Houston Independent School District
Internal Audit Report: Asset Management Process

July 22, 2025

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TRANSMITTAL LETTER

July 22, 2025

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") 2024-2025 for Houston Independent School District ("HISD" or "the District"), we hereby submit our internal audit report of the asset management process. This internal audit focuses on the design of the policies and procedures governing the asset management process, including the acquisitions, disposals, transfers, and inventory of assets. We plan to present this report during the Audit Committee meeting scheduled for August 5, 2025. Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit of the asset management process.
Background	This provides an overview of the asset management process, as well as 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.

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

Houston Independent School District – Asset Management Process Audit

Background

The District's Finance Procedures Manual is designed to provide guidance for the efficient and accountability of all the assets owned by the District by establishing accurate and appropriate records of all the assets owned by the District in a timely manner. Section 700 defines 'Assets' as machinery, equipment, furnishings and other resources purchased or otherwise acquired by the District to achieve its goals over a period of time that extends beyond one budget period.

FY2024 Fixed Assets Highlights

Fixed Assets (value over $5,000)

Value: $69,303,122

Count: 16,104 assets

Controlled Assets (technology assets under $5,000)

Value: $676,319,762

Count: 502,608 assets

* Fixed asset values referenced above represent book values.
* Asset counts and values reflect active assets recorded in the SAP and Asset Management systems as of

Summary of Observation Ratings

	Low	Moderate	High
Observations	3	1	2
Improvement Opportunities		0	

Internal Audit Objectives

The primary objective of this internal audit was to evaluate design and effectiveness of internal controls surrounding asset management. The audit period covered July 2024 through January 2025.

Our approach consisted of the following steps:

- Evaluated the segregation of duties and user access controls to validate proper monitoring and appropriateness of asset tracking, recording, monitoring, and reporting.
- Reviewed the process and documentation maintained to support the District's periodic inventory count procedures and related adjustments.
- Validated that asset-related information, including acquisitions, disposals, and transfers, align with appropriately approved and authorized supporting documentation.
- Assessed whether assets are disposed of appropriately, including timeliness, approvals, and evidence of physical decommissioning.
- Determined whether the records and documentation related to asset management are comprehensive enough to establish a clear audit trail for comprehensive tracking.
- Reviewed the approval process for asset-related transactions to validate compliance with established protocols.
- Reviewed and assessed policies and procedures regarding asset management.
- Performed detailed testing of a sample of fixed and controlled assets to evaluate compliance with the asset management guidelines.

At the conclusion of our audit, we summarized our findings into this written report and conducted exit conferences with District management.

Our fieldwork was performed between February 2025 and May 2025.

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. Detailed observations are included in the observation matrix section of the report. In addition, improvement opportunities have been provided following the detailed observations, when applicable.

Summary of Observations	
Observations	**Rating**
1. Annual Physical Inventory of Assets ***Condition:*** Section 705 of the HISD Finance Procedures Manual requires an annual inventory of fixed and controlled assets by each location administrator. Our FY2024 review found significant non-compliance with this requirement. ***Recommendation:*** To strengthen asset management, the District should provide mandatory training on inventory procedures, require annual inventories of controlled assets (or prioritize high-risk items if a full inventory isn't feasible), and implement a formal accountability process to ensure completion and certification of inventories, with non-compliance escalated as needed.	**High**
2. Tagging and Recording of Assets ***Condition:*** Section 711 of the HISD Finance Procedures Manual requires campuses and departments to print asset tags using Asset Management, affix them to assets upon receipt, and record the tag and serial numbers in the system. Our FY2024 review found significant non-compliance with this requirement. ***Recommendation:*** To improve asset tagging and data accuracy, the District should provide targeted training for Fixed Assets Administrators, implement accountability measures for noncompliance, and explore automation opportunities within Asset Management to flag incomplete asset records, such as when tags are printed but not entered, ensuring better data integrity.	**High**
3. Fixed Assets Disposals – Scrapped Vehicles ***Condition:*** Section 714 of the HISD Finance Procedures Manual requires surplus or unfit equipment to be sent to the Warehouse Department for proper handling, and checked for potential reuse within the District before disposal. In our review of 10 disposals, we found one case of improper handling due to incomplete records and miscommunication. ***Recommendation:*** To establish proper asset disposal, all requests should include both the SAP asset number and equipment number. A verification step should confirm the asset exists in SAP before processing. Targeted training for Fleet Services and Fixed Assets Accounting staff should reinforce the importance of using correct identifiers and verifying records prior to disposal.	**Moderate**
4. Fixed Assets Accounting Approval of Asset Additions ***Condition:*** Section 708 of the HISD Finance Procedures Manual requires fixed asset purchases to use the correct SAP account code, ensuring routing to the Fixed Assets Department for asset shell creation. Only this department is authorized to create asset shells. In our review of 10 fixed asset additions over $5,000, 6 bypassed required approval due to a workflow error in SAP. ***Recommendation:*** Immediately review and update the SAP workflow so that all fixed asset purchases (valued over $5,000) using 66XXXXXXXX accounts are routed to the Fixed Assets Accounting Department for approval before proceeding to Purchasing.	**Low**

EXECUTIVE SUMMARY (CONTINUED)

Observation Summary (Continued)

Summary of Observations	
Observations	**Rating**
5. Duplicate Controlled Asset Uploads to Asset Management ***Condition:*** During our audit (July 2024–January 2025), we found that 214 of 269 recorded asset disposals in Asset Management were actually duplicate entries, not true disposals. These duplicates, mostly IT-related, occurred due to simultaneous uploads by both the IT and Fixed Assets Accounting departments, often involving pre-tagged equipment from contracted vendors. ***Recommendation:*** To reduce duplicate asset entries, the District should consider limiting Asset Management upload permissions to the Fixed Assets Accounting Department, with the IT Department submitting asset data through a standardized process. Clear communication protocols and timelines should also be established between both departments to support accurate and timely asset tracking.	Low
6. Finance Procedures Manual – Fixed Assets Section 700 ***Condition:*** Our review of Section 700 of the HISD Finance Procedures Manual (as of August 2024) found several outdated or undocumented controls that weaken fixed asset management. Examples include references to obsolete systems, disbanded committees, missing guidance on segregation of duties and donations, and unclear disposal documentation requirements. These gaps reduce policy clarity, increase inconsistency, and may lead to non-compliance. ***Recommendation:*** Conduct a full review and update of Section 700 – Fixed Assets in the Finance Procedures Manual to reflect current practices, systems (e.g., Asset Management), and organizational structures.	Low

BACKGROUND

Overview

Section 701 – Classification – Fixed Assets of the HISD Finance Procedures Manual states the term "Assets" refers to machinery, equipment, furnishings, and other resources purchased or otherwise acquired by the District to be utilized in accomplishing the district's goals for a period of time that extends beyond one budget period. All District property is classified into two categories:

Fixed Assets	Tangible items having a useful life expectancy of at least two (2) years, are controllable, not consumed because of use, and have a **unit cost of at least $5,000**. The value of the asset is depreciated over the useful life of the asset. Fixed assets are tracked in the SAP fixed asset ledger. The HISD Finance Procedures Manual also refers to Fixed Assets as Capital Assets.
Controlled Assets	**Technology equipment** with a **cost of $0 – $4,999.** These assets, regardless of funding source (activity funds, grants, etc.) must be secured and tracked due to the nature of the items. These assets are not capitalized assets, real property, nor improvements to real property or infrastructure. Controlled assets are tracked in the Asset Management system. The HISD Finance Procedures Manual also refers to Controlled Assets as Low Value Assets.

Capitalization of Assets: ***Section 702 – Capitalization of Assets*** of the HISD Finance Procedures Manual states that the capitalization threshold is set at a unit cost of $5,000. Donated fixed assets are recorded at their estimated acquisition value as of the donation date. Furniture, equipment, and vehicles are recorded at historical cost if purchased or constructed. The cost of a fixed asset should encompass all charges necessary to place the asset into service.

Depreciation of Assets: Controlled assets are expensed at the time of purchase and are not subject to depreciation. Fixed assets, however, are depreciated using the straight-line method, which involves dividing the cost by the asset's useful life. It is assumed that fixed assets will have no salvage value. ***Section 703 – Depreciation of Assets*** of the HISD Finance Procedures Manual includes a chart detailing asset classification and their respective useful lives.

BACKGROUND (CONTINUED)

The District manages a large volume of assets spread across its campuses and departments. At the time of our review, the total value of these assets was approximately $746 million, categorized as either fixed assets—such as vehicles and major equipment—or controlled assets, which tend to be lower in value but still require tracking due to their mobility or risk of loss.

Total HISD Assets - Asset Type and Location
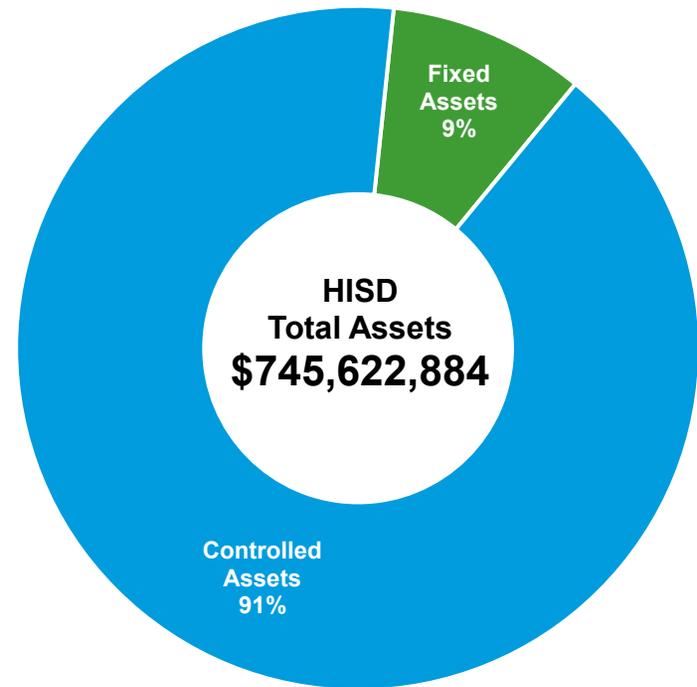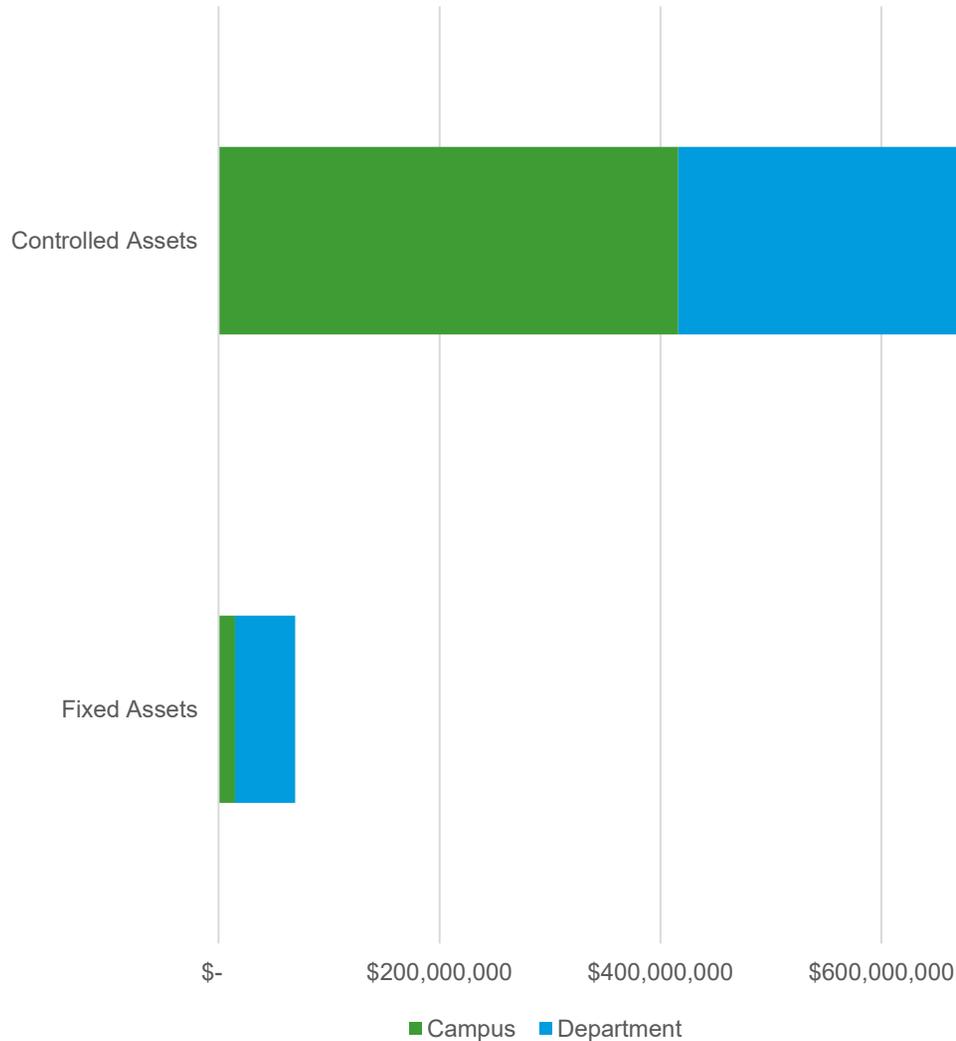
BACKGROUND (CONTINUED)

Roles and Responsibilities

Controller's Office

The District's Controller's Office provides oversight for multiple departments, including the Fixed Assets Accounting Department. Specifically, the Controller's Office is responsible for overseeing the acquisition, retirement, and disposal of all assets, as well as managing the annual inventory audit process conducted by the Fixed Assets Accounting Department.
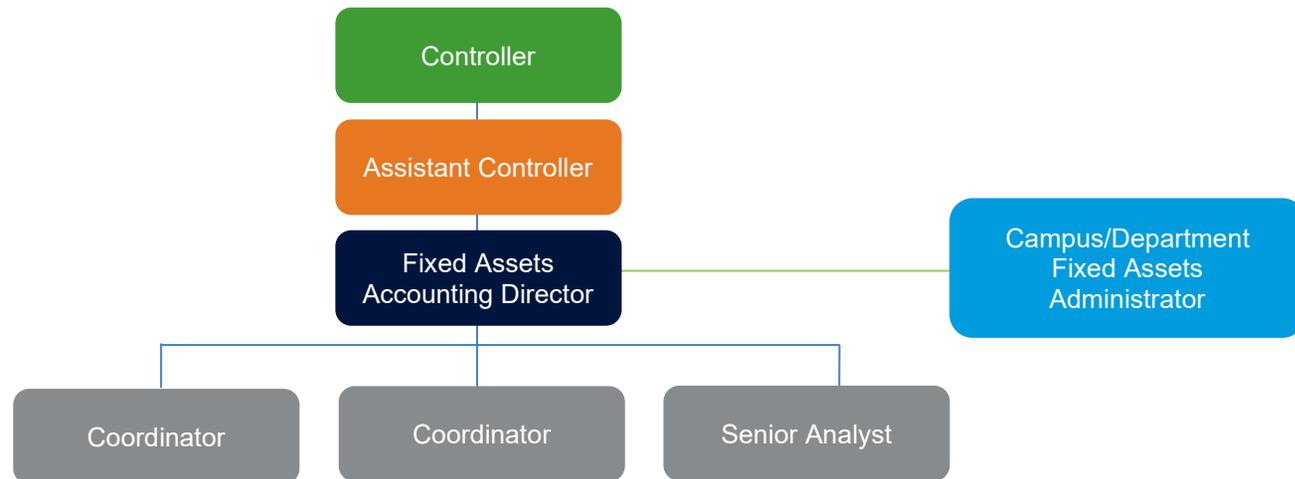
Fixed Assets Accounting Department

The Fixed Assets Accounting Department is part of the Controller's Office and has the following main functions:

- Ensure the purchase, transfer and disposal of district assets are performed according to district policy and accurately reflected in the district's asset records.
- Ensure the district's asset balances are reported correctly on the Annual Comprehensive Financial Report.
- Facilitate the annual fixed assets inventory audit.

Fixed Assets Administrator

Section 704 – Responsibility for Fixed Assets of the HISD Finance Procedures Manual states that every campus and department must have an appointed Fixed Asset Administrator/(s), who are responsible for all fixed assets at their location. An administrator may designate an individual to serve in his or her absence in signing or receiving fixed asset documents.
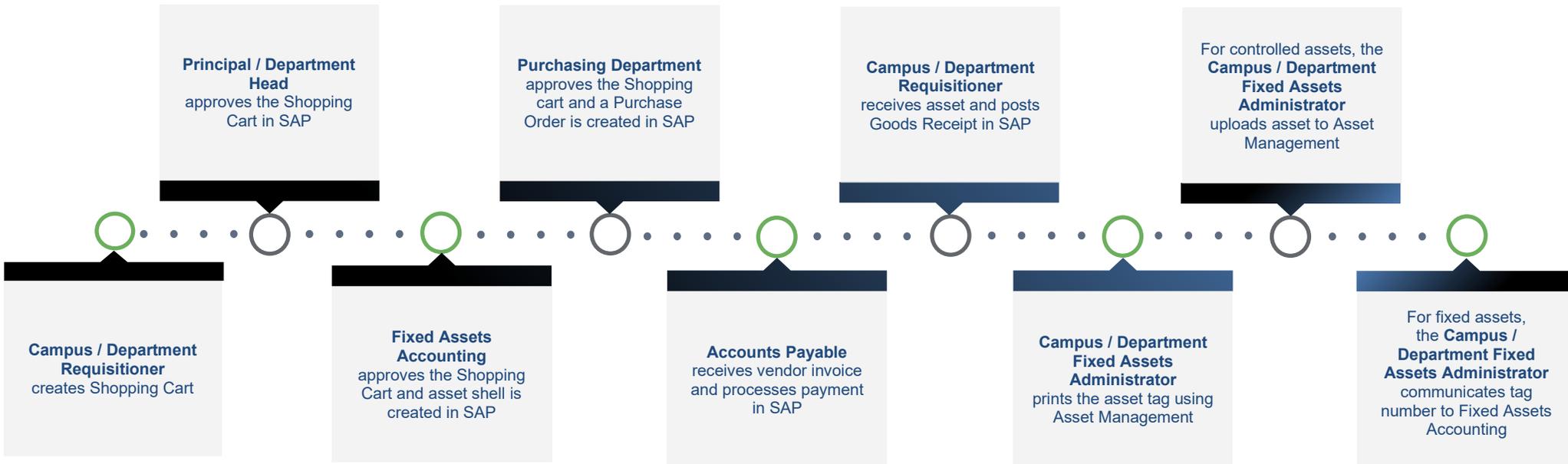
BACKGROUND (CONTINUED)

Asset Additions – District Purchase Order

Fixed assets are acquired when a school or department either makes a qualifying purchase through a regular District purchase order or receives a donation of an asset. The addition process for assets whether fixed or controlled, is the same when acquired through a purchase order. The only differences are how the assets are loaded into the corresponding system and how they are tagged.

The illustration below highlights the process for creating a shopping cart in SAP through tagging of purchased fixed assets.
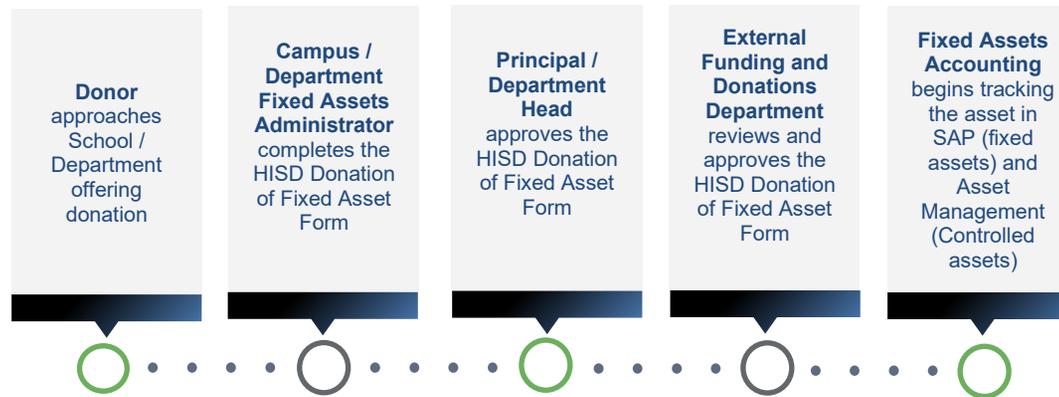

Principal / Department Head
approves the Shopping Cart in SAP

Purchasing Department
approves the Shopping cart and a Purchase Order is created in SAP

Campus / Department Requisitioner
receives asset and posts Goods Receipt in SAP

For controlled assets, the **Campus / Department Fixed Assets Administrator**
uploads asset to Asset Management

Campus / Department Requisitioner
creates Shopping Cart

Fixed Assets Accounting
approves the Shopping Cart and asset shell is created in SAP

Accounts Payable
receives vendor invoice and processes payment in SAP

Campus / Department Fixed Assets Administrator
prints the asset tag using Asset Management

For fixed assets, the **Campus / Department Fixed Assets Administrator**
communicates tag number to Fixed Assets Accounting

BACKGROUND (CONTINUED)

Asset Additions – Donations

Assets can be acquired through donations in two primary ways. First, through an asset donation, where a donor approaches the District site with the intention of contributing a fixed asset they already possess. Second, through the purchase of assets using donated funds—specifically, Fund 4990020000, which was established to allow individuals and organizations to contribute financially toward the acquisition of fixed assets for campuses and departments.

1. **Asset donation process:**

Donor approaches School / Department offering donation	Campus / Department Fixed Assets Administrator completes the HISD Donation of Fixed Asset Form	Principal / Department Head approves the HISD Donation of Fixed Asset Form	External Funding and Donations Department reviews and approves the HISD Donation of Fixed Asset Form	Fixed Assets Accounting begins tracking the asset in SAP (fixed assets) and Asset Management (Controlled assets)

For fixed asset donations, once the HISD Donation of Fixed Asset Form is approved by the External Funding and Donations Department, it will be forwarded to the Fixed Assets Accounting Team. They will use this form to update SAP with the asset details. Once the asset is recorded in SAP, it will not begin tracking until it is tagged. Therefore, similar to acquisitions through a Purchase Order, the Campus/Department Fixed Assets Administrator will generate a physical asset tag using Asset Management. It's important to note that Asset Management is used solely for tag generation; all fixed asset tracking and management are conducted within SAP. Once the asset has been tagged, the Campus/Department Fixed Assets Administrator must communicate the new Asset Management tag number to the Fixed Assets Accounting Department via email. This department is solely authorized to update tag numbers in SAP. They will then enter the Asset Management tag number into the corresponding asset record in SAP.

For controlled asset donations, once the HISD Donation of Fixed Asset Form is approved by the External Funding and Donations Department, it will be forward to the Fixed Assets Accounting Team. They will use this form to update Asset Management with the asset details. Once the assets are uploaded into Asset Management, the Campus/Department Fixed Assets Administrator can generate an asset tag in Asset Management and affix into the asset.

The HISD Donation of Fixed Asset Form must be completed for all asset donations. The form captures key details such as:

- Date Received
- Received By (Campus / Organization)
- Received From (Purchased or Donated By)
- Cost or Fair Market Value
- Complete Description of the Asset (make, model, and serial number
- Principal / Department Head Signature

BACKGROUND (CONTINUED)

Asset Additions – Donations (Continued)

2. Purchase of fixed assets using Donation Fund 4990020000:

Campus / Department Requisitioner creates Shopping Cart

Principal / Department Head approves the Shopping Cart

Fixed Assets Accounting approves the Shopping Cart

External Funding and Donations Department approves the Shopping Cart

Purchasing Department creates a Purchase Order

Fund 4990020000 was established to allow individuals and organizations to donate money for asset acquisition for campuses and departments. The process of purchasing an asset with donation funds follows the same process as purchasing an asset through a purchase order. The only difference in this process is that the Shopping Cart must be approved by the External Funding Department prior to being routed to the Purchasing Department for approval and creation of a purchase order. The assets are then tagged and tracked following the same process as asset Additions through a Purchase Order process.

BACKGROUND (CONTINUED)

Asset Tagging and Tracking Process – Fixed Assets

When a fixed asset is received by a campus or department, the Requisitioner is responsible for posting the Goods Receipt in SAP. This action automatically generates an asset number in SAP, which will remain associated with the asset throughout its lifecycle. Following the Goods Receipt posting, the Campus/Department Fixed Assets Administrator will generate a physical asset tag using Asset Management. It's important to note that Asset Management is used solely for tag generation; all fixed asset tracking and management are conducted within SAP. Once an asset has been tagged, the Fixed Assets Administrator must email the new Asset Management tag number to the Fixed Assets Accounting Department, who then updates asset tag numbers in SAP.

Note:

- ❖ Every fixed asset in SAP is assigned a unique Asset Number at the time the Goods Receipt is posted.
- ❖ The tag number generated in Asset Management is a separate identifier and is manually added to SAP by the Fixed Assets Accounting Department.
- ❖ The asset will exist in SAP with its Asset Number regardless of whether the Asset Management tag has been entered.

Asset Tagging and Tracking Process – Controlled Assets

Controlled assets can be tagged in one of two ways:

1. **Pre-tagged assets:** In some cases, the district has contracts with vendors who pre-tag assets using Asset Management asset numbers. These pre-assigned tag numbers begin with the letter "T". When a pre-tagged asset is received by a campus or department, the Campus/Department Fixed Assets Administrator must:
- ❖ Post the Goods Receipt in SAP.
- ❖ Log into Asset Management and upload the asset information, including the pre-assigned tag number.

Note: Even though the asset arrives pre-tagged, the process is not complete until the asset is uploaded into Asset Management by the Campus/Department Fixed Assets Administrator. If the asset is not uploaded to Asset Management, the asset will not be tracked within the system.

2. **Post-Receipt Tagging:** Once the Goods Receipt is posted in SAP, the Fixed Assets Accounting Department will:
- ❖ Download a list of controlled assets from SAP.
- ❖ Upload this list into Asset Management on a weekly basis.
- ❖ Assign a temporary tag number starting with "FA" to each asset.

Note: After the Fixed Assets Accounting Department uploads the asset into Asset Management, the Campus/Department Fixed Assets Administrator is responsible for generating a permanent asset tag in Asset Management (starting with "T") and affixing it to the asset. The Asset Management tag number beginning with "T" becomes the permanent identifier for the controlled asset.

BACKGROUND (CONTINUED)

Fixed Asset Transfers Overview

A fixed asset may be transferred from one campus, department, or location to another for several reasons. When an asset is transferred from a campus or department to another location, SAP or Asset Management needs to be updated so that records of assets and their physical location are kept accurate. Fixed assets are tracked within SAP. Controlled assets are tracked within Asset Management. All asset transfers, whether fixed or controlled, must be requested within Asset Management by the Campus/Department Fixed Assets Administrator. The request is then approved in Asset Management by the Principal (for Non-NES schools), the Finance Division (for NES schools), or the Department Head. For fixed assets, additional procedures are required to track the transfer in SAP, as asset movements are not tracked in SAP by default. The Campus/Department Fixed Assets Administrator completes the Asset Transfer Form for fixed asset transfers, which is then approved by the Principal (for Non-NES schools), the Finance Division (for NES schools), or the Department Head. This form is subsequently provided to the Fixed Asset Accounting team to update the asset's movement within SAP.

Site to Warehouse Transfer

Transfers are automatically routed to Warehouse Services, which coordinates the scheduling of pickup.

Once scheduled, Warehouse Services will retrieve the asset from the originating site and transport it to the warehouse.

Employees are strictly prohibited from transporting district assets in personal vehicles.

Asset Transfers

Site to Site Transfer

All inter-building asset transfers must be coordinated through Warehouse Services.

Employees are strictly prohibited from transporting district assets in personal vehicles.
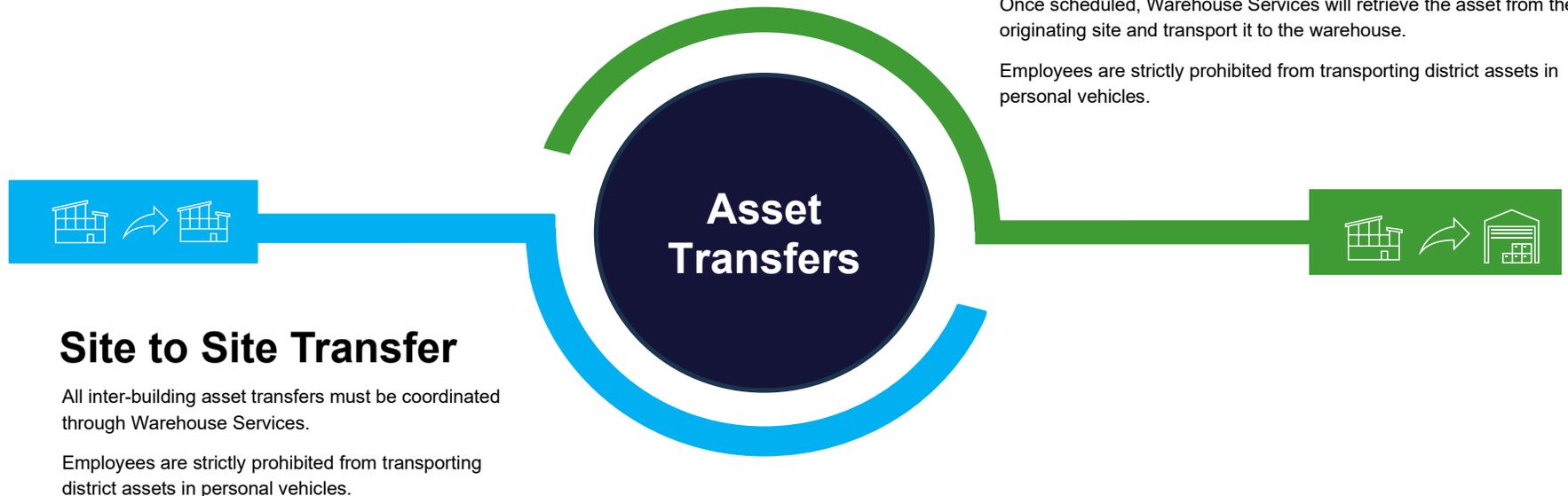
BACKGROUND (CONTINUED)

Fixed Asset Disposals Overview

Disposal of fixed assets occurs when assets are either sold, retired, scrapped, lost or stolen. Fixed assets are disposed of through SAP. Controlled assets are disposed of through Asset Management. However, the process is very similar for scrapped, lost or stolen assets regardless of if the asset is fixed or controlled asset.

- ❖ **Lost or Stolen Assets Disposals:** The lost or stolen assets disposal process begins with the Department or Campus Fixed Asset Administrator reporting the incident to both the School Improvement Officer and the Police Department by telephone. Within 30 days of the incident, the administrator must complete a Property Loss/Damage Report, which includes essential details such as the campus or department name and address, date of the report, date and cause of the loss, a description of the circumstances surrounding the loss, and any corrective measures to be taken. The report must also include asset-specific information like the tag number, item description, serial number, cost, and owner, along with the names and signatures of both the reporting individual and the police officer, as well as the police case number. Once completed, the HISD Police reviews the report to ensure all key fields are filled out, signs it, and issues an official HISD Police Report upon approval. The finalized report is then forwarded to both the Fixed Assets Accounting Department and the Risk Management Department. Finally, the Fixed Assets Accounting Department processes the asset disposal in the appropriate system—fixed assets are recorded in SAP, while controlled assets are handled in Asset Management.

- ❖ **Scrapped Asset Disposals:** The scrap disposal process begins when a department or campus identifies the need to dispose of certain assets. The Campus or Department Fixed Assets Administrator submits a disposal request through Asset Management, which is then routed to the Principal or Department Head for approval. Once approved, the request is sent to the Warehouse Services Department for evaluation to determine whether the assets should be scrapped. At this stage, the Warehouse Services team prepares a Scrap Report. If the disposal list includes technology assets, the Scrap Report is forwarded to the Information Technology Department to assess whether any items are salvageable; any such items are removed from the report. The revised Scrap Report, now including asset tags, is then submitted to the Fixed Assets Accounting Department for approval. Upon receiving final approval, the Warehouse Services team notifies the vendor that the assets are ready for pickup. The vendor scraps the assets and provides a Vendor Manifest Report detailing all items that were scrapped. This report is then sent back to the Fixed Assets Accounting Department, which processes the asset disposals in the appropriate system—fixed assets in SAP and controlled assets in Asset Management.

- ❖ **Sale of Vehicle Disposals:** The sale of vehicles disposal process begins when a department or campus identifies a vehicle that is no longer needed and notifies the Fleet Department. The Fleet Department reviews the request, approves the sale, and determines whether the vehicle will be sold through auction. It then contacts the Fixed Assets Accounting Department to obtain the vehicle title(s). Once the titles are received, the Fleet Department removes all HISD emblems and license plates and cancels the plates in accordance with District policy. The Warehouse Services Department manages the auction process, coordinating logistics and executing the sale. After the vehicle is sold, the Fixed Assets Accounting Department signs over and releases the original title to the new owner, and the Warehouse Services Department releases the vehicle. Finally, the General Accounting Department records the proceeds in SAP, while the Fixed Assets Accounting Department records the vehicle disposal in the same system.

BACKGROUND (CONTINUED)

Annual Inventory Audit Overview

Section 705 – Physical Inventory of Fixed Assets of the HISD Finance Procedures Manual states that the Fixed Assets Accounting Department will initiate and coordinate the performance of an annual physical inventory on all assets owned by the District for each campus/department annually. This inventory audit will be conducted during the year. Items not accounted for during the inventory process will be reported to the respective superiors. The date of the inventory and audit instructions will be furnished to the schools and various departments by the District during the audit. Inventory items must be observed and counted.

The annual inventory audit process typically begins in late April or May, when the Fixed Assets Accounting Department initiates the audit by notifying campuses and departments. An inventory spreadsheet, generated from SAP and organized by asset location, is then distributed to the designated Fixed Assets Administrator at each site. These administrators are tasked with completing the physical inventory in accordance with provided guidelines and submitting the finalized report to the Fixed Assets Accounting Department.

If during an inventory audit any assets are found to be missing, the department follows up with the respective campus or department to determine whether the items were lost, stolen, or otherwise untraceable, and whether a police report has been filed. Campuses and departments are expected to investigate and provide explanations where possible. If the missing assets remain unresolved, the Fixed Assets Accounting Department seeks approval from the Controller or Assistant Controller to formally write off the items.

OBJECTIVES AND APPROACH

Objectives

The objective of this internal audit was to evaluate the design and effectiveness of internal controls surrounding asset management. In-scope areas included key processes and controls related to recording, monitoring and reporting of fixed and controlled assets. Additionally, we evaluated the adequacy of internal controls related to asset additions, transfers, and disposals; asset monitoring and tracking; and recurring inventory counts and related reporting. Our internal audit did not intend to include a review of controls or inventories over real property, including land and buildings.

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 in place related to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed key documents, including policies and procedures related to fixed assets, specialized guides for fixed assets, and organizational charts for the Fixed Assets Accounting Department.
- Conducted walkthroughs with key personnel to understand the District's processes and roles/responsibilities related to the fixed assets management process.
- Developed a work plan to evaluate the operating effectiveness of procedures and controls based on the information obtained through reviews, inquiries, and walkthrough procedures.

Evaluation of the Process and Controls Design
The purpose of this phase was to assess the operating effectiveness of processes and controls based on our understanding obtained during the first phase. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Our testing procedures included, but were not limited to:
- Evaluated the adequacy and accessibility of existing policies and procedures related to fixed assets management.
- Evaluated the design and control structure as it relates to fixed assets, including adherence to policies and procedures.
- Selected a sample of 25 asset additions, including 10 fixed assets, 10 controlled assets, and 5 donations, across various campuses and departments during our audit period and performed the following procedures:
  - Verified that proper segregation of duties were maintained among approving, purchasing, recording, and paying for asset additions.
  - Verified that asset additions were supported by the necessary documentation.
  - Verified that asset additions were properly approved by the designated individuals at both the campus and department levels.
  - Verified that asset additions were accurately tagged and began tracking in the corresponding system.
  - For donated asset additions, verified required approvals and documentation was obtained before receipt by the campus or department.
- Selected a sample of 25 asset disposals, including 13 fixed assets and 12 controlled assets, across various campuses and departments during our audit period and performed the following procedures:
  - Verified that proper segregation of duties were maintained among disposing, approving, and recording the asset disposal.
  - Verified that all disposals were supported by the necessary documentation.
  - Verified that asset disposals were properly approved by the designated individuals at both the campus and department levels.
  - For assets sold, verified the proceeds were supported, approved and accurately recorded in the system.
- Selected two sites based on the materiality of their inventories. At each site, we performed the following procedures:
  - Verified that an annual inventory was performed in compliance with policies and procedures.
  - Sheet-to-Floor Verification: Selected 15 items from the inventory records and verified their physical existence on-site.

OBJECTIVES AND APPROACH (CONTINUED)

Approach (Continued)

        o   Floor-to-Sheet Verification: Selected 10 items physically present at the site and confirmed they are accurately recorded in the inventory system.

Reporting

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management responses into this report.

OBSERVATION MATRIX

Observation	1. Annual Physical Inventory of Assets

High	***Section 705 – Physical Inventory of Fixed Assets*** of the HISD Finance Procedures Manual requires each District location administrator to prepare an annual inventory of their location's fixed and controlled assets. Our review of FY2024 compliance revealed significant non-adherence to this requirement.
	
	Specifically, 45% of campuses (122 out of 270) and 73% of departments (58 out of 79) did not complete their FY2024 annual inventory audits as mandated. As a result, approximately $230 million in campus assets and $336 million in departmental assets—comprising both fixed and controlled assets—were left unaccounted for.
	
	To assess the accuracy of inventory records, we conducted detailed testing at two HISD campuses:
	
	❖ **Milby High School** (completed FY2024 inventory audit):
	    o Selected 10 Fixed Assets from the active assets listing: 4 out of 10 selected assets could not be located on campus.
	    o Selected 5 Controlled Assets from the active assets listing: 4 out of 5 selected assets could not be located on campus.
	
	❖ **Austin High School** (did not complete FY2024 inventory audit):
	    o Selected 10 Fixed Assets from the active assets listing: 3 out of 10 selected assets could not be located on campus.
	    o Selected 5 Controlled Assets from the active assets listing: 4 out of 5 selected assets could not be located on campus.
	
	The Fixed Assets Accounting Department conducts annual inventory audits focused exclusively on fixed assets located throughout District departments and campuses. However, ***Section 705*** of the District's Finance Procedures Manual establishes the requirement for an annual physical inventory of all District-owned assets—including both fixed and controlled assets. The inventory instructions provided by the Fixed Assets Accounting Department specifically reference only fixed assets and make no mention of controlled assets.
	
	Failure to perform and document annual physical inventories of fixed assets increases the risk of asset misappropriation, loss, or theft going undetected. It also undermines the accuracy of financial reporting, impairs asset management and planning, and results in non-compliance with internal policies and procedure requirements.

OBSERVATION MATRIX (CONTINUED)

Observation	1. Annual Physical Inventory of Fixed Assets
Recommendation	We recommend the following: • Provide mandatory training for Campus/Department Fixed Assets Administrators on proper inventory procedures, including asset tagging, documentation, inventory audit and reconciliation practices. • Require an annual inventory of all controlled assets to ensure accurate tracking and accountability. If a full annual inventory is not feasible, the District should, at a minimum, identify high-priority controlled assets that require annual tracking and ensure those are inventoried consistently. • Establish and enforce a formal accountability mechanism requiring all campuses and departments to complete and certify their annual physical inventory of all assets. Non-compliance should be escalated to senior leadership and may warrant corrective action.
Management Action Plan	**Response:** During the FY 2024-2025 audit, the district demonstrated an increase in compliance. All campuses successfully finalized their audits, while 88% of departments completed their audits. This improvement can be attributed to the escalation of non-compliance issues to the Chiefs (senior leadership) of each department multiple times throughout the annual audit process. Communication was disseminated at a Chief of Staff meeting and multiple emails. This process will be permanently implemented and documented in the Finance Procedures Manual. See response to Finding #2 for training. **Responsible Party:** Fixed Asset Director **Estimated Completion Date:** May 31, 2026

OBSERVATION MATRIX (CONTINUED)

Observation	2. Tagging and Recording of Assets

High	***Section 711 – Tagging of Fixed Assets*** of the HISD Finance Procedures Manual requires that campuses and departments print asset tags using Asset Management, affix them to assets upon receipt, and enter the tag number—and serial number, if applicable—into the Asset Management system.
	
	To evaluate the effectiveness and accuracy of the District's asset tagging process, we performed sheet-to-floor testing at two HISD campuses. At each site, we selected a sample of ten (10) fixed assets from the active asset listing, resulting in a total sample of twenty (20) fixed assets across both campuses. Of the 20 assets selected, 12 were not physically tagged as required.
	
	✦ **Milby High School** (completed FY2024 inventory audit):
	    o 5 out of 10 assets selected were not physically tagged; instead, the IT Department on campus retained index cards containing the asset tags.
	
	✦ **Austin High School** (did not complete FY2024 inventory audit):
	    o Of the 7 assets sampled and successfully located on campus, none were physically tagged.
	
	Failure to tag assets directly and visibly increases the risk of asset misappropriation, loss, or theft going undetected. It also undermines the reliability of physical inventories, impairs asset tracking and accountability, and results in non-compliance with established asset management procedures.
	
	Additionally, while onsite, we conducted floor-to-sheet testing across both campuses to evaluate the completeness and accuracy of the District's inventory records. We selected a sample of twenty (20) assets with physical asset tags and attempted to trace each item to the inventory systems maintained in SAP or Asset Management, based on the item's estimated value. Of the 20 assets reviewed, 14 were physically tagged but not recorded in either SAP or Asset Management. This indicates a breakdown in the inventory process—while tags are being generated and affixed to assets, the corresponding asset information is not being entered into the system.
	
	✦ **Milby High School** (completed FY2024 inventory audit):
	    o 8 out of 10 assets selected were physically tagged but not recorded in SAP/Asset Management.
	
	✦ **Austin High School** (did not complete FY2024 inventory audit):
	    o 6 out of 10 assets selected were physically tagged but not recorded in SAP/ Asset Management.
	
	Tagging alone does not ensure asset tracking; uploading the asset information into Asset Management (controlled assets) and SAP (fixed assets) is essential for maintaining accurate records. Failure to upload tagged assets into the systems compromises the integrity of the District's asset records. This increases the risk of asset misappropriation, loss, or theft going undetected, and undermines the District's ability to accurately track, manage, and report on its fixed assets.

OBSERVATION MATRIX (CONTINUED)

Observation	2. Tagging and Recording of Assets
Recommendation	We recommend the following: • Provide targeted training for Fixed Assets Administrators on the complete tagging and data entry process, emphasizing the importance of affixing asset tags in a clearly visible location on the asset itself and promptly updating asset records in the Asset Management system. • Establish accountability measures for non-compliance, including follow-up audits or administrative reviews. • For controlled assets, explore opportunities to enhance Asset Management's functionality by implementing automated system validation checks. Specifically, develop a feature that identifies instances where asset tags have been printed but the corresponding asset information has not been uploaded into the system. This validation would help prevent incomplete asset records and improve overall data integrity within the asset tracking process.
Management Action Plan	**Response:** The Fixed Assets team will provide comprehensive training for asset custodians and relevant personnel on asset management policies, procedures, and system usage. The team will conduct periodic, unannounced audits throughout the year to assess compliance with tracking procedures. Each semester, a sample of campuses will be selected, including at least one elementary school, one middle school, and one high school. By August 31, 2025, campuses and departments must designate a fixed asset lead who will serve as the point of contact for that site. The Fixed Assets Director will collaborate with the Finance Training Department to ensure that training is offered and completed by fixed asset site coordinators annually. Fixed asset training will be held quarterly to accommodate new site coordinators that are identified throughout the year. As we implement Oracle Fusion ERP, the fixed asset department will consider all opportunities to improve current processes. **Responsible Party:** Fixed Asset Director **Estimated Completion Date:** 1st Semester no later than December 19, 2025. 2nd Semester no later than March 31, 2025. Site Coordinator selection and database by August 31, 2025.

OBSERVATION MATRIX (CONTINUED)

Observation	3. Fixed Assets Disposals – Scrapped Vehicles
Moderate	**Section 714 – *Disposal of Fixed Assets or Scrap Material*** of the HISD Finance Procedures Manual requires that surplus or unfit equipment be transferred to the Warehouse Department for temporary storage or final disposition. Before any sale or trade-in, efforts must be made to determine if the equipment is needed elsewhere in the District. As part of our detailed testing, we reviewed a sample of 10 fixed asset disposals and identified one instance of improper disposal due to incomplete asset records and miscommunication: • A **Ford Tractor** was physically scrapped in June 2024. However, it was not recorded in SAP, and therefore could not be properly disposed of in the system. • Instead, a **Backhoe Loader** was mistakenly disposed of in SAP. • This error occurred because the Fleet Department provided the equipment number (used internally to track vehicle details) rather than the SAP asset number. Since the equipment number does not return an associated asset in SAP, the Fixed Assets Accounting Department concluded the tractor was not in the system and disposed of the wrong asset. • Although the Ford Tractor was not recorded in SAP, its title was stored with other HISD vehicle titles, confirming it was part of the District's fleet but had not been properly capitalized or entered into SAP. In May 2025, following our detailed testing and communication of the issue to the Fixed Assets Accounting Director, the Fixed Assets Accounting Department took corrective action. Specifically, the Backhoe Loader was reinstated in SAP, and the Ford Tractor was accurately recorded, appropriately marked as scrapped, and formally retired Inaccurate or incomplete asset records in SAP increase the risk of erroneous disposals, misappropriation, or loss of District property. This undermines the reliability of financial reporting and weakens internal controls over fixed asset management.
Recommendation	We recommend the following: • Require that all disposal requests include both the SAP asset number and the equipment number. • Establish a verification step to confirm that the asset exists in SAP before processing the disposal. • Provide targeted training for both Fleet Services and Fixed Assets Accounting staff on the importance of using correct identifiers and verifying asset records prior to disposal.

OBSERVATION MATRIX (CONTINUED)

Observation	3. Fixed Assets Disposals – Scrapped Vehicles
Management Action Plan	**Response:** An inventory disposal meeting is taking place in August 2025 with Information Technology (IT) and Operations to review and edit the policy and procedures on disposal of capital and controllable assets. See response to recommendation #2 for training. **Responsible Party:** Fixed Asset Director and Assistant Controller with input from Chief Financial Officer, Chief Technology Officer, Controller, Deputy Chief Technology Officer, and Sr. Executive Director Business Logistics and Purchasing. **Estimated Completion Date:** September 30, 2025

OBSERVATION MATRIX (CONTINUED)

Observation	4. Fixed Assets Accounting Approval of Asset Additions
Low	***Section 708 – Acquisition of Fixed Assets*** of the HISD Finance Procedures Manual requires that when acquiring an asset through a Regular District Purchase Order, the appropriate 66XXXXXXXX account must be used in SAP. This allows the Shopping Cart to be routed to the Fixed Assets Accounting Department for approval, enabling them to create the asset shell. Once the Goods Receipt is posted, the asset shell becomes an official asset in the system. The Fixed Assets Department is the only department authorized to create asset shells in the system. Therefore, it is essential that they are promptly informed of any assets requiring creation. As part of our detailed testing, we reviewed 10 fixed asset additions (each valued over $5,000) acquired through regular District purchase orders. We identified the following: • 6 out of 10 fixed asset additions did not obtain Fixed Assets Accounting approval through the SAP workflow. These purchases required routing to Fixed Assets Accounting but were instead sent directly to the Purchasing Department due to a workflow configuration error in SAP. It is important to note that the Fixed Assets Accounting Department does not approve the appropriateness of the purchase; their role is limited to creating the asset shell. If the Shopping Cart is not routed to them, it goes directly to the Purchasing Department, and Fixed Assets Accounting only becomes aware of the asset during back-end checks. When fixed asset purchases bypass the Fixed Assets Accounting Department, asset shells are not fully created in a timely manner consistent with the requirements of the Finance Procedures Manual, increasing the risk of incomplete or delayed asset capitalization. This can lead to inaccurate financial reporting, hinder asset tracking, and weaken internal controls over fixed asset management.
Recommendation	We recommend the following: • Immediately review and update the SAP workflow so that all fixed asset purchases (valued over $5,000) using 66XXXXXXXX accounts are routed to the Fixed Assets Accounting Department for approval before proceeding to Purchasing.
Management Action Plan	**Response:** Fixed Asset Director, Assistant Controller, and Procurement will conduct a thorough review of the NIGP codes and general ledger coding to ensure campuses and departments accurately code fixed assets, both capital and controllable, correctly. The Fixed Assets team will attend all campus and department CFO quarterly meetings to provide training to Office Managers, Business Managers, and Administrative Assistants on the relevant policy and procedures. Additionally, Fixed Asset Site Coordinators will receive quarterly training to ensure ongoing compliance. **Responsible Party:** Fixed Asset Director **Estimated Completion Date:** 1st Quarter by September 30, 2025; 2nd Quarter by December 19, 2025; 3rd Quarter by March 31, 2026, and 4th Quarter by May 31, 2025 (Annual Audit Training).

OBSERVATION MATRIX (CONTINUED)

Observation	5. Duplicate Controlled Asset Uploads to Asset Management
Low	The Asset Management system is used to track controlled assets across the District. During our audit period of July 2024 through January 2025, we identified 269 controlled asset disposals recorded in the system. Upon further review, we found that 214 of these disposals (approximately 80%) were not actual disposals, but rather the result of duplicate asset entries that were subsequently removed from the system. These duplicates primarily involved IT-related assets and occurred because both the IT Department and the Fixed Assets Accounting Department uploaded the same assets into Asset Management simultaneously. This issue is particularly prevalent when IT equipment is procured through contracted vendors who deliver items pre-tagged, depending on contract terms. According to established procedures, the IT Department is responsible for providing a complete and accurate list of assets to the Fixed Assets Accounting Department, which then uploads the information into Asset Management. However, due to timing constraints and the urgency of deploying equipment to campuses, this step is often bypassed. As a result, the IT Department may upload assets directly into Asset Management, leading to duplicate records. These duplicates are later removed and recorded as disposals, which inflates disposal figures and compromises the accuracy of asset tracking and reporting. Duplicate asset entries and their subsequent removal as disposals distort disposal data, reduce the reliability of asset records, and hinder effective asset management. This can lead to inaccurate reporting and weakened internal controls over the District's fixed assets.
Recommendation	We recommend the following: • Consider limiting upload permissions for controlled assets into Asset Management to the Fixed Assets Accounting Department. The IT Department should submit asset data through a standardized and timely process. • Establish clear communication protocols and timelines for asset information sharing between the IT Department and the Fixed Assets Accounting Department.
Management Action Plan	**Response:** The Fixed Asset Director and the IT Asset Management Director will review and revise current policies and procedures to establish clear expectations for each department involved. This will include a detailed outline the responsibilities of the Fixed Assets team and the IT team to prevent duplication of efforts. **Responsible Party:** Fixed Assets Director **Estimated Completion Date:** September 30, 2025

OBSERVATION MATRIX (CONTINUED)

Observation	6. Finance Procedures Manual – Fixed Assets Section 700
Low	Our review of **Section 700 – Fixed Assets** of the HISD Finance Procedures Manual, as of August 2024, identified several key controls and procedures that are either outdated or not documented. These gaps reduce the clarity and effectiveness of the District's fixed asset management framework. Specific examples include: • **Section 705 – Physical Inventory of Fixed Assets:** The manual states that an annual physical inventory should be performed on *all* assets using the TIPWEB-IT system. However, in practice, inventories are conducted only for fixed assets, and the process is manual. Additionally, the system formerly known as TIPWEB-IT is now referred to as Asset Management. • **Section 707 – Fixed Asset Inventory Committee:** The manual states that the Superintendent shall appoint a Fixed Asset Inventory Committee to oversee asset management policies. However, this committee was disbanded in 2023, and the manual has not been updated to reflect this change. • **Section 708 – Acquisition of Fixed Assets:** The current policy does not address segregation of duties in the asset acquisition process. In practice, the Requisitioner initiates the shopping cart, and the campus principal or department head provides initial approval, followed by approvals from Fixed Assets Accounting and Purchasing. • **Section 708.2 – Donations:** The manual does not reference Fund 4990020000, which was established to allow individuals and organizations to donate funds for asset acquisition. This omission may lead to inconsistent handling of donated funds. • **Section 714 – Disposal of Fixed Assets or Scrap Material:** The policy lacks clarity on what forms of scrap disposal evidence (e.g., receipts) must be retained for both fixed and controlled assets, which may result in inconsistent documentation practices. Outdated or incomplete policies reduce the effectiveness of internal controls, increase the risk of inconsistent practices across departments, and may lead to non-compliance with regulatory or audit requirements. This weakens accountability, transparency, and the overall integrity of fixed asset management.
Recommendation	We recommend the following: • Conduct a full review and update of **Section 700 – Fixed Assets** in the Finance Procedures Manual to reflect current practices, systems (e.g., Asset Management), and organizational structures.

OBSERVATION MATRIX (CONTINUED)

Observation	6. Finance Procedures Manual – Fixed Assets Section 700
Management Action Plan	**Response:** The Controller's Office is in the process of conducting a full review of the Finance Procedures Manual for the 2025-2026 school year to reflect current practices, systems, and organizational structures. This includes the Fixed Assets Section 700. **Responsible Party:** Fixed Asset Director **Estimated Completion Date:** August 31, 2025

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