



2021-2022 HISD RISK ASSESSMENT REPORT - NON IT

Issue Date: February 2022



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EXECUTIVE SUMMARY

Scope

On behalf of the Office of Internal Audit and the Chief Audit Executive, BDO performed an update of the previous year’s enterprise-wide business risk assessment. HISD’s Information Technology area was excluded from this assessment because BDO performed a separate analysis. The non-IT risk assessment is intended to assist in identifying, documenting and evaluating the organization’s risks, and support the Office of Internal Audit in developing an audit plan that prioritizes and allocates the resources of the Internal Audit Department consistent with the District’s strategic direction.

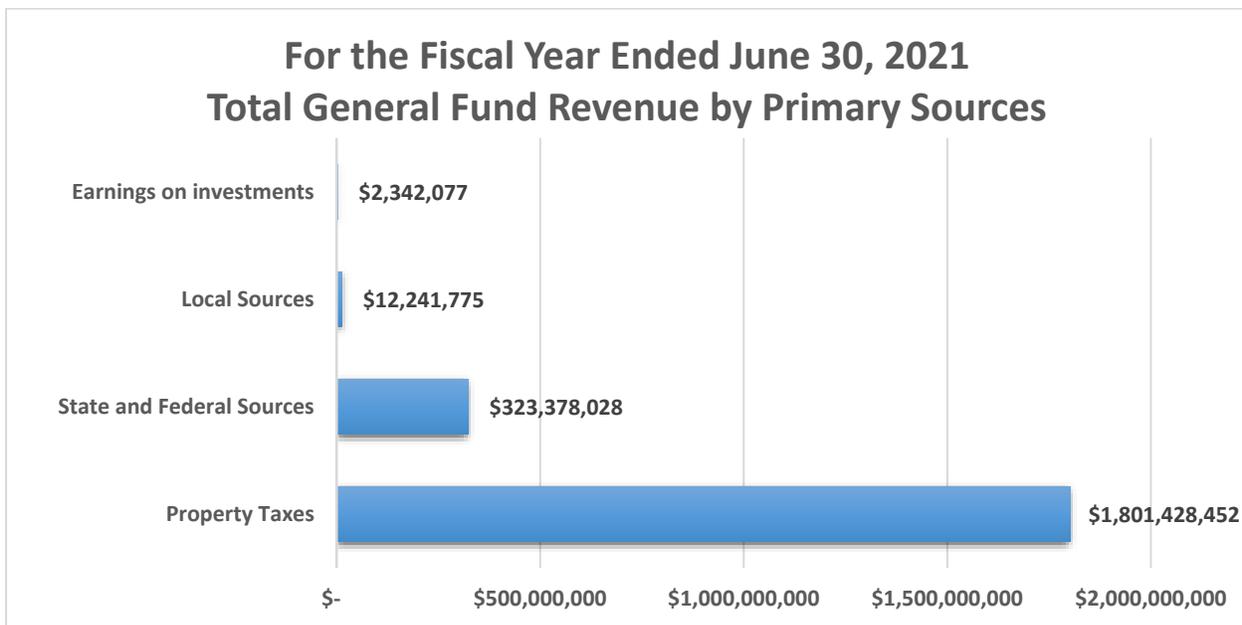
Background

The Houston Independent School District is the largest school district in Texas and the seventh largest in the United States. It serves approximately 197,000 students at 276 campuses and is one of the largest employers in Houston, with about 27,000 team members.

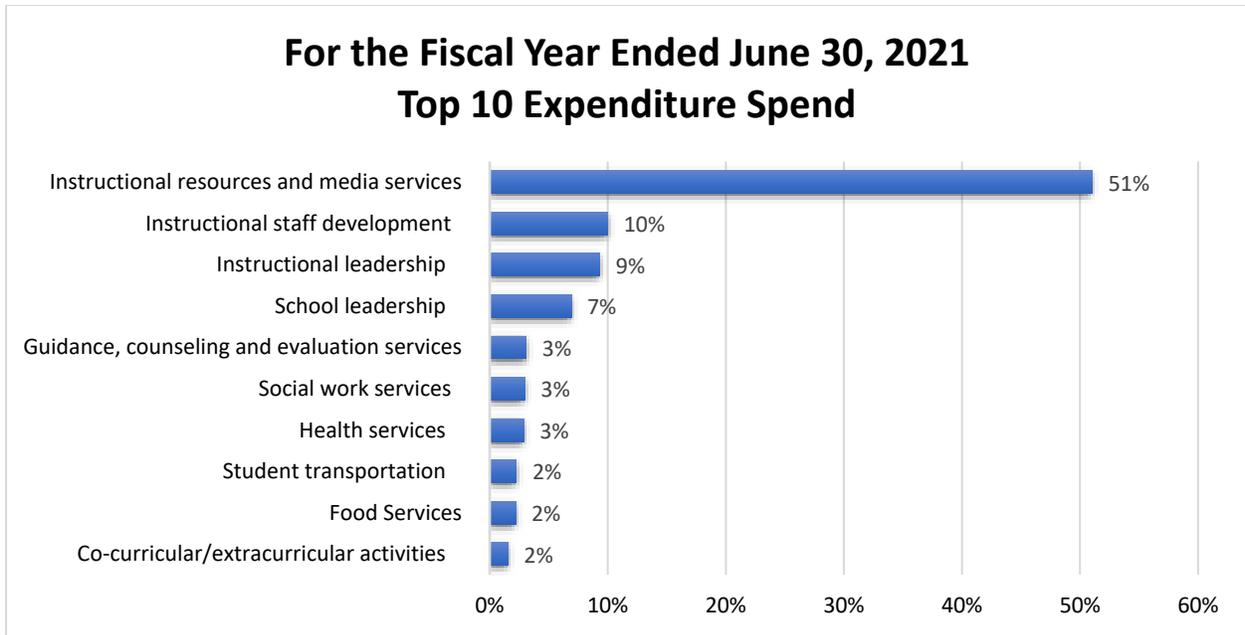
The total general fund revenue and expenditures allocated by primary sources and the top 10 expenditures are included below.

Total General Funds for the Fiscal Year Ended June 30, 2021			
	Budget Original	Budget Final	Actual
Total General Fund Revenue	\$1,972,054,361	\$2,140,633,841	\$2,139,390,332
Total General Fund Expenditures	\$1,991,093,833	\$2,330,879,400	\$2,118,499,494

Source: HISD 2021 Comprehensive Annual Report



Source: HISD 2021 Comprehensive Annual Report



Source: HISD 2021 Comprehensive Annual Report

HISD’s organization structure is comprised of the following Senior Staff

Superintendent Millard House II

Direct reports to the Superintendent:

Deputy Superintendent Rick Cruz
Chief of Staff Silvia Saenz Trinh
Chief Business Officer
Chief of Police Pedro Lopez Jr.
General Counsel Elneita Hutchins-Taylor

Direct reports to the Deputy Superintendent

Chief of Schools Denise Watts
Chief Talent Officer Jeremy Grant-Skinner
Chief Academic Officer Shawn Bird

Direct report to the Chief of Staff

Chief Communications Officer Rebecca Suárez

Direct reports to the Chief Business Officer

Chief Financial Officer Glenn Reed
Chief Technology Information Officer Scott Gilhousen
Chief Operating Officer Wanda Paul

Direct reports to the Chief of Schools:

Assistant Superintendent Achieve 180 Yolanda Rodríguez
Assistant Superintendent Elementary Schools Office 1 Julia Dimmitt
Assistant Superintendent Elementary Schools Office 2 Staci Taylor
Assistant Superintendent Elementary Schools Office 3 Erwin Garcia
Assistant Superintendent Middle Schools Office Cesar Martinez
Assistant Superintendent High Schools Office Geovanny Ponce

Project Approach

The risk assessment update was conducted in accordance with the Standards promulgated by the Institute of Internal Auditors (IIA). The IIA Standards require the Chief Audit Executive to establish a risk-based plan with the input from senior management to determine Internal Audit’s priorities, consistent with the District’s goals. Risk-based auditing effectively serves three primary roles of internal auditing which are to provide:

- Feedback on the adequacy of internal control,
- A source of information for monitoring risks, and
- Identification and communication of best practices among industries and operating lines of business.

The annual enterprise risk assessment is an effort to assist the District in mitigating risks. The purpose of the risk assessment is two-fold, specifically to identify the:

- Business risks that could adversely affect the District.
- Audit universe, examine the auditable units and select areas with the greatest risk exposures to review and include in the annual internal audit plan.



The risk assessment was performed using a top-down risk-based approach. The project approach included the following steps:

- Reviews of pertinent management information (including past internal audit reports);
- Interviews with key individuals to understand the District’s objectives and identify key risks that hinder the achievement of these objectives;
- Analysis of key risks discussed by management during the risk assessment interviews;
- Creation of the risk assessment report; and
- Presentation of the risk assessment results to the Chief Audit Executive and the Board’s Audit Committee.

Conclusion

BDO, on behalf of the Office of Internal Audit, interviewed management to gain a thorough understanding of the objectives and related risks in each area and the District. Using this information and input and our top-down risk-based approach, the areas that were highlighted as high risk areas are listed on the next page:

- ***Inability to Retain Quality Personnel*** - High turnover and low pay in relation to other school Districts.
- ***Lack of Strategic Direction*** - A comprehensive strategic plan is needed to meet the goals and objectives of the District.
- ***Budgeting*** - Need overall reviews of the budget to be aligned with the goals and objectives of the District.
- ***Misconduct/Abuse*** - Lack of standardization across the District for purchasing activities. Negative impact to the District because of the ongoing litigation matters.

Full details of the risk assessment process including notable interview results, risk register, audit universe and top risks identified can be found in the Key Steps and Appendix section that follows.

We appreciate the opportunity to provide services to HISD and the cooperation and courtesy extended to us during our review.

APPROVED:



Janet Smith
Partner, Risk Advisory Services
BDO USA, LLP

KEY STEPS

The following key steps were performed in completion of the annual risk assessment and audit plan:

Conduct Interviews

The following key District personnel participated in individual meetings to gain an understanding of the areas that pose a perceived inherent risk in their department and a perspective on the overall environment:

Personnel	Position
Alexis Licata	Officer of Business Logistics & Transportation
Allison Matney	Executive Officer, Research & Accountability
August Hamilton	Chief Strategy and Innovation Officer
Carmen Rodriguez	Accounting Manager
Denise Watts	Chief of Schools
Elneita Hutchins	General Counsel
Holly Maria Flynn Vilaseca	Board Member
Garland Blackwell	Chief Audit Executive
Glenn Reed	Chief Financial Officer
Michael Love	Executive Officer, Innovation
Millard L. House II	Superintendent of Schools
Paul Wanda	Chief Operating Officer
Rebecca Suarez	Chief Communication Officer
Rick Cruz	Deputy Superintendent
Sherrie Robinson	Controller
Silvia Trinh	Chief of Staff
Anne Sung	Board Member
Judith Cruz	Board Member
Sue Deigaard	Board Member
Daniela "Dani" Hernandez	Board Member

WHAT WE HEARD - Notable Survey Results

- *“Lack of clear direction and guidance leads to low morale and job satisfaction”*
- *“Not having the ability to offer salaries to candidates that are commensurate with the general market”*
- *“There is a lack of alignment between departments, so it feels like we work in silos and the work takes longer”*
- *“Stagnant budgets over multiple years with increasing district requirements”*
- *“Last minute requests sometimes without authorized signatures”*
- *“Not enough support for Employee Professional Development and promotional opportunities are usually predetermined based on who is liked and not ability or skills”*
- *“The decentralization of the district means that regardless of the work that is done at the district level to create curriculum, provide training and support, and otherwise support campuses, that work is treated with a “take it or leave it” mindset, which essentially means that a tremendous amount of labor and effort is being expended with few true results”*

Management participation and attendance throughout the interview process was responsive. This enabled valuable input to gain a better understanding of the strategic objectives of the District and individual departments. Their input contributed to the development of the summary risk assessment results provided in this report.

Risk Register

We have defined six risk rating categories that we believe best represent the risk elements of the risk register at the District. The categories include: Financial, Operational, Legal/Regulatory, Strategic, Technology/Systems, People/Culture and Fraud.

- **Financial Risk** - The risk of losing funding or cash flow. There are a wide variety of circumstances that could cause the District to lose public funds or property.
- **Operational Risk** - The risk of loss resulting from a breakdown in internal controls, operations, or procedures.
- **Legal/Regulatory Risk** - The risk that can arise from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, policies & procedures, and/or ethical standards.
- **Strategic Risk** - The risk of not meeting the strategic objectives of the District arising from adverse business decisions, poor execution of a strategic business plan, or improper implementation of those decisions.
- **Technology/Systems Risk** - The risk that data is not complete, accurate, and/or valid; also, the risk that data is not recorded correctly and/or readily

accessible; likewise, the risk that the proprietary or confidential data is not restricted to authorized persons.

- **People/Culture** - The risk of not being able to retain personnel. There are a wide variety of circumstances that could result in this such as lack of training, reputation of the District, inappropriate and/or insufficient compensation.
- **Fraud Risk** - The risk of intentional manipulation of financials, misappropriation of assets, and/or corruption.

As part of the interview process, the risk register was used as an element in the identification of top risks within the District. Based on the responses received through the interviews with key District personnel, we identified top risks within each risk category.

HISD Enterprise Risk Assessment Report – Non IT

<i>Risk Area</i>	<i>% of Respondents Ranked as Top Risks</i>	<i>Ranked as Top Risk in Previous Risk Assessment</i>
FINANCIAL		
Use of Significant Estimates - The risk that financial reporting activity will misrepresent actual business results due to heavy reliance on estimates, adjustments or reserves that are subjective and difficult to accurately quantify and/or associate with the occurrence of business events.	35%	33%
Budget - The budget does not accurately reflect the goals and objectives of the District and is not reasonable.	65%	33%
OPERATIONAL		
Inefficient/Ineffective Internal Controls - The risk of inadequate or poorly designed internal controls and accountability.	45%	36%
Employee Error - The risk of unintentional errors by employees due to a lack of competence or training or unfamiliarity with policies and procedures.	60%	15%
LEGAL/REGULATORY		
Unresponsive to Legal/Regulatory/Compliance Changes - The risk that District is unaware of or does not respond to changes in laws and regulations to ensure compliance.	45%	17%
Litigation Issues - Lawsuits can result in expensive settlements, litigation costs and corrective action (e.g. employee/customer litigation, contract/fiduciary liability, etc.).	75%	66%
STRATEGIC		
People or Key Resources - The risk that barriers (e.g., high turnover, inexperienced staff/skill limitations, excessive reliance on a key staff member, insufficient staffing/resources, etc.) can increase business risk impact and likelihood of its occurrence.	70%	27%
Organization Reputation - The risk that the District's reputation could be exposed based on lack of voter satisfaction with services, or ability to provide new and innovative educational programs; negative public reaction due to identified regulatory, compliance or legal issues.	50%	17%
TECHNOLOGY/SYSTEMS		
Inadequate Data Security and Access - The risk of not adequately restricting access to and protecting information.	40%	38%
Sensitivity of Data - The risk that the District will divulge, inappropriately use, or fail to control student or employee data which is confidential or private.	50%	8%
PEOPLE/CULTURE		
Insufficient Training - The risk that employees, management or board members are not properly trained or informed in process, resulting in inaccurate decisions for the District.	55%	6%
Inability to Retain Quality Personnel - The risk of not being able to retain quality personnel due to reputation of District and/or inappropriate or insufficient compensation.	85%	12%
FRAUD		
Misappropriation of Assets - The risk that the District engages in external and/or internal schemes, such as embezzlement, payroll fraud and theft.	45%	30%
Misconduct/Abuse - The risk that transactions or activities could be susceptible to management override (e.g., conflicts of interest, code of ethics violations, etc.). District could be directly or indirectly involved in monitoring and identifying misconduct and/or abuse.	65%	45%

Refer to *Appendix A* which includes the complete risk register and management's interview responses.

Audit Universe

After assessing risks and updating the risk register based on the interviews, it's necessary to identify all the areas and specific activities that could be selected for an audit. The audit universe serves as a starting point for selecting auditable areas and it includes all departments, programs, activities, and systems of the District. The audit universe has an added benefit of providing knowledge about the different functions the District performs. The knowledge gained during this process was instrumental in assessing risk.

The audit universe will be constantly evolving to reflect the creation or deletion of District programs. The following items were reviewed and evaluated to update the audit universe along with the information gathered as a result of the interviews listed above:

- District's Public Internet Site
- District's Organizational Charts
- District's Policies and Procedures

The IIA standards suggest the use of an Audit Universe to develop the risk-based audit plan. The Audit Universe is meant to be a list of all possible audits that could be performed and serves as a tool to assess the risks affecting the District. The Audit Universe elements identified as having a significant potential impact should be considered for inclusion in the next annual audit plan. A risk is a set of circumstances that can hinder an objective.

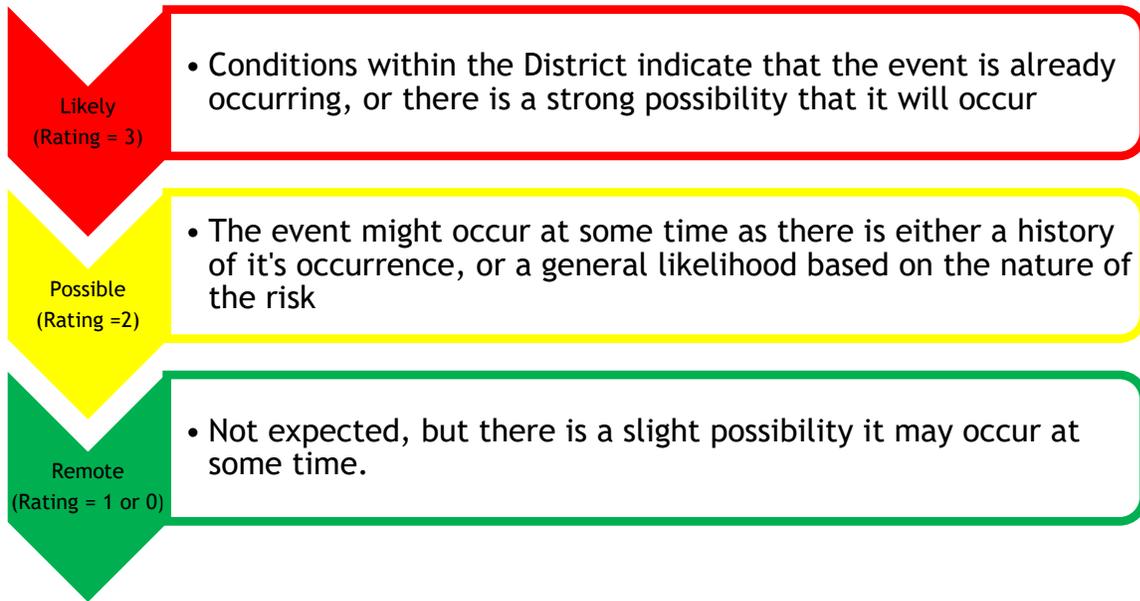
Rank Auditable Areas by Risk

With all the above risk considerations taken into account, the Audit Universe was ranked based on the following risk considerations:

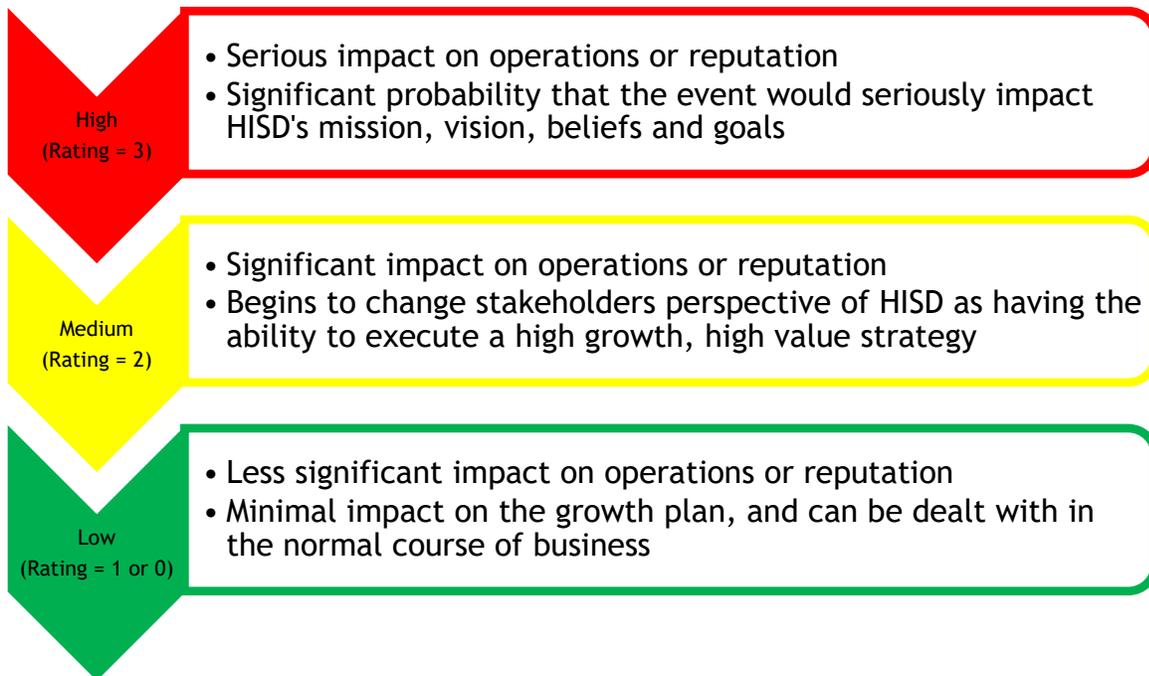
- Strategic Risk
- Financial Risk
- Reputation Risk
- Legal/Regulatory Risk
- Operational Risk
- Technology/Systems Risk
- Fraud Risk
- Changes (Major/Minor)
- Time Since Last Audit
- Prior Audit Findings and Exceptions

A score was assigned from zero to three (with zero representing the lowest risk and three representing the highest risk) for each risk factor that assesses the relative likelihood and potential impact of the identified risk factor for each audit universe element. The rating definitions for each score are as follows for both their likelihood of occurrence and impact:

The **Likelihood** rating represents the probability that an event or risk could occur.



The **Impact** rating represents the exposure to the organization should the event or risks occur.



The scores were based on historical and current information, and interviews with management and staff. A score was assigned for each of the risk factors and a total combined risk score was calculated for each potential audit area. A total combined risk score of 37 or greater was considered to be high risk and a total combined risk score of 18 or less was considered to be low risk.

Top Risk Evaluation

This section highlights the high risk areas, as a result of discussions with Management and members of the Board of Education. All are considered to pose significant risks to the District's ability to grow, provide high quality service, prevent fraud or facilitate the development of a strong internal control environment.

1. **Inability to Retain Quality Personnel**

Area of Concern

The vast majority of interviewees voiced concerns about low compensation and high turnover. Additionally, employees expressed concern that it is difficult to recruit top candidates due to the District's reputation and positions remain open for an extended period.

Potential Risk Exposure

The risk of retaining quality personnel has resulted in higher costs due to low productivity and employee errors. As a result, the District's inability to pay employees with comparable market wages will impact the District's overall mission, vision, beliefs, and goals.

2. **Lack of Strategic Direction**

Area of Concern

Several employees expressed concerns regarding the perceived lack of strategic planning, including negative publicity impacting the District's ability to meet strategic objectives.

Potential Risk Exposure

Lack of a communication of a clear vision and direction from leadership leading to low morale and job satisfaction. Lack of transparency surrounding changes to systems.

3. **Budgeting**

Area of Concern

Lack of alignment of the District's goals and objectives with the budget. For example, in multiple interviews, employees mentioned that decentralization led to a lack of transparency of how school funds were managed and spent locally.

Potential Risk Exposure

There are risks that school funds are not spent to support the District's goals and objectives. The potential for assumptions and estimates built into a budget to be inaccurate, resulting in budget control issues such as cost overruns.

4. **Misconduct/Abuse**

Area of Concern

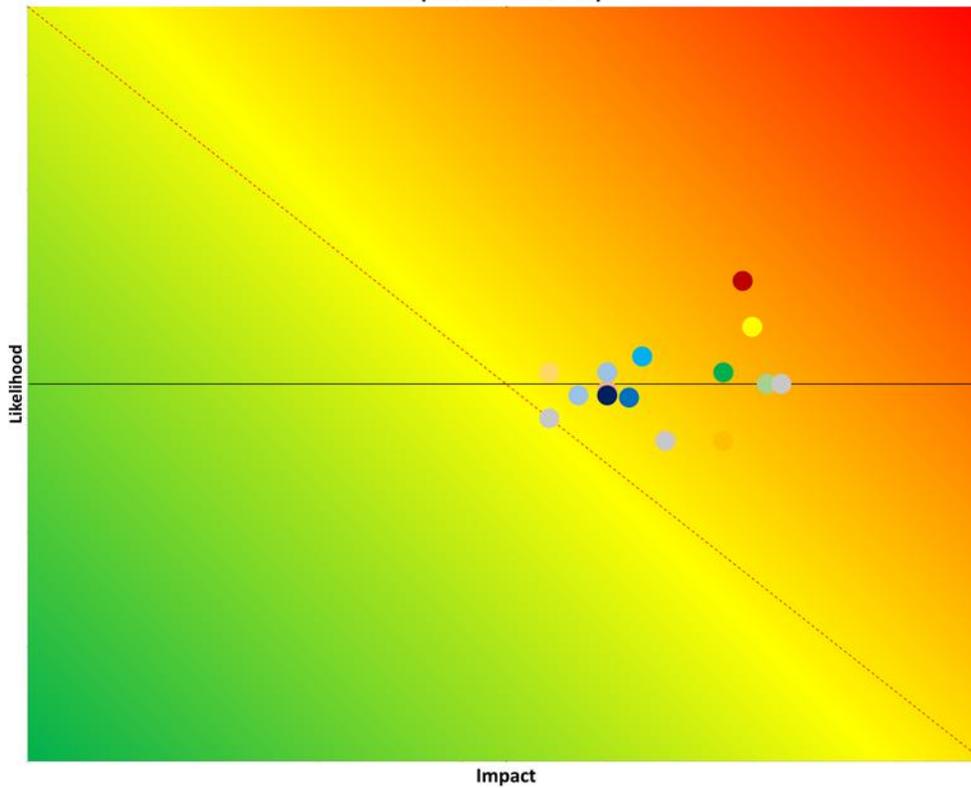
Concerns exist on the lack of monitoring and standardization across the District for purchasing activities. Several employees mentioned that there is too much discretion on using certain entities and that training is needed to address conflicts of interest.

Potential Risk Exposure

The risk is that the District is subject to an investigation. There is a potential risk that purchases are unnecessary, reasonable, or not benefit the District and its overall goals. That includes the risk of purchases not being properly reviewed and approved or employees circumventing the internal control policies and procedures over purchasing.

In addition to the above risks, there were other areas of high risks that were identified. Refer to the Top 15 Risk Heat Map below, which was developed to graphically represent areas of risk to consider as a result of an evaluation of the likelihood and potential impact of the identified risks.

Top 15 Risk Heat Map



- Business Logistics and Purchasing: Professional Services Contracts, Vendor Master Setup, Sourcing, Bidding Process, PO Process, Inventory Control, Contract Compliance/Vendor Contracts, Change Orders, Procurement Not Processed Through Purchasing Dept.
- Budgeting & Financial Planning: Department and District Wide Budget, School Based and Special Revenue Budgeting, Grants
- Special Populations: Administration, Policies and Procedures
- Counseling and Compliance: Registrar (Data Integrity, Performance Analysis and Reporting, Student Coding, Student Attendance and Enrollment Reporting, etc.)
- Business Logistics and Purchasing: ProCard Program, Administration, Policies and Procedures, Warehouse Operations
- Controller's Office: Treasury
- Human Resources: Administration, Compensation, Employee Relations, Hiring Policies and Procedures, Succession Planning, Complaints, Investigations and Resolutions)
- College Readiness: Grant Funding
- District Wide: Governance, Policies and Procedures
- Construction Services: Capital Improvement Projects (Bond Funded and Other Projects)
- Controller's Office: AP & Payroll
- Research and Accountability: Academic Performance and Data Integrity
- Career Readiness: Registrar, CTE Coding for State Submission
- Ethics and Compliance Program and Communication
- Facilities and Fleet Services: General Maintenance, Service and Repairs; Fleet Management Replacement,

Appendix A: Risk Register and Management Interview Results

RISK REGISTER	
<u>FINANCIAL</u>	Interviewee Expressing Concerns (%)
Achieving Financial Goals - The risk that the District will be unable to meet their financial goals and be pressured by the Board or management to take unwise or inappropriate actions to report results which District expectations.	30%
Materiality - The risk that any financial reporting activity will misrepresent results by an amount that would reasonably change voter or other external third-party assessments of the District’s performance.	15%
Volatility - The risk that financial reporting will be inaccurate, incomplete or untimely.	20%
Use of Significant Estimates - The risk that financial reporting activity will misrepresent actual business results due to heavy reliance on estimates, adjustments or reserves that are subjective and difficult to accurately quantify and/or associate with the occurrence of business events.	35%
Budget - The budget does not accurately reflect the goals and objectives of the District and is not reasonable.	65%
<u>OPERATIONAL</u>	
Inefficient/Ineffective Internal Controls - The risk of inadequate or poorly designed internal controls and accountability.	45%
Quality of Work - The risk of poor-quality work due to the pressure from management on completing job responsibilities timely.	35%
Employee Error - The risk of unintentional errors by employees due to a lack of competence or training or unfamiliarity with policies and procedures.	60%
Inappropriate Data Usage - The risk of the misuse of sensitive or confidential information by employees or other outside parties.	5%
Non-Routine/Complex Transactions - The risk that incorrect or inconsistent handling of infrequent or complex activities could cause inconsistent financial reporting.	15%
Compliance with Policies and Procedures - The risk that staff responsible for executing business activities will fail to comply with the District’s policies and procedures, whether due to lack of training, failures of communication or mindful disregard.	30%
Weather/Natural Disaster/Pandemic - The risk that a major natural disaster/pandemic could threaten the District's ability to sustain operations, provide essential services or recover operating costs.	25%

<u>LEGAL/REGULATORY</u>	
Legal and Economic Impacts - The risk of direct or indirect impact on activities from changes in the regulatory environment.	30%
Unresponsive to Legal/Regulatory/Compliance Changes - The risk that District is unaware of or does not respond to changes in laws and regulations to ensure compliance.	45%
Litigation Issues - Lawsuits can result in expensive settlements, litigation costs and corrective action (e.g., employee/customer litigation, contract/fiduciary liability, etc.).	75%
<u>STRATEGIC</u>	
Insufficient or Inadequate Strategic Planning - The risk that an inefficient and ineffective strategic planning process, including poor assumptions, results in the District's inability to meet their goals and objectives.	25%
Lack of Appropriate Governance - The risk that senior management or Board members commit actions that are detrimental to voter's' interests, including misrepresenting the District's intentions or business results.	35%
People or Key Resources - The risk that barriers (e.g. high turnover, inexperienced staff/skill limitations, excessive reliance on a key staff member, insufficient staffing/resources, etc.) can increase business risk impact and likelihood of its occurrence.	70%
Organization Reputation - The risk that the District's reputation could be exposed based on lack of voter satisfaction with services, or ability to provide new and innovative educational programs; negative public reaction due to identified regulatory, compliance or legal issues.	50%
Negative Publicity - The risk of public disclosure of operations will negatively influence public perception that impacts the District's ability to pass a budget and meet its strategic objectives	30%
<u>TECHNOLOGY/SYSTEMS</u>	
Lack of Information Integrity - The risks associated with the authorization, completeness, timeliness and accuracy of transactions/data as they are entered into, processed and reported by various systems.	25%
Lack of Timely, Reliable, and Relevant Information for Decision Making - The risk that relevant internal and external information necessary for decision making is not available on a timely basis and/or is unreliable.	25%
Inadequate Data Security and Access - The risk of not adequately restricting access to and protecting information.	40%
Sensitivity of Data - The risk that the District will divulge, inappropriately use or fail to control student or employee data which is confidential or private.	50%
Lack of Access to Information - The inability to have access to information properly and adequately perform job responsibilities.	20%

<u>PEOPLE/CULTURE</u>	
Lack of Clear Roles and Responsibilities - The risk that roles and responsibilities are not clearly defined, communicated, and understood by employees.	0%
Deficient Values, Integrity, and Ethics - The risk of an employee breach of District values and Code of Conduct standards related to integrity, ethics and discrimination.	25%
Inappropriate Performance Incentives - The risk of either insufficient performance incentives or incentives that are unrealistic or misunderstood causing employees to act in an inappropriate manner.	25%
Insufficient Training - The risk that employees, management or board members are not properly trained or informed in process, resulting in inaccurate decisions for the District.	55%
Inability to Retain Quality Personnel - The risk of not being able to retain quality personnel due to reputation of District and/or inappropriate or insufficient compensation .	85%
<u>FRAUD</u>	
Misappropriation of Assets - The risk that the District engages in external and/or internal schemes, such as embezzlement, payroll fraud and theft.	45%
Misconduct/Abuse - The risk that transactions or activities could be susceptible to management override (e.g., conflicts of interest, code of ethics violations, etc.). District could be directly or indirectly involved in monitoring and identifying misconduct and/or abuse.	65%
External Crime - The risk that activities could be exposed to external theft and destruction (e.g., robbery, asset/information theft, etc.). District could be directly or indirectly involved in monitoring and identifying external crime.	15%
EXTERNAL FRAUD - The risk that transactions and activities could be exposed to external fraud (e.g., check frauds and kiting). District could be directly or indirectly involved monitoring and identifying external fraud.	20%