

Annual Audit Committee Report to the Houston Independent School District Board of Education

January 26, 2023



BOARD OF EDUCATION

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Introduction

According to the HISD Audit Committee Charter, “The Audit Committee plays an important role in providing oversight of the Houston Independent School District’s governance, risk management and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Audit Committee performs its role by providing independent oversight to the Board of Education.”

In February 2022, the HISD Board voted to appoint Trustees Sue Deigaard, Elizabeth Santos, and Bridget Wade to new terms to the 2022 Audit Committee, serving two-year terms pursuant to the Audit Committee Charter. At the first meeting of the 2022 Audit Committee in February, Trustee Santos volunteered to serve a one-year term in order to stagger terms for future years. Additionally, in June 2020 the BOE approved the appointment of volunteer subject matter expert Elizabeth Logan to the Audit Committee, and she continued to serve in this advisory position in 2022. At its first meeting of 2022, the Audit Committee voted for Trustee Sue Deigaard to serve as Committee Chair.

The charter charges the Audit Committee with submitting this annual report to the Board of Education summarizing the Audit Committee’s activities, issues, and recommendations.

Meetings

The meetings conducted to date along with the trustees in attendance are listed in the table below:

	Meeting Dates	Sue Deigaard, Chair	Elizabeth Santos	Bridget Wade	Judith Cruz, Board President	Other Board Members	Volunteer
1	02/15/22	x	x	x	x	x	x
2	04/19/22	x		x	x		x
3	06/02/22	x	x	x	x	x	x
4	08/30/22	x		x	x	x	x
5	09/22/22		x	x	x	x	x
6	11/15/22	x	x	x	x		x

Summary of Audit Committee Work

Below, please find a list of activities conducted and deliverables submitted over the course of 2022. The Audit Committee utilized the Audit Committee Charter and recommendations from the previous calendar year as a guide for the work.

Activity/Deliverable	Date
Reviewed and monitored audit reports	Ongoing
Provided oversight to the independent audit of HISD’s financial statements	Ongoing
Gave guidance and direction to the CAE on certain topics, both operational and administrative	Ongoing
Helped to maintain a culture of auditor independence among the Board and Administration	Ongoing
Monitored the progress and completion of the Legislative Budget Board’s Performance Review of HISD	Ongoing
Received updates via the Audit Dashboard	Ongoing
Discussed vacancies and Audit Department needs, including those for Ethics and Compliance	Ongoing
The Audit Committee received an update from BDO concerning the annual Enterprise Risk Assessment	February 2022
Received and monitored LBB update from McConnel & Jones	April 2022
Reviewed the Chief Audit Executive’s internal audit budget	April 2022
Committee members completed the CAE’s performance review	April/May 2022
BOE approved the CAE’s performance review	May 2022
Reviewed the Chief Audit Executive’s Draft 2022-2023 Internal Audit Plan	April 2022, August 2022, and September 2022
The Board of Education received an update from Weaver concerning the audit of the Comprehensive Annual Financial Report. Explored and initiated the process to solicit an external firm to outsource the audit function.	November 2022

Internal Audit Department Accomplishments

- **Reports Issued:** A number of audit and investigation reports were issued during the year. See the attachment that follows for the list of topics. A sample of the topics is listed below to give stakeholders a general idea of the kind of reports that we issued in education, construction, finance, operations, ethics, and compliance.
 - 2022-2023 Information Technology Risk Assessment Report and IT Audit Plan
 - 2021-2022 HISD Risk Assessment Report – NON IT
 - Testing Integrity Follow-up Audit
 - HISD OneSource SAP
 - COVID-19 Impact (Two separate reports were issued in CY 2022)
 - Assignment of Long-Term Associate Teachers
 - IT Asset Management
 - PowerSchool Student Application System
 - Telework Policies and Procedures
 - Donations to the District
 - Grant Follow-up Audit
 - Madison HS Construction Follow-up audit
 - MS SQL System
 - Audit Years 2020 and 2021 Prior Issue Follow-up Audit
 - Central Warehouse and Satellite Shops Inventory Observations
 - Pilgrim Academy Construction Audit
 - Sharpstown International HS Construction Services Audit
 - Yong Women’s Academy School Construction Services Audit
 - Yates HS Construction Services Audit
 - Investigation reports on a variety of topics related to ethics and compliance across HISD
- **Quality Assurance and Improvement Program (QAIP)**
 - The Internal Audit department strives to enhance the quality of Internal Audit activity by conforming to the Standards of the Institute of Internal Auditors (IIA). We conducted an internal assessment in 2022 resulting in a “Generally Conforms” rating.
- **Audit Dashboard:**
 - We successfully maintain the Dashboard to provide timely updates of the audit progress and Management’s improvements as of this report.
 - We successfully accomplished “at a glance” visualization and navigation capacity of the Dashboard by implementing the Power BI presentation module.
- **Audit Recommendation Status Monitoring**

- We successfully addressed 384 (82%) of 471 outstanding audit recommendations that were communicated to Management prior to February 15, 2022, and of those, we closed 363 (77%) of them. The remainder are to be addressed in 2023.

Ethics and Compliance Department Accomplishments

- Ethics Hotline poster redesigned and distributed to all HISD schools.
- Conflict of Interest policy was revised and then Board approved. Semi-annual employee disclosure form revised and implemented.
- Tools and resources acquired to improve conflict of interest reviews and fraud investigations.
- New Ethics & Compliance training programs developed and embedded, including raising awareness of fraud prevention during Fraud Awareness Week.
- 17 investigations of financial impropriety or potential fraud conducted providing assurance that the processes and controls associated with the allegations are operating effectively or control gaps remediated by partnering with appropriate HISD departments throughout.
- Remediation and prevention plans embedded into our investigative process to help prevent further financial improprieties.
- Contractor Criminal Background Checks process enhanced, and collaboration improved.

- **Status of Vacant Positions**

The Office of Internal Audit experienced the following vacancies and recruitment efforts:

- Internal Audit has 10 of 16 Internal Audit positions vacant. We are recruiting temporary auditors to start the 18-months 2022-2023 audit plan. And we will outsource some audits from that plan to audit firms.
- Ethics and Compliance currently has one vacant position out of 6 positions. During 2022, two employees retired and three open positions were filled.

- **Training / Professional Development Efforts** – Below is a list of training opportunities that were completed in 2022.

- **Internal Audit**
 - 2022 Texas School District Accounting and Auditing Conference
 - 2022 Association of Local Governmental Auditors (ALGA) Regional Training
 - Audit Sampling and Audit Report Writing

- Statistical Sampling and Teammate Analytics Training
- Considering Fraud While Conducting Audits
- Public Sector Seminar
- Houston Public Sector and nonprofit CPE Day
- **Ethics and Compliance**
 - Fraud Conference
 - Conflicts of Interest
 - Compliance & Ethics Essentials Workshop

2022 Office of Internal Audit Report List

Audit Practice Area	Name of Report
Construction Audit	Madison HS Construction Follow-up Audit
Construction Audit	Pilgrim Academy Construction Services Audit
Construction Audit	Sharpstown International HS Follow-up Audit
Construction Audit	Yong Women's Academy Construction Services Audit
Construction Audit	Yates HS Constructions Services Audit
Education Program	COVID-19 Impact (Part I Education Program)
Education Program	Assignment of Long Term Associate Teachers Audit
Education Program	Testing Integrity Follow-up Audit
Finance and Operations	2021-2022 HISD Risk Assessment report - NON-IT
Finance and Operations	Impacts fro COVID-19 (Part II) Financial and Operations)
Finance and Operations	Donations to the District
Finance and Operations	Grant Follow-up Audit
Finance and Operations	2022 Central Warehouse and Satellite Shops Inventory Observations
Information and Technology	2022-2023 Information Technology Risk Assessment Report and IT Audit Plan
Information and Technology	HISD OneSource SAP IT Audit
Information and Technology	IT Asset Management
Information and Technology	PowerSchool IT Audit
Information and Technology	Audit of Telework Policies and Procedures
Information and Technology	MS SQL System IT Audit
Information and Technology	Audit Years 2020 and 2021 Prior Issue Follow-up Audit"

Recommendations for Consideration

- The Institute for Internal Auditors recommends that Audit Committee members serve two-year staggered terms. Current committee members are Trustee Deigaard and Trustee Wade appointed to two-year terms. Trustee Santos volunteered to serve a one-year term in order to stagger terms. This committee respectfully recommends that trustees continue to be appointed to this committee on a staggered two-year basis
- Maintain appointment to the Audit Committee of a community member with audit expertise
- Additional and continued training for all committee members and the full board, including use of the internal audit dashboard
- Continue to support a culture of auditor independence within HISD
- Continue utilization of adopted evaluation protocol for the CAE
- Continue to meet quarterly
- Recommend that the 2023 Audit Committee plan for and adopt a self-evaluation tool, in accordance with Audit Committee Charter
- Recommend that the 2023 Audit Committee monitor the possible upgrade of the internal audit dashboard to inform the board about progress of audits and the implementation of audit recommendations
- Recommend that the 2023 Audit Committee monitor open findings and how those are addressed
- Recommend that the 2023 Audit Committee discuss high risk findings/reports at each Audit Committee meeting
- Recommend that the 2023 Audit Committee progress monitor implementation of internal audit plan and corrective action plans for the CAFR and the LBB performance review
- Recommend that the 2023 Audit Committee draft Board Constraint 3 Progress Measures to recommend to the Board of Education
- Add a second committee member allowed by Audit Committee Charter to add to knowledge base and to create a succession plan
- Enlist the assistance of Board Services staff to calendar out the agendas for the year per the attached “Recommended Calendar of Activities”
- Provide contingency plan in annual audit plan for audits that may arise mid-year

Recommended Calendar of Activities and Deliverables for 2023

Month	Activity/Deliverable	Meeting	Board Approval Month
February	<ul style="list-style-type: none"> -Audit Committee named by nomination and vote of BOE -Committee plans meeting and training calendar for the year -Committee approves committee chair -Committee develops professional development plan for the course of the year -Decide Audit Committee self-evaluation tool -Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates -Onboarding of new trustees to the Audit Committee -Audit training for committee members and full board 	Yes	N/A
March	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	N/A
April	<ul style="list-style-type: none"> -Review CAE's internal audit budget and advise board on recommended resources to achieve the Internal Audit Plan -Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates 	Yes	May
May	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	May/June
June	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	N/A
July	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	N/A
August	<ul style="list-style-type: none"> -Discuss annual department goals -Select three major expectations to be included in annual performance evaluation -Review Audit Committee charter and make recommendations to board for revisions, if any - Receive Mid-Audit Update of Comprehensive Annual Financial Report -Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates 	Yes	September
September	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	N/A
October	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports 	No	N/A

	-Discuss and plan for Audit Committee training for CY 2023		
November	<ul style="list-style-type: none"> - Committee develops and finalizes the summary report outlining the work and accomplishments over the course of the calendar year -Evaluate the committee and individual performance -Recommend committee succession plan or next board president and any recommendations for next committee to consider -Progress Monitor mid-year progress to goals of the CAE -Receive Audit of Comprehensive Annual Financial Report -Receive annual enterprise risk assessment report -Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates 1:1 meetings with external auditor for enterprise risk assessment audit 	Yes	December
December	<ul style="list-style-type: none"> -Progress monitoring of internal audit plan via Audit Dashboard and emailed reports -Committee presents the summary report to the full board outlining the work and accomplishments over the course of the calendar year 1:1 meetings with external auditor for enterprise risk assessment audit 	No	December

*Please note that no dates are provided for performance evaluation of the Chief Audit Executive (CAE) due to the CAE's departure from the district.