

III. Test of Controls (TC) Results of Testing

(A) Methodology and Results of Testing for the Test of Controls (TCs 1-16)

As a result of the work performed in Phase I, the District approved for VLS to conduct test of controls (TCs) in sixteen specific internal control areas as part of Phase II. The process for selecting these sixteen TCs was as follows:

- TC work steps were developed for those risk areas assessed in Phase I as High or Medium risk.
- TC work steps were developed if, in VLS's professional judgment, the benefit to the District would be better served by testing the internal control processes associated with the risk of fraud rather than conducting a forensic accounting investigation. For example, a TC work step was designed to address the allegation that the Board is not told if a project has sufficient budget for a contract; however, an FI work step was not developed to address this allegation.

The purpose of the work performed by VLS in the TC section is to determine whether the internal controls as represented by the District to VLS during Phase I were in fact implemented and functioning properly. Based on the results of testing, a New Risk Score was assigned by VLS to the Risk Areas as detailed in the Risk Assessment Matrix Phase II section. The scope for Phase II also called for VLS to report any recommendations for the District to consider implementing in order to lower the New Risk Score to a Low risk.

The work performed by VLS during Phase II, testing of controls, was conducted in two parts. The first part included meetings with District staff and other appropriate individuals, including vendors, to understand and document processes and procedures currently used. This part also included verifying the internal controls in place for those processes and procedures being tested by the specific TCs.

VLS then identified the significant internal controls that had been implemented and that were being relied upon by the District to reduce the risk for waste, improper expenditure, or fraud (financial irregularity) related to the Bond Program expenditures. Once the significant internal controls were fully identified, the populations of transactions related to those controls were identified, and samples were selected for

testing.⁹ In accordance with AICPA professional standards, VLS used a combination of random sampling and judgmental sampling in order to select the samples for testing in the Test of Controls section. A random sample is used so every unit in the population has an equal chance of being selected, while a judgmental sample relies on the auditor's professional judgment, meant to focus and confirm a condition that is reasonably thought to exist.

The second part of our testing involved obtaining and reviewing the supporting documentation for the samples selected to verify that the significant controls identified were in place and were being followed. In addition, VLS requested, obtained, and reviewed other relevant documents, including process and procedure manuals, Board policies, bond related documents, and construction related records.

Based on this review and assessment of the results of testing, VLS assigned a New Risk Score to the identified internal control for the applicable Risk Area as noted in the Risk Assessment Matrix Phase II. After the New Risk Score was assigned, VLS made recommendations for the District to consider implementing in order to lower the Risk Score to a Low risk.

⁹ Because the purpose of the TC work steps was to determine whether the District had adequate and functioning internal controls related to a risk area, the population and sample selected was from 2015/16 fiscal year transactions only. Additionally, VLS selected transactions based on when the District stated that it had implemented certain processes and/or controls.

The Sixteen TCs Identified for Testing in Phase II are as Follows:

Conflict of Interest - CBOC	
TC (1)	Determine whether the revised District/Board policy for the selection and appointment of the Citizens Bond Oversight Committee (CBOC) members is transparent, neutral, and free of possible conflicts or loyalties.
Conflict of Interest - Steering/Prioritization Committees	
TC (2)	Review the mission, goals and actions of the Steering Committee and Prioritization Committee to ensure they are adequate for meeting the objectives of analyzing school building conditions based on pre-established criteria that prevents political (or other) influence and pressure. Where appropriate, test the controls/process to determine overall effectiveness.
Conflict of Interest - Bond Program Expenditures	
TC (3)	Review and assess the adequacy of internal controls in place to ensure that bond program expenditures are incurred in compliance with voter approved bond measure language and whether schools identified for construction or modernization were actually constructed or modernized. Note those schools that were included in bond language, but never started. Perform a test of these internal controls to determine overall effectiveness.
Compliance with Legal Requirements and Board Policies - Governance	
TC (4)	<p>Test to determine whether the DRAFT of the Governance Handbook and related documentation are comprehensive, adequate and sufficient in addressing the duties and responsibilities of the Board and addresses the following areas.</p> <ul style="list-style-type: none"> - Board is not involved in the operations of the Bond program - What is added as agenda items presented to the Board - Brown Acts requirements - Conflict of Interest rules - Conflict of Interest rules pertaining to vendors - Involvement with District decisions - Interactions with District employees and vendors - Proposing amendments to vendor contracts
Budgeting Practices - Master Planning	
TC (5)	Review and assess the Master Planning budgeting process to determine whether appropriate steps have been put into place to adequately budget future school construction/modernization projects. Determine whether detailed budgets are prepared and approved by the Board, are shared with the Board and public where appropriate, and are used to track project performance and results. Perform a test of these internal controls to determine overall effectiveness. Determine whether remaining school projects can be completed with the remaining funding, and determine whether the architect(s) involved in the master planning process have a prior relationship with the District.
Budgeting Practices - Adequacy/Completeness	
TC (6)	Review and assess the adequacy of the internal controls related to budgeting practices. Ensure that the policies, procedures and overall accounting for budgeting practices is adequate and complete. Ensure that the process for detailed line-by-line budget preparation and reporting to the Board and relevant committee(s) is accurate, thorough, and comprehensive. Perform a test of these internal controls to assess overall effectiveness.

Vendor Contract Administration - Vendor Due Diligence	
TC (7)	Review and assess the current process to determine if there are adequate internal controls in place which allow for the District to perform the appropriate "Vendor Due Diligence" prior to contracting with vendor(s). Perform a test of these internal controls to determine overall effectiveness.
Vendor Contract Administration - Vendor Contracts	
TC (8)	<p>Review and assess the internal controls related to the overall administration of Bond and Vendor contracts to ensure these contracts:</p> <ul style="list-style-type: none"> - Are thoroughly evaluated, appropriate and complete - Are now being memorialized and all administrative/regulatory guidelines and procedures are being followed - Are now being submitted to the Board for approval and are within the approved budget <p>Ensure internal controls are in place which address communications with the Board related to budgeting and vendor contracting and are thorough and complete. Perform a test of these internal controls to determine overall effectiveness.</p>
Vendor Contract Administration - Bidding Process	
TC (9)	Review and assess the internal controls involving the District bond program bidding process to ensure it is in compliance with administrative/educational policies and procedures. Perform a test of these internal controls to assess overall effectiveness.
Vendor Contract Administration - Reporting	
TC (10)	Review and assess internal controls to ensure all reports generated and provided by SGI to the Board, District, CBOC and/or Facilities Subcommittee are in line with contract specifications. Perform a test of these internal controls to assess overall effectiveness.
Vendor Contract Administration - Invoice Payments	
TC (11)	Review and assess the internal controls over the District approval of invoices submitted by SGI and other vendors to ensure that controls are adequate, thorough, transparent and financially sound. Perform a test of these controls to assess overall effectiveness.
Billings and Performance of Outside Construction Manager	
TC (12)	Review and assess the internal controls over the District's involvement with the interviewing, hiring and promoting of SGI employees assigned to District projects to ensure they are adequate, thorough, transparent and financially sound. Perform a test of these controls to assess overall effectiveness.
Change Order Approval and Accounting Practices	
TC (13)	Review and assess the internal controls related to Change Orders and Vendor "Add Services" to ensure they are adequate, thorough, transparent and financially sound. Perform a test of these controls to assess overall effectiveness.

Project Accounting Systems - Munis	
TC (14)	<p>Review and assess the internal controls in place to ensure:</p> <ul style="list-style-type: none"> - That the procedures for Munis tracking of budgets, including the multiyear functionality is adequate, reliable and accurate - That the reconciliation process between the project ledger and the general ledger in Munis is accurate and complete - That access rights in Munis for all data entry points related to the bond program are under the responsibility of the District only <p>Will perform a detailed walkthrough of the process for entering bond program related information into Munis (contracts, change orders, etc.) to gain a detailed understanding of the process and ensure proper controls are in place. Perform a test of these internal controls to assess overall effectiveness.</p>
Project Accounting Systems - Primavera	
TC (15)	<p>Review and assess the internal controls in place to ensure:</p> <ul style="list-style-type: none"> - Primavera is accurate, reliable, and appropriately updated - To ensure procedures and controls have been adequately implemented to recover any potential lost information - To ensure procedures and controls have been adequately implemented for recording of proposed change orders - To ensure procedures and controls have been adequately implemented - To ensure reconciliation between Munis and Primavera is accurate and complete <p>Perform a test of these internal controls to assess overall effectiveness.</p>
Financial Reporting	
TC (16)	<p>Review and assess the internal controls concerning the District's preparation and distribution of the various financial reports summarizing program expenditures and encumbrances to ensure they are adequate, thorough, transparent and financially sound. Perform a test of these internal controls to assess overall effectiveness.</p> <p>Ensure the bond program financial reports produced by the Executive Director of Business Services (and staff) accurately and completely reflect the financial position of the bond program.</p>

(B) Results of Testing

For each of the specific TCs, VLS documented the results of the work performed in the specific “Results of Testing” section for each of the sixteen TCs located beginning on page 37 of this report. The “Results of Testing” sections include the following:

- The specific TC work step.
- The results of the work VLS performed in testing the specific work step. This includes, where applicable, analyses and steps performed and other information relevant to the testing of the TC.