



Houston Independent School District Internal Audit Report: West University Elementary Technology Donations and Inventory

July 26, 2024



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TRANSMITTAL LETTER

July 26, 2024

The Audit Committee of
Houston Independent School District
4400 W 18th St.
Houston, Texas 77092



Pursuant to the approved internal audit plan for fiscal year ("FY") 2024 for Houston Independent School District ("HISD" or "District"), we hereby submit the internal audit report of the West University Elementary Technology Donations and Inventory. The internal audit focused on West University Elementary School's technology equipment verification, donation acceptance process(es), and adherence to established policies and procedures.

We plan to present this report to the Audit Committee at the next meeting on July 30, 2024. Our report is organized in the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit of West University Elementary's technology equipment verification and donation acceptance process(es).
Background	This provides an overview of West University Elementary School's technology equipment verification, donation acceptance process, and relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
Observations Matrix	This section includes a description of the observations noted during our internal audit and recommended actions, as well as Management's response, including the responsible party, and estimated completion date.
Appendices	This section provides additional information, including a visual depiction of the workflow of key processes.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

RSM US LLP

Internal Audit



EXECUTIVE SUMMARY

West University Elementary Technology Donations and Inventory Audit

Background

The District's Finance Procedures Manual and Fixed Asset Policy play a crucial role in establishing a comprehensive framework to guide the efficient use and accountability of all fixed assets owned by the District. Fixed Assets or Capital Assets, consist of tangible items with a cost higher than \$5,000. Low-Value assets, or Controlled Assets, consist of technology equipment with a cost lower than \$5,000. Low-Value Assets are not considered capitalized assets, real property, or improvements to real property or infrastructure. Both Fixed Assets and Low-Value Assets are expected to be tracked in the school, SAP Fixed Asset Ledger, and TIPWEB-IT.

All electronic and technology equipment, irrespective of their cost, are mandated to have an asset tag. For donated electronic/technology equipment, the recipient campus/department is responsible for adhering to specific guidelines including, regardless of price, completion of a donation form, recorded by Fixed Assets in TIPWEB-IT, and tagged accordingly.

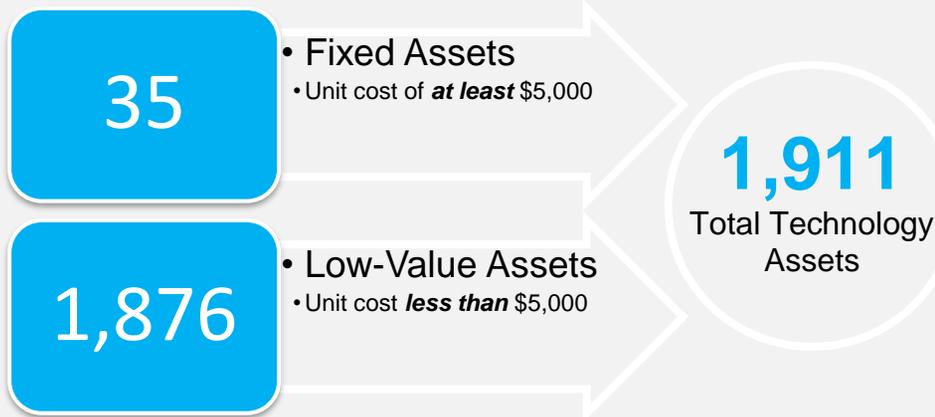
Internal Audit Objectives

The primary objective of this internal audit was to evaluate the design and control structure, including adherence to policies, procedures, and relevant laws and regulations for the operating effectiveness of the Technology Donations and Inventory Process management at West University Elementary School.

Our procedures included the following:

- Conducted interviews and walkthroughs with key personnel to gain an understanding of the district's operating policies, procedures, and roles/responsibilities related to the scoped processes.
- Developed a work program to evaluate the operating effectiveness of processes and controls based on information obtained through reviews, inquiries, and walkthrough procedures.
- Evaluated the adequacy of the School's existing policies and standard operating procedures pertaining to the scoped processes.
- Evaluated the design and control structure to confirm adherence to policies and procedures.
- Reviewed documentation supporting inventory management to assess completeness and adequacy.
- Performed a physical inventory count to verify technology assets' existence, completion, and condition.
- Reviewed donation acceptance and recording procedures.
- Assessed the process in place for recording and tracking technology equipment donations.
- Evaluated the monitoring processes for donated technology equipment integration into the inventory system.

West University Elementary School Technology Assets



Source: Fixed Assets Accounting Department

Scope Limitation: Per review of fixed asset records and inquiry of management, no donations have been received by West University Elementary within the last (2) fiscal years. As a result, we cannot perform the planned procedures to evaluate the monitoring, acceptance, and recording processes for donated technologies as they relate to West University Elementary School.

Due to these limitations, we will be performing additional procedures surrounding the donation process as part of our FY2025 Asset Management internal audit.

We would like to thank all District team members who assisted us throughout this internal audit.



EXECUTIVE SUMMARY (CONTINUED)

Observation Summary

Provided below are the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within 12 months (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within nine months (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed six months (if related to external financial reporting, must mitigate financial risk within two months).



EXECUTIVE SUMMARY (CONTINUED)

Observation Summary (Continued)

Below is a summary of the observations identified during this internal audit. The observation matrix includes detailed observations.

Summary of Observations	
Observations	Rating
<p>1. Technology Inventory Management – Unverifiable Assets and Lack of Supporting Documentation</p> <p>Condition: Controls surrounding West University Elementary School's technology asset processes are not operating effectively. Four of the 25 sampled assets could not be verified or located on-site and 5 of the 25 samples lacked supporting evidence of purchase or donation.</p> <p>Recommendation: West University Elementary School should regularly conduct physical audits (<i>see Observation 2</i>), and management should provide additional training to staff involved in asset management.</p>	High
<p>2. Technology Inventory Management – Lack of Annual Physical Inventories</p> <p>Condition: West University Elementary School has not conducted an on-site inventory verification since Fiscal Year 2020.</p> <p>Recommendation: Management should continue to follow the established requirement to conduct a physical inventory verification annually.</p>	High
<p>3. Donations – Lack of Donation Tracking Capabilities</p> <p>Condition: Our review noted that no tracking mechanism exists to identify and manage donated assets efficiently.</p> <p>Recommendation: The District should establish a monitoring mechanism to regularly assess compliance with donation documentation procedures and clearly communicate to all district sites the expectations for completing donation forms, including document retention requirements.</p>	Moderate



BACKGROUND

Overview

HISD's fixed assets policy was established to guide the efficient use and accountability of all the assets owned by the District. All HISD property is classified into two categories: (1) Fixed Assets / Capital Assets and (2) Low-Value Assets / Controlled Assets.

Fixed Assets / Capital Assets are tangible items with a useful life expectancy of at least two (2) years that are controllable, not consumed during use, and have a unit cost of at least \$5,000. The value of the asset is depreciated over its useful life. Fixed /Capital assets are tracked in the school, SAP fixed asset ledger, and TIPWEB-IT.

Low-Value Assets / Controlled Assets are technology equipment that costs less than \$5,000. These assets are also tracked in the school SAP fixed asset ledger and TIPWEB-IT systems. All assets must be secured and tracked regardless of funding source (activity funds, grants, etc.). Due to their nature, low-value assets must be secured and tracked. These are not capitalized assets, real property, or improvements to real property or infrastructure.

Technology Asset Tracking

HISD utilizes the following systems when tracking, updating, and recording new or donated assets regardless of funding source (activity funds, grants, etc.):

- **SAP (Fixed Asset Ledger)** is a function of SAP, the Enterprise Resource Planning (ERP) Software System. The function allows HISD management, both physical and financial, control over the complete asset's useful life cycle, from acquisition through depreciation, revaluation, and disposal.
- **TIPWEB-IT** is web-based asset management software. The application is used for campus-specific asset tracking and management and allows users to locate and manage barcoded (Tagged) assets on campus.

Technology assets may be acquired through approved purchase requisitions or received as donations from various foundations and HISD-affiliated organizations. Asset tracking is a critical aspect of the HISD Finance Procedures Manual, necessitating that all electronic and technology equipment have an asset tag regardless of cost. Fixed Assets Accounting is responsible for tracking capital assets with a unit cost greater than \$5,000 and all electronic/technology equipment, irrespective of the unit price. The following types of electronic/ technology equipment, regardless of price, are required to have an asset tag:

Access Points (All types)	Printer	Point-of-Sale Kiosk/Terminal
Card Reader	Rack Mount Server	Tablets - iPad and Convertible Tablets
Copier Machine	Projector	Uninterruptible Power Supply/Battery (UPS)
CPU/Desktop	Router	Switch
Document Camera	Scanner	TVs, Video Players/ Recorder (TV, DVD, Camcorder)
Laptops	Smart Board/Electronic Board	
Musical Instruments	Sound Systems and Other Audio Equipment	

HISD Finance Procedures Manual

- Offers comprehensive guidance to elevate compliance and accountability standards in the management of HISD assets



BACKGROUND (CONTINUED)

Technology Asset Donations

For donated technology assets, the HISD Finance Procedures Manual requires that each recipient campus/department complete the HISD Donation of Fixed Asset Form. The recipient campus/department must forward the form to Fixed Assets Accounting after signed by the Principal/Administrator/Department Head. A copy of the form is the receipt for the donor. Regardless of value, all donated electronic/technology equipment must be accompanied by a donation form, recorded by Fixed Assets in TIPWEB-IT, and appropriately tagged.

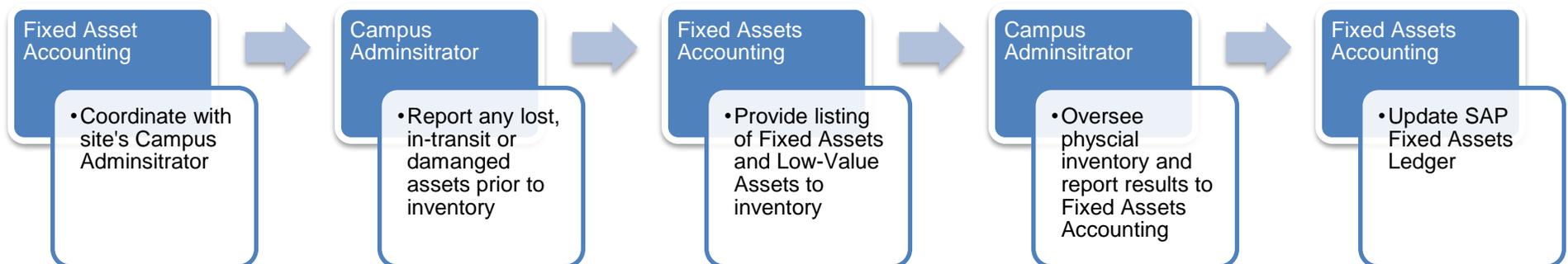
Fixed Asset Management

Annually, the Fixed Assets Accounting Department will coordinate a physical inventory of all fixed and low-value assets the District owns for each campus/department, regardless of funding source (activity funds, grants, etc.). A “Campus Administrator” is selected and is responsible for overseeing the annual physical inventory verification. This role is subject to change annually. A form listing lost assets, in-transit assets, or damaged items during the school year is expected to be provided to the Fixed Assets Accounting Department, which will notify the department before the start of the physical inventory.

The physical inventory begins with the Fixed Assets Accounting Department providing the Campus Administrator with a listing of items to be verified, beginning the official count on their designated campus. The inventory is expected to be completed in the TIPWEB-IT asset tracking system, and verification is achieved by scanning the asset’s tags for accuracy and confirmation of their condition/existence. Verification includes a detailed inspection of listed IT Equipment, Circuit Shelves, and other tangible IT assets, validating their presence and attesting that their condition matches the recorded details per the fixed asset ledger. The respective campus/department conducting the count is expected to document the following:

1. Asset’s Physical Condition
2. Asset’s Tag, Campus Location, and Description.
3. Apparent discrepancies between the fixed asset ledger and the fixed assets that were physically present.
4. Any items donated to the West U campus and their dollar value.
5. The results of the inventory count.
6. Items missing/Lost - A “Property Loss/Damage Form” is to be completed.

Damaged or lost assets are checked against the initial listing of lost/in-transit or damaged assets in case these assets were noted before the count began. Campus Administrators provide the final inventory results to the Fixed Assets Accounting Department for review of conditions and existence before updating the existing records within the SAP Fixed Asset ledger.





OBJECTIVES AND APPROACH

Objective

The objective of this internal audit was to evaluate the design and internal control structure, including adherence to policies, procedures, and relevant laws and regulations for the operating effectiveness of the technology donations and inventory process management at West University Elementary School. In-scope areas include, but may not be limited to, the verification of the physical technology inventory; the integrity of inventory records and data entry processes; compliance with District policies regarding technology equipment configuration and donation acceptance; and the effectiveness of internal controls over the tracking, recording, and reporting of technology assets.

Approach

Our approach consisted of the following phases:

Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to understand the current operating policies and procedures, monitoring functions, and control structures related to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed key documents, including applicable internal policies and procedures related to technology donations, the IT Inventory verification process, and other necessary documents.
- Completed interviews and walkthroughs with key personnel to obtain a detailed understanding of operating policies and procedures, roles, and responsibilities within the West University Elementary School related to technology donations and the IT Inventory verification process.
- Developed a work plan to evaluate the operating effectiveness of procedures and controls based on the information obtained through interviews, walkthroughs, and preliminary review of documentation.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to evaluate the design of key processes and controls and test compliance and internal controls for operating effectiveness based on our understanding of the processes obtained during the first phase. We utilized sampling and other auditing techniques to meet the abovementioned audit objectives. Our testing procedures included, but were not limited to:

- Evaluated the adequacy and accessibility of existing policies and standard operating procedures related to technology inventory management.
- Evaluated the design and internal control structure, including adherence to policies and procedures.
- Selected a sample of 25 technology assets from the SAP fixed asset listing at West University Elementary School and performed the following:
 - Verified the existence and condition of all sampled technology assets.
 - Verified that technology assets were recorded and supported by an identification tag; and
 - Reviewed the documentation and records supporting technology inventory to assess their completeness and adequacy (Invoice, Purchase Orders, Payment evidence).
- Performed a physical inventory of a sample of 25 technology assets observed onsite at West University Elementary School and performed the following:
 - Verified that an identification tag supported technology assets; and
 - Verified that the identification tag agreed to SAP and TIPWEB-IT.

Scope Limitation: West University Elementary School stated that, to their knowledge, no donations had been received and recognized within the last (2) fiscal years. Through inquiry with the Fixed Asset Accounting Department, we noted that no donations were identified in the Fixed Asset ledger. As of the date of this report no donation listing has been provided. Thus, there are no records of technology equipment donations to the school that we could audit. As a result, we cannot perform the planned procedures to evaluate the monitoring, acceptance, and recording processes for donated technologies as they relate to West University Elementary School. Due to these limitations, we will be performing additional procedures surrounding the donation process as part of our FY2025 Asset Management internal audit.

Reporting

During this phase, we summarized the results of this internal audit and reviewed them with appropriate District representatives.



OBSERVATIONS MATRIX

Observation	1. Technology Inventory Management – Unverifiable Assets and Lack of Purchase Documentation
<p style="text-align: center;">High</p>	<p>HISD's fixed assets policy requires efficient use and accountability of assets, classified as Fixed Assets (with a unit cost equal to or greater than \$5,000) and Low-Value Assets (with a unit cost of less than \$5,000). All assets, including technology equipment, must be tagged, and tracked in the SAP fixed asset ledger or TIPWEB-IT. The policy mandates an annual physical inventory audit to verify assets, document discrepancies, and report missing items using a Property Loss/Damage form. A completed "HISD Donation of Fixed Asset Form" is required for donated technology assets, with assets recorded and tagged in TIPWEB-IT.</p> <p>During our review, we selected a sample of (25) West University Elementary School technology assets from the register provided by the Fixed Asset Accounting Department for detailed testing. We identified the following:</p> <ul style="list-style-type: none"> • 4 of the 25 technology assets sampled could not be verified or observed onsite. <ul style="list-style-type: none"> ○ 2 technology assets, one fixed asset purchased for \$6,644.92 and 1 low-value asset purchased for \$658.00, were labeled as awaiting transfer. However, the assets awaiting transfer were not located at the designated transfer location, and the required transfer documentation could not be located. ○ 2 technology assets, low-value assets purchased for \$2,526.53 and \$1,563.00, respectively, were reported by management as lost or unlocatable, which we validated through physical inspection. However, no corresponding property loss/damage reports were on file. • 5 of the 25 technology assets sampled maintained no supporting evidence of purchase or donation (purchase order, receiving report, or applicable donation form). This does not comply with the established document retention policy. <p>The inability to verify or observe technology assets at West University Elementary School poses a risk to asset management and control. This can lead to financial misstatements, operational disruptions, reputational damage, and an increased likelihood of asset loss.</p>
<p>Recommendation</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. Additional training should be provided to all key stakeholders involved in asset management to promote understanding and adherence to documentation requirements, including timely and complete documentation of all asset acquisitions, maintaining purchase orders, receiving reports, evidence of payment, and donation forms. This includes Fixed Asset Accounting and West University Elementary School Principal and Business Manager. 2. West University Elementary School should regularly conduct physical audits to reconcile the inventory with the recorded assets, addressing discrepancies promptly as required by HISD policies and procedures outlined within The HISD Finance Procedures Manual Handbook Section 705 (See <i>Observation 2</i>).



OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Technology Inventory Management – Unverifiable Assets and Lack of Supporting Documentation
<p>Management Action Plan</p>	<p>Response:</p> <ol style="list-style-type: none"> 1. Fixed Asset Accounting department staff will undergo training on the collection and retention of asset acquisition and disposition documentation as per HISD records retention schedule. 2. All schools were able to attend a 2024 Capital Assets Annual Inventory Open Lab for training, questions, and answers. West University Elementary School staff did not participate therefore will receive an individual training on proper annual audit procedures, completion and supporting documentation submission. <p>Responsible Party:</p> <ol style="list-style-type: none"> 1. Fixed Assets Accounting Department Manager & Accountant Team Lead. 2. Fixed Assets Accounting department staff <p>Estimated Completion Date:</p> <ol style="list-style-type: none"> 1. Estimated completion date of June 30, 2025. 2. Labs were conducted between April and May 2024. West University Elementary School will receive their training prior to December 31, 2024.



OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Technology Inventory Management – Lack of Annual Physical Inventories
<p style="text-align: center;">High</p>	<p>According to the HISD Finance Procedures Manual Handbook, each campus/department must conduct an annual physical inventory of Fixed Assets and Low-Value Assets, with unaccounted-for items reported to the Fixed Asset Accounting Department.</p> <p>West University Elementary School has not conducted an on-site inventory verification since FY2020. Management states that the delay has been due to difficulties with staffing following the aftermath of the COVID-19 pandemic. The lack of physical asset verification undermines the accuracy of inventory reconciliation with financial records, increasing the risk of undetected missing or misplaced assets, leading to financial discrepancies and potential asset mismanagement.</p>
<p>Recommendation</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. West University Elementary School should conduct a physical inventory annually with the Fixed Assets Accounting Department. 2. The Fixed Asset Accounting Department should create and implement a checklist of all campuses subject to annual asset inventories to identify campuses that fail to complete their annual inventory. The Department should maintain evidence of the completed campus inventory checklist. The listing or checklist should be reviewed annually to identify necessary adjustments. Furthermore, procedures should exist to enhance compliance and accountability within the technology inventory process, including escalation procedures if a campus/department is non-compliant with established inventory policies.
<p>Management Action Plan</p>	<p>Response:</p> <ol style="list-style-type: none"> 1. Fixed Assets Accounting department will provide extra support and assistance to West University Elementary School to complete their annual physical inventory audit for FY2025. 2. A Summer Finance Institute will be held July 29 - August 2. Fixed Assets will provide training to begin the new school year. Improve communication between Fixed Assets Accounting department and campuses/departments. Fixed Assets Accounting department provided extra training through Open Labs via MS Teams (April & May 2024) open to all schools and departments. Fixed Assets Accounting department will maintain a checklist, up-to-date records of annual inventory audit results and completion status for all audited schools and departments. 3. Fixed Assets Accounting department will recommend, to upper management, procedures to enhance audit compliance and accountability. <p>Responsible Party:</p> <ol style="list-style-type: none"> 1. Fixed Assets Accounting Department staff. 2. Fixed Asset Accounting Department Manager. 3. Fixed Asset Accounting Department Manager. <p>Estimated Completion Date:</p> <ol style="list-style-type: none"> 1. Completed. 2. Current audit in process will establish the checklist and up-to-date records by July 31, 2024. 3. Procedures recommendations will be presented by December 31, 2024 to have in place before FY25 audit (March of 2025).

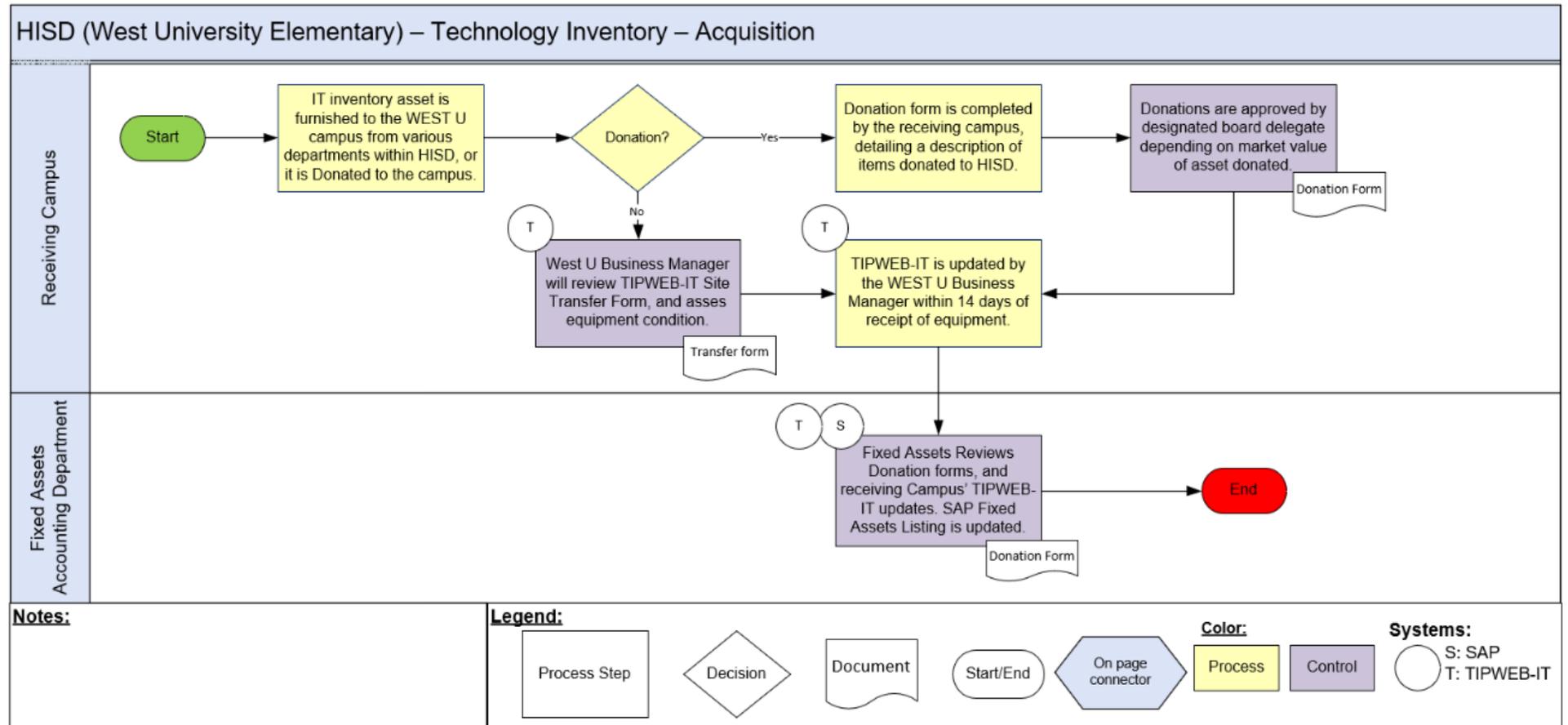


OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Donations – Lack of Donation Tracking Capabilities
<p>Moderate</p>	<p>Donated assets are not tracked separately within the current system; they are comingled with other assets in the fixed asset module. This lack of specific tracking capability hinders the efficient identification and management of donated assets. Consequently, it complicates the verification process required to validate that all donated assets are properly recorded and monitored.</p> <p>The lack of a tracking mechanism for donated assets increases the risk of non-compliance with Finance Procedures. This may lead to inaccurate financial records and difficulties in managing and verifying donated assets, potentially resulting in asset mismanagement and loss.</p>
<p>Recommendation</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. The District should establish a monitoring mechanism to regularly assess compliance with donation documentation procedures. 2. The Fixed Asset Accounting Department should clearly communicate to all district sites the expectations for completing donation forms, including document retention requirements.
<p>Management Action Plan</p>	<p>Response: Management will further investigate the Asset Management system's capacity to track donated assets with a specific identifier to readily distinguish from other assets.</p> <p>Responsible Party: Fixed Assets Accounting Department Manager</p> <p>Estimated Completion Date: June 30, 2025</p>

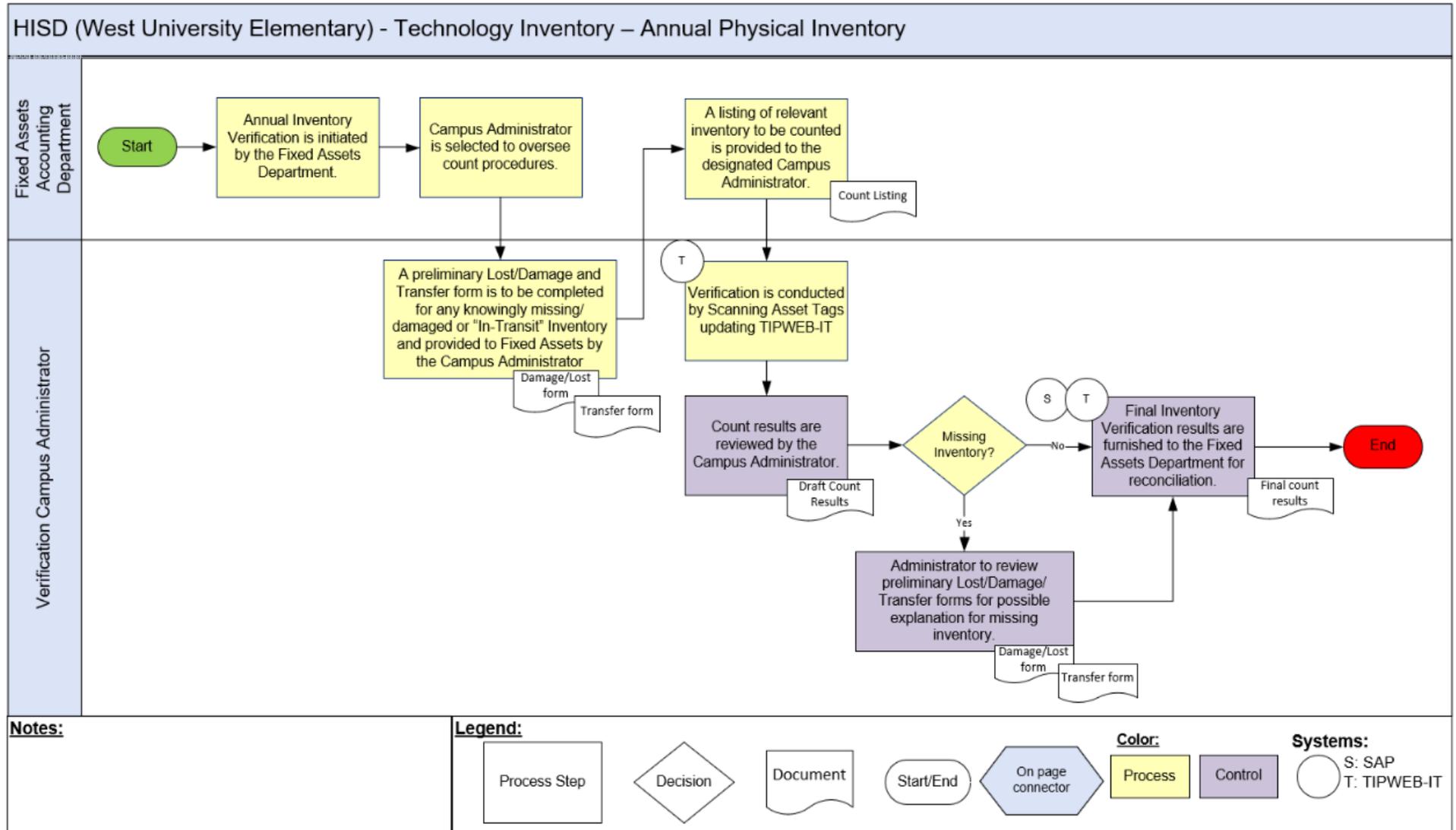


Appendix A – West University Elementary Technology Inventory Flowchart





Appendix A – West University Elementary Technology Inventory Flowchart (CONTINUED)





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