

Audit Committee Report

April 29, 2025



At the April 29, 2025, Audit Committee meeting, all three committee members were present: Janette Garza Lindner (chairperson), Ric Campo, and Adam Rivon. Megan Menchaca, a reporter for the Houston Chronicle, was also present as were two members of the community.

- The committee met from 2:02 p.m.–3:22 p.m. and approved the minutes of the February 27, 2025, Audit Committee meeting.
- Representatives of the district's outsourced internal audit firm, RSM US LLP, provided a status update on the Fiscal Year (FY)2024-25 *Internal Audit Plan*.
- RSM provided an update on the follow-up of Internal Audit Recommendations stating there are a total of 38 observations, an increase from the number reported at the last Audit Committee meeting in February. Of those 38 observations, 12 are closed; 26 remain open; and two are ready for follow-up testing. Target completion dates have been deferred for nine observations in Nutrition Services, Employee Terminations Process, and Bus Driver Pay Process.
- Reports on four internal audit projects now underway will be issued at a future Audit Committee meeting: Controller's Office—Asset Management; Information Technology (IT)—Incident Response Tabletop Exercise; IT—Internal Pen Testing and Social Engineering; and Purchasing Services—Competitive Procurement.
- RSM also noted that it anticipates providing its annual report to the board in September 2025.
- RSM updated one previous observation regarding the Extra Duty Pay internal audit, identifying it as high-risk regarding Approval Timeliness. RSM noted that the district no longer requires extra duty pay assignments to be pre-approved prior to the hours worked and identified delayed supervisor approvals in four cases resulting in late employee payments. RSM recommended reinstating the formal pre-approval requirement for extra duty pay assignments, as outlined in

the 2023–2024 *Compensation Manual*, and stated that HISD management acknowledged that this change will be made.

- RSM discussed the final draft of the Employee Timekeeping/Overtime report noting they performed testing on a sample of employee timekeeping entries across the district. This resulted in three high-risk observations regarding Overtime Pre-Approval, Leave Pre-Approval, and Manual Payroll Workload Caused by Delayed Time and Leave Approvals. On 15 of 50 sampled timesheets, there was no documented pre-approval; on six of 50 sampled timesheets, paid leave did not have supervisors' pre-approval; and the Payroll Department has a significant burden fixing untimely and incomplete timekeeping submissions and approvals by employees and supervisors. RSM recommends additional training and reinforcement of timekeeping and overtime approval policies. Committee chair Garza Lindner asked how the sample entries were chosen. RSM responded that they targeted employee groups that they knew had elevated risk; for example, having substantial overtime, extra employees, or complex daily scheduling. RSM noted that there were no instances of unapproved time that was paid; approval was acquired before subsequent payment. The issue is that pre-approval documentation was inconsistent, such as provided via email or verbally. Brad Bailey, senior executive director of Benefits and Payroll, indicated that staff will be retrained that when something gets approved late, staff should enter a comment in the timekeeping system as to why this was done; for example, perhaps someone got sick and took leave time, which could not be pre-approved since it was unexpected.
- RSM reviewed the FY 2025–2026 *Risk Assessment and Proposed Internal Audit Plan*, which includes a risk assessment “refresh” for FY 2026–2027 and continued follow-up testing to re-evaluate previously identified areas of concern and reporting regularly to the Audit Committee for transparency and accountability. RSM proposed five internal audits for FY 2025–2026: IT/Cybersecurity Governance and Policy Assessment; Business Operations—Construction Services—Contractor Selection through Project Closeout; Purchasing Services—ProCard Program; Business Operations—Maintenance and Repairs; and Human Resources—Employee Selection and Onboarding. Since the district has very few construction projects currently, the committee decided to replace that audit with contract administration and vendor management, an area which was also identified as high-risk during the risk assessment.
- Board member Rivon asked whether RSM had done any audit of special education before. RSM states it has performed such audits at other districts but not at HISD. Board member Rivon noted that one of the exit criteria for the board of managers is to hit a totality of services at 100 percent. He said that although special education is not on the audit list, he wondered if that might be something to consider for the future. RSM indicated they could add that to the audit list if and when the committee chooses to do so.
- The committee privately discussed RSM's status report on cybersecurity, due to security concerns.
- The minutes of the April 29, 2025, Audit Committee meeting will be reviewed for approval by the committee at its next meeting. Once approved, the minutes will

be posted on the Audit Committee website at
<https://www.houstonisd.org/domain/51770>.

- The audit plan and School Board-reviewed final internal audit reports are posted on the Internal Audit website at <https://www.houstonisd.org/domain/40609>.