

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

December 12, 2019



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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 2019, the HISD Board voted to reappoint Trustees Holly Maria Flynn Vilaseca, Sue Deigaard, and Anne Sung as members of the 2019 Audit Committee, serving two-year terms pursuant to the Audit Committee Charter, with Trustee Flynn Vilaseca continuing as Committee Chair.

The charter charges the Audit Committee with submitting this annual report to the Board of Trustees 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:

	<b>Meeting Dates</b>	<b>Holly Maria Flynn Vilaseca</b>	<b>Sue Deigaard</b>	<b>Anne Sung</b>	<b>Other Board Members</b>
1	<b>02/25/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	
2	<b>04/16/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	
3	<b>05/16/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	
4	<b>06/09/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	
5	<b>10/15/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	
6	<b>11/13/19</b>	<b>x</b>	<b>x</b>	<b>x</b>	

## Summary of Audit Committee Work

Below, please find a list of activities conducted and deliverables submitted over the course of 2019. The Audit Committee utilized the Audit Committee Charter and recommendations from the previous calendar year as a guide for the work.

<b>Activity/Deliverable</b>	<b>Date</b>
Regularly discussed Internal Audit Department vacancies and plans to fill them	Ongoing
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 on the development of the Audit Dashboard	Ongoing
Monitored and received updates on the Quality Assurance and Improvement Program implementation, in preparation for the Institute of Internal Auditors 2020 Department Audit	Ongoing
Reviewed the Chief Audit Executive's internal audit budget	February/April 2019
Supported restoration of funds cut from the audit department's budget in 2018	May/June 2019

Governance, Risks, and Compliance Training Conducted by Mainardi and Associates for All Board Members- All 3 Audit Committee Members attended	May 2019
Committee members completed the CAE's performance review	September 2019
Discussion of vacancies and Audit Department needs, including those for Ethics and Compliance	September 2019
BOE completed the CAE's performance review	October 2019
BOE approved the CAE's performance review	November 2019
Reviewed the Audit Committee Charter	October 2019
Legislative Budget Board Report Completed by the LBB	October 2019
Reviewed the Chief Audit Executive's Draft 2020 Internal Audit Plan	October 2019
Recommended the Chief Audit Executive's 2020 Audit Plan to the Board of Education for approval	November 2019
Developed a Summary Report outlining the work and accomplishments over the course of the Calendar Year	November 2019
The Audit Committee received an update from BDO concerning the annual Enterprise Risk Assessment	November 2019
The Audit Committee received an update from Weaver concerning the audit of the Comprehensive Annual Financial Report. The two material weaknesses found in the 2018 audit of the CAFR have been corrected.	November 2019
Presented Summary Report to the Board of Education for approval	December 2019

## HISD 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.
  - Grade Change Policies and Procedures
  - Victory Prep Academy Charter School
  - Grant Processes
  - HISD IT Resources Review
  - Change In Principals (primary focus on Activity Fund accounts at campuses)
  - Investigation reports on a variety of topics related to ethics and compliance across HISD
  - Construction Audits for schools under the 2012 Bond Program

- **Quality Assurance and Improvement Program (QAIP) activities were conducted during 2019: Note that the QAIP activities began as a new effort in 2018.**
  - Established and implemented a Framework as a roadmap to guide our QAIP
  - Developed a QAIP Core Principles Effectiveness Model to demonstrate the level of our QAIP
  - Performed an internal assessment of the internal audit activities
    - (1) Conducted an evaluation of Conformance with IIA Standards
    - (2) Developed and implemented management action plans to mitigate non-conformance
    - (3) Monitored the status of management action plans
  - Reviewed and updated audit charters which were issued in 2015 for the Audit Committee and the Office of Internal Audit
  - Current focus is on the following items
    - (1) Review and Update the internal Audit Manual
    - (2) Conduct 2019 QAIP review
    - (3) Prepare for the 2020 external assessment by the Institute of Internal Auditors
- **Status of Vacant Positions** – During 2019, the Office of Internal Audit experienced the following vacancies.
  - Six Internal Audit positions (4 senior and two junior auditors). Of those, one senior and one junior position have been vacant since the first week of July 2019 because the salaries offered to selected candidates were rejected and our requested higher salaries were not approved. We continue to try to find other candidates. The impact of the vacancies is that some audits were not performed, and that condition will continue until new auditors are hired.
  - Three Ethics and Compliance positions (officer, analyst, and an admin) became vacant late last year and early this year. Of those, all three were filled during July and August 2019.
  - Senior Ethics and Compliance Investigator Position – In November, the Superintendent approved the CAE’s request for this position and provided funding for it. HR is in the process of creating the position and its job description and, once established, we will aggressively pursue efforts to hire a suitable experienced and credentialed candidate.

- **Training / Professional Development Efforts** – Below is a list of training completed in 2019.
  - Audit Committee: Provided training on Governance, Risks, and Compliance
  - Training events for auditors who are pursuing the Certified Internal Auditor exam (two senior and three junior auditors)
  - IIA – Houston Chapter: Annual Conference on April 1, 2019
  - Monthly IIA – Houston Chapter luncheon meetings on a case by case basis
  - Audit 101 Courses: For our relatively new team members (an Audit Manager and two Internal Auditors)
  - Data Analytics
  - Work Paper Preparation
  - Annual ACFE Conference in Houston for our holders of the Certified Fraud Examiner credential
  - Monthly AFCE local chapter meetings on a case by case basis
  - Annual ISACA General Meeting in Houston for our Senior Information Technology Auditor
  - Annual Cybersecurity Conference for our Senior Information Technology Auditor
  - Business Intelligence training for all professional staff
  - Two government related Continuing Professional Education events provided by CPA firms
  - Ethics training for holders of the CPA and CIA certifications (annual requirement)

# 2019 Office of Internal Audit Report List

Audit Practice Area	Name of Report
Construction Audit	Review of the Construction Contract with Prime Contractors for the Renovations of Barnett and Butler Athletic Complexes
Construction Audit	Review of the Construction Contract with B3Ci for the Construction of High School for Law Enforcement and Criminal Justice
Construction Audit	Review of the Construction Contract with Drymalla Construction Company, Inc. for the North Forest Early Childhood Center
Construction Audit	Review of the Construction Contract with ICI Construction for Sharpstown High School
Construction Audit	Review of the Construction Contract with DivisionOne Construction, LLC for Mark White Elementary School
Construction Audit	Review of the Construction Close-Out of the Contract with Drymalla Construction Company, Inc. for the North Early College High School
Construction Audit	Follow-up Audit for the Review of the Construction Contract with Satterfield & Pontikes Construction, Inc. for the Mandarin Chinese Language Immersion School
Construction Audit	Review of the Construction Contract with KBR for the Mickey Leland College Preparatory Academy for Young Men
Construction Audit	Audit of the Construction Contract with DivisionOne Construction, LLC for the Construction of the Delmar - Tusa Fieldhouse
Construction Audit	Audit of the CMAR Procurement Processes for the Demolition and Rebuilding of Four Elementary Schools Damaged by Hurricane Harvey (Procurement Project No. 18-12-12)
Education Program	Contract Management for Selected Education Contracts
Education Program	Grade Change Policies and Procedures

# 2019 Office of Internal Audit Report List

Audit Practice Area	Name of Report
Financial and Operations	2019 Central Warehouse and Satellite Shops Inventory
Financial and Operations	Procurement Card Program Follow-Up Audit
Financial and Operations	Victory Preparatory Academy Charter School
Financial and Operations	Audit of 2017 and 2018 Financial Statements for Victory Preparatory Academy
Financial and Operations	Internal Audit Report of the Off-Cycle Payroll Process
Financial and Operations	Unauthorized Fundraiser - Broadway Cares/Equity Fights AIDS
Financial and Operations	Grant Processes
Financial and Operations	Observation of the 2019 Nutrition Services Warehouse Inventory
Financial and Operations	2019 HISD Risk Assessment Report - Non IT
Financial and Operations	2018 HISD Risk Assessment Report - Non IT
Information Technology(IT)	HISD IT Audit of the Chancery Student Information System (SIS)
Information Technology(IT)	HISD IT Resources Review
Information Technology(IT)	HISD SAP Audit
Ethics & Compliance	Grading Integrity for Fourth Grade Weekly Tests
Ethics & Compliance	Alleged Abuse of District Travel Funds

## Recommendations for Consideration

- The Institute for Internal Auditors recommends that audit committee members serve two-year staggered terms. In January 2019, current committee members were reappointed to two-year terms. To achieve staggered terms and to increase the number of trustees with experience serving on the audit committee, this committee respectfully recommends that one new trustee be appointed to the audit committee in January 2020, and one current committee member resign. This will create a stagger with two trustees serving through January 2021 and one trustee serving through January 2022
- Continue to support a culture of auditor independence within HISD
- Advocating for an increase to the Audit Department Budget for FY 2020-2021 to address backlog in Ethics and Compliance
- Additional and continued training for all committee members
- Continue utilization of adopted evaluation protocol for the CAE
- Recommend that the 2020 Audit Committee monitors implementation of the dashboard to inform the board about progress of audits and the implementation of audit recommendations
- Recommend the appointment of community advisors to the Audit Committee

## Recommended Calendar of Activities and Deliverables for 2020\*

Month	Activity/Deliverable	Meeting	Board Approval Month
January	Audit Committee named by nomination and vote of BOE	No	N/A
February	-Committee plans meeting calendar for the year -Committee develops professional development plan for the course of the year -Decide what the Audit Committee would like to self-evaluate on including committee attendance and professional development -Progress monitoring of internal audit plan, discussion of specific audits, Ethics and Compliance updates	Yes	N/A
March	-CAE provides self-assessment to the Audit Committee -Progress monitoring of internal audit plan via Audit Dashboard	No	N/A
April	-Committee conducts initial CAE's performance review -CAE presents draft 2020-2021 Internal Audit Plan -Review CAE's internal audit budget and advise board on recommended resources to achieve the Internal Audit Plan	Yes	May

	-Progress monitoring of internal audit plan, discussion of specific audits, Ethics and Compliance updates		
<b>May</b>	-BOE conducts the CAE's performance review -CAE performance review submitted to the BOE for approval -Progress monitoring of internal audit plan via Audit Dashboard	No	May/June
<b>June</b>	1:1 meetings with external auditor for enterprise risk assessment audit -Progress monitoring of internal audit plan via Audit Dashboard	No	N/A
<b>July</b>	-Progress monitoring of internal audit plan via Audit Dashboard	No	N/A
<b>August</b>	-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, discussion of specific audits, Ethics and Compliance updates	Yes	September
<b>September</b>	-Progress monitoring of internal audit plan via Audit Dashboard	No	N/A
<b>October</b>	-Progress monitoring of internal audit plan via Audit Dashboard	No	N/A
<b>November</b>	-The Committee develops, finalizes, and presents, 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 -Conduct Mid-Year Performance Review of the CAE -Receive Audit of Comprehensive Annual Financial Report -Receive annual enterprise risk assessment report -Progress monitoring of internal audit plan, discussion of specific audits, Ethics and Compliance updates	Yes	December
<b>December</b>	-Progress monitoring of internal audit plan via Audit Dashboard	No	N/A

\*Additional Audit Committee meetings may be necessary depending on the process utilized for the interview and selection of community advisors to the Audit Committee.