

**Houston Independent School District  
Board Audit Committee  
(Meeting Minutes: October 12, 2017)  
12:00 Noon**

**Meeting Called to Order by:** It is recommended that there is no need to call the *meeting* to order, as no quorum was present.

**Present:** Committee Members: Anna Eastman

Audit Staff: Garland Blackwell, John Gerwin, Glenn Johnson, Stephanie Sandifer, Debra (Debi) Fincher

**Others Present:** Arturo Michel, Richard Carranza, Brendan Day - Baker Botts LLP

**Proceedings:**

- Open Session
- Mr. Garland Blackwell, Chief Audit Executive, provided opening comments. He described the execution to-date of the 2017 Audit Plans as woefully embarrassing. Primary reasons for that condition included: 1) the plans were not well thought out or developed and 2) the audit pool approach did not work because audits were not completed on time.

Ms. Eastman stated “she understood the difficulty and cited the lack of clear direction from the board”.

Mr. Blackwell also stated that the morale in the Internal Audit department was low upon his arrival to HISD and that he has engaged the Human Resource Organizational Development team to help boost the team’s morale. He also stated that since he reports to the Board, that the Administration should present their requests for audit and audit related services directly to the Board or the Audit Committee for approval.

Ms. Eastman agreed and deemed it important to always have open lines of communication.

Mr. Blackwell continued elaborating on professional development. He expressed that the department is getting better on report writing. He mentioned that there has been hard work invested, and that we are headed in the right direction. He also mentioned that there is better engagement as a team. He expressed his thoughts on the non-IT Enterprise Risk Assessment, stating that one was not completed this year because he wanted to wait until he has a better understanding of HISD and, therefore, that last year’s Risk Assessment was used for audit planning. The last

Risk Assessment was done by BDO, LLP with Mr. Glenn Johnson's (audit manager) assistance. He estimated that the next Risk Assessment will be performed during Q1 2018 using internal or external resources.

He mentioned that we engaged Whitley Penn to audit the Construction Audit program and that he is pleased with the results of their work. Their draft report is in review and will be finalized soon. Mr. John Gerwin (audit manager) stated that they (Whitley Penn) were definitely helpful, candid and upfront. He likes the idea of more automated records.

- Mr. Blackwell continued announcing the 1<sup>st</sup> item on the agenda. 'Status of the 2017 Audit Plan'.

Ms. Stephanie Sandifer explained her project titles, status notes, completed audits and cancelled audits. She also mentioned that the audits scheduled to begin on October 17, 2017 would be done by KFORCE. (An outside staffing firm that provides strategic partnership in the areas of Technology and Finance & Accounting services.) SEE AUDIT PLAN STATUS UPDATE

Mr. Johnson explained his project titles, status notes, completed audits and cancelled audits. He spoke of the Food Services (Aramark Contract) and Accounts Payable audits starting on October 17, 2017. SEE AUDIT PLAN STATUS UPDATE

Ms. Eastman asked, "What was the basis of the Food Services (Aramark Contract) audit?" Mr. Johnson replied, "basically compliance".

Mr. Gerwin explained his project titles and status notes. He said they were basically at a "log jam" with getting information that he requested from Construction Services, contractors, and the PMs. The requested information is needed in order to finalize audit fieldwork and audit reports. He elaborated on contract completions and asked Ms. Eastman if she had any questions. SEE AUDIT PLAN STATUS UPDATE (Construction Audit) Ms. Eastman said she had no questions.

- Mr. Blackwell continued with the 6th item on the agenda, "Ethics and Compliance Update".

Ms. Debi Fincher spoke of the Ethics and Compliance transition in July. SEE MEMORANDUM (tab 6). She elaborated on the 32 open cases, the 10 assigned to Ethics & Compliance and the 3 assigned to Legal Services. She mentioned the primary allegations and that there were 60 in the last 2 months with 58 being open. She stated that the most prevalent types of allegations are mostly workplace conduct. SEE TAB 6

Ms. Eastman asked, "Why was that"?

Ms. Fincher said it could be because of directives given, etc. The reasons vary.

Ms. Fincher continued and focused on the location and amount from Garcia Elementary. There seems to be some HR (Human Resource) issues. She said these cases would be streamlined. She said there seemed to be an issue with selection, name change, etc. They are broken down by who they are assigned to. School Offices, Human Resource, Police Department, etc.

Ms. Eastman asked 'how do you choose which cases to outsource'?

Ms. Fincher replied, "it is based on the differences". (See Bullets on Handout – tab 6). She said that most of the time it is a conflict of interest. Also, what the District allows. Ms. Fincher also mentioned that the Ethics training will be going LIVE.

- Mr. Blackwell highlighted each of the comments made. He also stated that he will remove the auditor pooling model for next year's audit plan. Instead, each manager will have dedicated auditors. He also mentioned that construction audit would expand their audits by including Facilities Services, which was separated into its own department out of CFS. Mr. Gerwin expressed that their primary focus had been on Construction contracts, with a limited focus on the AE's and PM's, but that they would be expanding their focus to include selective deliverables from the AE's and PM's as well.
- Mr. Blackwell continued with the change in principal audits. He stated that 10 would be incorporated into next year's audit plan. Ms. Eastman asked if 10 was a little low and how many hours are spent on a principal change audit? She also asked if these were in addition to activity fund audits.

Mr. Blackwell said that he would like to audit the campuses from a systemic point of view. A sample of schools would be selected to address district-wide concerns for 2018.

He also said at a future committee meeting, audit topics for next year's audit plan would be presented to incorporate IT (information technology) audits for the new IT auditor. He said he is waiting on a list from Lenny Schad, Chief Technology Officer. He also mentioned how supportive Mr. Schad has been.

- Mr. Johnson continued with the IT current year audit plan.

Mr. Blackwell said that BDO has started their work and that we would get an IT risk assessment.

Ms. Eastman asked if the new IT auditor position would replace the BDO contract.

Mr. Blackwell replied 'no, one auditor cannot do all of this work'.

Ms. Eastman asked if they would communicate with the new IT person.

Mr. Blackwell responded, 'yes, this position will engage with them. He said they would primarily support Mr. Schad and secondarily the audit managers. He also said he was in the process of reviewing various IT auditor job descriptions and wants the audits to be planned from a systemic point of view.

Ms. Eastman acknowledged that this should be the primary motivation.

- Mr. Blackwell concluded he had one last thing. He mentioned the IIA Code of Ethics and that we needed to ensure that we conduct ourselves in accordance with the Code. He shared the "yellow book" and said we had an obligation to follow it for audits of areas that are supported with federal funds. Also, he mentioned that the yellow book requires an audit of the Internal Audit department every three years.

Mr. Gerwin also mentioned the FASREG, which is basically the Yellow Book tailored for school districts published by the TEA.

Ms. Eastman pointed out this should be 'standard practice'.

- Mr. Blackwell stated continued with the audit plan for calendar year 2018. (SEE AUDIT PLANNING FOR CALENDAR 2018 – tab 2). He said his objective is to have the senior auditors perform 5 audits, and that the junior auditors would be assigned 3 audits plus support the senior auditors.

Mr. Johnson gave an overview of the financial and operational audits planned for 2018. He spoke about the mandatory 'Food Services Annual Inventory Count', the beneficial 'Contract Compliance', the new 'Procurement Progress Compliance With Edgar', 'Payroll-Off Cycle payroll' and the new 'Business Continuity Plan-Non-IT' audits. SEE AUDIT PLANNING FOR CALENDAR 2018 Financial and Operational audits.

Ms. Eastman asked what 'type of providers'.

Ms. Sandifer elaborated regarding contract audits that are not specific to education, mentioning contract management, quality, etc.

Ms. Eastman asked what is 'off-cycle'.

Mr. Blackwell elaborated on off-cycle. It is manual compliance, new employee, etc. He said it is scaled down to specific areas.

Mr. Johnson continued on the types of audits, grants, etc.

Mr. Blackwell elaborated on grant's requirements. He said a relative sample of grants will be selected for compliance.

Mr. Johnson continued mentioning the Baker Botts LLP follow-up audit.

Mr. Blackwell said that would depend on what happens with Legal Services.

Ms. Eastman specified the 1<sup>st</sup> time vendor couldn't bid; and the code of silence violation around the procurement process.

Mr. Blackwell continued by stating that the 2018 audit plans include the following: new audits, follow-up audits, and audits held in reserve in case an audit needs to be replaced and if the Administration doesn't use any or all of the audit resources that he will hold for them.

Ms. Sandifer continued with the audit plan for calendar year 2018. (SEE AUDIT PLANNING FOR CALENDAR 2018 – tab 2 – educational program audits). She stated that educational program audits are based on different conversations, other investigations, student achievement, literacy initiatives, compliance and performance. She also said it is based on resources allocated.

Mr. Blackwell stated that each of the planned audits for 2018 are aligned with some of the District's goals.

Mr. Gerwin continued with the Construction Audit Plan for calendar year 2018. (SEE AUDIT PLANNING FOR CALENDAR 2018 – tab 2 – construction audits). He stated the audits are based on project completion. Items 2 and 3 are more on deliverables and a scope will be developed with input from Construction Services. He also mentioned the Job Order Cost projects and that he will make some audit selections based on pricing, maintenance, etc.

Ms. Eastman indicated that this was very important.

Mr. Gerwin continued with #8 (special requested audits, Hurricane Harvey, etc.) stating that this was a very broad topic and that it needed to be narrowed.

Ms. Fincher made known that they were meeting every week regarding the hurricane situation.

Mr. Gerwin continued by addressing general conditions costs in the CS Construction Manager at Risk Contract. Whitley Penn had an issue concerning the contract language regarding the manner in which the percentage of general conditions was handled. Construction Audit plans on testing completed contracts to determine the impact of that contract language, if any. He mentioned auditing CS processes based on any concerns from management.

Mr. Blackwell stated that the general conditions issue was in the current Whitley Penn report. Mr. Gerwin confirmed as much.

Concerning E-Rate, Mr. Gerwin stated that his department will be assisting Ethics and Compliance with site inspections of recently completed E-rate installations. Mr. Gerwin stated that initially we were required to do this audit externally under the E-rate compliance agreement. He mentioned he had performed E-Rate audits and had the audit work sheets from 07-08. He stated they would do site inspections, reconciliations, and inventories with a representative from Ethics and Compliance and eventually pass those duties on to Ms. Fincher in Ethics and Compliance.

Ms. Fincher said that an external audit was done every year. She stated that they would do smaller audits in scope for next year.

Mr. Gerwin said in regards to the infrastructure piece that there will be follow-up audits making sure that all recommendations are done.

Ms. Fincher continued discussing compliance audits and the fact that they provide oversight. She mentioned that local regulations are department specific based on compliance. (SEE HANDOUT – tab 6)

Mr. Blackwell stated that a lot of departments have this as a goal.

- Mr. Blackwell continued with 'Update – CAE's Initial Assessment of the Audit Department. (SEE TAB 3) He stated that #6 was more meaningful; #7 is from a systemic point of view; #8 starts Monday (10/16/2017); #10 would maximize the plan for professional development; # 11 – KFORCE would assist; #12 is not in place yet; #13 – see tab 5 regarding senior certifications; and #14 – construction audits will address PM and AE's work (see handout tab 3, #14).

Mr. Gerwin indicated we would have to ask Legal about needing their approval to cite state law if the exact same issue had been previously approved and cited in a prior report that they had already reviewed.

Mr. Blackwell concluded stating 'that completes what we wanted to share'.

- The *meeting* adjourned to closed session at 1:35 p.m.
- The *meeting* adjourned at the end of the closed session.

Minutes were taken and submitted by Jamie Young-Russell, Executive Administrative Assistant, Office of Internal Audit.