

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

December 10, 2020



## **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 2020, the HISD Board voted to appoint Trustees Judith Cruz and Dani Hernandez as first-time members to the 2020 Audit Committee, serving two-year terms pursuant to the Audit Committee Charter. The HISD Board also voted to reappoint Trustees Holly Maria Flynn Vilaseca and Anne Sung, as members of the 2020 Audit Committee, to complete their two-year terms pursuant to the Audit Committee Charter. At its first meeting, the Audit Committee voted for Trustee Flynn Vilaseca to continue 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>Anne Sung</b>	<b>Judith Cruz</b>	<b>Dani Hernandez</b>	<b>Other Board Members</b>
1	<b>03/02/20</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
2	<b>04/30/20</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	
3	<b>08/19/20</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
4	<b>11/11/20</b>	<b>x</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 2020. The Audit Committee utilized the Audit Committee Charter and recommendations from the previous calendar year as a guide for the work.

Activity/Deliverable	Date
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 Draft 2020 Internal Audit Plan	April 2020
Reviewed the Chief Audit Executive's internal audit budget	April 2020
Solicit and review applications for community member/expert to join Audit Committee Meetings	April 2020
Supported restoration of funds cut from the audit department's budget in 2019	April 2020
Committee members completed the CAE's performance review	April/May 2020
BOE approved the CAE's performance review	May 2020
Nominate Ms. Elizabeth Logan as Community Volunteer to join Audit Committee Meetings	May/June 2020
BOE approved Ms. Elizabeth Logan as Community Volunteer to join Audit Committee Meetings	June 2020
Recommended the Chief Audit Executive's 2020 Audit Plan to the Board of Education for approval	June 2020
Reviewed the Audit Committee Charter	August 2020

Discussion of vacancies and Audit Department needs, including those for Ethics and Compliance	August and November 2020
Discuss Legislative Budget Board Report Continued Progress Monitoring	November 2020
Developed a Summary Report outlining the work and accomplishments over the course of the Calendar Year	November 2020
The Audit Committee received an update from BDO concerning the annual Enterprise Risk Assessment	November 2020
The Audit Committee received an update from Weaver concerning the audit of the Comprehensive Annual Financial Report. The two material weaknesses found in the 2019 audit of the CAFR have been corrected.	November 2020
Governance, Risks, and Compliance Training Conducted by Mainardi and Associates for All Board Members- All 3 Audit Committee Members attended	December 2020
Presented this Summary Report to the Board of Education	December 2020

## 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.
  - HISD Literacy Elementary Curriculum and Development
  - HISD School Improvement Grants
  - HISD Budget Processes
  - HISD’s Academic and Financial Oversight over the Charter Schools
  - Activity Fund Accounts at Campuses
  - IT Audit of Cloud Computing
  - IT Vendor Management
  - IT Security Maturity Assessment
  - IT Data Privacy Review
  - 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)**
  - The Internal Audit department earned the “Generally Conforms” rating on the Institute of Internal Auditors’ (IIA) assessment of the department’s conformance to the IIA’s

Standards and other parts of the IIA's Framework for internal audit department to follow. The Generally Conforms rating is the best one.

- By June 2021, we will remediate the seven items within the IIA's Standards Section 2000 that were rated as being "Partially Conforms" during the department's assessment.
- **Audit Dashboard:** The department's Audit Dashboard that was requested by the Board was implemented on April 22, 2020. We will improve the dashboard as needed going forward. In August 2020, virtual training on the Dashboard was provided to stakeholders and management.
- **Status of Vacant Positions** – During 2020, the Office of Internal Audit experienced the following vacancies:
  - Various Internal Audit positions were vacant from July 2018 until September 2020. All positions are filled as of this report.
  - Three of six Ethics and Compliance positions became vacant (Manager, Investigator, and Senior Auditor). A manager was selected, and we anticipate her starting in 2020. We continue to pursue other suitable experienced and credentialed candidates.
  - The CAE asked for the compensation for the Ethics and Compliance Manager to be increased to the Midpoint salary in HISD's Salary Tables and that request was approved. However, the goal is to get the position returned to the Officer level (HISD position grades 35 or 36) as soon as possible.
- **Training / Professional Development Efforts** – Below is a list of training and efforts that were completed in 2020.
  - Audit Committee: "Duties and Responsibilities of Board Audit Committees" will be provided on December 1, 2020.
  - The "Three Lines of Defense" training will be provided to the Internal Audit Department on December 2, 2020.
  - Training events for auditors who are pursuing the Certified Internal Auditor exam (two senior and one junior auditor)
  - IIA – Houston Chapter: IIA February Government Auditing Conference on February 18, 2020
  - IIA – International Conference from November 2 to November 4, 2020
  - One government related Continuing Professional Education events provided by CPA firms
  - Ethics training for holders of the CPA and CIA certifications (annual requirement)
  - Various Virtual Trainings regarding Ethics, Auditing, Accounting and Taxation during the COVID-19 "Stay Home" Order Periods from March to October 2020

The list of reports that were issued is presented on the next page.

## 2020 Office of Internal Audit Report List

Audit Practice Area	Name of Report
Construction Audit	Follow-up Audit of the Construction Contract with Tellepsen Construction, LLC for Milby High School
Construction Audit	Review of the Construction Contract with Drymalla Construction Company, Inc. for Askew Elementary School
Construction Audit	Review of the Construction Contract with Satterfield & Pontikes Construction for Madison High School
Construction Audit	Audit of the Architectural Agreement with Pfluger Associates L.P., for Replacement of the Four Elementary Schools Damaged by Hurricane Harvey (A/E Firm for Braeburn, Kolter,
Construction Audit	Audit of the Heery International, Inc. Program Management Agreement and Review
Education Program	HISD Elementary Curriculum - Literacy Elementary Curriculum and Development
Education Program	School Improvement Grants
Education Program	Internal Audit Report of HISD's Academic and Financial Oversight of Charter Schools
Education Program	Police Operations
Finance and Operations	HISD Budget Process
Finance and Operations	Internal Audit Report for the Activity Fund at Daily Elementary School
Finance and Operations	2020 Nutrition Services Inventory Observation
Information Technology(IT)	HISD IT Audit of Cloud Computing
Information Technology(IT)	HISD Information Technology (IT) Vendor Management Audit
Information Technology(IT)	HISD IT Security Maturity Assessment
Information Technology(IT)	HISD Data Privacy Review
Ethics & Compliance	Student Activity Funds for the Fine Arts Program in Kinder High School for the Performing and Visual Arts (HSPVA)
Ethics & Compliance	Payroll Deductions of HISD Employees Who Are Members of the Texas Support Personnel Employees Labor Organization (TSPE)

## Recommendations for Consideration

- The Institute for Internal Auditors recommends that audit committee members serve two-year staggered terms. In February 2020, two new committee members (Trustees Cruz and Hernandez) were appointed to two-year terms, with two members appointed in 2019 (Trustees Flynn Vilaseca and Sung) continuing on the committee. This committee respectfully recommends that trustees continue to be appointed to this committee on a staggered two-year basis, with one trustee appointed to a new two-year term in 2021
- 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
- Advocating for adjustments to the Audit Department Budget for FY 2021-2022 to address vacancies in Ethics and Compliance and additional audits related to COVID-19
- Continue utilization of adopted evaluation protocol for the CAE
- Recommend that the 2021 Audit Committee plan for and implement self evaluation, in accordance with Audit Committee Charter
- Recommend that the 2021 Audit Committee monitors implementation of the internal audit dashboard to inform the board about progress of audits and the implementation of audit recommendations
- Recommend that the 2021 Audit Committee progress monitor implementation of internal audit plan and corrective action plans for the CAFR and the LBB performance review

## Recommended Calendar of Activities and Deliverables for 2021

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	Yes	N/A

	<ul style="list-style-type: none"> <li>-Decide what the Audit Committee would like to self-evaluate on including committee attendance and professional development</li> <li>-Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates</li> <li>-Onboarding of new trustee to the Audit Committee</li> <li>-Discuss and plan for Audit Committee training for CY 2021</li> </ul>		
<b>March</b>	<ul style="list-style-type: none"> <li>-CAE provides self-assessment to the Audit Committee</li> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	N/A
<b>April</b>	<ul style="list-style-type: none"> <li>-Committee conducts initial CAE's performance review</li> <li>-CAE presents draft 2021-2022 Internal Audit Plan</li> <li>-Review CAE's internal audit budget and advise board on recommended resources to achieve the Internal Audit Plan</li> <li>-Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates</li> </ul>	Yes	May
<b>May</b>	<ul style="list-style-type: none"> <li>-BOE conducts the CAE's performance review</li> <li>-CAE performance review submitted to the BOE for approval</li> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	May/June
<b>June</b>	<ul style="list-style-type: none"> <li>1:1 meetings with external auditor for enterprise risk assessment audit</li> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	N/A
<b>July</b>	<ul style="list-style-type: none"> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	N/A
<b>August</b>	<ul style="list-style-type: none"> <li>-Discuss annual department goals</li> <li>-Select three major expectations to be included in annual performance evaluation</li> <li>-Review audit committee charter and make recommendations to board for revisions, if any</li> <li>- Receive Mid-Audit Update of Comprehensive Annual Financial Report</li> <li>-Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates</li> </ul>	Yes	September
<b>September</b>	<ul style="list-style-type: none"> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	N/A
<b>October</b>	<ul style="list-style-type: none"> <li>-Progress monitoring of internal audit plan via Audit Dashboard</li> </ul>	No	N/A
<b>November</b>	<ul style="list-style-type: none"> <li>-The Committee develops, finalizes, and presents, summary report outlining the work and accomplishments over the course of the calendar year</li> </ul>	Yes	December

	<ul style="list-style-type: none"> <li>-Evaluate the committee and individual performance</li> <li>-Recommend committee succession plan or next board president and any recommendations for next committee to consider</li> <li>-Conduct Mid-Year Performance Review of the CAE</li> <li>-Receive Audit of Comprehensive Annual Financial Report</li> <li>-Receive annual enterprise risk assessment report</li> <li>-Progress monitoring of internal audit plan and corrective action plans, discussion of specific audits, Ethics and Compliance updates</li> </ul>		
<b>December</b>	-Progress monitoring of internal audit plan via Audit Dashboard	No	N/A