.