

Houston Independent School District FY2024 Annual Audit Committee Report

November 5, 2024

The image shows the exterior of a modern, multi-story building with a large glass facade. The building is identified by a sign as the Hattie Mae White Educational Support Center. The sign is mounted on a light-colored concrete or stone band above the entrance. The entrance features large glass doors and windows. The building is surrounded by greenery, including trees and shrubs. A blue sky is visible in the background.

Hattie Mae White Educational Support Center
HOUSTON INDEPENDENT SCHOOL DISTRICT

Audit Committee Overview

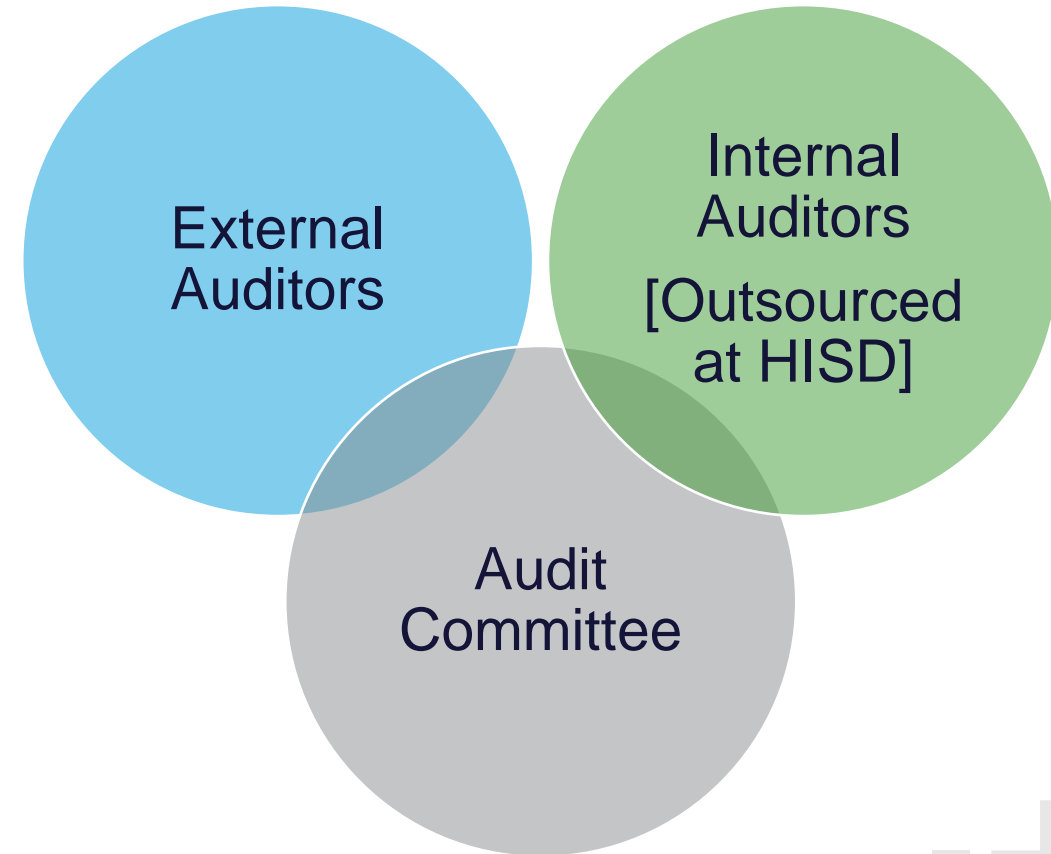
What is the Audit Committee?

The HISD Audit Committee Charter defines the role and responsibilities of the HISD Audit Committee. This includes oversight of both internal and external internal auditors.

According to the charter, the purpose of the Audit Committee is to provide structured oversight of the organization's governance, risks, and internal controls. It advises the School Board on the adequacy of these practices, aiming to enhance accountability and transparency.

Specific responsibilities include:

- Oversight of the outsourcing of internal audit
- Monitor follow-up on open audit recommendations/observations
- Review financial statements and public accountability reporting



External Audit vs Internal Audit¹

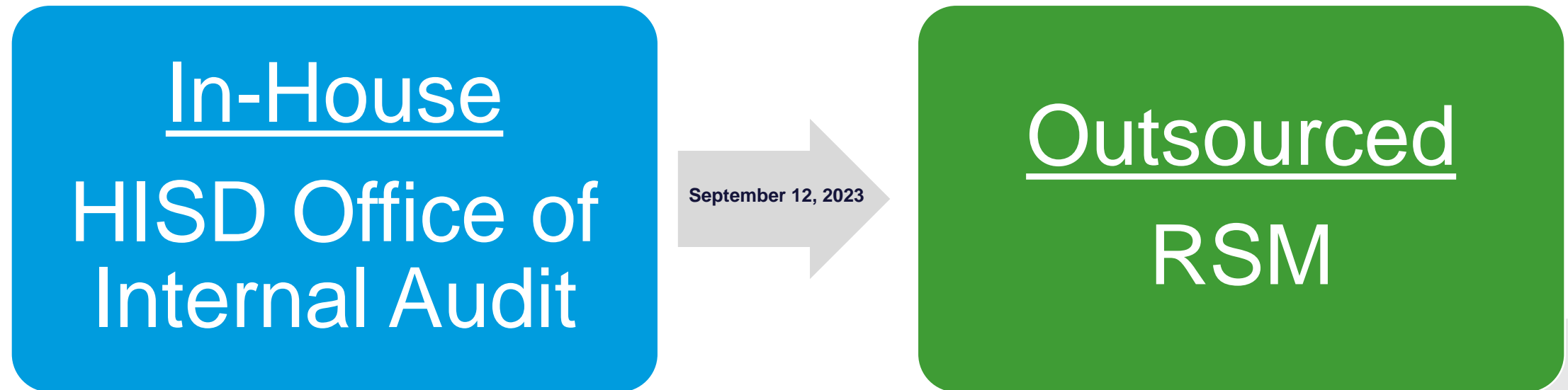
The Audit Committee oversees both internal and external audit functions. The table below describes some of the key differences between these two independent functions.

Aspect	Internal Audit	External Audit
Objective	Improve internal processes, controls, and governance.	Provide independent assurance on financial statements.
Focus	Risk, compliance, and operational efficiency.	Financial accuracy and compliance with standards.
Reporting	To management and the Audit Committee.	To external stakeholders, including the public.
Improvement Role	Recommends improvements; management implements.	Reports issues but does not advise on improvements.
Scope	Broad: internal controls, operations, and compliance.	Narrow: financial statement verification.
Frequency	Ongoing throughout the year.	Annual, aligned with financial reporting.
Regulation	Optional, but considered best practice.	Legally required for public entities.
Independence	Internal, but with objective oversight.	Completely independent of the organization.
Stakeholders	Management, Audit Committee, internal stakeholders.	Public, regulators, and external stakeholders.
Approach	Risk-based, proactive audits.	Compliance-driven, focused on financial standards.

¹Outsourced at HISD

Internal Audit Reorganization at HISD

Prior to September 12, 2023, the internal audit function was employed internally by the HISD Office of Internal Audit. Through a competitive solicitation, RSM was selected through the RFQ process as the most qualified firm to serve HISD. RSM now serves as the ***independent*** internal audit function for HISD.



Outsourced Internal Audit Function Overview

Outsourcing the internal audit function brings significant value to an organization, especially in enhancing **independence** and **objectivity**. It is a common practice for school districts to outsource their internal audit function.

Additional benefits include:

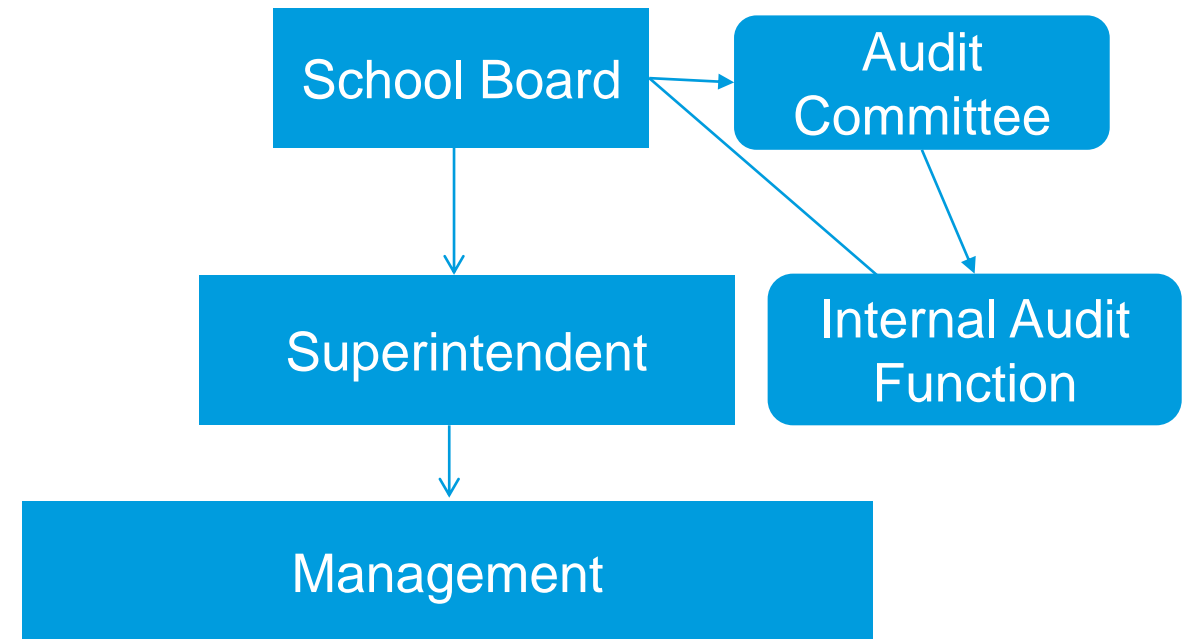
Unbiased Assessments: External auditors bring a fresh perspective, free from internal influences, facilitating impartial evaluations based purely on facts and best practices.

Enhanced Expertise: Outsourced teams often consist of specialists with a deep understanding of industry standards and emerging risks, offering higher scrutiny.

Cost Efficiency: Organizations can optimize resources by accessing a wide range of skills on demand without the overhead of maintaining a full-time internal audit staff.

This approach not only strengthens the internal control environment but also reinforces trust in the governance processes.

Independent Reporting Structure



FY2024 Audit Committee Accomplishments



Meetings Held: 4 meetings on September 6, 2023; October 30, 2023; January 30, 2024; April 16, 2024.



Outsourced Provider Established: Engaged RSM as our Internal Auditors.



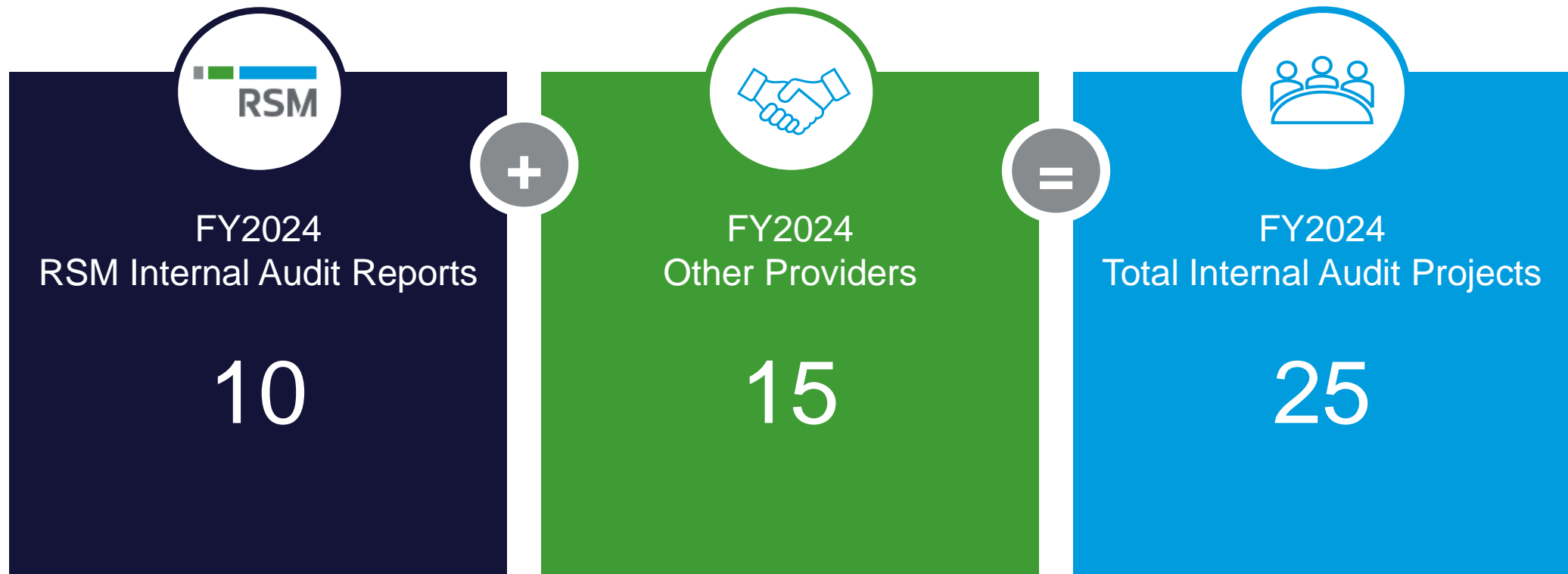
Charter Approved: Revised and approved Audit Committee Charter in June 2024.



25 Internal Audit Reports Completed: Key areas covered include IT security, vendor management, bus driver pay process, and student activity funds.

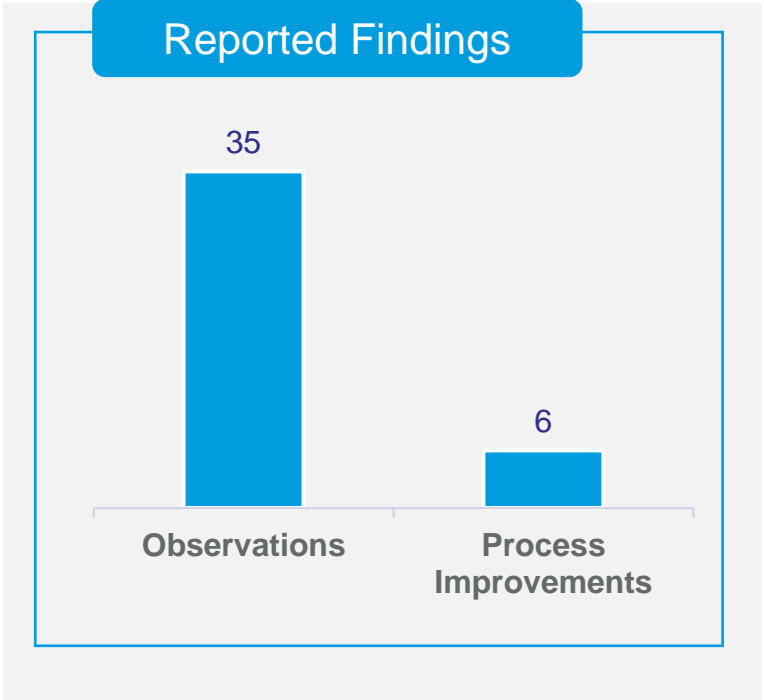
FY2024 Internal Audit Reports Completed

FY2024 was a transition year to RSM as the outsourced firm. During this year, projects were completed by other providers which had been started prior to RSM assuming the role. In addition to these projects, RSM executed and delivered on the FY2024 Internal Audit Plan.



RSM FY2024 Internal Audits

Internal Audit Project	Status
Risk Assessment	Complete
Nutrition Services	Complete
IT Security Maturity	Complete
IT Enterprise Data	Complete
IT Logical Security and Access Management	Complete
Bus Driver Pay Process	Complete
On-Time Grad Academy Data Quality	Complete
West University Elementary Technology Donations	Complete
Employee Terminations Process	Complete
Activity Funds Review	Complete
Records Management Process ²	Complete



¹ Due to the timing of contract execution, RSM began work on the FY2024 Internal Audit plan in November 2023.
² Internal Audit project was started later in the year to accommodate conflicting IT audit priorities.

The internal audit annual report timeframe has been adjusted to fiscal year from calendar year to align with the function’s activities.

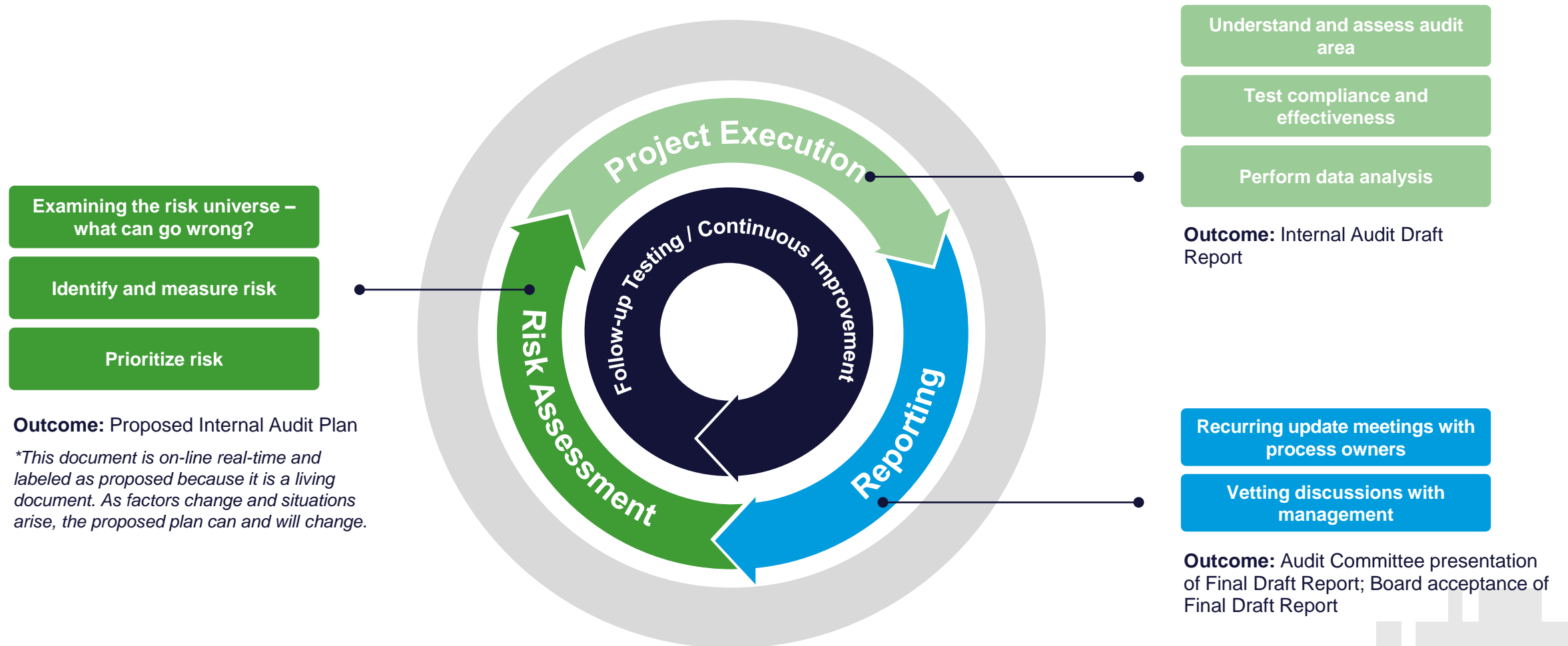
FY2024 Follow-up:
 Follow-up activities typically begin 6 to 12 months after observations are reported

FY2024 Internal Audit Projects – Other Providers

Internal Audit Title	Category	Provider	Status
IT – Patch and Vulnerability Management	Information Technology	BDO	Complete
IT – OneSource SAP	Information Technology	BDO	Complete
IT – Prior Issue Follow-Up Audit	Information Technology	BDO	Complete
Public Solicitation Bidding Process	Financial and Operational	BDO	Complete
HR Investigations Process Audit	Financial and Operational	BDO	Complete
HR Grievances Process Audit	Financial and Operational	BDO	Complete
Central Warehouse Inventory Report	Financial and Operational	Whitley Penn	Complete
Nutrition Services Inventory - Audit Report	Financial and Operational	Whitley Penn	Complete
Student Membership Audit	Educational Programs	Whitley Penn	Complete
Magnet Programs	Educational Programs	Whitley Penn	Complete
Activity Fund Audit Wharton K-8 Dual Language Academy	Financial and Operational	[Former] HISD Office of Internal Audit	Complete
Activity Fund Audit - Westside HS	Financial and Operational	[Former] HISD Office of Internal Audit	Complete
Follow-up Jordan HS Construction Audit Report	Construction	[Former] HISD Office of Internal Audit	Complete
Milby Washington Yates Pool Construction Audit Report	Construction	[Former] HISD Office of Internal Audit	Complete
SPED PD Audit Findings Follow Up Findings	Educational Programs	McConnell Jones	Complete

Internal Audit Overview

Overview of Internal Audit Process



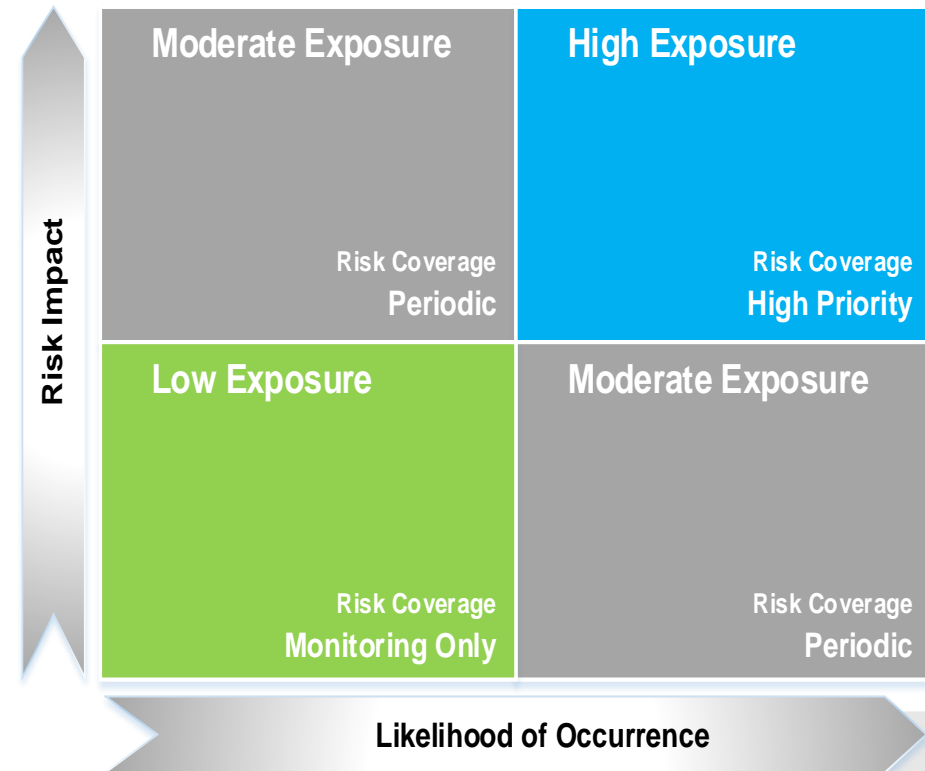
Risk Assessment

The objective of the risk assessment is to develop a proposed internal audit plan, which identifies those areas determined as having a **relatively high-risk profile** or that otherwise require internal audit attention for various reasons. This is a *risk-based* internal audit plan.

When we talk about risk we mean:

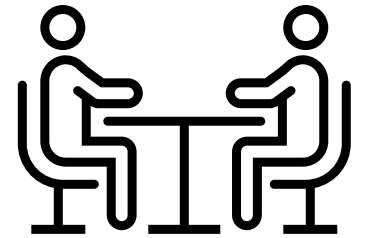
- Financial Risk
- Performance Risk
- Compliance Risk
- Public Perception

The internal audit plan will be accepted by the Audit Committee and Board each year but will remain a living plan. It can and should change throughout the year as risk at HISD continues to evolve. This allows HISD's internal audit function to remain proactive to the risks it faces every day.



Follow-up process

- ❑ As required by the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing* (Performance Standard #2500), internal auditors “should establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”
- ❑ Follow-up procedures should be performed after the completion date noted by Management.
- ❑ Follow-up typically occurs after ample time has passed with the new control / procedure in place (generally six months) to verify and report the implementation status of the recommendations and Management’s action with regard to the previously reported findings.
- ❑ Follow-up is meant to validate, on a sample basis, the effectiveness of the remediated controls of the previously reported open issues.



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