

Houston Independent School District FY2025 Annual Audit Committee Report

September 23, 2025



Audit Committee Overview

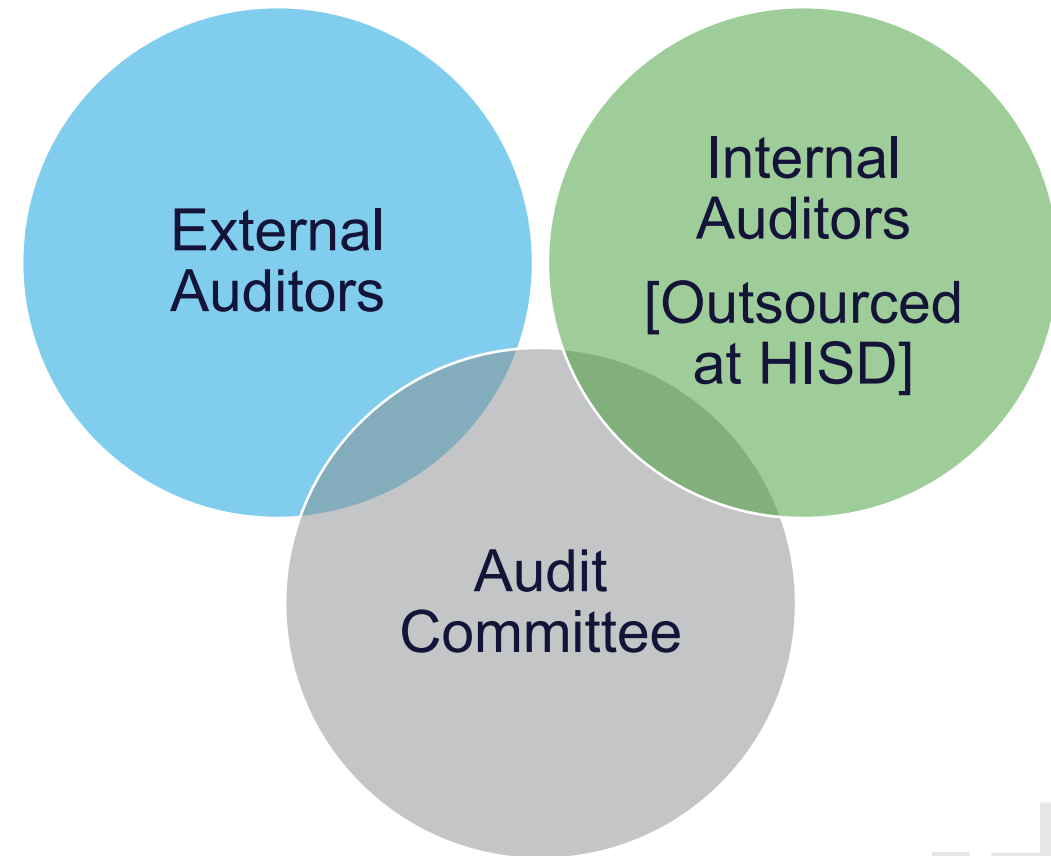
What is the Audit Committee?

The HISD Audit Committee Charter defines the role and responsibilities of the HISD Audit Committee. This includes oversight of both internal and external internal auditors.

According to the charter, the purpose of the Audit Committee is to provide structured oversight of the organization's governance, risks, and internal controls. It advises the School Board on the adequacy of these practices, aiming to enhance accountability and transparency.

Specific responsibilities include:

- Oversight of the outsourcing of internal audit
- Monitor follow-up on open audit recommendations/observations
- Review financial statements and public accountability reporting



External Audit vs Internal Audit¹

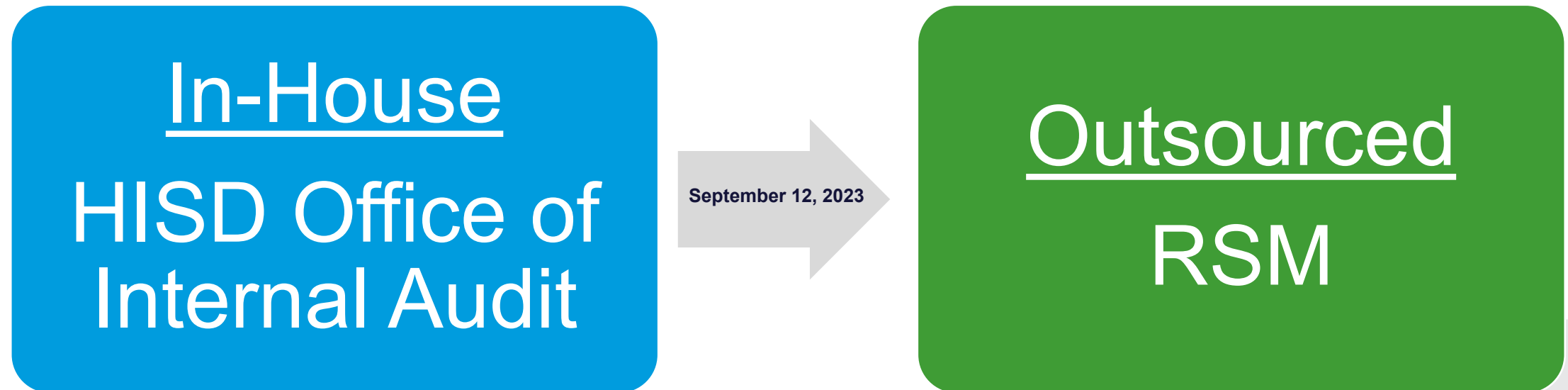
The Audit Committee oversees both internal and external audit functions. The table below describes some of the key differences between these two independent functions.

Aspect	Internal Audit	External Audit
Objective	Improve internal processes, controls, and governance.	Provide independent assurance on financial statements.
Focus	Risk, compliance, and operational efficiency.	Financial accuracy and compliance with standards.
Reporting	To management and the Audit Committee.	To external stakeholders, including the public.
Improvement Role	Recommends improvements; management implements.	Reports issues but does not advise on improvements.
Scope	Broad: internal controls, operations, and compliance.	Narrow: financial statement verification.
Frequency	Ongoing throughout the year.	Annual, aligned with financial reporting.
Regulation	Optional, but considered best practice.	Legally required for public entities.
Independence	Internal, but with objective oversight.	Completely independent of the organization.
Stakeholders	Management, Audit Committee, internal stakeholders.	Public, regulators, and external stakeholders.
Approach	Risk-based, proactive audits.	Compliance-driven, focused on financial standards.

¹Outsourced at HISD

Internal Audit Reorganization at HISD

Prior to September 12, 2023, the internal audit function was employed internally by the HISD Office of Internal Audit. Through a competitive solicitation, RSM was selected through the RFQ process as the most qualified firm to serve HISD. RSM now serves as the ***independent*** internal audit function for HISD.



Outsourced Internal Audit Function Overview

Outsourcing the internal audit function brings significant value to an organization, especially in enhancing **independence** and **objectivity**. It is a common practice for school districts to outsource their internal audit function.

Additional benefits include:

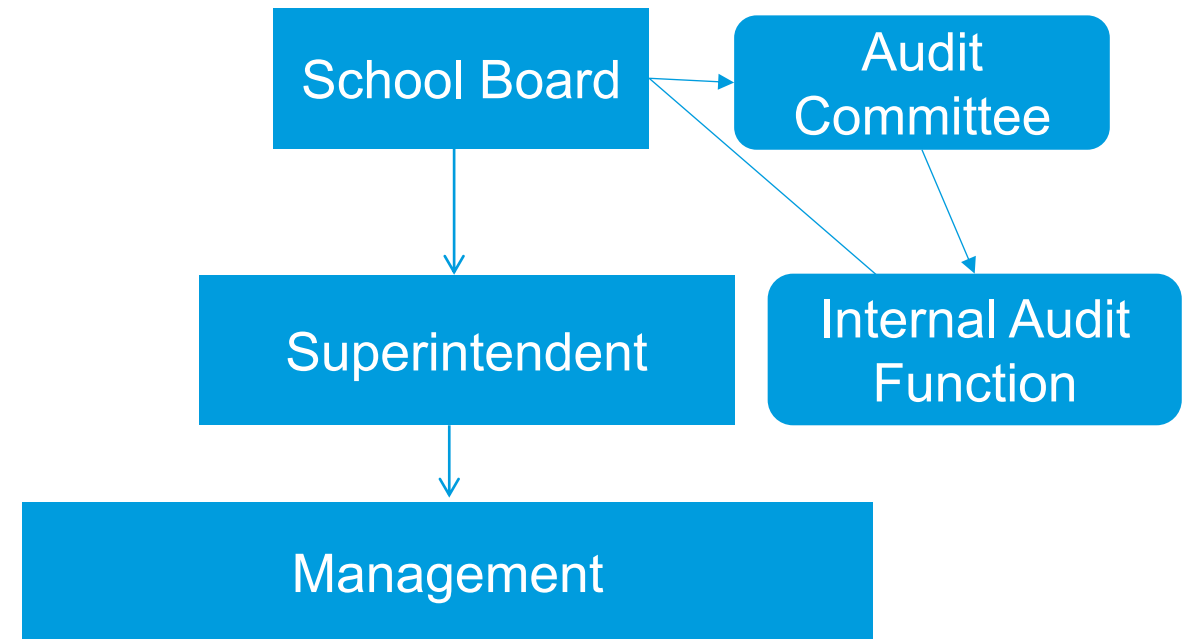
Unbiased Assessments: External auditors bring a fresh perspective, free from internal influences, facilitating impartial evaluations based purely on facts and best practices.

Enhanced Expertise: Outsourced teams often consist of specialists with a deep understanding of industry standards and emerging risks, offering higher scrutiny.

Cost Efficiency: Organizations can optimize resources by accessing a wide range of skills on demand without the overhead of maintaining a full-time internal audit staff.

This approach not only strengthens the internal control environment but also reinforces trust in the governance processes.

Independent Reporting Structure



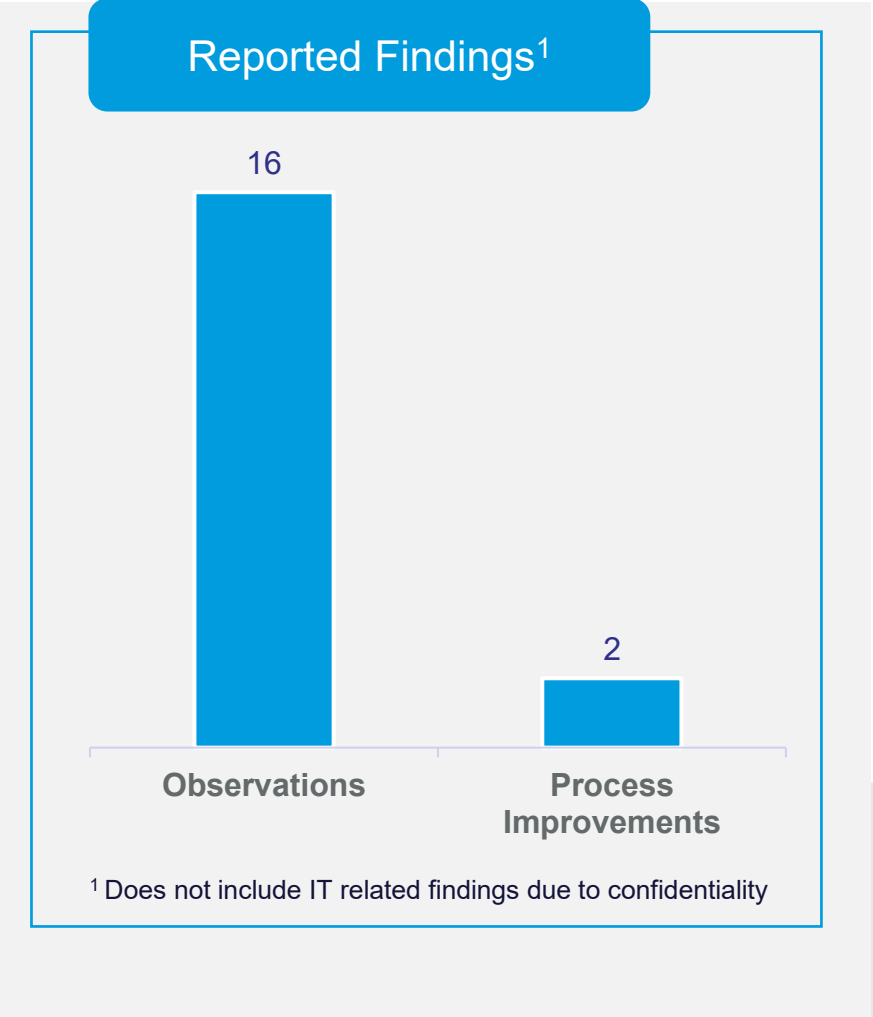
FY2025 Audit Committee Accomplishments

-  **Meetings Held:** 4 meetings on September 13, 2024; November 5, 2024; February 27, 2025 and April 29, 2025.
-  **6 Internal Audit Reports Completed:** Key areas covered include timekeeping and employee pay, asset management, IT subjects, and competitive procurement.
-  RSM held one-on-one interviews with HISD Board Members as part of the annual risk assessment process.
-  Issued FY2024 Annual Audit Report on January 15, 2025.

RSM FY2025 Internal Audits

Internal Audit Project	Status
Extra Duty Pay	Complete
Districtwide Activity Funds Review	Complete
Timekeeping and Overtime	Complete
Risk Assessment and Internal Audit Plan	Complete
Asset Management	Complete
IT – Social Engineering	Complete
Purchasing Services – Competitive Procurement	Draft Report Stage

FY2025 Follow-up:
Follow-up activities typically begin 6 to 12 months after observations are reported



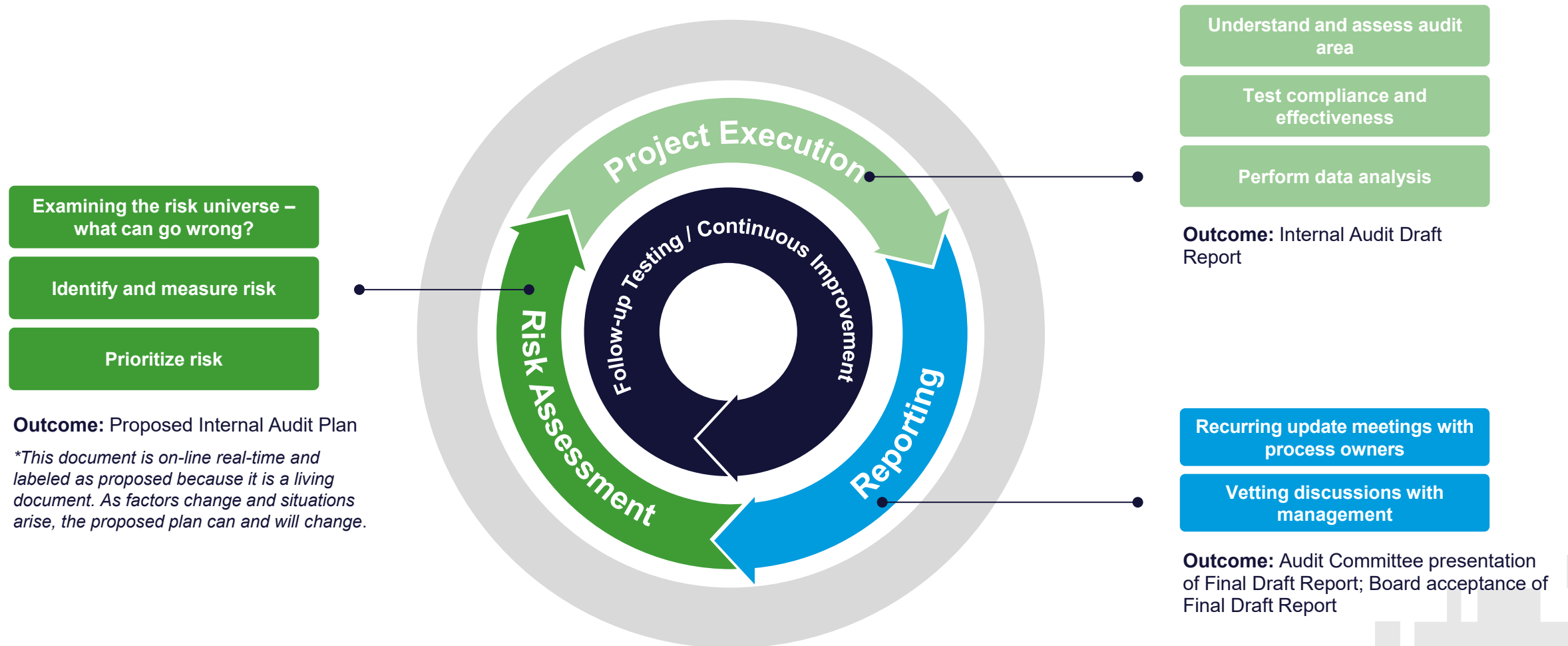
Follow-Up Status as of 09/23/2025

Internal Audit Project	Total Observations	Total Closed	Total Open
Risk Assessment	N/A	N/A	N/A
Nutrition Services	7	5	2
IT Security Maturity*	N/A*	N/A*	N/A*
IT Enterprise Data*	N/A*	N/A*	N/A*
IT Logical Security and Access Management*	N/A*	N/A*	N/A*
Bus Driver Pay Process	10	3	7
On-Time Grad Academy Data Quality	7	0	7
West University Elementary Technology Donations	2	0	2
Employee Terminations Process	4	2	2
Activity Funds Review	3	0	3
Records Management Process	2	0	2
Employee Extra Duty Pay	2	0	2
Employee Timekeeping and Overtime	3	0	3

***Due to the confidential nature of IT results, follow up is not quantified in the above table. Results are discussed in closed session during Audit Committee meetings.**

Internal Audit Process Overview

Overview of Internal Audit Process



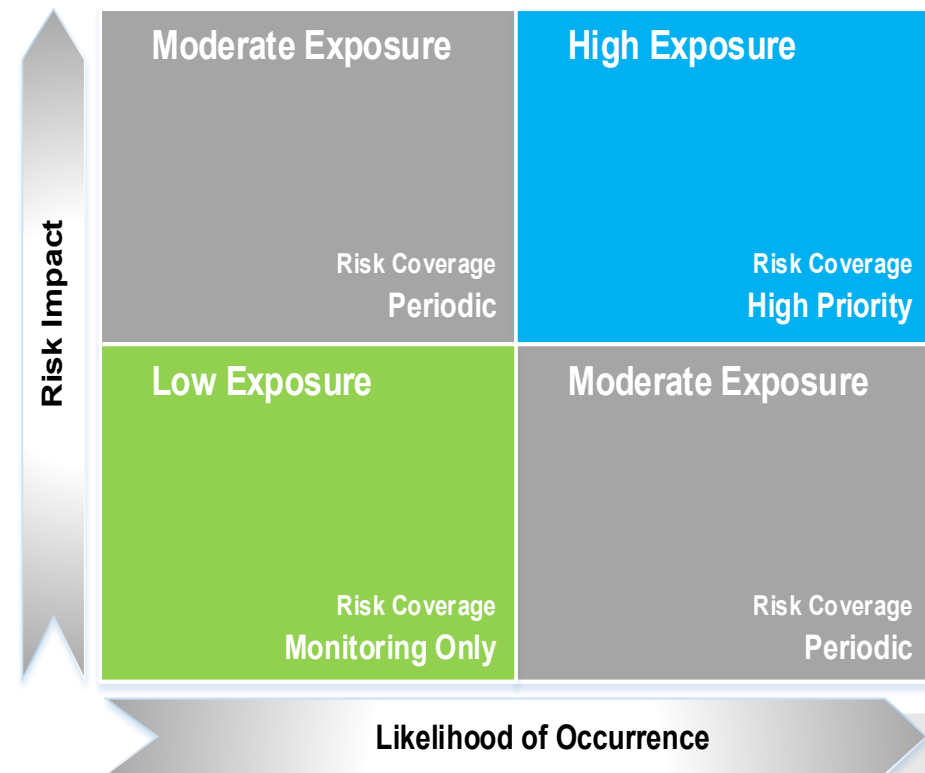
Risk Assessment

The objective of the risk assessment is to develop a proposed internal audit plan, which identifies those areas determined as having a **relatively high-risk profile** or that otherwise require internal audit attention for various reasons. This is a risk-based internal audit plan.

When we talk about risk we mean:

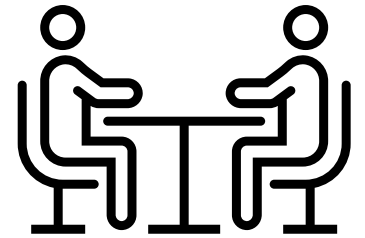
- Financial Risk
- Performance Risk
- Compliance Risk
- Public Perception

The internal audit plan will be accepted by the Audit Committee and Board each year but will remain a living plan. It can and should change throughout the year as risk at HISD continues to evolve. This allows HISD's internal audit function to remain proactive to the risks it faces every day.



Follow-up process

- ❑ As required by the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing* (Performance Standard #2500), internal auditors “should establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”
- ❑ Follow-up procedures should be performed after the completion date noted by Management.
- ❑ Follow-up typically occurs after ample time has passed with the new control / procedure in place (generally six months) to verify and report the implementation status of the recommendations and Management’s action with regard to the previously reported findings.
- ❑ Follow-up is meant to validate, on a sample basis, the effectiveness of the remediated controls of the previously reported open issues.



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