



Internal Audit Quality Assessment

Presented To:

Houston Independent School District

July 2013

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Executive Summary

Under the *International Standards for the Professional Practice of Internal Auditing* (“Standards”) an external quality assessment (“EQA”) of an internal audit activity must be conducted at least once every five years by a qualified assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the EQA process. The Houston Independent School District (“HISD”) Board Audit Committee selected the Institute of Internal Auditors (“IIA”) to lead the review of the Office of Inspector General (“Internal Audit”). The review was concluded on March 28, 2013 and provides management with information about Internal Audit as of that date. Future changes in environmental factors and actions by personnel, including actions taken to address recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the findings and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently, and draw different conclusions. The criteria used to determine conformance to the *Standards* are defined on page 36 of this report and are consistent with the guidance provided by the IIA in their *Quality Assessment Manual, Sixth Edition*.

Opinion as to Conformance to the Standards

It is our overall opinion that Internal Audit does not conform to the *Standards*. “Does Not Conform” means the assessor has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many / all of the objectives of the *Standards*. While an Internal Audit charter is in place to establish the purpose, authority, and responsibility of Internal Audit, it is outdated and not consistent with requirements of the *Standards*. While Internal Audit reports functionally to the Board and administratively to the Superintendent, the nature of the functional reporting relationship is not described in the charter. The charter is not consistent with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards* and is not updated periodically and approved by the Board. This is a critical element to ensure functional reporting is effective and organizational independence is achieved. Documentation of planning and preliminary risk assessment at an engagement level does not support that work is done with due professional care and IT audit resources and skills need to be evaluated. The CAE has not established, documented and maintained a Quality Assurance and Improvement Program (“QAIP”) that includes the required elements of internal and external assessment and communication of the results of such assessments.

The annual risk assessment and audit planning process is not effective in prioritizing areas for audit. There is limited input from key stakeholders when conducting the risk assessment and developing the annual audit plan, the plan is not clearly linked with an entity-wide view of risk, and there is no linkage between audit plan objectives and supporting resource requirements. The annual audit plan is not shared with key stakeholders in the organization beyond the Board Audit Committee. Concepts of governance, risk management, and control are not specifically addressed in the audit plan. An internal audit methodology has not been specifically defined and documented for Internal Audit to ensure that infrastructure and processes are consistent with the *Standards* and that work can be performed efficiently, effectively, consistently, and with a high level of quality. Planning for individual engagements, supported by an engagement level risk assessment, is not defined and or documented in audit work papers. Audits are executed based upon an approved work program, but are inconsistent in terms of quality and level of documentation supporting conclusions. Audit reports could be enhanced by including recommendations for management action and by improving timeliness, especially related to E-Rate matters. There is no formal follow-up process to monitor the status of observations raised during the audit reporting process.

Executive Summary

Objectives / Scope / Methodology

- The principal objectives of the EQA were to (1) assess Internal Audit conformance to the *Standards*; (2) assess the effectiveness of Internal Audit in providing assurance and advisory services to the Board, senior executives, and other interested parties; and (3) identify opportunities, offer recommendations for improvement, and provide counsel to the Chief Audit Executive (“CAE”) and staff for improving their performance and services and promoting the image and credibility of Internal Audit.
- The scope of the assessment included Internal Audit, as set forth in the Internal Audit charter. Conformance criteria used were the *Standards*.
- To accomplish the objectives, the EQA team reviewed information prepared by Internal Audit at the EQA team’s request, conducted interviews with selected key stakeholders to Internal Audit, reviewed a sample of audit projects and associated work papers and reports, reviewed benchmark and survey data, and prepared diagnostic tools consistent with the methodology established for an EQA in the *IIA Quality Assessment Manual, Sixth Edition*.

This external quality assessment was commissioned by the Board Audit Committee and is the first external quality assessment performed for Internal Audit and which was designed to evaluate conformance with the *Standards*. The external quality assessment evaluated *Attribute Standards* that describe requirements for infrastructure supporting Internal Audit and include elements such as (1) the Internal Audit charter that is the foundational document describing the purpose, authority, and responsibility of the activity; (2) organizational placement of Internal Audit and their ability to operate independently and objectively; (3) processes and infrastructure to ensure that work is performed with proficiency and due professional care; and (4) processes to support quality and continuous improvement within Internal Audit. The external quality assessment also evaluated *Performance Standards* that describe management and other processes that support the actual conduct of internal audits and include (1) activities associated with managing the internal audit activity such as annual audit planning, resource management, coordination of activities with other providers of assurance, and defining the internal audit methodology; (2) the scope of internal audit including governance, risk management, and control; (3) processes for planning audit engagements; (4) processes for executing engagements; (5) processes for communicating results of engagements; (6) processes for monitoring management actions on reported observations; and (7) mechanisms to communicate the acceptance of risk by management to the Board.

Executive Summary

Detailed observations related to conformance gaps for the *Standards* are included on the following pages. We have provided recommendations to address each conformance gap noted. Also included are Internal Audit responses provided to us that include commitments to action and timeframes for meeting those actions. The Board Audit Committee should monitor the status of committed action until all committed actions have been completed.

Thank you for the opportunity to be of service to HISD. We will be pleased to respond to further questions concerning this report and furnish any desired information.



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Attachment A

IIA Standards Conformance Summary

	GC	PC	DNC
OVERALL			X

ATTRIBUTES STANDARDS		GC	PC	DNC
1000	Purpose, Authority, and Responsibility			X
1010	Recognition of the Definition of Internal Auditing			X
1100	Independence and Objectivity		X	
1110	Organizational Independence		X	
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care		X	
1210	Proficiency	X		
1220	Due Professional Care		X	
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program			X
1310	Requirements of the Quality Assurance and Improvement Program			X
1311	Internal Assessments			X
1312	External Assessments		X	
1320	Reporting on the Quality Assurance and Improvement Program			X
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance		X	

PERFORMANCE STANDARDS		GC	PC	DNC
2000	Managing the Internal Audit Activity		X	
2010	Planning		X	
2020	Communication and Approval		X	
2030	Resource Management		X	
2040	Policies and Procedures		X	
2050	Coordination		X	

		GC	PC	DNC
2060	Reporting to Senior Management and the Board		X	
2070	External Service Provider and Organizational Responsibility for Internal Auditing	NA		
2100	Nature of Work		X	
2110	Governance		X	
2120	Risk Management		X	
2130	Control		X	
2200	Engagement Planning		X	
2201	Planning Considerations		X	
2210	Engagement Objectives		X	
2220	Engagement Scope		X	
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
2300	Performing the Engagement		X	
2310	Identifying Information		X	
2320	Analysis and Evaluation	X		
2330	Documenting Information		X	
2340	Engagement Supervision	X		
2400	Communicating Results		X	
2410	Criteria for Communicating		X	
2420	Quality of Communications		X	
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Nonconformance		X	
2440	Disseminating Results	X		
2450	Overall Opinions	NA		
2500	Monitoring Progress		X	
2600	Communicating the Acceptance of Risks	X		

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1000*

The Office of Inspector General (“Internal Audit”) Charter must be revised to conform to the requirements of *Standard 1000 – Purpose, Authority, and Responsibility*. While the Internal Audit Charter defines the purpose, authority, and responsibility of Internal Audit in a very broad manner, the concepts embodied within the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards* are not specifically included or referenced in the document. In addition, the CAE does not periodically review the Internal Audit Charter and present it to senior management and the Board for approval. Further, the Internal Audit Charter does not establish the functional reporting relationship of Internal Audit to the Board and does not describe the nature of that functional reporting relationship. While the nature of assurance and consulting services provided can be inferred in the document, they are not specifically defined as required.

Associated Recommendations – *Standard 1000*

1. Revise the Internal Audit Charter to conform to all the requirements of *Standard 1000 – Purpose, Authority, and Responsibility*. Upon revision, present to the Board for review and approval. Consider using the IIA Model Internal Audit Activity Charter as the template for this revision. The Internal Audit Charter is the foundational document that supports and guides all activities for the function and must be current and consistent with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*. Leading internal auditing practice suggests that review and approval of the Internal Audit Charter by the Board be done on an annual basis. This ensures that the Internal Audit Charter is updated in a timely manner as changes in the *International Professional Practices Framework (“IPPF”)* become effective. In addition, this demonstrates an appropriate “tone at the top” related to Board fiduciary oversight over Internal Audit.
2. Ensure that the Internal Audit Charter defines and describes the nature of the functional reporting relationship of Internal Audit to the Board consistent with the examples provided in the interpretation to *Standard 1110 – Organizational Independence*.
3. Ensure that the nature of assurance and consulting services provided by Internal Audit are clearly articulated in the Internal Audit Charter document.

Management Response and Commitment to Action – *Standard 1000*

We concur and commit to the following actions:

1. No later than November 30, 2013, the HISD’s Board of Education (“Board”) shall revise the Internal Audit Charter as found in HISD Board Policy – “CFC (LOCAL)” to conform with the guidelines described in *IIA Standard 1000 – Purpose, Authority, and Responsibility* which states, “The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”
2. HISD is an independent special-purpose government authorized by the State of Texas to operate local public schools. The Board of Education, the Board’s Audit Committee, and the Office of Inspector General shall also follow all applicable laws, rules, and regulations of the State of Texas. They shall also utilize and reference the guidelines and standards of the IIA, AICPA, TEA, and GAGAS as appropriate. However, the Office of the Inspector General shall report directly to the Board of Education through the Board Audit Committee and not to administration (senior management). Further, the Office of the Inspector General shall be independent, and internal auditors must be objective in performing their work.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 1000*

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3. No later than November 30, 2013, the Board Audit Committee shall revise the Audit Committee Charter as currently described in HISD Board Policy – “BDB (LOCAL)” to include examples of functional oversight over Internal Audit consistent with the IIA Model Audit Committee Charter. Functional oversight of Internal Audit included in the Audit Committee Charter – “BDB (LOCAL)” or HISD Board Policy – “BAA (LOCAL)” should be consistent with the functional oversight described in the Internal Audit Charter found in the to be revised HISD Board Policy – “CFC (LOCAL)”.
4. The Office of Inspector General shall confirm to the Board Audit Committee on an annual basis the organizational independence of the internal audit activity. The Office of Inspector General shall be responsible for creating, periodically reviewing, and if necessary, revising the Internal Audit Charter in collaboration with the Board Audit Committee. Any revisions to the Internal Audit Charter shall be presented to the Board Audit Committee and the Board of Education for review and approval, and the Office of the Inspector General shall communicate and collaborate with the Superintendent and administration regarding the Internal Audit Charter to gather relevant and pertinent input, and any and all information gathered shall be reported to the Board Audit Committee. The Internal Audit Charter shall be used by HISD as a foundational document that supports and guides all activities for the function of internal auditing. Review and approval of the Internal Audit Charter shall be done on an annual basis in December to ensure compliance with up-to-date guidelines and standards. The Board of Education and the Board Audit Committee shall demonstrate a strong commitment to fiduciary oversight over internal audit.
5. The Internal Audit Charter shall define and describe the nature of the functional reporting relationship of the Office of the Inspector General to the Board of Education through the Board Audit Committee. Functional reporting to the Board of Education involves the Board Audit Committee: 1) Approving the Internal Audit Charter; 2) Approving an Annual Risk-Based Internal Audit Plan; 3) Approving the Office of Inspector General’s budget and resource plan; 4) Approving decisions regarding the appointment and removal of the Inspector General; 5) Approving the remuneration of the Inspector General and Office of Inspector General staff; and 6) Making appropriate inquiries of the Office of Inspector General to determine whether there are inappropriate scope or resource limitations. The Board Audit Committee shall communicate with the Inspector General on the internal audit activity’s performance relative to its plan and other matters. The Board Audit Committee shall also monitor and evaluate the performance of the Office of Inspector General on an annual basis.
6. The Board of Education shall ensure that the nature of assurance and consulting services provided by the Office of Inspector General are clearly articulated in the Internal Audit Charter.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1010*

The Internal Audit charter does not reference the mandatory nature of the Definition of Internal Auditing, the IIA Code of Ethics, or the *Standards* as required by *Standard 1010*. In addition, there is no evidence to support that the CAE has discussed the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the Board.

Associated Recommendations – *Standard 1010*

1. Reference the mandatory nature of the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards* in the Internal Audit charter. These are mandatory elements of the *IPPF* and are foundational to the practice of internal auditing in an organization.
2. Discuss the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards* with senior management and the Board on a periodic basis concurrent with the recommended review and approval of the Internal Audit charter on an annual basis.

Management Response and Commitment to Action – *Standard 1010*

We concur and commit to the following actions:

1. The Internal Audit Charter shall reference the mandatory nature of the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*. The Internal Audit Charter shall also reference and comply with standards and guidelines set forth by the AICPA, TEA and GAGAS as appropriate.
2. The Office of Inspector General shall discuss the Internal Audit Charter including the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with the Board Audit Committee and senior management on a periodic basis concurrent with the recommended review and approval of the Internal Audit Charter done on an annual basis.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1110*

Characteristics of organizational independence for Internal Audit do not include all the elements necessary to fully conform to the *Standards*. Approval of the Internal Audit charter is not included as a Power or Duty of the Board as documented in Board Policy BAA (LOCAL) or as a specific responsibility of the Board Audit Committee as documented in Board Policy BDB (LOCAL). While the annual audit plan is approved by the Board Audit Committee in closed session, it is not reported out to the Board and included as an action in the Board minutes to document that such action took place. Performance of the CAE is not included as a functional responsibility of the Board or Board Audit Committee and does not take place on an annual basis. While Internal Audit is free from interference in determining the scope of internal auditing, performing work, and communicating results, this aspect of organizational independence is not described in the Internal Audit charter. Lastly, there is no specific evidence that the CAE confirms the organizational independence of Internal Audit to the Board on an annual basis as required by *Standard 1110*. This is especially critical since the role of Inspector General within HISD combines the role of the CAE responsible for Internal Audit with the role of Inspector General charged with responsibility for investigative matters. Guidance for these potentially conflicting roles can be found in the IIA Position Paper “The Three Lines of Defense in Effective Risk Management and Control” (January 2013).

Associated Recommendations – *Standard 1110*

1. Add the responsibility to approve the Internal Audit charter to either Board Policy BAA (LOCAL) or BDB (LOCAL). As described in the recommendation related to *Standard 1000*, this approval should take place on an annual basis.
2. Add the responsibility to evaluate the performance of the CAE on an annual basis to either Board Policy BAA (LOCAL) or BDB (LOCAL).
3. Report approval of the annual audit plan to the Board when approval takes place in closed session and document this approval in Board minutes.
4. Include a statement in the Internal Audit charter that Internal Audit is free from interference in determining the scope of internal auditing, performing work, and communicating results.
5. Confirm the organizational independence of Internal Audit to the Board on an annual basis as required by *Standard 1110*.
6. Evaluate the organizational structure of the Office of Inspector General with consideration given to the IIA Position Paper “The Three Lines of Defense in Effective Risk Management and Control” (January 2013). This Position Paper is strongly recommended but not mandatory professional guidance that describes the role of Internal Audit in relation to other assurance activities within an organization. The role of Inspector General responsible for investigative matters (2nd Line of Defense) and the role of CAE responsible for oversight over governance, risk management, and control mechanisms (3rd Line of Defense) may present some potential impairment for Internal Audit.

Management Response and Commitment to Action – *Standard 1110*

We concur and commit to the following actions:

1. No later than November 30, 2013, the responsibility to approve the Internal Audit Charter on an annual basis shall be added to Board policy.
2. No later than November 30, 2013, the responsibility to evaluate the performance of the Inspector General on an annual basis shall be added to Board policy.
3. No later than November 30, 2013, the Board Audit Committee’s approval of the Annual Audit Plan shall be timely reported to the Board after the approval takes place, and the approval shall be documented in Board minutes.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 1110*

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4. The Internal Audit Charter shall state that Internal Audit is free from interference in determining the scope of internal auditing, performing work, and communicating results.
5. The organizational independence of the Office of Inspector General shall be confirmed to the Board Audit Committee on an annual basis as required by *Standard 1110*.
6. The Board Audit Committee shall evaluate the organizational structure of the Office of Inspector General with consideration given to the IIA Position Paper, “The Three Lines of Defense in Effective Risk Management and Control” (January 2013). The evaluation will determine the optimum organization of all assurance and compliance activities of HISD, including investigative matters, governance, risk management, and control mechanisms. The Board Audit Committee and Board shall evaluate the benefit of separating these functions and potential impairment or duplication of efforts. The Board of Education will complete this effort by December 31, 2013.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1210*

Internal Audit management and staff generally do not have the knowledge of key information technology (“IT”) risks and controls and available technology-based audit techniques to perform their assigned work. There is only one IT auditor on staff with appropriate credentials and experience to demonstrate this proficiency.

Associated Recommendations – *Standard 1210*

1. Conduct training for all Internal Audit management and staff on the topic of IT risks, controls, and technology-based audit techniques to increase the overall level of awareness and proficiency for these concepts. Document consideration of IT risks, controls, and technology-based audit techniques in planning documentation for each engagement performed.
2. Evaluate the adequacy of Internal Audit resources with technical IT skills. Resources should correlate to the requirements derived from the annual risk assessment and audit planning process and should be sufficient to address the technology risk component of the annual audit plan. Consider the use of third party resources where internal resources are not sufficient or available.
3. Develop a “Critical Knowledge and Skills Matrix” to identify and document proficiency requirements within Internal Audit and to guide training and professional development where gaps exist. It is important for internal audit functions to ensure that the appropriate knowledge and skills are utilized on projects that may require specialized expertise. A critical knowledge and skills matrix defines the requirements by level in the organization and can be used as a tool when scheduling resources for individual projects. Gaps in the critical knowledge and skills matrix should be supplemented with additional internal resources or third party resources as appropriate.

Management Response and Commitment to Action – *Standard 1210*

We concur and commit to the following actions:

1. The Office of Inspector General’s management and staff must possess the knowledge, skills, and competencies necessary to perform their individual responsibilities.
2. The Office of Inspector General shall ensure training for all Internal Audit management and staff takes place periodically on the topic of IT risks, controls, and technology-based audit techniques to increase the overall level of awareness and proficiency for these concepts. The Office of Inspector General shall document consideration of IT risks, controls, and technology-based audit techniques in planning documentation for each engagement performed. These actions will be effective November 30, 2013.
3. The Board Audit Committee and the Office of Inspector General shall evaluate the adequacy of Internal Audit resources with technical IT skills. The timing and resources shall correlate to the requirements derived from the Annual Risk Assessment and Annual Audit Planning. Resources shall be sufficient to address the technology risk component of the Annual Audit Plan. The Board Audit Committee shall consider the use of third party resources where internal resources are insufficient or unavailable.
4. The Office of Inspector General shall develop a “Critical Knowledge and Skills Matrix” to identify and document proficiency requirements within Internal Audit and to guide training and professional development where gaps exist. The Inspector General shall then report the findings to the Board Audit Committee. The Inspector General shall ensure that internal audit functions have the appropriate knowledge and skills utilized on projects that may require specialized expertise. A critical knowledge and skills matrix shall define the requirements by level in the organization and shall be used as a tool when scheduling resources for individual projects. Gaps in the critical knowledge and skills matrix shall be supplemented with additional internal resources or third party resources as deemed appropriate by the Board Audit Committee.
5. Except as noted in item 2, these actions shall be implemented by March 31, 2014.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1220*

Internal Audit work papers do not fully support that all work is performed with due professional care. While a comprehensive work program generally supports work on each engagement and provides a level of structure within the work papers, documentation of engagement level risk assessment and planning is not in evidence. To demonstrate due professional care, planning documentation must include the consideration of the (1) extent of work needed to achieve the engagement’s objectives; (2) the relative complexity, materiality, or significance of matters to which assurance procedures are applied; (3) adequacy and effectiveness of governance, risk management, and control processes; (4) probability of significant errors, fraud, or noncompliance; (5) cost of assurance in relation to potential benefits; and (6) the use of technology-based audit and other data analysis techniques.

Associated Recommendations – *Standard 1220*

1. Document engagement level risk assessment and planning and include in work papers for each engagement performed. At a minimum, planning must document the (1) extent of work needed to achieve the engagement’s objectives; (2) the relative complexity, materiality, or significance of matters to which assurance procedures are applied; (3) adequacy and effectiveness of governance, risk management, and control processes; (4) probability of significant errors, fraud, or noncompliance; (5) cost of assurance in relation to potential benefits; and (6) the use of technology-based audit and other data analysis techniques. In addition, planning should document objectives and scope for the review as well as number and skill sets of resources assigned to the project consistent with the requirements of *Standard 2200*.
2. Develop and implement planning and job completion checklists into an Internal Audit methodology to ensure audit engagements are planned and executed consistent with the defined methodology and that all required elements are considered. The use of checklists to plan, execute, and administer Internal Audit projects together with required supervisory review and approval (1) ensures consistent application of an Internal Audit methodology, (2) contributes to a high level of quality within Internal Audit projects, and (3) demonstrates due professional care in conducting internal audits.
3. Implement an electronic work paper tool, supported by planning and job completion checklists, to enhance efficiency, effectiveness, and quality of Internal Audit by ensuring consistent application of an Internal Audit methodology. This tool would provide the infrastructure to document all elements of an Internal Audit methodology from a due professional care perspective related to engagement planning, execution, reporting, and follow-up as well as documentation of supervisory review and approval. Electronic work paper tools support (1) knowledge sharing between audit teams; (2) reporting of established performance metrics to the Board and senior management; and (3) the efficient management of record retention requirements for Internal Audit work papers.

Management Response and Commitment to Action – *Standard 1220*

We concur and commit to the following actions:

1. The Office of Inspector General’s management and staff must apply the care and skill expected of a reasonably prudent and competent internal auditor.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 1220*

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2. Effective November 30, 2013, the Office of Inspector General shall document engagement level risk assessment and planning, and it shall include work papers for each engagement performed. At a minimum, planning shall document: (1) the extent of work needed to achieve the engagement's objectives; (2) the relative complexity, materiality, or significance of matters to which assurance procedures are applied; (3) adequacy and effectiveness of governance, risk management, and control processes; (4) probability of significant errors, fraud, or noncompliance; (5) cost of assurance in relation to potential benefits; and (6) the use of technology-based audit and other data analysis techniques. Planning shall document objectives and scope for the review as well as number and skill sets of resources assigned to the project consistent with the requirements of *Standard 2200*.
3. Effective November 30, 2013, the Office of Inspector General shall develop and implement planning and job completion checklists into an Internal Audit methodology to ensure audit engagements are planned and executed consistent with the defined methodology and that all required elements are considered. The use of checklists to plan, execute, and administer Internal Audit projects together with required supervisory review and approval (1) ensures consistent application of an Internal Audit methodology, (2) contributes to a high level of quality within Internal Audit projects, and (3) demonstrates due professional care in conducting internal audits.
4. The Office of Inspector General shall implement an electronic work paper tool, supported by planning and job completion checklists, to enhance efficiency, effectiveness, and quality of Internal Audit by ensuring consistent application of an Internal Audit methodology. This tool would provide the infrastructure to document all elements of an Internal Audit methodology from a due professional care perspective related to engagement planning, execution, reporting, and follow-up as well as documentation of supervisory review and approval. The Board Audit Committee agrees that electronic work paper tools support (1) knowledge sharing between audit teams; (2) reporting of established performance metrics to the Board Audit Committee and senior management; and (3) the efficient management of record retention requirements for Internal Audit work papers. This item will be implemented by March 31, 2014.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1300*

The CAE has not developed, documented, or maintained a Quality Assurance and Improvement Program (“QAIP”) that covers all aspects of the internal audit activity and that is designed to evaluate (1) Internal Audit conformance to the Definition of Internal Auditing and the *Standards*; (2) whether internal audit management and staff appropriately apply the IIA Code of Ethics; and (3) the efficiency and effectiveness of the internal audit activity as well as identification of opportunities for improvement.

Associated Recommendations – *Standard 1300*

1. Establish, document, and maintain a QAIP that includes all required elements that include objectives, scope, internal and external assessment components, and communication requirements. The QAIP as a program is currently not formalized in a manner that ensures sustainability and consistent execution of all the required elements. The IIA Practice Guide “Quality Assurance and Improvement Program” (March 2012) provides strongly recommended guidance on the topic of a QAIP. The scope of the QAIP should be the operation of Internal Audit as described in the Internal Audit charter. Objectives for the QAIP should be consistent with those described in *Practice Advisory 1310-1* and include:
 - Conformance with the Definition of Internal Auditing, the *Standards*, and the Code of Ethics;
 - Adequacy of the internal audit activity’s charter, goals, objectives, policies, and procedures;
 - Contribution to the organization’s governance, risk management, and control processes;
 - Compliance with applicable laws, regulations, and government or industry standards;
 - Effectiveness of continuous improvement activities and adoption of best practices; and
 - The extent to which the internal audit activity adds value and improves the organization’s operations.

Management Response and Commitment to Action – *Standard 1300*

We concur and commit to the following actions:

1. The Office of Inspector General in the capacity as Chief Audit Executive shall develop and maintain a Quality Assurance and Improvement Program (“QAIP”) that covers all the elements listed above. A QAIP shall be designed to enable the Board Audit Committee to evaluate the Office of Inspector General’s conformance with the Internal Audit Charter. The QAIP shall also allow for the assessment of the efficiency and effectiveness of the internal audit activity and shall identify opportunities for improvement and a timeline for implementation. These actions will be implemented by June 30, 2014.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1311*

Requirements for internal quality assessments are not defined and documented for Internal Audit as a component of a QAIP. Ongoing internal monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing internal monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*. While supervisory review and approval mechanisms are in place and working effectively, other aspects of ongoing internal monitoring are not defined or operating as required. Periodic internal assessments are not defined, documented, or performed as a component of a QAIP. The objectives associated with periodic internal assessments are to evaluate conformance with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*.

Associated Recommendations – *Standard 1311*

1. Define and document the requirements for ongoing internal monitoring as a component of a QAIP as described in the recommendation for *Standard 1300*. Currently, there are processes in place to support ongoing internal monitoring that include supervisory review and approval for all projects and a peer review by a second manager for major projects. Ongoing internal monitoring should also include the following:
 - The use of checklists for engagement planning and completion to ensure the internal audit methodology is applied in a manner consistent with a defined Internal Audit methodology. The rigorous use of checklists also contributes to a demonstration that work is performed with due professional care as described in the recommendation for *Standard 1220*.
 - The use of customer surveys to provide feedback on the effectiveness and value of the internal audit process. Surveys are typically used to identify opportunities to improve value, efficiency, and effectiveness of the internal audit process.
 - The use of a balanced scorecard to measure and report key performance indicators to the Board on a periodic basis. Input from key stakeholders, including senior management and the Board, should be considered as key performance metrics comprising the balanced scorecard are being defined. The IIA Practice Guide “*Measuring Internal Audit Effectiveness*” (December 2010) should be considered as a resource when developing this approach. Using a balanced scorecard facilitates the communication of results of ongoing internal monitoring to the Board that is required on an annual basis under *Standard 1320*.
2. Define and document the requirements for periodic internal assessment as a component of a QAIP as described in the recommendation for *Standard 1300*. The objectives for periodic internal assessment should focus on evaluating conformance with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*. Periodic internal assessment ensures that changes to *Standards* are incorporated into the methodology and infrastructure of Internal Audit in a timely manner and further provide an opportunity to evaluate attribute or performance components of the *Standards* in a more in-depth manner designed to improve efficiency and effectiveness of internal audit processes. Guidance on periodic internal assessment processes can be found in *Practice Advisory 1311-1*.

Management Response and Commitment to Action – *Standard 1311*

We concur and commit to the following actions:

The Office of Inspector General will conduct internal assessments that include both ongoing internal monitoring and periodic self-assessment components. The Board Audit Committee will monitor performance of internal assessments by the Office of Inspector General.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 1311*

(Continued from previous page)

1. Effective June 30, 2014, the Office of Inspector General shall define and document the requirements for ongoing internal monitoring as a component of a QAIP as described in the recommendation for *Standard 1300*. While there are processes in place to support ongoing internal monitoring that include supervisory review and approval for all projects and a peer review by a second manager for major projects, ongoing internal monitoring shall also include:
 - The use of checklists for engagement planning and completion to ensure the internal audit methodology is applied in a manner consistent with a defined Internal Audit methodology. The rigorous use of checklists also contributes to a demonstration that work is performed with due professional care as described in the recommendation for *Standard 1220*.
 - The use of surveys to provide feedback on the effectiveness and value of the internal audit process. Surveys are typically used to identify opportunities to improve value, efficiency, and effectiveness of the internal audit process.
 - The use of a balanced scorecard to measure and report key performance indicators to the Board Audit Committee on a periodic basis. Input from key stakeholders, including senior management and the Board Audit Committee, should be considered as key performance metrics comprising the balanced scorecard are being defined. The IIA Practice Guide “*Measuring Internal Audit Effectiveness*” (December 2010) should be considered as a resource when developing this approach. Using a balanced scorecard facilitates the communication of results of ongoing internal monitoring to the Board Audit Committee that is required on an annual basis under *Standard 1320*.
2. Effective June 30, 2014, the Office of Inspector General shall define and document the requirements for periodic internal assessment as a component of a QAIP as described in the recommendation for *Standard 1300*. The objectives for periodic internal assessment should focus on evaluating conformance with the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*. Periodic internal assessment ensures that changes to *Standards* are incorporated into the methodology and infrastructure of Internal Audit in a timely manner and further provide an opportunity to evaluate attribute or performance components of the *Standards* in a more in-depth manner designed to improve efficiency and effectiveness of internal audit processes. *Practice Advisory 1311-1* shall provide guidance on periodic internal assessment processes.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1312*

Requirements for external quality assessment are not defined and documented for Internal Audit as a component of a QAIP as described in the recommendation for *Standard 1300*. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The CAE must discuss with the Board the form and frequency of external assessment and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest.

Associated Recommendations = *Standard 1312*

1. Define and document the requirements for external quality assessment as a component of a QAIP as described in the recommendation for *Standard 1300*. Additional guidance related to external assessments can be found in *Practice Advisories 1312-1, 1312-2, 1312-3, and 1312-4*. These requirements should at a minimum include:
 - The form of the external assessment – either a full scope review or a management self-assessment with independent validation.
 - The frequency of the external assessment – at least once every five years, although more frequent reviews are a leading internal audit practice.
 - The evaluation of the qualifications of the external assessor or assessment team, including any potential conflicts of interest; and
2. Discussions between the CAE and the Board related to the form and frequency of the external assessment and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Management Response and Commitment to Action – *Standard 1312*

We concur and commit to the following actions:

The Internal Audit Charter shall require that an external assessment of Internal Audit be conducted at least once every five years without exception by a qualified independent assessor or assessment team from outside of the organization.

1. The Internal Audit Charter shall define and document the requirements for external quality assessment as a component of a QAIP as described in the recommendation for *Standard 1300*. The Board Audit Committee and the Office of Inspector General may also refer to additional guidance related to external assessments found in *Practice Advisories 1312-1, 1312-2, 1312-3, and 1312-4*. The external assessment requirements shall include at a minimum:
 - The form of the external assessment – either a full scope review or a management self-assessment with independent validation.
 - The frequency of the external assessment – at least once every five years, although more frequent reviews are possible at the Board Audit Committee’s discretion.
 - The evaluation of the qualifications of the external assessor or assessment team, including any potential conflicts of interest.
2. The Office of Inspector General (as CAE), the Board Audit Committee, and Board shall discuss the form and frequency of the external assessment, the qualifications and independence of the external assessor or assessment team, and any potential conflict of interest.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1320*

The requirements related to communication of results for internal and external assessments are not described in a QAIP. Specific communications related to the QAIP have not taken place as required.

Associated Recommendations – *Standard 1320*

1. Document the requirements related to communication of internal and external assessment results in a QAIP as described in the recommendation for *Standard 1300*.
2. Communicate the results of external and periodic internal assessments upon completion of such assessments. Results must include the assessor's or assessment team's evaluation with respect to the degree of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
3. Communicate the results of ongoing internal monitoring at least on an annual basis. Consider using the balanced scorecard approach described in the recommendation for *Standard 1311* to facilitate this communication.

Management Response and Commitment to Action – *Standard 1320*

We concur and commit to the following actions:

The Office of the Inspector General shall communicate the results of the QAIP to the Board Audit Committee. The Board Audit Committee shall make the Board aware of the results of the QAIP.

1. The Office of the Inspector General shall document the requirements related to communication of internal and external assessment results in a QAIP as described in the recommendation for *Standard 1300*.
2. The Office of the Inspector General shall communicate the results of external and periodic internal assessments upon completion of such assessments. Results must include the assessor's or assessment team's evaluation with respect to the degree of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
3. The Office of the Inspector General shall communicate the results of ongoing internal monitoring at least on an annual basis. The Board Audit Committee suggests the Office of Inspector General use the balanced scorecard approach described in the recommendation for *Standard 1311* or another comparable and reliable performance measure to facilitate this communication.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 1322*

The CAE must disclose to senior management and the Board nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards when this impacts the overall scope or operation of the internal audit activity. Such communication has not taken place since this is the first external quality assessment performed for Internal Audit. The results of the current review concludes nonconformance with the *Standards*.

Associated Recommendations – *Standard 1322*

1. Disclose nonconformance with the *Standards* to senior management and the Board.
2. Monitor action taken to address nonconformance and report status to senior management and the Board on a periodic basis.
3. Conduct an external quality assessment when actions taken to address nonconformance are completed to assess level of conformance with the *Standards*.

Management Response and Commitment to Action – *Standard 1322*

We concur and commit to the following actions:

1. No later than August 31, 2013, the Inspector General shall disclose nonconformance and the impact to the Board Audit Committee and senior management. The Office of the Inspector General must monitor action taken to address the nonconformance and provide the Board Audit Committee and senior management with status reports on a monthly basis. The Board Audit Committee shall also retain an independent and qualified assessor or assessment team to conduct an external quality assessment when actions taken to address nonconformance are completed to assess the level of conformance with the *Standards*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2010*

The process used to develop the annual risk assessment and associated annual audit plan does not meet all the requirements of *Standard 2010*. While an annual audit plan exists that is based upon a documented risk assessment, the level of detail supporting the annual audit plan and associated risk assessment is not sufficient to ensure an appropriate level of audit coverage with adequate resource requirements. There is a minimal level of input from senior management and the Board when conducting the risk assessment and developing the annual audit plan. The annual audit plan does not list specific projects to be performed, but rather lists broad areas of audit emphasis. An audit universe listing for all potential audit areas is not used during the process to ensure completeness of audit coverage. There is no linkage between the audit plan and resource requirements supporting the audit plan. The audit plan is not shared with senior management during or after the risk assessment and annual audit planning process. The process for risk assessment and annual audit planning is not formally documented to support consistency and sustainability.

Associated Recommendations – *Standard 2010*

1. Revise the risk assessment and annual audit planning process to align with the requirements of *Standard 2010* and common internal audit practice. Use *Practice Advisories 2010-1 (Linking the Audit Plan to Risk and Exposures)* and *2010-2 (Using the Risk Management Process in Internal Audit Planning)* to guide revisions. Include the following:
 - Define and document a comprehensive audit universe derived in a systematic manner that provides assurance that all auditable entities are considered for the risk assessment process.
 - Establish and document procedures to clearly link the annual audit plan with input from senior management and the Board to ensure the annual audit plan is linked to the entity-wide view of risk.
 - Conduct a robust risk assessment that includes an IT risk component and which is applied to all areas of the audit universe to prioritize areas for review.
 - Establish and define objectives for each project in the annual audit plan consistent with the overall risk assessment to guide internal audits at the engagement level.
 - Discuss the results of the annual risk assessment with senior management and the Board to validate results.
 - Review the annual audit plan with senior management and the Board prior to finalization.
 - Provide a copy of the annual audit plan to senior management and the Board.
2. Include sufficient detail in the annual audit plan to link the annual plan requirements with Internal Audit resource requirements. The annual audit plan should include a listing of specific projects to be completed and the associated time needed to complete the project vs. available hours based on staffing levels to determine adequacy.
3. Document the annual risk assessment and audit planning process to ensure consistency and sustainability of the process.

Management Response and Commitment to Action – *Standard 2010*

We concur and commit to the following actions:

Concurrent with the development of the Annual Audit Plan, the Office of Inspector General, under supervision and approval by the Board Audit Committee, shall establish a risk-based plan to determine the priorities of the internal audit activity that is consistent with HISD's goals.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 2010*

(Continued from previous page)

1. The Office of Inspector General shall revise the risk assessment and annual audit planning process to align with the requirements of *Standard 2010* and common internal audit practice. We shall use *Practice Advisories 2010-1 (Linking the Audit Plan to Risk and Exposures)* and *2010-2 (Using the Risk Management Process in Internal Audit Planning)* to guide revisions. We shall also include the following:
 - Define and document a comprehensive audit universe derived in a systematic manner that provides assurance that all auditable entities are considered for the risk assessment process.
 - Establish and document procedures to clearly link the annual audit plan with input from senior management and the Board to ensure the annual audit plan is linked to the entity-wide view of risk.
 - Conduct a robust risk assessment that includes an IT risk component and which is applied to all areas of the audit universe to prioritize areas for review.
 - Establish and define objectives for each project in the annual audit plan consistent with the overall risk assessment to guide internal audits at the engagement level.
 - Discuss the results of the annual risk assessment with senior management and the Board to validate results.
 - Review the annual audit plan with senior management and the Audit Committee prior to finalization.
 - Provide a copy of the annual audit plan to senior management and the Audit Committee.
2. Sufficient detail shall be included in the annual audit plan to link the annual plan requirements with Internal Audit resource requirements. The annual audit plan shall include a listing of specific projects to be completed and the associated time needed to complete the project vs. available hours based on staffing levels to determine adequacy.
3. The Office of Inspector General shall document the annual risk assessment and audit planning process to ensure consistency and sustainability of the process.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2020*

The CAE does not communicate the annual audit plan and associated resource requirements to both senior management and the Board, including interim changes to those plans, as required by *Standard 2020*. While the Board Audit Committee approves the annual audit plan, this is done in closed session and is not communicated as an action taken in closed session to provide documentation that such approval took place. The CAE must also communicate to senior management and the Board the impact of resource limitations.

Associated Recommendations – *Standard 2020*

1. Communicate the annual audit plan and associated resource requirements to both senior management and the Board.
2. Report the Board Audit Committee's approval of the annual audit plan to the Board to ensure documentation of approval is included in the Board minutes.
3. Communicate to senior management and the Board the impact of resource limitations associated with the annual audit plan, if any.

Management Response and Commitment to Action – *Standard 2020*

We concur and commit to the following actions:

The Inspector General in his capacity as the Chief Audit Executive (CAE) shall submit to the Audit Committee for review and approval a summary of the internal audit plan, work schedule, staffing plan, and financial budget on an annual basis. The Board Audit Committee shall advise the Board of the scope of internal audit work and of any limitations placed on the scope. The Inspector General will submit significant interim changes to the Board Audit Committee for approval and information. In turn, the Board Audit Committee will keep the Board apprised of significant interim changes as well. The approved engagement work schedule, staffing plan, and financial budget, along with all significant interim changes, are to contain sufficient information for the Board Audit Committee to ascertain whether the internal audit activity's objectives and plans support those of HISD and the Board. Further, they must be consistent with the Internal Audit Charter. Based on the foregoing, the Office of the Inspector General shall:

1. Communicate the Annual Audit Plan and associated resource requirements to the Board Audit Committee;
2. Collaborate with administration in preparation of the Annual Audit Plan and provide a copy of the Annual Audit Plan to senior management and the Board Audit Committee as described in the response to *Standard 2010*;
3. Report the Board Audit Committee's approval of the Annual Audit Plan to the Board to ensure documentation of approval is included in the Board minutes; and
4. Communicate to the Board Audit Committee and Board the impact of resource limitations associated with the annual audit plan, if any.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2030*

The management of Internal Audit resource requirements does not fully meet the requirements of *Standard 2030*. While resources are generally appropriate in terms of the mix of knowledge, skills, and other competencies needed to perform the annual audit plan, IT skills should continue to be addressed. The annual audit plan does not provide sufficient detail to determine whether there are adequate resources needed to accomplish the plan. While resources are deployed in a manner consistent with the annual audit plan, there is insufficient detail in the annual audit plan to determine whether the allocation of resources is done in a manner that optimizes achievement of the annual audit plan.

Associated Recommendations – *Standard 2030*

1. Incorporate a staffing analysis into the annual audit plan to support the adequacy of resources and to determine whether the allocation of resources is done in a manner that optimizes achievement of the annual audit plan as discussed in *Standard 2010*.
2. Assess the IT resource component within the annual audit plan as discussed in the recommendation to *Standard 1210* from both an adequacy and skill perspective.
3. Communicate to senior management and the Board the impact of resource limitations as required by *Standard 2020*.

Management Response and Commitment to Action – *Standard 2030*

We concur and commit to the following actions:

The Office of the Inspector General as CAE must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Therefore, the Office of Inspector General shall:

1. Incorporate a staffing analysis into the Annual Audit Plan to support the adequacy of resources and to determine whether the allocation of resources is done in a manner that optimizes achievement of the Annual Audit Plan as discussed in *Standard 2010*.
2. Assess the IT resource component within the Annual Audit Plan as discussed in the recommendation to *Standard 1210* from both an adequacy and skill perspective.
3. Communicate to the Board Audit Committee the impact of resource limitations as required by *Standard 2020*.

The Office of Inspector General shall advise the Board Audit Committee and administration of the impact of resource limitations as required by *Standard 2020* and shall make appropriate requests to the Board Audit Committee for additional resources to allow the Office of the Inspector General to fulfill the approved plan.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2040*

Policies and procedures specific to the practice of internal auditing for HISD are not documented in a manner sufficient to guide the Internal Audit staff in their work activities. While the form and content of policies and procedures can be dependent upon the size and structure of the internal audit activity and the complexity of its work, more formal and comprehensive audit policies and procedures specific to Internal Audit are regularly in place for audit shops similar in size to Internal Audit at HISD. Documentation of policies and procedures should be at a level that ensures sustainability of key Internal Audit processes and that supports consistent application of those processes within Internal Audit. Documentation of policies and procedures specific to Internal Audit is essential in guiding the internal audit staff in the execution of the internal audit plan, in training new and less experienced staff members, and in familiarizing all staff with the requirements of professional standards.

Associated Recommendations – *Standard 2040*

1. Develop and distribute an Internal Audit policies and procedures manual specific to Internal Audit that at a minimum addresses the following topics:
 - General information including the Internal Audit charter, the Board Audit Committee charter, and the *IPPF*.
 - Organization of Internal Audit including the organizational chart, position descriptions, and processes supporting performance evaluation, training, and professional development.
 - The annual risk assessment and audit planning process, including processes to develop and maintain the comprehensive audit universe.
 - The engagement planning process including an engagement risk assessment, required planning documentation, completion of planning checklists, and development of the audit work program.
 - Performing the audit including work paper requirements, testing and analysis, and audit evidence.
 - Reporting audit results including processes for drafting, coordinating, and finalizing reports.
 - Closing the audit including completion of checklists and supervisory review and approval.
 - Follow-up on reported observations.
 - Retention requirements and access to work papers.
 - The Quality Assurance and Improvement Program.
2. Conduct training on established policies and procedures for all Internal Audit management and staff to ensure a common understanding of the documented Internal Audit methodology.

Management Response and Commitment to Action – *Standard 2040*

We concur and commit to the following actions:

No later than June 30, 2014, the Office of Inspector General must develop formal and comprehensive polices and procedures that are essential to guide the internal audit staff in the execution of the internal audit plan.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – Standard 2040

(Continued from previous page)

1. The Office of Inspector General shall develop an Internal Audit policies and procedures manual specific to Internal Audit and present to the Board Audit Committee for review. The Board Audit Committee shall present the Internal Audit policies and procedure manual to the Board for approval. At a minimum, the Internal Audit policies and procedures manual shall address the following topics:
 - General information including the Internal Audit charter, the Board Audit Committee charter, and the IPPF.
 - Organization of Internal Audit including the organizational chart, position descriptions, and processes supporting performance evaluation, training, and professional development.
 - The annual risk assessment and audit planning process, including processes to develop and maintain the comprehensive audit universe.
 - The engagement planning process including an engagement risk assessment, required planning documentation, completion of planning checklists, and development of the audit work program.
 - Performing the audit including work paper requirements, testing and analysis, and audit evidence.
 - Reporting audit results including processes for drafting, coordinating, and finalizing reports.
 - Closing the audit including completion of checklists and supervisory review and approval.
 - Follow-up on reported observations.
 - Retention requirements and access to work papers.
 - The Quality Assurance and Improvement Program.

The Office of Inspector General shall conduct training on established policies and procedures for all Internal Audit management and staff to ensure a common understanding of the documented Internal Audit methodology.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2050*

Internal Audit does not effectively share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts. Other providers of assurance services do not provide input into the annual risk assessment and audit planning process and do not receive a copy of the annual audit plan. The external auditors do not place reliance upon the work of Internal Audit.

Associated Recommendations – *Standard 2050*

1. Solicit input from other internal and external providers of assurance and consulting services during the annual risk assessment and audit planning process to ensure their views on risk are incorporated into the annual audit plan.
2. Provide a copy of the annual audit plan to internal and external providers of assurance and consulting services, including the external auditors and HISD Ethics and Compliance.
3. Meet periodically with internal and external providers of assurance and consulting services to ensure communication takes place related to status of projects on the annual audit plan impacting the other assurance providers and to solicit input related to changing risk profiles that they may be aware of.

Management Response and Commitment to Action – *Standard 2050*

We concur and commit to the following actions:

The Inspector General in his capacity as CAE should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplications. Therefore, the Office of the Inspector General shall:

1. Solicit input from other internal and external providers of assurance and consulting services during the annual risk assessment and audit planning process to ensure their views on risk are incorporated into the Annual Audit Plan.
2. Provide a copy of the Annual Audit Plan to internal and external providers of assurance and consulting services, including the external auditors, and solicit input from HISD's Ethics and Compliance Officer to ensure his/her view on risk are incorporated into the Annual Audit Plan.
3. Meet periodically with internal and external providers of assurance and consulting services to ensure communication takes place related to status of projects on the Annual Audit Plan impacting the other assurance providers and to solicit input related to changing risk profiles that they may be aware.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2060*

The CAE does not effectively report to both the Board Audit Committee and senior management on Internal Audit's purpose, authority, responsibility, or performance related to the annual audit plan. While verbal reports typically discuss results of specific projects related to risk exposures and control issues, there is no reporting specific to evaluating performance related to the annual audit plan. In addition, there is no evidence that the CAE reports on Internal Audit's purpose, authority, and responsibility as required by *Standard 2060*.

Associated Recommendations – *Standard 2060*

1. Periodically prepare a written report describing the status and performance of Internal Audit related to the annual audit plan and present to both the Board Audit Committee and to senior management. This written report can be supplemented with a verbal discussion related to risk exposures and control issues for audits completed or in process.
2. Periodically report on the purpose, authority, and responsibility of Internal Audit to both the Board Audit Committee and to senior management. This is typically accomplished by review and approval of the Internal Audit charter on an annual basis.

Management Response and Commitment to Action – *Standard 2060*

We concur and commit to the following actions:

The Inspector General, as CAE, must report periodically to the Board Audit Committee on the internal audit activity's purpose, authority, responsibility, performance relative to its plan. The Inspector General must advise the Board Audit Committee of significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board Audit Committee or Board. The Office of the Inspector General shall also work and collaborate with the administration to report and advise of same. The frequency and content of reporting shall be determined in discussion with the Board Audit Committee and shall depend on the importance of the information to be communicated and the urgency of the related action to be taken by the Board. Once again, though the Office of the Inspector General is independent and reports to the Board through the Board Audit Committee, there must be a collaborative, communicative relationship between the Office of the Inspector General and the administration for the purposes of reporting significant risk exposures and control issues that need to be addressed and corrected.

In complying with reporting requirements, the Office of the Inspector General shall:

1. Periodically prepare a written report describing the status and performance of Internal Audit related to the Annual Audit Plan and present to the Board Audit Committee. This written report can be supplemented with a verbal discussion related to risk exposures and control issues for audits completed or in process.
2. Periodically report to senior management and the Ethics and Compliance Officer risk exposures and control issues for audits completed.
3. Periodically report on the purpose, authority, and responsibility of Internal Audit to both the Board Audit Committee and to senior management. This will be accomplished by review and approval of the Internal Audit charter on an annual basis.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2110*

Internal Audit does not play an effective role in effecting an appropriate level of governance within the organization. There is limited coordination with other providers of assurance and limited communication related to the annual risk assessment and annual audit planning process. Senior management and the external auditors do not receive a copy of the annual audit plan or communications on performance related to that plan. Specific observations related to completed audits are shared verbally with the Board Audit Committee and includes risk exposures and control issues. However, this communication does not take place more broadly with senior management in the organization. There is no evidence that Internal Audit evaluates the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities or whether IT governance for the organization supports the organization's strategies and objectives.

Associated Recommendations – *Standard 2110*

1. Enhance the level of coordination with other internal and external providers of assurance as discussed in the recommendation for *Standard 2050*.
2. Enhance the communication between Internal Audit and the Board Audit Committee and senior management as discussed in the recommendation for *Standard 2060*.
3. Evaluate the effectiveness of the organization's ethics-related objectives, programs, and activities. Include this as a component of the audit universe discussed in the recommendation for *Standard 2010*.
4. Evaluate whether IT governance for the organization supports the organization's strategies and objectives. Include this as a component of the audit universe discussed in the recommendation for *Standard 2010*.

Management Response and Commitment to Action – *Standard 2110*

We concur and commit to the following actions:

The Office of Inspector General shall assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinate the activities and communicating information to the Audit Committee, the Board, external and internal auditors, and management.

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 2110*

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The Office of Inspector General's relationship among governance, risk management, and internal control is essential. Effective governance activities considers risk when setting strategy, and risk management relies on effective governance. Effective governance must also rely on internal communication to the Board Audit Committee, the Board, and the administration (senior management) on the effectiveness of those controls. Therefore, effective immediately, the Office of the Inspector General shall:

1. Enhance the level of coordination with other internal and external providers of assurance as discussed in the recommendation for *Standard 2050*.
2. Enhance the communication between Internal Audit and the Board Audit Committee and administration (senior management) as discussed in the recommendation for *Standard 2060*.
3. Evaluate the effectiveness of the organization's ethics-related objectives, programs, and activities. This shall be included as a component of the audit universe discussed in the recommendation for *Standard 2010*.
4. Evaluate whether IT governance for the organization supports the organization's strategies and objectives. This shall be included as a component of the audit universe discussed in the recommendation for *Standard 2010*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2120*

Internal Audit does not adequately evaluate the effectiveness and contribute to the improvement of risk management processes within HISD. The risk assessment process used by Internal Audit to prioritize projects for the annual audit plan is at a very high level and is not effective in focusing Internal Audit on areas of highest risk and impact to the organization. There is a minimal amount of input from the Board Audit Committee, senior management, and the external auditor when conducting the risk assessment and developing the associated annual audit plan. An Enterprise Risk Management (“ERM”) process is not in place in the organization so there is no clear linkage between the annual audit plan and the entity-wide view of risk. There are no formalized processes established for engagement level risk assessment to focus objectives and scope for individual audit engagements. While Internal Audit does an effective job of evaluating the potential for fraud in the organization, it has not evaluated how the organization manages fraud risk.

Associated Recommendations – *Standard 2120*

1. Enhance the annual risk assessment process by increasing the level of input from the Board Audit Committee, the external auditors, and senior management. Broad-based input provides the greatest opportunity to capture risk exposures at an organizational level to incorporate into the annual risk assessment and associated annual audit plan.
2. Champion the concept and practice of ERM within the organization to ensure Internal Audit is aligned with the entity-wide view of risk. Consider professional guidance found in the IIA Position Paper “*The Role of Internal Auditing in Enterprise Risk Management*” (January 2009) when developing an approach.
3. Formalize risk assessment procedures at an engagement level to focus objectives and scope to areas of highest risk and impact and document in a policy and procedure manual as discussed in the recommendation for *Standard 2040*.
4. Evaluate how the organization manages fraud risk. Include this as a component of the audit universe discussed in the recommendation for *Standard 2010*.

Management Response and Commitment to Action – *Standard 2120*

We concur and commit to the following actions:

The Office of Inspector General, Board Audit Committee, Board, and administration (senior management) shall evaluate the effectiveness and contribute to the improvement of the risk management process. Risk management is a key responsibility of HISD administration and the Board. To achieve HISD’s objectives, the Board, the Office of Inspector General, and administration (senior management) must ensure that sound risk management processes are in place and functioning. The Board Audit Committee, Board, and administration (senior management) have an oversight role to determine that appropriate risk management processes are in place and that these procedures are adequate and effective. We are jointly responsible for HISD’s risk management and control processes. However, the Office of the Inspector General shall assist HISD in identifying, evaluating, and implementing risk management methodologies and controls to address those risks, and the Office of the Inspector General shall work closely with HISD’s Ethics and Compliance Officer and other members of senior management on these efforts while maintaining independence. The Inspector General shall also:

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – *Standard 2120*

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1. Enhance the annual risk assessment process by increasing the level of input from the Board Audit Committee, the external auditors, and senior management. Broad-based input provides the greatest opportunity to capture risk exposures at an organizational level to incorporate into the annual risk assessment and associated annual audit plan.
2. Champion the concept and practice of ERM within the organization to ensure Internal Audit is aligned with the entity-wide view of risk. (The Office of the Inspector General and Board Audit Committee shall consider professional guidance found in the IIA Position Paper “*The Role of Internal Auditing in Enterprise Risk Management*” (January 2009) when developing an approach.)
3. Formalize risk assessment procedures at an engagement level to focus objectives and scope to areas of highest risk and impact and document in a policy and procedure manual as discussed in the recommendation for *Standard 2040*.
4. Evaluate how the organization manages fraud risk. Include this as a component of the audit universe discussed in the recommendation for *Standard 2010*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – Standard 2130

Internal Audit does not adequately assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Internal Audit work completed for the period January 1, 2012 through March 1, 2013 indicated that approximately 56% of work was performed on investigations, 29% on compliance related matters, and 15% on financial related matters. There was minimal work performed to evaluate the effectiveness of controls related to IT risk exposures. The current Internal Audit process is mostly focused on investigations and compliance with existing control procedures rather than an evaluation of control design and operating effectiveness. Evaluation of control design provides a foundation upon which to test control operating effectiveness. Without the design component, control structures might be ineffective in mitigating risk to an appropriate level. Additionally, focusing Internal Audit resources on the front end control design for major systems and processes might result in the need for fewer investigations on the back end.

Associated Recommendations – Standard 2130

1. Conduct a robust risk assessment process as discussed in the recommendation for *Standard 2010* and develop an annual audit plan that provides balance between financial, operational, and compliance objectives. Ensure that evaluation of IT risk exposures is a critical element of the annual audit plan.
2. Evaluate both control design and control operating effectiveness when conducting individual engagements. Evaluation of control design provides a foundation upon which to test control operating effectiveness. Without the design component, control structures might be ineffective in mitigating risk to an appropriate level.

Management Response and Commitment to Action – Standard 2130

We concur and commit to the following actions:

The Office of Inspector General and Board shall assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The purpose of control processes is to support HISD in the management of risks and the achievement of its established and communicated goals, visions and objectives. The control processes are expected to ensure, among other things, that:

- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve established objectives;
- Assets are safeguarded, and
- Actions and decisions of the Board and HISD are in compliance with laws, regulations, and contracts.

The administration's role is to oversee the establishment, administration, and assessment of the system of risk management and control processes. Among the responsibilities of HISD's administration is the assessment of control processes in various areas. Internal auditors provides varying degrees of assurance about the effectiveness of risk management and control processes in select activities and functions of HISD. Therefore, the Inspector General, as CAE, forms an overall opinion about the adequacy and effectiveness of the control processes. The expression of such an opinion by the CAE will be based on sufficient audit evidence obtained through the completion of audits, and where appropriate, on the reliance of work from other assurance providers, such as the Ethics and Compliance Officer. The Inspector General shall communicate opinions to the Board Audit Committee and administration (senior management). The Office of the Inspector General shall also:

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Conformance Gap Noted and Associated Recommendations

Management Response and Commitment to Action – Standard 2130

(Continued from previous page)

1. Conduct a robust risk assessment process as discussed in the recommendation for *Standard 2010* and develop an Annual Audit Plan that provides balance between financial, operational, and compliance objectives.
2. Ensure that evaluation of IT risk exposures is a critical element of the Annual Audit Plan.
3. Evaluate both control design and control operating effectiveness when conducting individual engagements. Evaluation of control design provides a foundation upon which to test control operating effectiveness.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2200*

Engagement level planning by Internal Audit is an informal process that is not fully documented as required by *Standard 2200*. Formal documentation of planning in the form of a planning or scoping memorandum approved by the CAE was not included in the work papers for engagements reviewed.

Associated Recommendations – *Standard 2200*

1. Formalize and document the requirements for engagement level planning in an Internal Audit policy and procedure manual as discussed in the recommendation for *Standard 2040*.
2. Document planning for each engagement in a planning and scoping memorandum approved by the CAE.

Management Response and Commitment to Action – *Standard 2200*

We concur and commit to the following actions:

The Office of the Inspector General must develop and document a plan for each engagement, including the engagement's objective, scope, timing, and resource allocation. The Office of Inspector General shall also:

1. Formalize and document the requirements for engagement level planning in an Internal Audit policy and procedure manual as discussed in the recommendation for *Standard 2040*.
2. Document planning for each engagement in a planning and scoping memorandum approved by the CAE.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2201*

Engagement planning does not document that when planning an engagement, Internal Audit must consider significant risks to the activity being reviewed, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. Additionally, there is limited documentation to support that Internal Audit considers adequacy and effectiveness of activity's governance, risk management and control processes compared to a relevant framework or model.

Associated Recommendations – *Standard 2201*

1. Ensure that the engagement planning process includes a component that requires Internal Audit to consider significant risks to the activity being reviewed, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. Additionally, Internal Audit should consider the adequacy and effectiveness of activity's governance, risk management and control processes compared to a relevant framework or model. This requirement should be incorporated into the Internal Audit policy and procedure manual as discussed in the recommendation for *Standard 2040*.

Management Response and Commitment to Action – *Standard 2201*

We concur and commit to the following actions:

The Office of the Inspector General shall establish objectives for each engagement as described in *Standard 2210*. Further, the Office of Inspector General must conduct a preliminary assessment of risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment. Therefore, the Office of Inspector General shall:

1. Ensure that the engagement planning process includes a component that requires Internal Audit to consider significant risks to the activity being reviewed, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. Additionally, Internal Audit should consider the adequacy and effectiveness of activity's governance, risk management and control processes compared to a relevant framework or model. This requirement should be incorporated into the Internal Audit policy and procedure manual as discussed in the recommendation for *Standard 2040*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2210 and 2220*

Internal audit does not conduct and document a preliminary risk assessment to establish objectives and scope for audit engagements as required by *Standard 2210 and 2220*.

Associated Recommendations – *Standard 2210 and 2220*

1. Conduct a preliminary risk assessment for each engagement to focus objectives and scope in those areas of highest risk and impact. Ensure that evaluation of fraud risk is a required component. Where routine and standardized work programs are used (i.e., campus audits), ensure that work programs are based upon a documented preliminary risk assessment that is updated on a periodic basis and as risk exposures change.
2. Consider the use of technology, including data mining and analytics during preliminary risk assessment and engagement planning. The use of technology and data mining and analytics provides opportunities to:
 - Enhance the audit process so it is more efficient and effective;
 - Shorten the time to provide risk and control assurance over specific audit objectives;
 - Achieve greater audit coverage without the need to expand Internal Audit resource requirements;
 - Be able to conduct selected audits on a periodic basis;
 - Audit 100% of data populations rather than a sample; and
 - Improve the quality of assurance through the use of data and transactional analysis.

Management Response and Commitment to Action – *Standard 2210 and 2220*

We concur and commit to the following actions:

The Office of the Inspector General shall:

1. Conduct a preliminary risk assessment for each engagement to focus objectives and scope in those areas of highest risk and impact. Ensure that evaluation of fraud risk is a required component. Where routine and standardized work programs are used (i.e., campus audits), ensure that work programs are based upon a documented preliminary risk assessment that is updated on a periodic basis and as risk exposures change.
2. Consider the use of technology, including data mining and analytics during preliminary risk assessment and engagement planning. The use of technology and data mining and analytics provides opportunities to:
 - Enhance the audit process so it is more efficient and effective;
 - Shorten the time to provide risk and control assurance over specific audit objectives;
 - Achieve greater audit coverage without the need to expand Internal Audit resource requirements;
 - Be able to conduct selected audits on a periodic basis;
 - Audit 100% of data populations rather than a sample; and
 - Improve the quality of assurance through the use of data and transactional analysis.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2300*

The process and related procedures for executing engagements is not formally defined consistent with the requirements of *Standard 2300*.

Associated Recommendations – *Standard 2300*

1. Develop and document the process and related procedures for executing engagements consistent with the requirements of *Standard 2300*. These should be incorporated into the Internal Audit policy and procedure manual as described in the recommendation related to *Standard 2040*.

Management Response and Commitment to Action – *Standard 2300*

We concur and commit to the following actions:

The Office of the Inspector General shall identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. Further, the Office of the Inspector General shall:

1. Develop and document the process and related procedures for executing engagements consistent with the requirements of *Standard 2300*. These should be incorporated into the Internal Audit policy and procedure manual as described in the recommendation related to *Standard 2040*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2310*

Documentation of planning and engagement level risk assessment is not sufficient to support identification of objectives and scope for each engagement. As a result, there is no basis to conclude that work papers identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

Associated Recommendations – *Standard 2310*

1. Include documentation in work papers for execution or accomplishment of all planning processes including the preliminary risk assessment as described in the recommendation for *Standard 2200*.

Management Response and Commitment to Action – *Standard 2310*

We concur and commit to the following actions:

The Office of the Inspector General shall include documentation in work papers for execution or accomplishment of all planning processes including the preliminary risk assessment as described in the recommendation for *Standard 2200*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2330*

Internal Audit engagements are not consistently documented in work papers from a format, content, and level of documentation perspective. While work papers for standardized and routine audits (i.e., campus audits) and investigations were generally consistent, other work was inconsistent in terms of cross-referencing, completeness, and level of documentation supporting work program steps.

Associated Recommendations – *Standard 2330*

1. Establish work paper standards for documentation of individual engagements supported by the use of planning and job completion checklists as described in the recommendation for *Standard 1220* and document these standards in the Internal Audit policy and procedure manual as described in the recommendation for *Standard 1220*.
2. Implement an electronic work paper tool to enforce a defined internal audit methodology supported by planning and job completion checklists to enhance the efficiency and effectiveness of the internal audit process as described in the recommendation for *Standard 1220*.

Management Response and Commitment to Action – *Standard 2330*

We concur and commit to the following actions:

The Office of the Inspector General shall document relevant information to support the conclusions and engagement results. It shall also:

1. Establish work paper standards for documentation of individual engagements supported by the use of planning and job completion checklists as described in the recommendation for *Standard 1220* and document these standards in the Internal Audit policy and procedure manual as described in the recommendation for *Standard 1220*.
2. Implement an electronic work paper tool to enforce a defined internal audit methodology supported by planning and job completion checklists to enhance the efficiency and effectiveness of the internal audit process as described in the recommendation for *Standard 1220*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2410*

An overall conclusion with regard to objectives for the engagement and recommended corrective action for observations raised are not consistently included in audit reports. Individual observations are not rated in terms of significance.

Associated Recommendations – *Standard 2410*

1. Include the auditor's opinion and/or conclusions in all audit reports. Criteria supporting the overall conclusion must take into account the expectations of senior management, the Board Audit Committee, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.
2. Include recommended corrective action on a consistent basis for all observations raised and reported.
3. Define criteria for rating individual observations to provide perspective to senior management, the Board Audit Committee, and other stakeholders in terms of potential impact. Defining criteria should be done in consultation with senior management and the Board Audit Committee to ensure the criteria and significance levels are clearly aligned with expectations. Categorizing exceptions using pre-defined criteria can provide a consistent view of significance across the organization and can provide insight into prioritization for management response and action.

Management Response and Commitment to Action – *Standard 2410*

We concur and commit to the following actions:

Effective immediately, the Office of the Inspector General's communications shall include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plan. It shall also:

1. Include the auditor's opinion and/or conclusions in all audit reports. Criteria supporting the overall conclusion must take into account the expectations of senior management, the Board Audit Committee, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.
2. Include recommended corrective action on a consistent basis for all observations raised and reported.
3. Define criteria for rating individual observations to provide perspective to senior management, the Board Audit Committee, and other stakeholders in terms of potential impact. Defining criteria should be done in consultation with senior management and the Board Audit Committee to ensure the criteria and significance levels are clearly aligned with expectations. Categorizing exceptions using pre-defined criteria can provide a consistent view of significance across the organization and can provide insight into prioritization for management response and action.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2420*

Internal audit reports have not been consistently issued in a timely manner. While reports for routine and standardized reviews (i.e., campus audits) as well as investigations are issued in a timely manner, reporting of audit results for other engagements including monitoring of E-Rate matters are not as timely.

Associated Recommendations – *Standard 2420*

1. Prepare and issue audit reports in a timely manner for all internal engagements conducted. Ensure that audit reports issued related to E-Rate monitoring are prepared and issued consistent with the expectations and requirements of senior management and the Board and senior management from a timing perspective. Ensure that reports related to E-Rate are prepared consistent with the requirement in Board Policy BDB (XHIBIT).

Management Response and Commitment to Action – *Standard 2420*

We concur and commit to the following actions:

The Office of Inspector General's communications shall be accurate, objective, clear, concise, constructive, complete and timely. Further, effective immediately, the Office of the Inspector General shall:

1. Prepare and issue audit reports in a timely manner for all internal engagements conducted.
2. Ensure that audit reports issued related to E-Rate monitoring are prepared and issued consistent with the expectations and requirements of senior management and the Board Audit Committee from a timing perspective.
3. Ensure that reports related to E-Rate are prepared consistent with the requirement in Board Policy BDB (XHIBIT).

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2431*

The CAE must disclose when nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts a specific engagement. This communication must disclose the principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved; the reason(s) for nonconformance; and the impact of nonconformance on the engagement and the communicated engagement results. Such disclosure in communications has not taken place since this is the first external quality assessment performed for Internal Audit.

Associated Recommendations – *Standard 2431*

1. Disclose in audit communications the principle or rule of conduct of the Code of Ethics or *Standard(s)* where full conformance was not achieved; reason(s) for nonconformance; and the impact of nonconformance on the engagement and the communicated engagement results.
2. Monitor action taken to address nonconformance and report status to senior management and the Board on a periodic basis.
3. Conduct an external quality assessment when actions taken to address nonconformance are completed to assess level of conformance with the *Standards*.

Management Response and Commitment to Action – *Standard 2431*

We concur and commit to the following actions:

The Office of Inspector General shall:

1. Disclose in audit communications the principle or rule of conduct of the Code of Ethics or *Standard(s)* where full conformance was not achieved; reason(s) for nonconformance; and the impact of nonconformance on the engagement and the communicated engagement results.
2. Monitor action taken to address nonconformance and report status to senior management and the Board on a monthly basis.

The Office of Inspector General shall follow all applicable laws, rules, and regulations of the State of Texas. It shall also utilize and reference the guidelines and standards of the AICPA, TEA and GAGAS, as appropriate.

The Audit Committee shall also retain an independent and qualified assessor or assessment team to conduct an external quality assessment when actions taken to address nonconformance are completed to assess the level of conformance with the *Standards*.

Conformance Gap Noted and Associated Recommendations

Conformance Gap Noted – *Standard 2500*

The CAE has not established a follow-up process to monitor the disposition of results communicated to management and the Board. *Standard 2500 A1* requires the CAE to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The CAE does not provide periodic status reports to the Board Audit Committee on outstanding or overdue management actions on observations reported.

Associated Recommendations – *Standard 2500*

1. Develop, document, and maintain a follow-up process to monitor disposition of results communicated to management and the Board. Include documentation of this process in the Internal Audit Policy and Procedure Manual as discussed in the recommendation for *Standard 2040*.
2. Establish a tracking mechanism to manage observations reported to management and the Board that includes a description of the observation reported, management response and commitment for action, timeframe for resolution, and responsible party.
3. Request reports from management on a periodic basis on the status of audit recommendations. Analyze reports received for possible further monitoring actions by Internal Audit including follow-up audits as appropriate. Escalate unsatisfactory responses to an appropriate level of management or the Board for appropriate action.
4. Report status of open observations on a periodic basis to senior management and the Board Audit Committee. Include at a minimum the status of significant observations and recommendations as well as those instances where management action is overdue.

Management Response and Commitment to Action – *Standard 2500*

We concur and commit to the following actions:

The Inspector General must establish and maintain a system to monitor the disposition of results communicated to the Board Audit Committee, Board, and administration (senior management). Therefore, the Office of Inspector General shall:

1. Develop, document, and maintain a follow-up process to monitor disposition of results communicated to management and the Board Audit Committee. Include documentation of this process in the Internal Audit Policy and Procedure Manual as discussed in the recommendation for *Standard 2040*.
2. Establish a tracking mechanism to manage observations reported to management and the Board Audit Committee that includes a description of the observation reported, management response and commitment for action, timeframe for resolution, and responsible party.
3. Request reports from management on a periodic basis on the status of audit recommendations. Analyze reports received for possible further monitoring actions by Internal Audit including follow-up audits as appropriate. Escalate unsatisfactory responses to an appropriate level of management or the Board for appropriate action.
4. Report status of open observations on a periodic basis to senior management and the Board Audit Committee. Include at a minimum the status of significant observations and recommendations as well as those instances where management action is overdue.

Attachment A

Conformance Rating Criteria

GC – “Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

PC – “Partially Conforms” means the assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means the assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Attachment B

Acronyms Used in Report

ACL	Audit Command Language (Software)
AICPA	American Institute of Certified Public Accountants
ERM	Enterprise Risk Management
FASRG	Financial Accountability Systems Resource Guide (Issued by the Texas Education Agency)
FCC	Federal Communications Commission
GAAS	Generally Accepted Auditing Standards (Promulgated by the American Institute of Certified Public Accountants)
GAGAS	Generally Accepted Government Auditing Standards (Issued by the U.S. Government Accountability Office)
GC	Generally Complies (Institute of Internal Auditors Rating Terminology)
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework (Promulgated by the Institute of Internal Auditors)
IT	Information Technology
QA	Quality Assurance (Review)
QAIP	Quality Assurance Improvement Program
TEA	Texas Education Agency
TEC	Texas Education Code