

# AUDIT COMMITTEE MEETING

*September 6, 2023*

*Jim Terry, Chief Financial Officer*

*Teresa Corrigan, Sr. Executive Director, Ethics & Compliance*



# AGENDA

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- CALL TO ORDER
- CONSIDERATION AND APPROVAL OF MINUTES FROM PREVIOUS MEETING
- WELCOME NEW COMMITTEE MEMBERS
- SELECT NEW AUDIT COMMITTEE CHAIR
  - Review of Audit Committee Charter
- FY2023 FINANCIAL AUDIT UPDATE BY WEAVER
- OUTSOURCING OF INTERNAL AUDIT FUNCTION
  - Introduction and presentation from RSM, LLP
- AUDIT REPORTS ISSUED SINCE LAST AUDIT COMMITTEE MEETING
  - Ethics and Compliance
  - BDO
- AUDITS IN-PROCESS
- ETHICS AND COMPLIANCE UPDATE
- CLOSED SESSION

# **REVIEW OF AUDIT COMMITTEE CHARTER**

# **FY2023 FINANCIAL AUDIT UPDATE BY WEAVER**

# Engagement Team

## Houston Independent School District

### Audit Leadership

**Laura Lambert, CPA**  
Engagement Partner

**Matt Rogers, CPA**  
Engagement Senior Manager

**Justin Newby CPA**  
Engagement Senior Manager

**Kaitie Miller**  
Engagement Senior

**Justin Herbert**  
Engagement Senior

**Audit Staff**

**IT Advisory Services**

# Audit Plan - Interim

**Interim fieldwork was completed on June 5<sup>th</sup>-June 16<sup>th</sup>.  
Procedures included:**

- Walkthrough of internal controls over significant transaction cycles (open items pending):
  - Capital Assets
  - Cash Disbursements
  - Financial Reporting
  - Payroll
  - Purchasing/Procurement
  - Utility Billing
  - State/Federal Grant Revenue
  - Property taxes
  - Information Technology (Weaver IT Advisory Services)
- Tests of internal controls over:
  - Cash disbursements
  - Payroll

# Audit Plan - Interim

- Compliance testing – Public Funds Investment Act
- Compliance testing - Bids/Procurement (including procedures to address areas of concern in procurement) (follow up testing will be performed during year-end fieldwork)
- State compliance testing

# Audit Plan - Interim

- Major federal financial assistance programs include:
  - CFDA # 84.425 - COVID-19 - Elementary and Secondary School Emergency Relief Fund
- Possible additional major programs pending final Schedule of Expenditures of Federal and State Awards
- Tests of internal control over compliance, as well as, tests for compliance related to major federal and state financial assistance programs performed
- Additional testing is still pending for year-end fieldwork.



# Audit Plan – Year End

**Final fieldwork is preliminarily scheduled for September through November. Procedures will include:**

- Completion of Single Audit testing of compliance for major programs (Federal and State).
- Substantive testing of account balances using a combination of vouching of material transactions, sampling, and analytical procedures.
- Unpredictability test (to be determined)
- Follow up on testing started during interim.
- Review of the Annual Comprehensive Financial Report.

## GASB 96:

Effective  
for fiscal  
22-23

### *GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs)*

- Provides guidance for accounting and financial reporting for subscription-based information technology agreements
- This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA.

# Upcoming Changes

## **GASB 101:**

Effective  
for periods  
beginning  
after  
12/15/2023

### *GASB Statement No. 101, Compensated Absences*

- Updates the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures

# Audit Committee Concerns

- Points of concern?
- Additional areas of risk?
- Additional services requested?



# Questions?

## Contact Us

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Engagement Partner

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Engagement Senior Manager

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# **OUTSOURCING OF INTERNAL AUDIT FUNCTION**

# Introduction to RSM - Overview

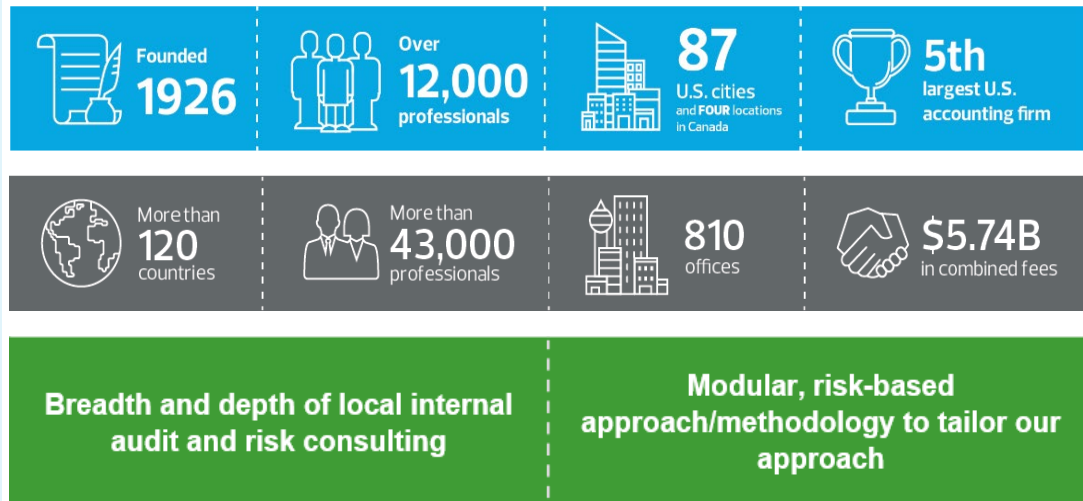
## Our firm and resources

- Premier Service Provider: Audit, tax, and consulting for the middle market.
- Broad Presence: 87 cities in the US, 4 in Canada.
- Global Network: Part of RSM International, 120 countries, 43,000+ professionals.
- Strategic Growth: Fifth largest provider in the U.S. through organic growth and acquisitions.
- Client-Centric: Deeply rooted values in understanding and driving client success

## Client service philosophy

- At RSM, we are focused on understanding our clients, including their business, their aspirations and their challenges.
- Once we understand, we bring fresh insights and tailored expertise to help them succeed

## About RSM



# Introduction to RSM - Overview

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- 200+ school districts served
- Key Large School Districts Served:
  - Chicago Public Schools
  - Miami-Dade
  - Broward County
  - Palm Beach County
- Texas Focus:
  - 20+ years serving Texas school districts
  - Experience working with the TEA and familiar with their processes
  - Active in TASBO





# Team Introductions – Core Team

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Jennifer Murtha –  
National Public  
Sector Consulting  
Leader



Joel Perez –  
Texas Public  
Sector Leadership



Anne Slattery –  
Houston Risk  
Consulting  
Leadership



Laura Manlove –  
Engagement  
Leader



Andrew  
Weidenhamer –  
Information  
Technology  
Leader



# Team Introductions – Subject Matter Experts

Risk Advisory Consulting		Financial Advisory Consulting	Technology Services		Audit Services
<ul style="list-style-type: none"> <li>• <b>Internal Audit</b></li> <li>• <b>IT Audit</b></li> <li>• Governance, Risk and Compliance</li> <li>• Construction Oversight and Cost Recovery</li> <li>• Contract Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Security and Privacy Services</li> <li>• Enterprise Risk Management</li> <li>• Service Organization Control Assurance</li> <li>• Regulatory Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Improvement</li> <li>• Finance Operations and Controls</li> <li>• Anti-Fraud Consulting</li> <li>• Project Management</li> <li>• Litigation &amp; Dispute</li> <li>• Budget &amp; Modeling</li> <li>• Forensic Accounting</li> </ul>	<ul style="list-style-type: none"> <li>• IT Strategy</li> <li>• Management Consulting</li> <li>• Disaster Recovery</li> <li>• Business Intelligence</li> <li>• Enterprise Content Management</li> <li>• Application Integration and Development</li> <li>• Cloud Services</li> <li>• Network Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Security Architecture</li> <li>• Penetration Testing</li> <li>• Business Continuity Planning</li> <li>• Program Management</li> <li>• ERP Selection, Controls and IV&amp;V</li> <li>• Payment Card Industry</li> </ul>	<ul style="list-style-type: none"> <li>• Opinion Audits</li> <li>• GAO Performance Audits</li> <li>• Federal Funds Compliance</li> <li>• IT Security</li> <li>• SOC 1 (SAS 70)</li> <li>• External Audit</li> <li>• Tax Compliance</li> </ul>



# Internal Audit Process – Value Proposition

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- **Tailored Approach:** Customized to HISD's unique challenges.
- **Proactive Risk Management:** Early identification & root cause focus.
- **Data-Driven Insights:** Enhancing decision-making & efficiency.
- **School District Expertise:** Deep understanding of education sector risks. We frequently work with large districts undergoing significant leadership changes, including Board turnover. We will support and guide HISD's leadership during this transition period.
- **Transparent Engagement:** Real-time updates & comprehensive management.



# Internal Audit Timeline

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## The following is the planned timeline for transition to the outsourced internal audit model:

April 2023	With support from TEA, the Board of Trustees awarded the Internal Audit Services contract to RSM after a thorough competitive solicitation. RSM was selected through the RFQ process as the most qualified firm to serve HISD.
April – August, 2023	RSM meets with the Director of Ethics and Compliance regarding transition planning. The Director of Ethics and Compliance analyzes the status of the current internal audit plan, and develops the internal audit plan for FY24, including any carryover projects from FY23 and new projects to add to the plan.
June 1, 2023	Superintendent and Board of Trustees are appointed by TEA.
September 2023 and on	RSM introduction to the Audit Committee. RSM to move forward with approved internal audit plan for FY24 once the contract is executed. We understand that priority audits will be conducted immediately, and others will be scheduled at a time that is best for the District departments and leadership.
Fall 2023	RSM will perform a comprehensive risk assessment for the purposes of creating the proposed internal audit plan for FY25. We understand the District would like this to begin in the Fall 2023 for delivery to the Audit Committee in Spring 2024.



# Internal Audit Process - Overview

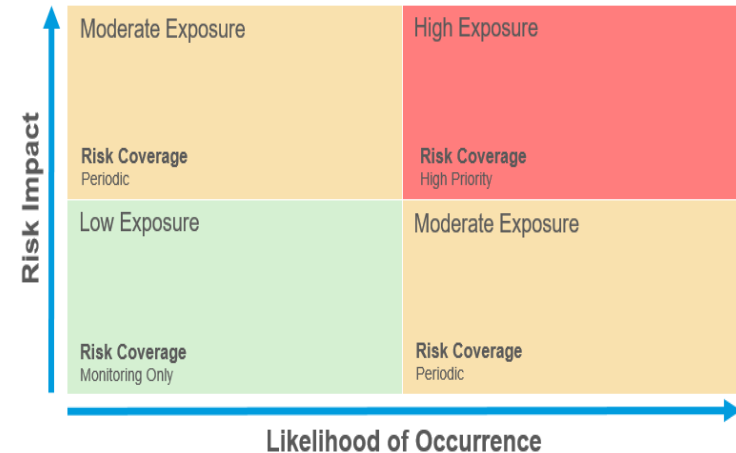
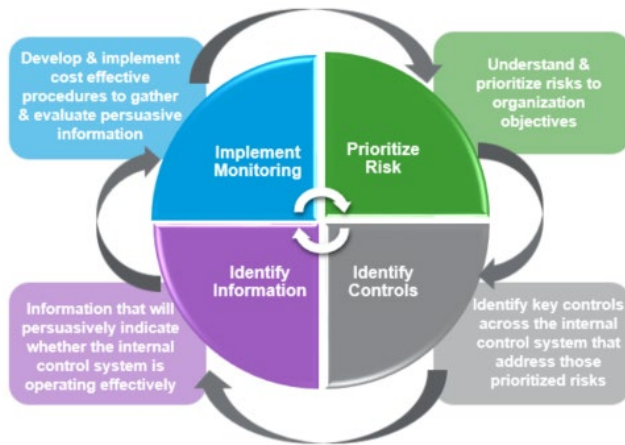
## Internal Audit Life Cycle:

- Annual Risk Assessment and Internal Audit Plan
- Audit Execution:
  - Scoping and Planning
  - Fieldwork
  - Reporting
- Audit Committee Presentation
- Identified observations and risks are tracked and remediation is validated based on management target dates
- Rising risks identified by the AC, Board, Management, and internal audits are prioritized and added to the risk assessment for the upcoming year

Understand the client	Risk Assessment	Audit Plan Development	Audit Execution	Reporting
<ul style="list-style-type: none"><li>• Executive planning session</li><li>• Define communication Protocols</li><li>• Develop engagement project plan</li><li>• Conduct engagement expectations discussions</li><li>• Inventory business processes and supporting systems</li></ul>	<ul style="list-style-type: none"><li>• Formalize objectives, scope and approach</li><li>• Define key organization risk factors</li><li>• Conduct an enterprise risk assessment</li><li>• Conduct a current state IT risk assessment</li><li>• Establish an audit universe</li><li>• Stakeholder communication</li></ul>	<ul style="list-style-type: none"><li>• Refine the dynamic risk-based audit plan</li><li>• Co-develop audit objectives</li><li>• Establish high-level scope with process owners</li><li>• Coordinate with subject matter resources</li><li>• Obtain audit committee approval</li></ul>	<ul style="list-style-type: none"><li>• Finalize audit scope and approach</li><li>• Develop audit notification letter and stakeholder alignment</li><li>• Develop process flows and data flow diagrams</li><li>• Perform test of controls</li><li>• Communicate results</li></ul>	<ul style="list-style-type: none"><li>• Co-develop management actions plans</li><li>• Draft audit reports</li><li>• Conduct internal quality assurance review</li><li>• Finalize and deliver reports</li><li>• Conduct periodic audit committee communications</li></ul>
IT Integration				
IT Governance & Risk Management	Application	Data Governance & Management	Infrastructure Systems	
Data Analytic Integration				
Establish analytic program strategy	Conduct a data driven risk assessment and sampling	Define ad-hoc and repeatable analytic tests	Develop and execute continuous assurance program	Facilitate dynamic management reporting



# Internal Audit Process – Risk Assessment



Financial



Operational



People / Culture



Strategic



Technology / Systems



Fraud



Legal & Regulatory Compliance



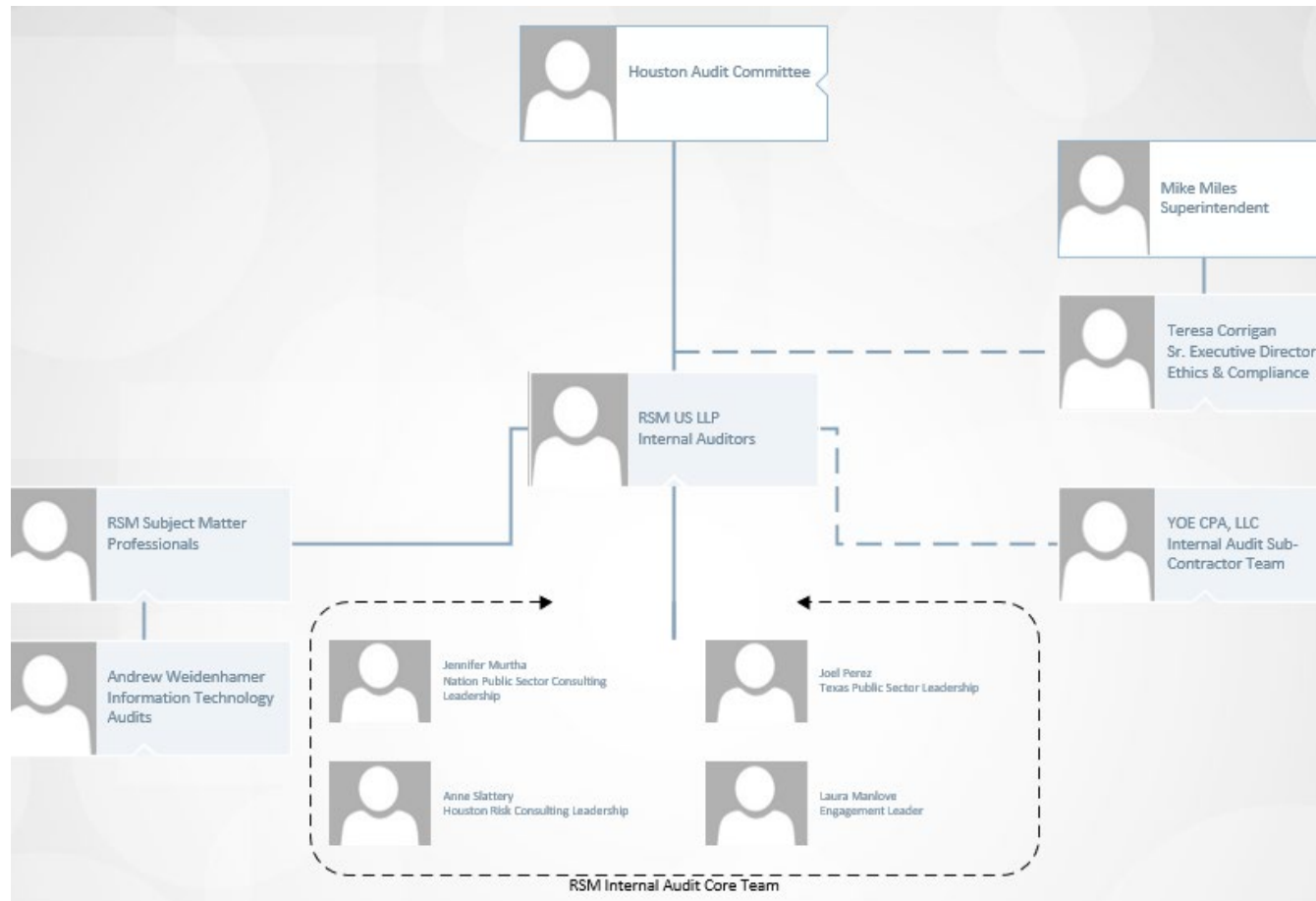
Reputation / Public Perception



External



# Internal Audit Process – Governance



# Current Internal Audit Plan

	Area	Audit Report Name
1	Enterprise	Records Management Process
2	Business Logistics and Purchasing Services	Vendor Management - Vendor Master Setup
3	School Campuses	Activity Funds Review of Selected Schools
4	Enterprise	Employee Termination Process
5	Information Technology	IT Security Maturity / Cybersecurity Risk Assessment
6	Information Technology	Enterprise Data Warehouse
7	Information Technology	Logical Security and Access Management (Privileged Access Management)
8	Operations	Nutrition Services Process
9	Academics	On-Time Grad Academy Data Quality
10	Finance & Operations	Bus Driver Pay Process
11	Enterprise	Enterprise Risk Assessment
12	Finance & Operations	Inventory Audit (Central Warehouse, Nutrition Services' Labatt warehouse and selected campuses)



# Other Topics – School District Hot Topics

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## ***IA Hot Topics:***

- Student Discipline
- Physical Security
- Cyber-attacks
- Data Management
- Fraud

## ***HISD Rising Risks:***

- Procurement
- HR Processes



# **AUDIT REPORTS ISSUED SINCE LAST AUDIT COMMITTEE MEETING**

# **AUDITS IN PROCESS (Pre-Outsourcing)**

# **ETHICS AND COMPLIANCE UPDATE**

# OFFICE OF ETHICS AND COMPLIANCE

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- Increase awareness and management of the Ethics Hotline
- Conduct investigations thoroughly, effectively and efficiently
- Improve roll-out and compliance with Children's Internet Protection Act (CIPA) to improve internet safety for students
- Manage District-wide Compliance Courses Roll-out & Rpting
- Oversee E-Rate Program compliance
- Identify, investigate, and help prevent conflicts of interest and financial improprieties at HISD
- Ensure vendors with direct contact with students are cleared (i.e. criminal history verified) to work at HISD
- Educate employees on risk and controls to help promote and support ethical compliance with laws, regulations and policies
- Partner with Internal Audit firm, assist project team, and oversee execution of internal audit plan

# CONSTRUCTION CONTRACT COMPLIANCE

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- Review new construction, renovation, or remediation services (projects) provided by contractors and service providers from initial selection to close-out. These include:
  - Construction Manager at Risk Contracts
  - Competitive Sealed Proposal Contracts
  - Job Order Contracts
- Review design and consulting services (projects) provided by architectural or engineering firms from initial selection to close-out
- For construction projects using federal funds, perform the following:
  - Educate contractors on Davis-Bacon prevailing wage requirements
  - Review contracts for required prevailing wage clauses
  - Implement and conduct ongoing certified payroll reviews on active contracts
- Provide consulting services as needed and/or at the request of Construction Services (ex: Develop Lessons Learned list from prior projects to ensure longer range needed improvements are carried forward)
- For last 4 Bond Programs – 1998, 2002, 2007, and 2012 – HISD has promoted an on-site audit function to promote accountability to the voters

# E-RATE

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Eligible schools and libraries receive discounts ranging from 20 – 90% on telecommunications services, internet access, internal connections, and basic maintenance

HISD received:

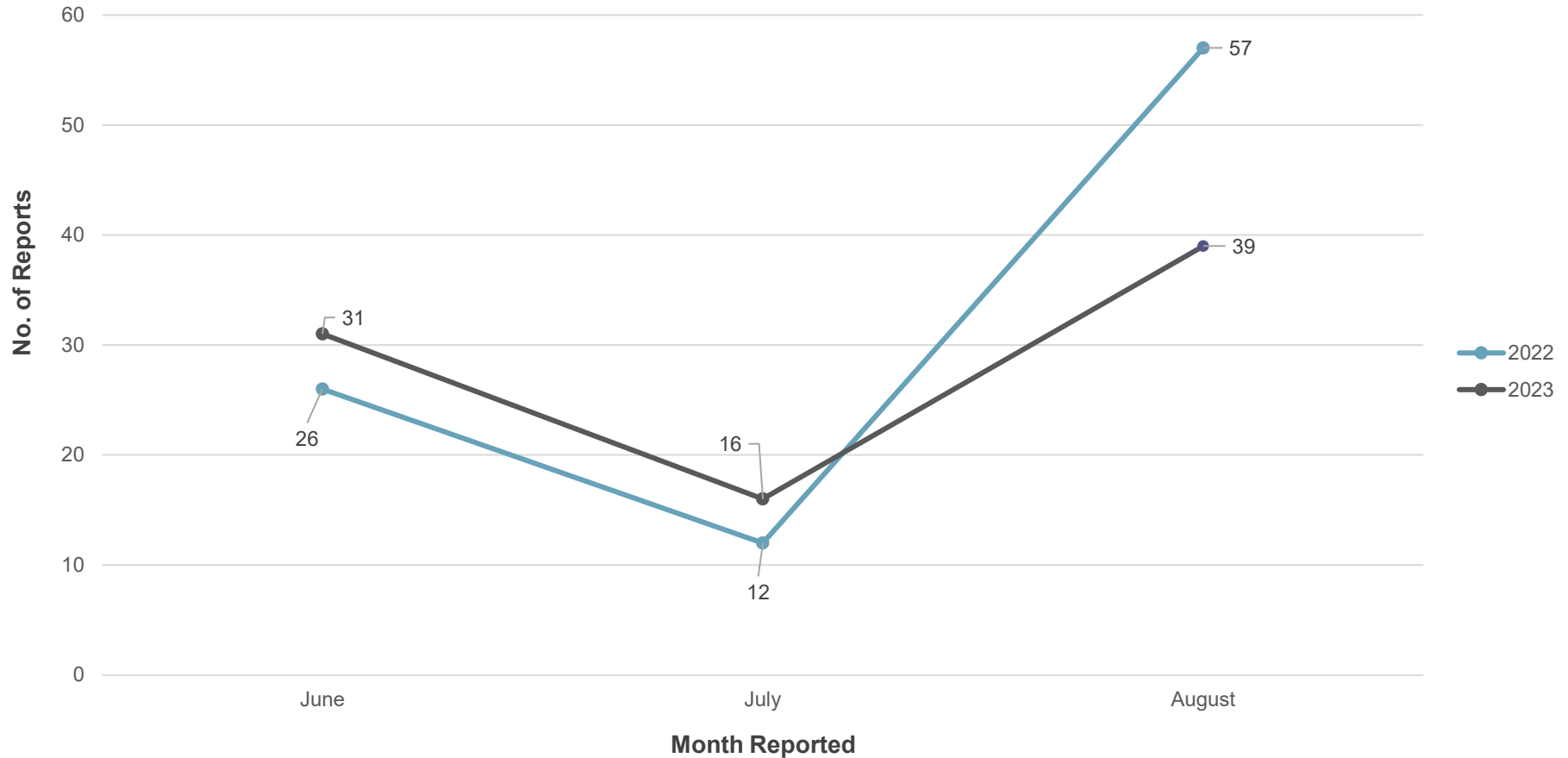
- More than **\$353M** of eligible E-Rate funds to date
- Approx. **\$7.5M** in FY 2022
- A five-year, pre-discount budget totaling **\$33M** for C2 services in FY 2021 (**\$22M** remains for FY2023 thru FY2025)

**Audit:** No areas of non-compliance with FCC Rules  
(Source: 2021 USAC compliance audit)

# Ethics Hotline Cases

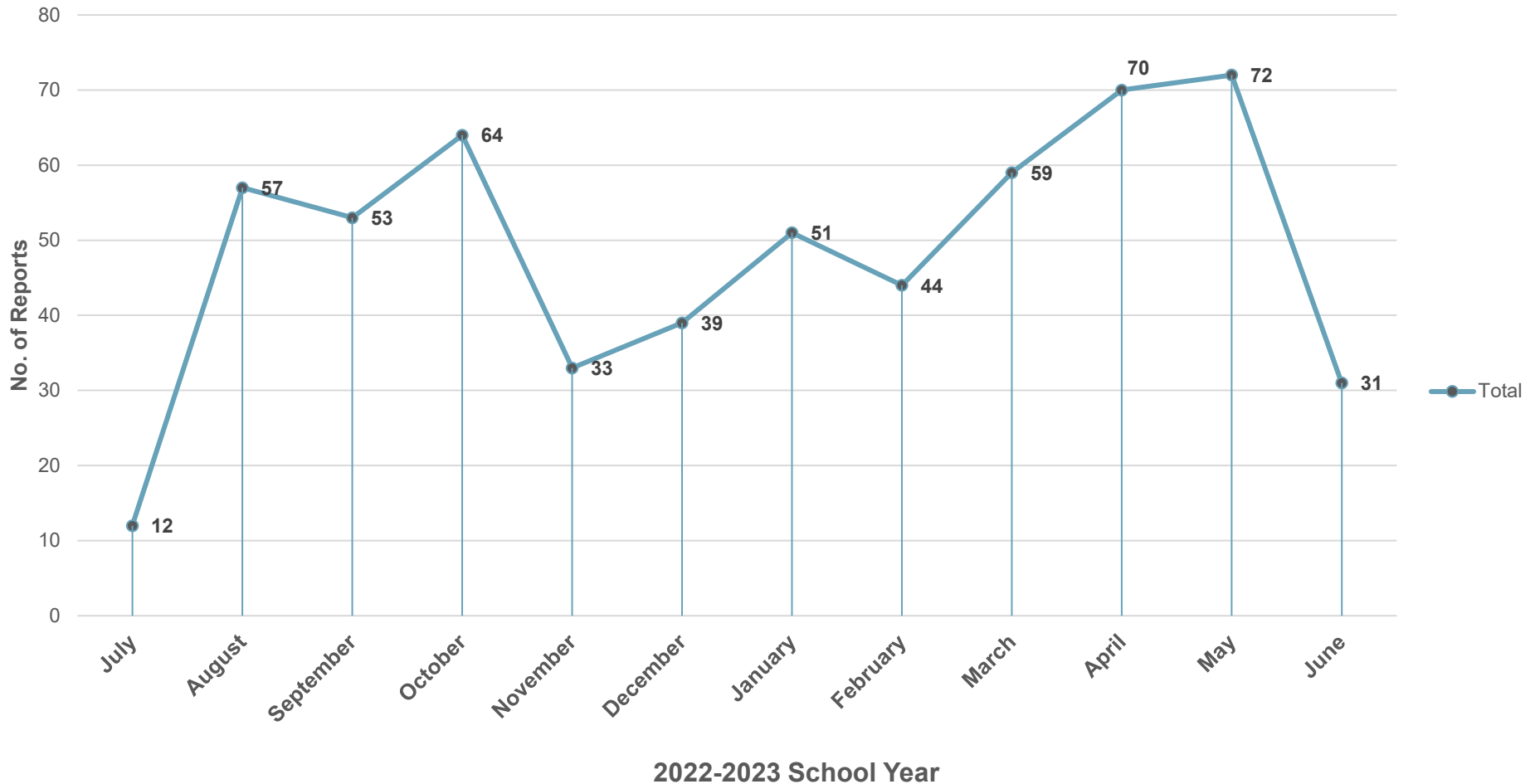
## Year to Year comparison

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# Ethics Hotline Cases Reported in 2022-2023



# **CLOSED SESSION**

# Thank you

