

**HOUSTON INDEPENDENT SCHOOL DISTRICT
MINUTES OF THE BOARD AUDIT COMMITTEE
February 12, 2018**

Meeting Called to Order By Holly Maria Flynn Vilaseca at 1:09 p.m.

Present Committee Members Holly Maria Flynn Vilaseca
Anne Sung
Sue Deigaard

Other Board Members Rhonda Skillern-Jones in at 1:40 p.m.
Audit Staff Garland Blackwell, John Gerwin, Glenn Johnson, Stephanie Sandifer, Debra (Debi) Fincher

Others Present

Dr. Rene Barajas, Chief Financial Officer
Lorena Cozzari, Sr Media Relations Spclst
Arturo Michel, Thompson Horton

EXTERNAL REVIEW OF THE DISTRICT'S BUDGET

BARAJAS A complete comprehensive audit by the LBB was voted down last year and staff not given further meaningful instruction or definition as to what "audit of the budget" means. **What is the scope of this external review?**

In a discussion with Garland Blackwell, the "objectives" had to be decided. If we truly wanted to have a review, then from a finance perspective, what is the scope that can be put out for an RFQ, then companies, including but not limited to, the LBB, could then submit their response saying they could do the work for this much money. If there is no technical audit of the budget then it ends up being a performance review. Then it becomes a performance review of what?

When he asked former Trustee Lunceford exactly what he wanted the LBB to audit, he replied that he wanted an audit of instructional programs, what programs are available, their efficacy and their costs.

Need to know the objectives and scope in order to package an RFQ.

DEIGAARD Things for consideration: 1) Include both efficiency of the budget and 2) the effectiveness of its expenses; 3) that it would include specifically an analysis of staffing, transportation, program effectiveness and facility/asset utilization in addition to all of the financial stuff.

How are we doing our work? What is the ROI of the work we are doing both in terms of dollars spent and then how those dollars are spent. To what return? Based on best practices where could we find those efficiencies.

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We make these big cuts with very broad strokes there isn't often consideration taken into how does this long term affect the bottom line of our work. Is this savings here going to translate into another expense down the road? So how we do the work matters. LBB serves as sort of the fiscal agent of the audit. They don't actually do the work. They outsource it all. I wasn't on the board when these votes happened last year but if the concern is over it has any relationship at all with the legislature I will point out the LBB also does these kinds of performance audits on the legislature and also pushes back here are efficiencies the state could work on as well, not that the state necessarily listens.

Finding that fiscal agent, and one suggestion given to me, is someone like the City Controller serving as the fiscal agent instead of the LBB but still outsourcing to a third party to do the actual work of the audit. It doesn't have to be him.

SUNG Quoted from Executive Summary of a sample Past School Performance Reviews done by LBB

The Texas Legislature established the Texas School Performance Review (TSPR) in 1990 to “periodically review the effectiveness and efficiency of the budgets and operations of school districts” (the Texas Government Code, Section 322.016). The Legislative Budget Board’s (LBB) School Performance Review Team conducts comprehensive and targeted reviews of school districts’ and charter schools’ educational, financial, and operational services and programs. The review team produces reports that identify accomplishments, findings, and recommendations based upon the analysis of data and onsite study of each district’s operations. **A comprehensive review examines 12 functional areas and recommends ways to cut costs, increase revenues, reduce overhead, streamline operations, and improve the delivery of educational, financial, and operational services.**

http://www.lbb.state.tx.us/School_Performance_Review.aspx

So, the question is... What can be done in a timely way? What we need some feedback on is how long does this kind of review typically take? Would it make sense to create a smaller scope in order to get feedback to come out this spring?

GERWIN Are you talking about the Comptroller’s office performance reviews? For example the last one we had was 1996 done by John Sharp.

SUNG Trustees and the public would feel more confident in the budget that we are going to adopt in very lean fiscal times if we had an objective third party review of our operations. They could make some recommendations here’s what’s going well in the district and here are areas for improvement and

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efficiencies. It doesn't hurt to have somebody else to come in and take a look. But we also have to balance that with the short time line.

GERWIN Will find out how long the Sharp report took to accomplish. Also had the impression that we should have gone through a review on a more regular basis than 20 years out.

DEIGAARD Which other district has done this more recently and who did they use? Did they use someone other than the LBB because that could be a path to pursue.

GERWIN On a side note, we did a mini performance audit on Procurement in 2012, we used a firm called Whitley Penn and they specialize in public entities, particularly school districts.

SUNG What's the cost that would require us to go through Procurement?

FLYNN VILASECA Is it \$100,000?

BARAJAS If you hire an audit firm, CPA's, then they are exempted as professional services under 2254, but board policy says that any expenditures over \$100,000 has to come to the board for ratification. The other issue is writing the scope with enough specificity to have them (audit firms) put forth a proposal. Example accounting firms Whitley Penn, Weaver, Deloitte. Their expertise is not on the operational side, it's the financial side.

BLACKWELL Objectives from an audit point of view is what is it do you want to accomplish?

BARAJAS For example, the objective of our annual financial audit is to make sure our financial statements are fairly stated in relation to what we produce as financial statements. The objective is to issue an unqualified opinion on our statements.

However, for a performance review, what is it the board would like to accomplish? Is it efficiency? Is it ROI? We have to determine what is an acceptable level of ROI? Too many times if you put an RFQ out there for some kind of service you're going to get wildly different amounts of money because no one knows exactly what you're looking for and they (auditing firm) want to make sure they are covered.

The time frame for this to go out on the streets? Two weeks. Probably a week lead time to have it packaged up and sent out. A week to have them come back in. If it's on the street for two weeks. Another week for the evaluation. It's not a

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quick turnaround even in the best case scenario. Even after award, firm would have to get geared up, where are they going to be housed, logistics, etc.

Imagine that it would take four or five months just to do a department as big as the district is.

GERWIN We've also previously had the Council of Great City Schools come in and do reviews. That was probably five or six years ago.

FLYNN VILASECA Do we have a copy of the last review from Council of Great City Schools?

DEIGAARD Looking at what has been done in the past and what other districts have done as far as scope and seeing what entities are already out there that does this kind of work is a starting point to see what matches our objectives.

SUNG Following are some of the areas the LBB looks at

- District Organization, Leadership, and Management
- Educational Service Delivery
- Human Resources Management
- Business Services
- Food Services [suggest we take off since it has its own fund]
- Technology Management
- Transportation
- Facilities Management
- Safety and Security
- Community Involvement

Of course we can't do all within this short time period, which ones can we do?

FLYNN VILASECA What do we want to do in round one? Where do you think we'll be able to find some efficiencies ahead of May or June?

SUNG What are the recommendations that could cut costs, increase revenues, reduce overhead, streamline operations and improve delivery of services.

DEIGAARD We can agree that a large scope audit may need to be done but we should prioritize certain parts of it to be done in the next few months with a longer plan over time for the rest of it. We are not going to get all the parts of this studied and evaluated before this budget but what are the ones most critical to

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have in the next couple of months and the rest over a longer period of time. Should also keep in mind that no harm to students is done.

Question of whether or not this needs to go to Board for approval

DEIGAARD Can we use Foundation dollars to pay for it?

It's up to the Foundation.

SUNG If Foundation money is used, do we have to go through procurement?

No

SKILLERN JONES Shared her experience with external audits. Know how long they take. They are almost never completed on time. Everyone that I've seen has been very lengthy. We have to have a budget approved by May. Unless someone in this room knows something I don't, I can't see that happening.

Presented some reports from company called Forecast 5 Analytics. They warehouse huge amounts of data for school districts and they have a large number of our data.

BARAJAS It's derived from PEIMS from TEA.

SKILLERN JONES Produced different reports. They can tailor to what we need. Projected \$23,000 maximum to do data analysis / reporting.

DEIGAARD How many of the different reports that Forecast 5 does can be done by SAP?

BARAJAS Ours would only include our data. If our BI is set up to produce those reports, then yes, it can produce but otherwise no.

DEIGAARD What kind of analytics can the SAP system do?

SUNG Can we do some of the audit in-house?

BLACKWELL Depends on the objectives then we have to decide whether our own internal skill sets can handle those objectives. Some we will probably be able to do; some we may not.

SUNG Broadly speaking, the objectives would be looking for efficiencies, looking for ways cut costs, increase revenues, streamline operations and

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improve delivery of educational, financial and operational services. Is that too broad.

BLACKWELL Our operations are spread out we have construction, education, compliance. There are decisions to make if we use internal auditors.

What are we cutting? Then we are also talking about cutting for next year. What is the impact of that? Even if we have these internal resources, can we do it in time? What are we putting on hold?

SUNG We need two plans

- 1) A short term plan that we can get done this spring.
- 2) A long term plan to get done by end of summer.

BARAJAS The first thing I look at with any district I come into, is what do you spend on salaries and benefits out of the General Fund? If you're up by 90%, you don't have much room to go; you might be overstaffed. Here we're about 70% just because of our size, so if anyone asks my opinion where would I look to see to cut costs. It's people. It's human beings. Seventy cents of every dollar in the general fund goes to pay salaries and benefits. The question to ask then is do we have the optimum number of people to run this place from the Superintendent all the way down to me at the end. Are we adequately staffed at the campuses, department, etc. That's where you get the most efficiencies. Why spend time looking at the 30 cents. Where is the sweet spot for a district of our size to deliver the services we have to?.

We're a very specialized districted and the PUA to FTE is causing consternation across the entire district because I think what it's going to root out is the fact that some of our campuses are overstaffed from a campus perspective.

DEIGAARD Look at different positions from top to bottom, what they do, even at the school level. What is the ROI? What are the efficiencies? What is the effectiveness of those different roles I'm not convinced that switching to this model will make us efficient and effective in our dollars?

BARAJAS From the equity perspective, that is what it is attempting to do. But even within the FTE model there are efficiencies there too. In my previous district, we started to apply these efficiencies to how we were staffed, total General Fund employees went from 6,900 to 6,300 while enrollment was increasing. So what did we find out? That we were overstaffed, mainly at the campuses. Are we going to find that here? I don't know.

SUNG Do we want to move forward with Forecast 5? Is it your sense that forecast 5 would be helpful to us with this kind of review?

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BARAJAS With 2-3 year old data, it could give you a benchmark at that time, but we've changed since 2015-2016. I don't know. TASBO does this as well

SUNG Do they actually give recommendations that are actionable?

BARAJAS They just run the data.

SUNG Comparative data run by a third party would be helpful.

FLYNN VILASECA Short term objectives need to get item on the March agenda by Feb 19

Introduction of Audit Team

Garland Blackwell, Chief Audit Executive
John Gerwin, Manager of Construction Audit
Glenn Johnson, Manager of Financial Audit
Debi Fincher, Ethics and Compliance
Stephanie Sandifer, Educational Audit Manager

DEIGAARD What does an educational audit manager look at?

SANDIFER For example, ELL exiting, Literacy by 3 Program; looking at programs but also looking at testing integrity. Are we following state guidelines in testing integrity?

DEIGAARD Regarding Title I and Ensuring Compliance If we go from a PUA to an FTE, we will not be able to take advantage of the flexibilities that ESSA (?) is going to start piloting on Title 1 funds?

SANDIFER Will research.

AUDIT COMMITTEE CHARTER

BLACKWELL Referred to page 2 meetings at least 6 times a year
Last year, committee only met 4. Consider modifying to quarterly.

SUNG Would like training. Would those count as meetings?

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AUDIT COMMITTEE TRAINING

There are 2 training options

1. Provided by Institute of Internal Auditors
 - All day course
 - Arranged with TEA to have sponsor number for CPE
 - Can be tailored to fit school board issues
 - Timeline 4-6 week lead time

2. Corporate Compliance Seminars
 - 4 hour course
 - Next seminar
 - The Woodlands
 - May 8, 2018
 - 845 am – 1230 pm

GERWIN Distributed copy of Audit Committee Resource Guide from Deloitte

AUDIT DEPARTMENT HISTORY/CURRENT STATUS

Blackwell hired 04/2017

Department going through an evolution.

There was a long period with no Chief Audit Executive

INTERNAL AUDIT DEPARTMENT CHARTER

Approved May 2015

Independence and objectivity (page 2)

If not independent, then no longer auditors.

CURRENT ORGANIZATION AND STAFFING/VACANCIES

Org Chart

Some vacant positions

Construction - not subject to budget cut (funded by Bond)

Manager (Audit Support Services) will be vacant at end of this week

There are also 4 other vacant audit positions

Sr. IT Auditors – interviews held; offered position and moving forward with hiring

PLANNED BUDGET CUT FOR THE DEPARTMENT

Plan with chair of audit and chair of budget committee

Blackwell will put forth some recommendations and options

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Suggest being careful about cutting internal audit. History has shown when organizations take austere cuts, bad things can happen, such as fraud, waste, abuse, etc.

SUNG So this is one department that pays for itself. You're making a case that you're understaffed at this point.

BLACKWELL Not only understaffed but we are undergoing an evolutionary process to improve the department. Trying to get better in a variety of areas. We are trying to get certifications (CPA, CIA). Not a single one of the 11 auditors on my team is a CPA or CIA so we are trying to improve that picture. The audit plan doesn't take into account the cut so it has to be revised.

We have 18 general fund positions that includes 2 admins and 16 professional staff. So the cut will be about 6 people.

DEIGAARD The current budget of \$1,519,570 of payroll and benefits, that presumes you are fully staffed?

BLACKWELL Correct. Fully staffed plus burdened with the benefits.

CERTIFICATIONS HELD/CERTIFICATION PROGRAM FOR SENIOR AUDITORS

No current staff has mainstream audit credentials

CPA Certified Public Accountant

CIA Certified Internal Auditor

CISA Certified Information Systems Auditor

Working with HR / Legal came up with a 2 year plan that started this past October. So, by 2019 certifications should be achieved.

SUNG Is district supporting?

BLACKWELL Certification goals is targeted to the 7 senior auditors. Of those 7, 5 have asked for support. We have provided study materials. One is going for CPA, and the others are going for CIA.

AUDIT STANDARDS FOLLOWED

1. Institute of Internal auditors – Red Book; follow primarily for internal audit
2. Government Auditing Standards put out by the Government Accountability Office (GAO) – covers performance auditing and financial auditing; most governments follow this;

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GERWIN TEA has a Financial Accountability System Resource Guide which is basically the GAO tailored to Texas school districts, otherwise known as the FASRG.

DEIGAARD Requests a copy of the FASRG and the Government Auditing Standards (yellow book)

GERWIN Will provide via Thumb drive.

CAE ASSESSMENT OF THE AUDIT DEPARTMENT AND STATUS

No questions.

ANNUAL AUDIT PLANNING AND THE CY 2018 AUDIT PLAN

Audit planning no later than July.

Received several ideas from board; no ideas from administration.

IT Audit Plan is not included in binder. However, Lenny Schad has provided ideas for IT Audit. New hire will assist in audits.

DEIGAARD Do other districts do educational program audits?

SANDIFER Can't find a position like this in other districts.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board

No internal assessments have been done since 2015 and we are required to do two between 2015 and 2020.

SUNG CAE performance review
Need evaluation, job description; performance guide
Need to schedule meeting for evaluation

ADJOURNED TO CLOSED SESSION 3:00 P.M.

ADJOURN 3:27 P.M.