

## INTERNAL CONTROL PROCEDURES

### Internal Control Checklist for Bond Requirements

**Part 1. Control Environment:**

Task/Deliverable	Completed? ( <input type="checkbox"/> = Yes)	Comments/Remarks
1. Do you have a Compliance Officer? (Identify a Compliance Officer or establish a compliance team to verify internal controls and bond requirements.)	Yes	John Thompson, Director, Fiscal Services
2. Compliance Officer and compliance team members have participated in training on internal control and bond administration requirements.	Yes	Various training attended sponsored by CDIAC, ACBO & LACOE as well as training sessions and discussions with consultants (underwriters, bond counsel, tax attorneys, financial advisors, dissemination agent).
3. Establish an inventory of outstanding bonds and obtain or prepare a list of bond requirements, including covenants in the following controlling bond documents: a. Indenture, Fiscal Agent Agreement or Resolution b. Loan or Lease Agreement c. Tax Certificate d. Continuing Disclosure Agreement	Yes	Maintained in bond document binders and CDs.
4. Adopt a debt policy.	Yes	Debt policy and related Administrative Regulations, and procedures are maintained (pending board approval).

**Part 2. Risk Assessment:**

1. Include objectives of the bond administration program in a debt policy and integrate risk assessment for all stages of the debt lifecycle into the District's decision-making and planning process.	Yes	Fiscal department plans and service unit outcomes include bond compliance, improving internal controls and documenting policies and procedures. These documents will be updated to include more specifics on the administration of the debt policy and related risk assessment.
2. Identify and analyze risks (including potential fraud and misuse) related to the objectives and conditional elements of the bond administration program.	Yes	The Compliance Officer and Internal Audit Manager work with staff, consultants and auditors to identify potential risks and act to mitigate risks. Bond Update Meetings, Bond Process Meetings and the implementation of the Bond Invoice Payment Checklist (which includes key transaction data and required signatures prior to payment) are examples of processes that have been implemented to mitigate risks.

**Part 3. Control Activities:**

1. The District applies the same system of internal control activities to bond funds as it does to all other governmental funds.  <i>(See below for examples of control activities for bond requirements)</i>	Yes	Based on bond requirements and risk assessment findings, control activities provide a reasonable assurance of internal control for bond funds applicable to all stages of the debt lifecycle.
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Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
<b>Control Activities for Legal and Financial Requirements</b>		
1. Retain bond counsel and a financial advisory firm to confirm legal requirements of debt sales (new issues and refunding transactions) are met, including but not limited to:	Yes	Bond Counsel: Nixon Peabody Financial Advisor: Fieldman Rolapp
<ul style="list-style-type: none"> <li>Receive copies of approvals, authorizations and controlling bond documents (official bond transcripts) and maintain in a safe, secure but accessible location.</li> </ul>	Yes	Maintained in bond document binders and CDs.
<ul style="list-style-type: none"> <li>Monitor/track bond authorizations to debt issuances and refunding transactions.</li> </ul>	Yes	Lists of outstanding bonds are maintained. Bond and refunding transactions are summarized on audit reports.
<ul style="list-style-type: none"> <li>Bond documents and amendments are appropriately approved pursuant to the District's administrative or legal policies and procedures.</li> </ul>	Yes	Bond documents go through legal review as well as review by management, underwriters and financial Advisor prior to Board approval.
<ul style="list-style-type: none"> <li>Confirm bond projects and related expenditures are consistent with approvals, authorizations and controlling bond documents.</li> </ul>	Yes	Bond projects and expenditures must be on the project list approved by voters. Going forward projects are also included on the 2041 Facilities Master Plan.
2. Retain a financial auditor to perform a performance audit of the bond program and confirm compliance with financial covenants and other restrictions, including but not limited to.	Yes	CliftonLarsonAllen, CPAs (Vicenti, Lloyd & Stutzman CPAs merged with CliftonLarsonAllen in June 2017)
<ul style="list-style-type: none"> <li>Confirm expenditures for bond proceeds are processed pursuant to appropriate separation of duties and practicable checks and balances (Three-Way Matching).</li> </ul>	Yes	Approval, purchasing, payment and recording duties are separated. Bond payments are supported by a Bond Invoice Payment Checklist, an invoice, a PO and a receiving report/verification of work performed.
<ul style="list-style-type: none"> <li>Confirm deposit of funds with Paying Agent/County for debt service, maintenance of reserve funds or other accounts, including the Rebate Account and monitor cash flow activity on a periodic basis.</li> </ul>	Yes	Paying Agent is US Bank. Debt service payments are made by the Los Angeles County Office of Education. Their statements are reviewed and activities monitored by management and consultants.
<ul style="list-style-type: none"> <li>Confirm Paying Agent is performing compliance activities for financial covenants required by indenture, loan or lease agreements or other agreements.</li> </ul>	Yes	Paying Agent, US Bank – no bond compliance issues have been noted.
<b>Control Activities for Legal and Financial Requirements:</b>		
1. Include in the performance audit of the bond program the compliance with District oversight requirements for bond administration activities.	Yes	Performance audit includes verification of Citizens Oversight Committee requirements and that bond expenditures are in accordance with the voter approved project list.
2. Confirm compliance with District records retention policy and procedures.	Yes	Bond payment documents are marked to be retained permanently to go beyond the legal requirement.

Task/Deliverable	Completed? ( <input type="checkbox"/> = Yes)	Comments/Remarks
<b>Other Control Activities:</b>		
1. Confirm compliance with tax certificate covenants, <i>i.e.</i> , post-issuance tax compliance requirements for tax-exempt bonds. (For detailed information on tax compliance for tax-exempt bonds refer to the IRS Compliance Guide at <a href="http://www.irs.gov/pub/irs-pdf/p4079.pdf">www.irs.gov/pub/irs-pdf/p4079.pdf</a> )	Yes	Pursuant to IRS guidelines, we work with bond counsel and tax attorneys to comply with post-issuance federal tax rules both at the time bonds are issued and throughout the term of the bonds.
<ul style="list-style-type: none"> <li>Do you have an arbitrage rebate consultant? (Consult with arbitrage rebate consultant and/or bond/tax counsel, as necessary to ensure compliance with post-issuance tax requirements for tax-exempt bonds.)</li> </ul>	Yes	OmniCap Group, LLC performs arbitrage calculations. Latest reports were filed July 2016 for 2003 Series A and 2005 Series B & C bonds. They are currently working on the 2007 Series D bond arbitrage report.
<ul style="list-style-type: none"> <li>Maintain copies of filings with the Internal Revenue Service for each bond issuance, <i>i.e.</i>, Information Return Form 8038-G and arbitrage rebate reports.</li> </ul>	Yes	Form 8038-G is maintained in files for each bond issuance.
<ul style="list-style-type: none"> <li>Confirm due dates for arbitrage rebate and yield restriction filing requirements with the Internal Revenue Service.</li> </ul>	Yes	OmniCap Group, LLC has provided a spreadsheet that summarizes completed and future arbitrage report due dates.
<ul style="list-style-type: none"> <li>Monitor compliance with expenditure spend-down targets, use of proceeds, private use and disposition of bond-financed facilities.</li> </ul>	Yes	Planning is done with input from various parties to help ensure reasonable spending targets, meeting private use guidelines and appropriate use of facilities. The great majority of bond-funded projects are used for college education and administration facilities.
<ul style="list-style-type: none"> <li>Monitor compliance with records retention requirements for bond related records, pursuant to federal treasury regulations and tax laws.</li> </ul>	Yes	Bond expenditure records are marked to be kept permanently.
2. Confirm compliance with continuing disclosure agreement covenants, <i>i.e.</i> , post-issuance disclosure requirements for tax-exempt bonds.	Yes	We work with Cooperative Strategies, our dissemination agent to help ensure continuing disclosure compliance.
<ul style="list-style-type: none"> <li>Confirm annual EMMA filing due date for the annual report and other financial reports applicable to each outstanding bond issuance.</li> </ul>	Yes	Annual EMMA filing dates are 8 months after our fiscal year end.
<ul style="list-style-type: none"> <li>Update information in the District's annual report required by the continuing disclosure agreement for the bond issue and file with EMMA no later than the required due date. If the District utilizes a dissemination agent to file the annual report with EMMA, the Compliance Officer should locate the filing on EMMA and confirm the annual report has been filed prior to the due date and verify correct CUSIPS were used in the filing.</li> </ul>	Yes	<p>Cooperative Strategies submitted our annual report on the EMMA website by the deadline in January 2017. The report includes our annual audit report and other required data.</p> <p>The Compliance Officer completes a monthly questionnaire on Cooperative Strategies' online platform to help ensure compliance with disclosure of material or listed events. Disclosures have been made in prior years as necessary with guidance of bond counsel.</p>
<ul style="list-style-type: none"> <li>Monitor outstanding debt for events that are listed in the continuing disclosure as a material or listed event and file or arrange to file a notice of material event on EMMA for an occurrence within 10 calendar days of the event.</li> </ul>	Yes	

Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
<b>Part 4. Information and Communications:</b>		
1. Establish process to alert personnel to changes in policies and procedures for internal controls and bond requirements.	Yes	Key staff are provided updates to policies and procedures.
2. Establish an official structure of communication within the District based on roles and responsibilities in the bond administration program.	Yes	Updates are provided at regular Bond Process Meetings.
3. Confirm staff with internal control and/or bond administration responsibilities, including compliance, received or are scheduled to receive periodic training.	Yes	The Compliance Officer attends periodic compliance training and provides updates to key staff.
<b>Part 5. Monitoring:</b>		
1. Incorporate bond activities and fraud risk assessment tests in the annual performance audit.	Yes	Independent auditors perform fraud inquiries of key staff annually on a rotating basis. Management and other staff members are interviewed.