

**MINUTES OF THE AUDIT COMMITTEE
SCHOOL BOARD
HOUSTON INDEPENDENT SCHOOL DISTRICT**

September 6, 2023

MEETING HELD - MEMBERS PRESENT

The School Board of the Houston Independent School District (HISD) held an Audit Committee meeting on September 6, 2023, beginning at 3 p.m. in the Board Services conference room of the Hattie Mae White Educational Support Center, 4400 West 18th St., Houston, TX 77092.

Present:

Committee Member	Title	Status	Arrived	Departed
Janette Garza Lindner		Present		
Ric Campo		Present		
Adam Rivon		Present		

Staff:

Jim Terry, Chief Financial Officer
Teresa Corrigan, Sr. Exec. Dir., Ethics & Compliance
Catosha Woods, General Counsel
Sherrie Robinson, Controller
Antonio Herrador, Director, Ethics & Compliance
John Gerwin, Director, Ethics & Compliance (Construction)
Melinda Ransome, CTM, Ethics & Compliance
Betty Elam, CTM, Ethics & Compliance
Liping “Lee” Huang, Audit Manager, Support Services
Janet Conroy, Manager, Board Services

Other: Doris Delaney, Texas Education Agency (TEA) conservator
Elizabeth Logan, community volunteer
Laura Lambert, Weaver
Matt Rogers, Weaver
Sukhmin Mahal, BDO
Joel Perez, RSM
Laura Manlove, RSM
Anne Slattery, RSM

MEETING CALLED TO ORDER - PURPOSE

Committee Member Ric Campo called the Audit Committee meeting to order at 3:01 p.m. and declared the committee convened to consider matters pertaining to HISD as listed on the duly posted meeting notice.

SPEAKERS TO AGENDA ITEMS (IF CONVENED AS SPECIAL MEETING)

There were no registered speakers.

WELCOME NEW COMMITTEE MEMBERS

SELECT NEW AUDIT COMMITTEE CHAIR

Board Member Rivon nominated Board Member Garza Lindner to serve as committee chair. Board Member Campo seconded the motion, and Board Member Garza Lindner was elected as committee chair.

REVIEW OF AUDIT COMMITTEE CHARTER

Chief Financial Officer Jim Terry noted that the markup of the charter showed areas of suggested deletion highlighted in red and areas of suggested additions highlighted in blue. He recommended that references to “internal auditor” be changed to “internal audit firm.” He suggested that committee members review the proposed changes for adoption at their next meeting. Board Member Campo observed that the charter needs to be tightened up grammatically, and that it describes some functions that are not appropriate for an audit committee.

FY2023 FINANCIAL AUDIT UPDATE BY WEAVER

Laura Lambert of Weaver reviewed a slide presentation on Weaver’s fiscal year 2023 financial audit. Weaver’s interim fieldwork was completed in June. Procedures included walkthrough and tests of internal controls and compliance testing. Final fieldwork is scheduled for September through November, to include a review of the Annual Comprehensive Financial Report (ACFR). Board Member Campo asked about the deadline for the ACFR to be submitted. Ms. Lambert stated it is usually the end of November, and that the report is usually ready for the School Board to consider at its first meeting in November.

Board Member Garza Lindner asked whether recent organizational changes would impact audit activities for the remainder of the year. CFO Terry stated that Weaver is looking at the end of the last fiscal year (June 30), so most of the work has been done and changes should not have a significant impact. Most of the impact of changes will come in the next fiscal year. Ms. Garza Lindner stated the committee would appreciate a focus on any link between people and processes.

Community volunteer Liz Logan asked whether any surprises or concerns emerged from interim testing, and Ms. Lambert indicated there were none.

Board Member Rivon asked whether there is any focus on connecting future plans with financial statements, looking ahead to 2035. Ms. Weaver stated that financials are historical and do not point to the future. CFO Terry stated that future considerations will be part of the work developing the budget and putting dollar amounts to the superintendent’s plan.

Board Member Campo asked CFO Terry to walk through the budget process and identify the trajectory for projecting the budget forward and reporting against that budget. CFO Terry replied that his office will bring budget amendments to the School Board as dollar amounts are changed, including a budget amendment expected in October. He stated that in September, Finance and Business Service would bring projections on the revenue side and projection of enrollment, incorporate that into assessing the revenue available, and

determine where to put money starting in the spring (April/May).

OUTSOURCING OF INTERNAL AUDIT FUNCTION
–Introduction and presentation from RSM U.S., LLP

CFO Terry noted that HISD is outsourcing its internal audit function and introduced Joel Perez of RSM (Texas Public Sector Leadership). Mr. Perez introduced his team of Anne Slattery (Houston Risk Consulting Leadership) and Laura Manlove (Engagement Leader). He reviewed RSM’s experience and credentials, including serving over 200 school districts nationwide, and serving Texas school districts for over 20 years. He noted that RSM has experience working with the Texas Education Agency and is familiar with TEA’s processes.

Mr. Perez reviewed the internal audit timeline. RSM will move forward with an approved internal audit plan for fiscal year 2024 once the contract is executed. RSM will perform a comprehensive risk assessment to create a proposed internal audit plan for fiscal year 2025, with work to begin in the fall of 2023 for delivery to the Audit Committee in spring 2024.

Mr. Perez identified 12 areas of the internal audit plan, including enterprise; business logistics and purchasing services; school campuses; information technology; operations; academics; and finance and operations. He also noted internal audit “hot topics” of student discipline, physical security, cyberattacks, data management, and fraud, and rising risks in the areas of procurement and HR processes.

AUDIT REPORTS ISSUED SINCE LAST AUDIT COMMITTEE MEETING

Ethics and Compliance staff noted there were two activity fund audits, one for Westside High School and one for Wharton K–8. Activity funds are high-risk for possible misappropriation of cash. They are audited to determine whether controls were effective and operating as expected. Controls over activity funds at Westside HS were operating as intended, in accordance with policy, and accuracy of financial records was verified. At Wharton, controls for activity funds were not operating as intended. There were findings associated with procedural compliance; corrective action was added in the summary, and the findings will be addressed through comprehensive training. The principal accepted recommendations, which should be implemented by the end of September. Board Member Garza Lindner asked whether there will be changes in the procedures manual for NES Schools. CFO Terry said no. Procedures will be the same, but perhaps managed by a different person.

Staff reviewed lessons learned from contracts related to rebuilding schools destroyed by Hurricane Harvey, as well as contracts related to bond programs. Staff also noted that regarding Scarborough HS construction, there were unclear records to support the selection of a contractor as the highest-ranked, best value. This was done by an earlier procurement group which has been replaced, and there have not been similar types of findings from the more recent procurement group. There were some missing records regarding allowance spending, totaling to about \$640,000. The project manager for that project is no longer with the district.

AUDITS IN-PROCESS

Regarding a campus emergency management audit, there were two findings and two observations, but everything was cleared except for front office safety training. This evolved to everyone being trained on handling front-office visitors, which should be done by the end of September. Selected schools were reviewed, looking at drills and making sure all were on schedule and documented appropriately.

An audit of the public solicitation bidding process did not produce any findings regarding the general control process. The audit provided improvement opportunities to strengthen documentation, document review notes, and evaluations to strengthen that process.

Teresa Corrigan noted that of the audits in process before outsourcing to RSM, some are in fieldwork, some are in reporting, and some have a set completion date. She said these could be discussed at the next Audit Committee meeting.

ETHICS AND COMPLIANCE UPDATE

Teresa Corrigan reviewed a slide listing the functions and responsibilities of the Ethics and Compliance office. Staff also reviewed actions taken in reviewing construction contract compliance. Board Member Garza Lindner asked for clarification of job order contracts, which John Gerwin (director, Ethics and Compliance, Construction) provided as being global contracts encompassing a period of time, with an indefinite quantity and indefinite delivery date.

Regarding another slide in her presentation, Teresa Corrigan stated she would like to train the School Board on E-rate, but there is time to do so before a future vote on an E-rate vendor. She also reviewed the current status of Ethics Hotline cases. There were 57 cases reported in August 2022 compared to 39 in August 2023.

CONSIDERATION AND APPROVAL OF MINUTES FROM PREVIOUS MEETING

On motion by Board Member Campo, with a second by Board Member Rivon, the minutes of the Audit Committee meeting held on April 6, 2023, were approved.

ADJOURNMENT

There being no further business, the meeting adjourned at 4:20 p.m.