

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

September 13, 2024

MEETING HELD - MEMBERS PRESENT

The School Board of the Houston Independent School District (HISD) held an Audit Committee meeting on September 13, 2024, beginning at 1 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		Remote		
		Present	1:23 p.m.	

Staff:

Catosha Woods, General Counsel
Glenn Reed, Deputy Chief Financial Officer
Jose Irizarry Cardona, Senior Media Relations Specialist
Janet Conroy, Manager, Board Services

Other:

Doris Delaney, Texas Education Agency (TEA) conservator
Elizabeth Logan, Community Volunteer
Joel Perez, RSM (remote)
Weiss Campbell, RSM (remote)
Duffy Leidner, RSM
Laura Manlove, RSM

A member of the public and a reporter from the Houston Chronicle were also in attendance.

MEETING CALLED TO ORDER — PURPOSE

Committee Chair Janette Garza Lindner called the Audit Committee meeting to order at 1:04 p.m. and declared the committee convened to consider matters pertaining to HISD as listed on the posted meeting agenda.

CONSIDERATION AND APPROVAL OF MINUTES FROM PREVIOUS MEETING

On motion by committee member Campo, with a second by committee member Rivon, the minutes of the Audit Committee meeting held on July 30, 2024, were approved.

RSM INTERNAL AUDIT STATUS UPDATE

• STATUS OF FISCAL YEAR 2024 INTERNAL AUDIT PLAN

Duffy Leidner of RSM stated that RSM is down to one remaining project, Records Management Process, and the report on this project should be ready at the next Audit Committee meeting currently planned for November 5, 2024.

• FISCAL YEAR 2025 INTERNAL AUDIT PLAN

Mr. Leidner stated that the first three internal audit projects to kick off in fiscal year 2025 will be Extra Duty Pay, District Timekeeping/Overtime, and Districtwide Activity Funds Review. A review of these projects is targeted for the Audit Committee meeting currently planned for January 28, 2025.

DISCUSSION OF RSM/AUDIT COMMITTEE/BOARD REPORTING PROCEDURES

RSM covered the following as the process for audit reporting:

1. FINAL DRAFT is presented to the Audit Committee for review and discussion. Following the Audit Committee meeting, FINAL DRAFT reports are shared with board members via SharePoint.
 - Whenever possible, only FINAL DRAFTS are presented to the Audit Committee.
 - In rare cases, WORKING DRAFTS may be presented to the Audit Committee (e.g., urgency of the content or management's need for more time). If necessary, WORKING DRAFTS will be shared with permission from the Audit Committee Chair. After finalization, RSM will present a summary of changes between the WORKING DRAFT and FINAL DRAFT.
2. At the next regular board meeting following the Audit Committee meeting, the Audit Committee Chair shares an executive summary recommending acceptance of FINAL DRAFT reports.
3. Upon acceptance at the regular board meeting, FINAL REPORTS are posted to the HISD Internal Audit webpage.

RSM also reviewed definitions of observation risk ratings low, moderate, and high.

FINAL DRAFT REPORT PRESENTATION: ACTIVITY FUNDS

Mr. Leidner noted that RSM finished this report early, as it had been planned for review at the November Audit Committee meeting.

In RSM's evaluation of Lamar High School and T.H. Rogers School, they made no observations at T.H. Rogers and two at Lamar. Both were relatively minor (low and moderate risk ratings).

Committee member Campo asked how RSM decided to evaluate those two schools as opposed to others. Laura Manlove of RSM stated their selection was risk-based, looking at the volume of activity at all schools, and the last time they were audited by a previous internal audit function, and the results.

Mr. Leidner indicated the observations at Lamar were compliance-focused, including incomplete documentation and review of deposit slips and cash receipts. He stated that management planned to address these issues with training, with a target date of September 27 for completion.

Board member Campo asked for a description of activity funds, which Ms. Manlove defined as funds collected at the school level that are student-generated (such as pizza parties and t-shirt sales) separate from district or state funds. Activity funds are maintained at individual schools with rules governing how they are spent. She stated these funds deserve an internal audit, as schools need to be accountable. There should be no missing money, and there should be good “administrative hygiene.”

Mr. Campo asked whether schools put cash in the bank and then write checks, or use cash for cash? How do they spend the funds? Mr. Leidner stated there are no cash-for-cash transactions. Mr. Campo noted that expenditures should be done in a certain fashion to make sure they are going to the right category, with community money going to community things. He observed that the mechanism to get money *in* appears to be in good shape at both schools. He asked whether RSM found any issues with money going *out*, and Ms. Manlove stated that RSM did not find any issues with disbursement.

Elizabeth Logan asked, “Can you do anything with analytics to keep an eye on what’s happening with the larger school set? Or do you have to go into individual schools?”

Ms. Manlove responded that there are analytics trends that they can look at at schools, for example, football games. If you see a decline in dollars coming in, you would want to look at that. Why wouldn’t the cash be there? You may want to take a look at sampling because there could be something going wrong.

Mr. Leidner stated RSM will soon begin an activity fund review that will be a broader look at activity funds and how they’re being used.

Mr. Campo asked how much Lamar has in its activity fund.

Ms. Manlove stated that she could get that figure, but that it’s in the thousands, not millions of dollars. She stated that it’s one area where cash is so prevalent, activity funds are riskier and should be considered in an audit plan every year.

Committee Chair Garza Lindner noted the increase in the use of cash apps, and wondered that while such apps were not in the specific scope of the current audit, how do they fit into the puzzle of cash moving between hands? Ms. Manlove stated that RSM is looking at how to put some procedures in place to help with cash apps, but is just looking at compliance for schools for this year, with a more districtwide approach for activity funds for fiscal year 2025. She agreed that it is necessary to look at a districtwide approach for cash apps. Glenn Reed noted that the district currently does not allow the use of Zelle or other cash apps, and that there is a districtwide training that all employees must take regarding the handling of cash.

STATUS OF ANNUAL AUDIT REPORT FOR 2023–2024

Committee Chair Garza Lindner stated that one key change to note is the alignment of this annual report to the fiscal year. It used to be based on the calendar year, which was confusing because it was out of alignment with other reporting.

Ms. Manlove explained that she had had some conversations with the Audit Committee chair about helping to prepare the annual audit report to the board. It usually includes what the committee has done in the previous year, lists meetings and key actions (for example, adopting a charter or policies and procedures should be communicated to the board); what has been accomplished from an audit perspective (what audits were completed and when); and an overview of the internal audit function itself. Since it is new to outsource this function at HISD, it is important to provide education back to the board. RSM added information about what the follow-up process looks like; once they issue an audit report, what happens? HISD remediates an issue, auditors come back and re-test,

and they report back results.

Board member Campo stated that the key is getting on the same cadence as the external audit. That's the fiscal year, which ends in June. When you're talking about the calendar year in the middle of the fiscal year, he said, that's where people get confused. He said he would love to connect these two. He noted that at least you're having similar discussions at the same time rather than trying to do them after the year-end such as in January or February when you're already past your financial audit. That just confuses non-financial people.

Committee Chair Garza Lindner stated that the other significance of the 2023–2024 audit report is that it provides an opportunity to explain this shift of working one way to another. It encompasses work done before RSM was on board and helps provide a bridge from what was going on before, to what's going on moving forward.

Board member Campo noted that the audit outsourcing decision was made by the previous board; the current board just implemented it. He stated that it would be good to make clear the distinction between external audit (what it does, what its requirements are), and internal audit (what it does, what its requirements are). He noted that external and internal audits are two different things with two different objectives. He said the ability to connect them and then have conversations at the same time—here's what an external audit does, here's what internal audit does, how we're doing both of them—would be good for the board and the public.

Board member Rivon stated that having a baseline helps, telling the story of where we came from, where we started a year ago. He reminded the committee that a year ago, they had questions such as, "Do we have an internal auditor?" He said it's good to have a baseline on that to help people understand what the role is.

CONFIDENTIAL DISCUSSION

At 1:36 p.m., the committee held a confidential discussion for the purpose of seeking advice from legal counsel. Committee member Campo noted that the committee does not have authority to take action, so there would be no outcome (such as a decision or vote) from the discussion, but the committee would report back to the board.

ADJOURNMENT

There being no further business, the meeting adjourned at 2:03 p.m.