

**REPORT ON INTERNAL CONTROL AND ON  
COMPLIANCE AND OTHER MATTERS  
SCHOOL DISTRICT OF PHILADELPHIA  
Fiscal Year 2017**



**City Controller  
Rebecca Rhynhart**



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
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REBECCA RHYNHART  
City Controller

CHRISTY BRADY  
Deputy City Controller

Estelle Richman, Chair  
and Members of the School Reform Commission  
440 N. Broad Street  
Philadelphia, PA 19130

June 5, 2018

Dear Ms. Richman:

In accordance with the Philadelphia Home Rule Charter, the Office of the Controller conducted an audit of the basic financial statements of the School District of Philadelphia, Pennsylvania (District) as of and for the fiscal year ended June 30, 2017, and has issued its Independent Auditor's Report dated February 13, 2018.

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Attached is our report on internal control over financial reporting and on compliance and other matters, dated February 13, 2018 and signed by my deputy who is a Certified Public Accountant. The findings and recommendations contained in the report were discussed with management at an exit conference. We included management's written response to the findings and recommendations as part of the report. We believe that, if implemented by management, the recommendations will improve the District's internal control over financial reporting.

We would like to express our thanks to the management and staff of the District for their courtesy and cooperation in the conduct of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'REBECCA RHYNHART'.

REBECCA RHYNHART  
City Controller

cc: William R. Hite, Jr., Ed.D, Chief Executive Officer and Superintendent of Schools  
Uri Monson, Chief Financial Officer  
Marcy F. Blender, CPA, Deputy Chief Financial Officer and Comptroller



# **SCHOOL DISTRICT OF PHILADELPHIA**

## **REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS**

### **EXECUTIVE SUMMARY**

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#### **Why The Controller's Office Conducted the Examination**

We conducted an examination of the School District of Philadelphia's (District) basic financial statements as of and for the fiscal year ended June 30, 2017 for the purpose of opining on their fair presentation. As part of this audit, we reviewed the District's internal control over financial reporting to help us plan and perform the examination. We also examined compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance which could have a direct and material effect on financial statement amounts.

#### **What The Controller's Office Found**

The Controller's Office found that the District's financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and issued a separate report that accompanies the District's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, the audit procedures used to arrive at our conclusion regarding these financial statements led us to identify a number of matters involving the District's internal control over financial reporting that need management's attention. Some of the more important matters include:

- The District's current capital asset accounting procedures did not always ensure that all completed capital project costs were properly transferred out of construction in progress and into the proper long-term asset account. As a result, seventeen completed capital projects erroneously remained in construction-in-progress at the end of the 2017 fiscal year.
- The District failed to process \$6.7 million of termination that should have been paid out to former employees that separated from service in fiscal years 2001 through 2016. In doing so, the District appears to be in violation of applicable labor agreements which require that employees receive termination pay within 30-75 days of separation.
- The failure of the principals and school personnel to follow established policies and procedures will continue to place the Student Activity Funds, which at June 30, 2017 totaled \$5.0 million, at greater risk for fraud or misuse.

#### **What The Controller's Office Recommends**

The Controller's Office has developed a number of recommendations to address the above findings. These recommendations can be found in the body of the report.

**REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE AND  
OTHER MATTERS**

**SCHOOL DISTRICT OF  
PHILADELPHIA**

**FISCAL 2017**





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REBECCA RHYNHART  
City Controller

CHRISTY BRADY  
Deputy City Controller

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Chair and Members of  
The School Reform Commission of the  
School District of Philadelphia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of Philadelphia, Pennsylvania (District), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 13, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**C I T Y O F P H I L A D E L P H I A**  
**OFFICE OF THE CONTROLLER**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Other Conditions**

We noted certain conditions that are not required to be reported under *Government Auditing Standards*, but nonetheless represent deficiencies in internal control that should be addressed by management. These other conditions are listed in the table of contents and described in the accompanying report as items 2017-001 to 2017-006.

**School District of Philadelphia, Pennsylvania's Response to Findings**

The District's responses to the other conditions identified in our audit are described in the accompanying report. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CHRISTY BRADY, CPA  
Deputy City Controller  
Philadelphia, Pennsylvania  
February 13, 2018

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**OTHER CONDITIONS**

**2017-001 CAPITAL ASSETS WERE INACCURATELY REPORTED IN THE DISTRICT'S ANNUAL FINANCIAL STATEMENTS**

**Condition:** Our current audit noted deficiencies in the District's capital asset reporting process which resulted in an understatement of specific long-term capital assets and the related depreciation reported in the fiscal year 2017 Comprehensive Annual Financial Report (CAFR). Specifically, our testing disclosed that the District's capital asset accounting procedures did not always ensure: 1) that all completed capital project costs were properly transferred out of construction in progress (CIP) and into the proper long-term asset account, and 2) that all expenditures in the CIP account were identified and allocated to a specific capital project. Consequently, we found that seventeen completed capital projects with expenditures totaling \$12.4 million had not been transferred out of CIP into the proper long-term asset account. We also noted that 121 fiscal year 2017 invoices, and 39 invoices from prior years totaling \$3.5 million and \$1.7 million respectively, had not been allocated to specific capital projects, and have remained in CIP.

**Criteria:** The District's Capital Asset Policy states that improvements with a cost of \$5,000 or greater will be capitalized at the point of completion. Also, expenditures that are a part of an on-going capital project, should be allocated to that project, and temporarily maintained in the fixed asset accountant's work in-process data base.

**Effect:** There was an \$11,732,417 misclassification between buildings and improvements and CIP in the capital assets accounts reported in the District's June 30, 2017 CAFR, which resulted in an understatement of current year depreciation and accumulated depreciation by \$493,250 and \$675,374 respectively.

**Cause:** As part of the District's capital asset reporting process, the fixed asset accountant receives a list of closed, completed capital project from the Capital Program unit. That information is accepted and used to transfer the associated costs for those projects from CIP to the appropriate capital asset account. The Capital Programs unit provided the fixed asset accountant with an incomplete listing of closed and completed projects. The current capital asset recording process does not include a verification procedure which could ensure the completeness of the capital projects reported in the CAFR.

**Recommendations:** To improve financial reporting and accountability over capital assets, and to ensure that all costs related to completed projects are transferred to the appropriate long-term capital assets and depreciated on a timely basis, we recommend that District management:

- Require capital programs management to submit a complete, and properly identified list of all completed projects to the fixed asset accountant, and that the recording process be revised to include a method of verification of the completeness of the list [600117.01].
- Determine which projects the unidentified expenditures were associated with, and transfer those expenditures out of CIP when the projects are complete [600117.02].
- Record any projects identified as completed in prior years as a prior period adjustment to beginning net assets in the current fiscal year financial statements [600117.03].

## 2017-002 OVER TWO-THOUSAND EMPLOYEES STILL OWED TERMINATION PAY

**Condition:** Termination pay totaling \$6.7 million due to over 2,300 former District employees that separated from service - some as far back as 2001 - has not been distributed. Table 1 below summarizes the amount of termination pay applicable to the two groups of former employees. One group, employees age 55 and older, receives its compensation via a contribution to a tax-sheltered annuity plan; and the other, those under the age of 55, are compensated by check.

| Table 1: Employee Termination Pay Outstanding for More Than One Year as of June 30, 2017 |  |   |  |   |
|--|--|---|--|---|
| Column A   | Column B                                 | Column C  | Column D   | Column E  |
| Fiscal year of separation  | Number of employees owed termination pay | Termination pay owed to those age 55 & over at separation (in Millions) | Termination pay owed to those under age 55 at separation (in Millions) | Total Termination Pay owed (in Millions) (Col. C+D) |
| 2016   | 491                                      | \$1.4   | \$0.5  | \$1.9   |
| 2015   | 187                                      | 0.7   | 0.1  | 0.8   |
| 2014   | 241                                      | 0.7   | 0.5  | 1.2   |
| 2013 and prior   | <u>1,424</u>                             | <u>1.4</u>  | <u>1.4</u>   | <u>2.8</u>  |
| Totals   | <u>2,343</u>                             | <u>\$4.2</u>  | <u>\$2.5</u>   | <u>\$6.7</u>  |

Source: Prepared by the Office of the Controller based on the analysis of the District's Vacation, Personal and Illness Leave Report (VPIL).

**Criteria:** Under the current labor agreements with many of its unionized employees, when an employee separates from District employment, he/she is entitled to receive termination pay for unused accrued leave time within 30-75 days of their separation<sup>1</sup>. Two sets of procedures apply; one for employees age 55 and over, and another for those employees under the age of 55. For those 55 or older, the District deposits their termination pay with one or multiple tax shelter annuities (403(b) & 457(b)) as "employer contributions." Those contributions are not subject to Pennsylvania's Abandoned and Unclaimed Property Law (escheat law). For employees under 55, the District is required to pay the separated employee directly by check. However, Pennsylvania's escheat law indicates that unclaimed wages or other compensation for personal services that have remained unclaimed by the owner for more than two years after it becomes payable or distributable, are presumed unclaimed. The law further states that all abandoned and unclaimed property is subject to the custody of the Commonwealth.

**Effect:** By not distributing termination payments within the required timelines, the District would appear to be in violation of applicable labor agreements. Regarding the termination pay of former employees under the age of 55 whose pay has remained uncollected for more than two years, the District may also be in violation of Pennsylvania's escheat law. As of June 30, 2017, we estimate that at least \$2.0 million should have been escheated to the Commonwealth<sup>2</sup>. We are not aware of any funds that were escheated through the end of our fieldwork.

<sup>1</sup> The length of time for each of the contracts is as follows: 32BJ 1201 Building Engineers / Craftsmen – 30 days; School Police Association of Philadelphia – 60 days; Philadelphia Federation of Teachers – 75 days; and the Commonwealth Association of School Administration – 75 days. The number of days applicable to food service employees is not specified in their labor agreement with the District.

<sup>2</sup> The 2.0 million amount is derived from the rounded sum of the rows for fiscal years 2015, 2014, and 2013 and prior in column D.

**Cause:** District management continues to have difficulty dedicating the necessary resources to eliminate the backlog of termination pay and escheatable amounts in a timely manner. The substantial employee turnover in previous years as well as staff reductions in the Payroll and Human Resources Departments has led to the significant backlog of unprocessed payments.

**Recommendations:** To become compliant with labor union agreements and Pennsylvania's escheat laws, we continue to recommend that the District:

- Dedicate additional staff, time and effort to eliminate the backlog of termination pay due to former employees under age 55 at separation. For former employees age 55 and older at separation, the District should continue to actively increase referral amounts to 403(b) plan providers to complete the termination process as quickly as possible. District management should ensure that plan providers, who agree to accept the unclaimed termination pay, establish individual accounts for the former employees and provide detailed reports on efforts that have been taken to locate any former employees that are missing [600112.14].
- Remit the amounts due to the Commonwealth two years after they become payable or distributable to former employees that separated under the age of 55 and have not collected those amounts due to them [600108.08].
- Develop and implement a more efficient human resource strategy for terminating employees to ensure that all necessary contact information and documents are gathered prior to employees separating from service [600115.01].

### **2017-003 MISSING EQUIPMENT AND INACCURATE ACCOUNTING RECORDS INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT**

**Condition:** In a limited review of school, administrative office, and food service personal property items at eleven locations visited, we discovered (as we have in previous years) equipment such as computers, whiteboards, and musical instruments, that District personnel could not account for, as well as accounting records that were inaccurate. For the eleven locations selected, we sampled 135 items of equipment listed in the District's accounting records. We determined that 41 percent of the items (55 out of 135), with a cost value of over \$73,000, could not be located and were presumed missing, or had been removed from their locations without proper documentation. At those same eleven locations, an additional 135 items were haphazardly observed, and selected for testing. Of those items, 26 percent (35 out of 135) could not be traced to the District's accounting records. Table 2 below summarizes the results at each of the schools we visited.

**Criteria:** Accounting records for personal property at each location should reflect the actual assets located there.

**Effect:** The net book value of assets in the District's CAFR may be inaccurately reported for items that are no longer physically on hand, and for items that are on hand but not included in the District's records. Moreover, there is increased risk that inaccurately recorded assets could be stolen.

**Cause:** School personnel and principals at the locations we visited failed to adequately prioritize accountability over their equipment. Similarly, as we observed last year:



- school personnel did not always accurately update their inventory equipment records;
- school personnel did not always affix school property tags to equipment.

Although District management has designed appropriate policies and procedures to account for personal property, it has not adequately incentivized compliance with those policies and procedures.

Table 2: Summary of Conditions Noted Regarding School Equipment

| Policy Not Followed            |   |                    |  |                            |                            |   |   |
|--------------------------------|---|--------------------|--|----------------------------|----------------------------|---|---|
| Schools Visited                | Items Selected from Records for Observation | Items Not Observed | Missing Items  | Items Selected at Location | Items Not Found in Records | Items Not Found in Records                        | Inventory Records Not Updated<br>Equipment Not Tagged |
| High School of the Future      | 10  | 9                  | Carpet Cleaner, Office Furniture, Musical Instrument, Computer Equipment   | 10                         | 3                          | Computers   | ✓ ✓   |
| William Sayre High School      | 15  | 10                 | Copier, Key Duplicator, Snow-thrower, Whiteboard, Computer Equipment       | 15                         | 4                          | Floor buffer, Computers, Projector                | ✓ ✓   |
| Academy at Palumbo             | 15  | 6                  | Furniture, Computers   | 15                         | 3                          | Trophy Cabinet, Art Table, Wood Hutch             | ✓ ✓   |
| Vare-Washington Elementary     | 10  | 3                  | Computer, Projectors   | 10                         | 4                          | File Cabinets, Storage Closet, Projector          | ✓ ✓   |
| Overbrook High School          | 15  | 3                  | Grand Piano, Security Camera   | 15                         | 6                          | Piano, Double Bass, Computer Equipment, Food Rack | ✓ ✓   |
| William Bodine High School     | 15  | 7                  | Calculators, Defibrillator, Computer Equipment                             | 15                         | 4                          | Computers, Furniture                              | ✓ ✓   |
| Willard Elementary School      | 10  | 4                  | Floor Buffer, Medical Supplies, Piano                                      | 10                         | 1                          | Floor Buffer                                      | ✓ ✓   |
| William Rowen                  | 10  | 5                  | Computer, Piano, Whiteboard, Instructional Aids, Portable Basketball Stand | 10                         | 1                          | Computer  | ✓ ✓   |
| Woodrow Wilson Middle School   | 10  | 4                  | Computer, Double Bass, File Cabinet, Potter's Wheel                        | 10                         | 5                          | Piano, Bass, Filing Cabinets                      | ✓ ✓   |
| Baldi Middle School            | 15  | 0                  | None.  | 15                         | 4                          | Projector Screen, Music Sheet Stand, Bass Drum    | ✓ ✓   |
| Office of Specialized Services | 10  | 4                  | Audio/Visual Equipment, Audiometer, Instructional Aids                     | 10                         | 0                          | None.   | ✓ ✓   |
| Totals                         | 135   | 55                 |  | 135                        | 35                         |   |   |

Source: Prepared by the Office of the Controller

**Recommendations:** We suggest that District management incorporate into its policies and procedures over personal property a plan of consequential actions that will occur when school personnel do not follow prescribed policies and procedures. Additionally, it might consider providing positive rewards for schools and administrative offices that maintain the most accurate inventory of their personal property [600115.05].

## 2017-004 NONCOMPLIANCE WITH ESTABLISHED PROCEDURES EXPOSES THE STUDENT ACTIVITY FUNDS TO THE RISK OF THEFT AND MISUSE

**Condition:** In a limited review of student activity funds (SAFs) at 20 school locations, we observed (as we have in previous years) a lack of compliance with the established procedures contained in the SAF Manual (Manual) designed to safeguard those funds. The combined fund balance for the 20 schools examined was \$818,914 at May 31, 2017. Specifically, our review found that: 1) bank reconciliations were not completed in a timely manner, 2) SAF checks were improperly recorded using the general Student Body Activities Account (SBAA), 3) documentation to track collection of student activity funds was missing or unaccounted for, 4) the principals had not established the required finance committees for the SAFs, 5) inactive accounts, and 6) improperly retained District funds. Table 3 below summarizes the results for each of the schools tested.

**Table 3: Summary of Audit Results of Student Activity Funds By School**

| School                       | SAFs Account Balances @ 05-31-17 | SAFs with Inactive Account Balances for at least One Year | Total of Inactive Account Balances | Bank Reconciliations Not Completed Timely | SAF Checks Improperly Recorded | Collection of Student Activities Funds was Not Documented | No Established Finance Committees | Improperly Retained School-Related Funds |
|------------------------------|----------------------------------|---|------------------------------------|---|--------------------------------|---|-----------------------------------|--|
| Constitution H.S.            | \$29,482.06                      | 1   | \$319.20                           | ✓   | ✓                              | ✓   | ✓                                 |  |
| Dobbins H.S.                 | 59,322.51                        | 25  | 8,953.95                           |   |                                |   |                                   | ✓  |
| A. L. Fitzpatrick M.S.       | 7,230.65                         | 2   | 43.50                              | ✓   |                                |   | ✓                                 | ✓  |
| Warren G. Harding M.S.       | 26,372.03                        | 11  | 6,337.73                           |   |                                |   |                                   |  |
| Hill-Freedman H.S.           | 7,498.43                         | 0   | 0.00                               | ✓   | ✓                              |   | ✓                                 |  |
| Kensington Health Science    | 1,206.96                         | 0   | 0.00                               | ✓   | ✓                              |   | ✓                                 |  |
| Kensington Urban             | 696.18                           | 0   | 0.00                               | ✓   | ✓                              | ✓   | ✓                                 |  |
| Abraham Lincoln H.S.         | 74,011.85                        | 9   | 1,882.93                           | ✓   |                                | ✓   | ✓                                 | ✓  |
| Martin Luther King H.S.      | 11,360.08                        | 4   | 722.16                             |   |                                |   |                                   |  |
| Motivation H.S.              | 32,120.13                        | 12  | 10,499.98                          | ✓   |                                | ✓   | ✓                                 | ✓  |
| Northeast H.S.               | 229,575.79                       | 4   | 51,340.57                          | ✓   |                                | ✓   | ✓                                 | ✓  |
| Overbrook H.S.               | 23,244.02                        | 1   | 500.00                             | ✓   |                                |   | ✓                                 |  |
| Parkway Northwest H.S.       | 11,631.26                        | 0   | 0.00                               | ✓   | ✓                              |   | ✓                                 |  |
| Parkway West H.S.            | 9,922.87                         | 0   | 0.00                               | ✓   | ✓                              |   | ✓                                 |  |
| Phillip Randolph H.S.        | 8,331.70                         | 1   | 3,291.70                           | ✓   |                                |   | ✓                                 |  |
| Robeson-Human Services H.S.  | 25,720.76                        | 0   | 0.00                               |   |                                |   |                                   |  |
| Roxborough H.S.              | 62,592.63                        | 3   | 1,847.46                           |   |                                |   |                                   | ✓  |
| South Philadelphia H.S.      | 179,347.95                       | 12  | 18,044.87                          |   |                                |   |                                   | ✓  |
| Strawberry Mansion H.S.      | 17,618.27                        | 0   | 0.00                               |   |                                |   |                                   |  |
| The U School: Innovative Lab | 1,628.45                         | 0   | 0.00                               |   |                                |   |                                   |  |
| <b>Totals</b>                | <b>\$818,914.58</b>              | <b>85</b>   | <b>\$103,784.05</b>                |   |                                |   |                                   |  |

Source: Prepared by the Office of the Controller

**Criteria:** SAFs are private, student owned funds collected from students for specific educational purposes. The District's Manual for SAFs provides guidance for responsible school personnel and contains both specific duties and detailed procedures required to properly account for the funds. For example:

- Bank reconciliations should be prepared monthly and as soon as the statements are received from the bank. They should be prepared even in the summer months.
- Student Activity Sponsors should maintain adequate records to evidence student participation in activity decision making and to document the receipt of money as to the source (name of student or person), date received, and purpose of funds. Cash disbursements should be supported by a Payment Voucher (Form H-201) and original invoice and submitted to the principal for approval.
- To improve transparency and accountability, every activity should be accounted for in a separate fund account. To establish these accounts, the activity sponsor must complete a Request to Establish a Student Activity form to be approved by the principal. Money to be used for specific activities should not be deposited into, or written from, the SBAA General account.
- Principals should establish Finance Committees to advise them on investing excess cash and ensure that minutes are issued documenting the investments decisions made by the committee.
- School Related Funds such as grants funds, transcript fees, replacement fees, and vocational shop proceeds, should be remitted to the District's Office of Management and Budget. Those funds are monies that belong to the District, but are collected and temporarily deposited into SAFs accounts.
- For inactive SAFs, students should decide on the proper school-related purpose or disposition of the surplus funds. Monies left unused for more than one year should be transferred to the Student Body Activities Account to be used for any school-related purpose.

**Effect:** Failure of the schools to follow established policies and procedures will continue to place the SAFs, which at June 30, 2017 totaled \$5.0 million, at greater risk for fraud or misuse.

**Cause:** Although District management has taken steps to increase monitoring of activity in the SAF accounts, school level personnel still do not adequately abide by the policies and procedures set forth in the SAF manual.

**Recommendations:** To prevent misuse of the SAFs, we continue to recommend that:

- School principals and operation officers comply with the guidance described in the Manual, and that District management continue to reinforce the importance of compliance with Manual guidance at the annual training sessions for school principals [600108.03].
- Management ensure that other school employees who are responsible for management or control of the SAFs are properly trained and held accountable for compliance with the Manual's guidance [600114.02].

#### **2017-005 BI-WEEKLY PAYROLLS ARE BEING PROCESSED WITHOUT PROPER APPROVAL**

**Condition:** During fiscal year 2017, bi-weekly payroll for 11,752 employees was processed without the proper administrative approvals as summarized in Table 4 below. We observed that the District achieved a small decrease over the prior-year in the number of employees whose bi-weekly payroll was not properly

approved by District administrative personnel responsible for the employees' work locations. In fiscal year 2016, there were 12,531 employees with unapproved payrolls compared to 11,752 in fiscal year 2017.

**Table 4: Summary of Unapproved Employee Payroll Checks**

| <b>PAY PERIOD</b> | <b>REPORT DATE</b> | <b>NUMBER OF UNAPPROVED EMPLOYEES</b> | <b>NUMBER OF PAYROLL LOCATIONS</b> |
|-------------------|--------------------|---------------------------------------|------------------------------------|
| 1                 | 07/08/2016         | 74                                    | 27                                 |
| 2                 | 07/22/2016         | 32                                    | 8                                  |
| 3                 | 08/05/2016         | 40                                    | 14                                 |
| 4                 | 08/19/2016         | 106                                   | 66                                 |
| 5                 | 09/02/2016         | 246                                   | 69                                 |
| 6                 | 09/16/2016         | 550                                   | 85                                 |
| 7                 | 09/30/2016         | 639                                   | 65                                 |
| 8                 | 10/14/2016         | 405                                   | 57                                 |
| 9                 | 10/28/2016         | 643                                   | 62                                 |
| 10                | 11/11/2016         | 697                                   | 66                                 |
| 11                | 11/25/2016         | 499                                   | 71                                 |
| 12                | 12/09/2016         | 553                                   | 61                                 |
| 13                | 12/23/2016         | 513                                   | 65                                 |
| 14                | 01/06/2017         | 250                                   | 50                                 |
| 15                | 01/20/2017         | 392                                   | 57                                 |
| 16                | 02/03/2017         | 457                                   | 60                                 |
| 17                | 02/17/2017         | 394                                   | 67                                 |
| 18                | 03/03/2017         | 507                                   | 57                                 |
| 19                | 03/17/2017         | 623                                   | 65                                 |
| 20                | 03/31/2017         | 727                                   | 84                                 |
| 21                | 04/14/2017         | 561                                   | 65                                 |
| 22                | 04/28/2017         | 657                                   | 72                                 |
| 23                | 05/12/2017         | 447                                   | 61                                 |
| 24                | 05/26/2017         | 472                                   | 64                                 |
| 25                | 06/09/2017         | 712                                   | 70                                 |
| 26                | 06/23/2017         | 556                                   | 67                                 |
|                   |                    | <u>11,752</u>                         |                                    |

Source: Prepared by the Office of the Controller based on bi-weekly payroll reports identifying administrators not approving payroll.

**Criteria:** The review and approval of employee payroll by responsible individuals each pay period is an integral part of the internal controls over the payroll process and should be appropriately performed by all responsible administrators.

**Effect:** Although our tests of payroll disclosed no instances of improperly paid employees, there will continue to be an increased risk for errors or irregularities in payroll expenditures until corrective action is taken.

**Cause:** Even though District management had developed a payroll report to identify administrators that failed to approve payroll, and sent multiple follow-up notifications to those that were non-compliant, the effectiveness of these procedures appears to be minimal when compared to fiscal 2016. The average number of employees without proper approval each pay period only decreased by 6 percent — from 482 to 452.

**Recommendations:** To achieve increased compliance with the established approval process for payroll, we recommend that management:

- Continue to identify and notify non-complying administrators along with their supervisors and consider progressive disciplinary action for those that consistently violate the policy [600111.01].
- Require that repeat offenders appoint a backup person that could sign-off on the payroll in the absence or frequent negligence of the primary approver [600115.08].

### **2017-006 TransPasses Missing and Unaccounted For**

**Condition:** A review of Student TransPass activity that occurred in March 2017<sup>3</sup> at five selected District high schools disclosed, as in previous years, that school personnel could not account for all TransPasses received for distribution to students. At the five high schools visited, we observed that 204 of the 1,957 (10.4%) TransPasses received, were unaccounted for and presumed stolen or missing. The TransPasses were part of the District's fiscal year 2017 \$32 million Student TransPass Program and valued at \$3,692. Table 5 below summarizes the results of our observations.

**Criteria:** District personnel are required to account for the disposition of all TransPasses delivered to each school location. The number of TransPasses received, as evidenced by the District's TransPass Receipt/Delivery report from Dunbar (see Figure 1)<sup>4</sup>, less the number distributed, as substantiated by a properly prepared and signed School Computer Network's COMPASS General TransPass List (TransPass List) (see Figure 2), should represent the actual number of undistributed TransPasses. When properly prepared, the TransPass List should, at a minimum, show a notation of which students received the TransPasses. This information should then be recorded on the monthly Summary of Free TransPasses form, (see Figure 3) and agreed to the number of TransPasses returned to the District's Transportation Services each month.

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<sup>3</sup> We tested records for the week of March 20, 2017 at each of the five high schools.

<sup>4</sup> Copies of these reports are maintained at the schools, as well as the District's Transportation Services Department.

Table 5: Accounting for TransPass activity at Five Selected High Schools<sup>5</sup>

| <u>Column A</u><br>High School | <u>Column B</u><br>Number of<br>TransPasses<br>Received<br>Per Auditor | <u>Column C</u><br>Number of<br>TransPasses<br>Distributed<br>Per Auditor | <u>Column D</u><br>Number of<br>TransPasses<br>Undistributed<br>Per Auditor<br>(Col. B –C) | <u>Column E</u><br>Number of<br>TransPasses<br>Undistributed<br>Per District | <u>Column F</u><br>Number of<br>TransPasses<br>Unaccounted<br>For<br>(Col. D –E) |
|--------------------------------|--|---|--|--|--|
| Academy at Palumbo             | 741  | 693   | 48   | 0  | 48   |
| Bodine High School             | 468  | 443   | 25   | 24   | 1  |
| High School of the<br>Future   | 381  | 326   | 55   | 10   | 45   |
| Overbrook High School          | 266  | 175   | 91   | 0  | 91   |
| Sayre High School              | 101  | 75  | 26   | 7  | 19   |
| Total                          | 1957   | 1712  | 245  | 41   | 204  |

Source: Prepared by the Office of the Controller based on analysis of data from the sources listed in footnote below.

Figure 1: TransPass Receipt/Delivery Report

**Dunbar**  
CASH VAULT SERVICES

Tuesday, February 21, 2017

Customer/Loc #: 24003233-011100 Rto: N/A  
 WILLIAM L. SAYRE HIGH SCHOOL Inv: 405  
 1300 WALNUT ST Br: 009  
 Ph: 01 Order #: 02210065  
 PHILADELPHIA PA 19134

| Description    | Units      | Unit Order | Value       |
|----------------|------------|------------|-------------|
| TransPassType1 | 101        | Each       | NONE        |
| TransPassType2 | 101        | Each       | NONE        |
| TransPassType3 | 101        | Each       | NONE        |
| TransPassType4 | 101        | Each       | NONE        |
| <b>TOTAL</b>   | <b>404</b> |            | <b>NONE</b> |

Source: School District of Philadelphia

Figure 2: School Computer Network

**General Transpass List**  
- 03/16/2017 -

To sort by a given column, click on that column header. To sort by multiple columns (first by column X, then by column Y) press shift when choosing additional columns. You can also export the data to Excel to sort and filter as needed.

| #  | Student ID | Last Name | First Name | Address | School                             | Grade | Homeroom | Reason     | Distance to School (mi) | DOB |
|----|------------|-----------|------------|---------|------------------------------------|-------|----------|------------|-------------------------|-----|
| 15 | 302544     |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 11    | 107      | SPECIAL ED | 2.37                    |     |
| 16 | 3014709    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 12    | 107      | SPECIAL ED | 1.47                    |     |
| 17 | 3026033    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 10    | 110      | WHEELCHAIR | 2.08                    |     |
| 18 | 3040807    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 12    | 019A     | WHEELCHAIR | 1.72                    |     |
| 19 | 4057794    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 11    | 100      | WHEELCHAIR | 7.53                    |     |
| 20 | 30579127   |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 12    | 107      | SPECIAL ED | 2.32                    |     |
| 21 | 3023778    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 11    | 108      | WHEELCHAIR | 1.8                     |     |
| 22 | 4068539    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 10    | 210      | WHEELCHAIR | 1.53                    |     |
| 23 | 3107021    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 09    | 234      | SPECIAL ED | 2.12                    |     |
| 24 | 3013245    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 10    | 111      | SPECIAL ED | 2.72                    |     |
| 25 | 3061527    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 10    | 111      | SPECIAL ED | 2.72                    |     |
| 26 | 3024723    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 09    | 216      | WHEELCHAIR | 1.7                     |     |
| 27 | 3408888    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 12    | 019A     | WHEELCHAIR | 4.35                    |     |
| 28 | 3012468    |           |            |         | 1100-SAYRE, WILLIAM L. HIGH SCHOOL | 12    | 019A     | WHEELCHAIR | 7.32                    |     |

Report generated on 03/16/17 @ 10:40 AM 2 of 7

Source: School District of Philadelphia

<sup>5</sup>Sources of information for the TransPass reconciliation presented in Table 3 were as follows:

- Figures in columns B were obtained from the auditor's review of TransPass receipt/delivery reports at the school and the District's Transportation Services Department.
- Amounts in column C represent the auditor's count of checkmarks and/or student initials or signatures appearing on the TransPass List filed at the school.
- Figures in column E were obtained from the auditor's review of the Dunbar TransPass return records maintained by the School District of Philadelphia's Transportation Department.

Figure 3: Summary of Free Student TransPasses Form

**The School District of Philadelphia**  
**Summary of Free Student TransPasses**

School Name: William L. Sayre High School  
 School Loc. #: 1188  
 Month & Year: March 2017

**A. Summary of Student TransPasses Received for the Month**

Number of TransPasses Received for the Month (Initial Delivery): 404 (A1)  
 Total of Any Additional TransPasses Received: None (A2)

Week 1:            Week 4:             
 Week 2:            Week 5:             
 Week 3:            \* Total for weeks to be placed in A2:           

Total Number of TransPasses Received by the School: 404 (A3)

**B. Summary of Student TransPasses Distributed by Week:**

| Dates                   | # To Be Distributed | # Distributed | # Undistributed |
|-------------------------|---------------------|---------------|-----------------|
| Week of: <u>3/12/17</u> | <u>101</u>          | <u>101</u>    | <u>0</u>        |
| Week of: <u>3/19/17</u> | <u>101</u>          | <u>101</u>    | <u>0</u>        |
| Week of: <u>3/26/17</u> | <u>101</u>          | <u>97</u>     | <u>4</u>        |
| Week of: <u>3/27/17</u> | <u>101</u>          | <u>98</u>     | <u>3</u>        |

Totals for the Month: 404 (B1) 397 (B2) 6 (B3)

\* Please note that blocks A3 and B1 must be the same number.  
 \* Block B3 is the number of TransPasses returned to Transportation Services.

Preparer's Signature: [Signature] Date: 3/31/17  
 Principal's Signature: [Signature] Date: 3/31/17

\*\* The eligibility lists from the School Computer Network for the dates listed above are to be attached to this form and retained in the school for 7 years. This form should be made available when requested by appropriate School District personnel.

(Rev 8/2011)

Source: School District of Philadelphia

**Effect:** The District may be billed by SEPTA for missing TransPasses used by unauthorized individuals. Consequently, taxpayer funds could be needlessly and inappropriately spent.

**Cause:** The procedures in place during our current audit, outlined in the District's Transportation Services Manual, coupled with a failure to properly implement others that were in place appear to be the cause of the unaccounted for TransPasses, which may have been stolen. Our observations revealed that:

- Current procedures entail that, after examining student identification cards, school employees only check off the names of the students receiving the TransPasses instead of requiring the employee to obtain the students' signatures.
- School employees responsible for distributing student TransPasses did not sign the bottom of the TransPass List verifying that students received the TransPasses as required by existing procedures. This was the case for four high schools we visited; Bodine, High School of the Future, Overbrook, and Sayre.
- Although procedures require schools to prepare a "Summary of Free Student TransPasses" form at the end of each month, two of the high schools we visited — Bodine and Overbrook — had not prepared this document.
- Existing procedures do not adequately describe procedures for accurately preparing the "Summary of Free Student TransPasses" form that high schools use to account for all distributed and undistributed



TransPasses each month. For example, we saw no indication of who should prepare the form, who should check it for accuracy, how it should be verified for correctness, and what steps should occur in the event of missing TransPasses.

- Distribution procedures currently involve only one employee. This situation does not adequately mitigate the risk of theft, as would be the case if two employees were involved in the distribution of the passes.

**Recommendations:** To improve accountability over the distribution of TransPasses to students and minimize the risk of theft, we suggest that District management:

- Amend existing procedures to:
  - require that students sign for the receipt of their TransPass [600115.02];
  - describe the processes for providing school administrators with instructions on (1) who should prepare necessary forms, (2) how to prepare the forms, (3) who must check the forms for accuracy, (4) how the forms must be verified for correctness, and (5) what steps should take place when TransPasses are missing or unaccounted for [600111.09]; and
  - require that two employees be involved in the distribution process [600115.03].
- Actively monitor and enforce policies and procedures relating to the distribution and accounting of student TransPasses [600111.08].

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## **CORRECTIVE ACTIONS TAKEN BY DISTRICT**

As part of our current audit, we followed up on the conditions brought to management's attention during prior audits. We routinely monitor uncorrected conditions and report on them until management takes corrective action or until changes occur that resolve our recommendations. Our follow-up disclosed that the District made progress on the condition below. We commend District management on its efforts.

**CONTROLS PROCEDURES FOR PAYROLL DEDUCTIONS IMPROVED**

During the prior audit we noted that District management did not properly update the local payroll tax withholdings tables used to determine the City of Philadelphia income taxes withheld from employees. Consequently, taxes were incorrectly withheld at the old, higher rate for all employees in fiscal year 2016. The District lacked formal procedures to ensure that the local payroll tax withholdings tables are updated accurately and in a timely manner. Our previous testing also disclosed other payroll deduction errors related to wage garnishment fees, and union dues withheld from employees.

During our current audit, we noted significant improvement in these conditions. Specifically, we found that the wage tax withholding percentages had been properly updated, and the correct amount of City of Philadelphia income tax had been withheld. Additionally, the District issued formal written procedures to ensure that a review and necessary updates for changes to the tax codes are performed timely. Other improvements included the creation of an exception report to help identify potential mismatches in union dues for employees switching positions, and an improved policy for charging wage garnishment fees. Based on our observations, we believe there has been sufficient improvement in the controls over the payroll deduction process, and we therefore consider these conditions resolved [600116.01 and 600116.02].

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## RESPONSE TO AUDITOR'S REPORT

**THE SCHOOL DISTRICT OF PHILADELPHIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**440 N. BROAD STREET, SUITE 304  
PHILADELPHIA, PENNSYLVANIA 19130**

**URI Z. MONSON**  
CHIEF FINANCIAL OFFICER

**TELEPHONE (215) 400-4500  
FAX (215) 400-4501**

May 18, 2018

Ms. Rebecca Rhynhart  
City of Philadelphia  
Office of the Controller  
12<sup>th</sup> Floor John F. Kennedy Boulevard  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102

RE: Response to City Controller's Report on Internal Control and on Compliance and Other  
Matters -- Fiscal Year 2017.

Dear Ms. Rhynhart:

The attached document contains the School District of Philadelphia's formal response to the  
issues raised in the audit report issued on May 4, 2018 with respect to internal control,  
compliance and other related matters.

I would like to thank you and your staff for your efforts with respect to this audit.

Sincerely,



Uri Monson  
Chief Financial Officer

cc: Estelle Richman, Chair and Members of School Reform Commission  
Dr. William Hite, Chief Executive Officer and Superintendent of Schools  
Kellan White, First Deputy City Controller, City of Philadelphia  
Christy Brady, Deputy City Controller, City of Philadelphia  
Beverly Martin, Audit Director, City of Philadelphia  
Marcy F. Blender, Comptroller, School District of Philadelphia

**REPORT ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS SCHOOL DISTRICT OF PHILADELPHIA RESPONSE FISCAL YEAR 2017**

The School District of Philadelphia's leadership is pleased with the outcome of the Fiscal Year 2017 financial audit which resulted in relatively few findings, all of which were considered reportable conditions and not significant or material. In addition, the prior year audit finding on control procedures for payroll deductions was considered resolved and significant attention has been focused on addressing the termination pay finding.

Responses to the Fiscal Year 2017 findings are below. The first finding, related to a capital assets misclassification, was already corrected and the termination pay timeliness finding has significantly improved in Fiscal Year 2018 due to more dedicated resources, process improvements and systems enhancements to further automate the process as described in response 2017-002 below. All the other findings relate to schools occasionally failing to follow the financial policies and procedures already in place at the District. These findings relate to payroll approval, student activity funds, personal property inventory, and TransPass reporting. The monetary findings related to these findings are non-consequential, and concerns relate more to the potential risks associated with non-compliance.

**2017-001 Capital Assets Were Inaccurately Reported in the District's Annual Financial Statements**

**Response:** The total assets reported on the Balance Sheet were correct. However, there was a misclassification related to closed or completed projects which were not transferred from construction in progress (CIP) to the appropriate long-term building or improvement asset accounts resulting in total assets being reported correctly, but CIP and completed projects being over/under stated respectively. In accordance with District Capital Asset Policy, expenditures that are part of an on-going capital project, with a cost of \$5,000 or greater, are accumulated in CIP until the time that the project is deemed completed or closed by the Capital Projects Office.

The correction of this deficiency was already implemented for fiscal year 2018. While the \$11.4 million which was inadvertently not transferred from CIP in Fiscal Year 2017 does not represent an understatement in total asset value, it does result in an understatement to accumulated depreciation for both building and improvement accounts by an immaterial amount. CIP was overstated on the financial statements by the \$11.4 million, while the building and improvement asset accounts reflect an understatement of \$2.3 million and \$9.1 million respectively. A prior period adjustment in the amounts of \$72,000 to building accumulated depreciation and \$555,000 to improvement accumulated depreciation has also been recorded in Fiscal Year 2018 to properly adjust the net book value for assets. Further, the understatement amounts represent a nominal amount of .01% of total building accumulated depreciation and .07% of improvement accumulated depreciation on total building assets of \$1.73 billion and improvements of \$1.23 billion.

In addition to the specific issue above, it was also reported that additional older expenditures in CIP had not been capitalized to the appropriate projects in the long-term building or improvement asset accounts. It should be noted that some projects span a number of years and that these expenditures would be appropriately carried in CIP until the project is completed or closed. It has not as yet been determined whether any additional projects

should be accounted for in the prior period adjustment, a complete review of all CIP expenditures will be conducted prior to the fiscal year 2018 closing process.

While we are in agreement with the finding and subsequent recommendations for the capitalization of real property assets, this issue was determined to be the result of a one-time communication error and is not indicative of a systemic break-down in internal controls. Accounting and the Capital Projects Offices have met to develop a format for communication and review of year end information to eliminate this situation from reoccurring in the future. The year-end process has been revised to include a review of CIP by the Capital Projects Office to ensure that all completed and closed projects are properly capitalized and depreciated on a timely basis in the appropriate long-term asset and related accumulated depreciation accounts. It should be further noted that the District has received approval from the Board to implement a new financial management system, expected to go live in Fiscal Year 2020, with workflow, project management, and enhanced reporting capabilities which should serve to strengthen the internal controls over this process and eliminate the manual processes in the current asset reporting environment.

**2017-002 Thousands of Former District Employees Still Owed Millions in Termination Pay**

**Response:** The School District of Philadelphia's management team agrees with the recommendations and have focused on deploying the necessary resources to implement corrective actions to process termination pay more timely, both for current and prior terminating employees. Because the Vacation, Personal and Illness Leave (VPIL) report used to record termination pay owed to employees is a point in time, it does not adequately capture or reflect the amount of processing that takes place over the course of the year. In Fiscal Year 2017, the District increased the Payroll staff levels by adding two positions - an Auditor and a Payroll Processor. As a result, the Payroll staff was able to process 1,223 checks totaling \$10.1 million in termination pay. In relation to the funds identified in the Audit, \$2.4 million of the \$6.7 million referenced on the June 30, 2017 VPIL report has been paid to date and Payroll staff processed all of the term cases dated prior to 2006.

Early in Fiscal Year 2018, District management approved an additional Payroll Processor and Auditor. Management also hired an outside CPA consulting firm to help the District identify and correct inefficiencies in the termination pay process and established a cross functional team including representatives from the Talent Office, Payroll, IT and Accounting to implement the recommendations and corrective actions. As a direct result of these business process improvement efforts, the District's IT staff are making programming modifications to the Advantage system to further automate some of the manual processes being used to calculate termination pay and account for the termination pay requirements of the various bargaining units. This work should be completed, fully tested and operational by the end of August, 2018. Management believes the assistance from the consulting firm and IT staff along with the Payroll staff additions will result in expeditiously processing all termination pay in accordance with each collective bargaining agreement barring any special circumstances.

The District complies with unclaimed property laws and have escheatment processes in place for unclaimed checks. Although the District provides employees with forms, on which they are to provide an updated address and tax shelter selection, obtaining necessary documentation from separated employees continues to challenge the District. In Fiscal Year 2017, the total amount of term cases initially missing required paperwork and requiring follow-up from those over the age of 55 totaled \$2.8 million (310 cases over the time period Fiscal



Year 2014 to 2016). In an attempt to address this portion of the backlog, management has shortened the timeline for setting up "orphaned accounts" (for which there is missing provider selection information) at the designated 403(b) investment provider for those employees.

For former employees under 55, the District has a process in place that every calendar year by April 15th any unclaimed payroll checks get escheated to the Pennsylvania Treasury Department in accordance with state escheatment guidelines. The total amount escheated to the state during Fiscal Year 2017 was \$130,000 which included termination payments unclaimed by former employees under the age of 55. Naturally, as the backlog of term cases is cleared and terms are processed more quickly the District will be able to escheat funds more timely and meet the timelines prescribed in the collective bargaining agreements. The amounts reported by the auditor for employees over 55 are not compensation but are considered retirement benefits and therefore are not subject to the District's normal payroll escheatment process. For those employees over 55 considered "orphaned", the District refers the cases to a 403(b) Plan provider who has contractually agreed to: 1) establish individual accounts, make every effort to locate the former employee, and 2) escheat the money to the State as required by law. The process, established in July 2013, has resulted in the District transferring \$2.29 million on behalf of 431 employees. The transfers will occur at a minimum of twice a year starting in Fiscal Year 2018. Additionally, the District has asked the provider, on an ad hoc basis, to provide detailed reports regarding efforts to locate former employees.

In response to the auditor's recommendation that the District develop and implement a more efficient human resource strategy at the point of employee separation, the Office of Talent sends retiring and resigning employees a change of address form with their acknowledgment letter indicating they should update their address if they are relocating. Additionally, a staff member in the Office of Talent is responsible for conducting exit interviews in which they reinforce the need for updated contact information. As part of the corrective actions being implemented, the District will redesign the instructions and paperwork required by employees at the time of separation.

#### **2017-003 Missing Equipment and Inaccurate Accounting Records Increase Risk of Financial Statement Errors and Theft**

**Response:** District management takes accountability over personal property equipment at schools very seriously and will continue to emphasize accountability for these assets located in schools. Significant improvements have been evident over recent years and the District has increased its efforts to hold schools accountable for their equipment inventory and automating the process to improve both accuracy and efficiency with positive results.

Every school has on-line access to the Personal Property Inventory System (PPIS) to make updates as needed and reporting tools to know what assets are included in their inventory. In addition, schools are required to designate a person responsible for their inventory and hands-on training is offered each spring for both how to use the PPIS system and the District's inventory policies and procedures. For Fiscal Year 2017, over 90% of all school Principals approved and submitted their annual inventory.

In an effort to improve accountability at the school locations, the Finance Office will continue to refine processes and controls to improve accountability and accuracy over all personal property assets. In addition, it should be

noted that the District's annual inventory process coincides with audit testing and further examination of the audit details shows that some issues regarding personal property that could not be located were addressed subsequent to the audit testing.

Per a further review of the items that could not be located at the 10 schools and one office location in the audit sample with a reported cost at the date of purchase of over \$73,000, it has been determined that these items have a current net book value of \$16,000 after depreciation and considering obsolescence. Of the 56 items that could not be located, 9 items have subsequently been disposed in Fiscal Year 2017 representing over \$9,000 of the total sample value with a depreciated value of less than \$1,000, 21 items are fully depreciated with a \$0 value, and the remaining 26 items totaling only \$15,000 in depreciated value.

The testing results also show that 20 of the 56 were noted as "Item not tagged" indicating that the item could not definitively identified as the sample item. In order to address this issue during the Fiscal Year 2018 inventory cycle, inventory designees and principals will be informed of the availability of blank tags to ensure that all District property is properly tagged and identifiable.

Of the items haphazardly observed and selected for testing at the same 11 locations, a further review shows that eight of the 35 items that could not be located have been disposed in the personal property records. Seven items with an approximate value of \$10,000 and a depreciated value of \$2,500 could not be located at the time of testing but are in "active" status in the personal property records while one item was added in Fiscal Year 2018. The remaining 19 items could not be located in the personal property records and further investigation revealed that these items likely date to 2001 and prior. Therefore, it would pre-date the implementation of the current personal property inventory system (PPIS). Due to the estimated age of the items, the expected depreciated value would be \$0 and therefore would have no effect on the District's financial statements.

To improve controls over technology assets (which constitute the majority of all personal property assets at schools) and further automate the personal property process, all Apple and Dell laptop and desktop computers are delivered to schools with an etched personal property number. In addition, serial numbers are loaded at the time the asset is established in the personal property inventory system.

As a means to ensure that District property is properly tagged with asset numbers and schools are properly accounting for their assets, the Grants Compliance Monitors (GCM) assigned to each school deliver asset tags directly to the Inventory Designee for each school. Further, the GCMs also perform random checks to ensure that the tags are affixed to the proper asset, which assets per the inventory list are identified at the school, and they performed and submitted their annual inventory for accurate financial reporting. Consequences of noncompliance, results in a school not authorized to spend grant funds to purchase additional assets until they come into compliance. Untagged equipment observed during the audit could also result from either a timing difference between the issuance and delivery of tags to the school or tags intentionally removed by students.

**2017-004 Noncompliance with Established Procedures Exposes the Student Activity Funds to the Risk of Theft and Misuse**

**Response:** As noted in the audit report, District management has taken steps to increase the monitoring of activity in the Student Activity Funds (SAF) account. These steps include the implementation of a web-based accounting system – School Funds On-line (SFO) for the student activity funds which has allowed for better monitoring, resulting in a significant reduction in inactive accounts, outstanding checks and negative balances. A Fiscal Year 2018 initiative to mandate that all schools have their SAF bank accounts at Wells Fargo has been successfully completed as of the winter of 2018. This gives all Accounting Compliance and Control Monitors (ACCMs) inquiry access to all schools' bank accounts so statements can be obtained timely and makes managing only one bank relationship much more efficient, amongst other things.

The District continues to acknowledge that some school personnel do not always comply fully with the policies and procedures set forth in the Student Activity Fund Manual ("Manual"). This occurs because school level personnel are not always knowledgeable on the requirements in the Manual. Hands-on training opportunities for new Principals and financial designees and access to the updated on-line Manual should lead to a better understanding. During the summer of 2018, time has been allotted as part of "New Principal Training" to address overall financial matters and there will be additional hands on training experience with SFO. In addition, training time will be available for returning principals as requested. Regarding training of other school employees responsible for Student Activity Funds (e.g. Financial Designees, School Operations Officers and Activity Sponsors), this generally happens on an individualized basis when the need is identified. The ACCMs conduct training that includes the web-based system and the Student Activity Fund Manual policies and procedures.

It is important to note that principals and other school personnel are accountable for compliance with policies regarding Student Activity Funds. As mentioned above, the ACCMs provide hands-on training opportunities to schools to reinforce these policies and their understanding of the reporting requirements. However, if an instance of noncompliance continues or is suspect, the Accounting Office refers the school to Internal Audit or the Inspector General for a review. In addition, when noncompliance resulting in a monetary loss is definitively connected to the negligence of a principal, withholding of money from paychecks or in the case of separating principal, from their termination pay is an allowable consequence.

In Fiscal Year 2018, there was a newly designed website for the School District of Philadelphia containing an updated Student Activity Fund Manual. Beginning with a pilot program for next school year, there will also be an emphasis for schools to implement the On-line Teacher Receipting System module which should increase internal controls and compliance.

**2017-005 Bi-Weekly Payrolls Are Being Processed Without Proper Approval**

**Response:** The District had an employee base of 17,821 employees in Fiscal Year 2017. As noted in the audit report, the average bi-weekly number of unapproved employees (totaling 452) improved by 6% from the previous fiscal year, resulting in 97.5% of employees' payrolls properly approved. The audit also found that there were no instances of improperly paid employees. Management agrees that the approval of payroll by responsible individuals each bi-weekly payroll cycle is an important financial control element to ensure accuracy

of salary information and warrants continued focus. Although the goal is 100% compliance, with over 17,800 employees, and on average only 452 not approved it is apparent that the majority of schools and administrative offices are complying with the District's payroll approval policy.

Instances where an entire school's payroll roster of employees has not been approved is de Minimis. Most schools have more than one payroll location (e.g. the school, childcare program, food service workers, facilities workers, an employee with a secondary assignment). In most instances of non-approval, principals approve their primary location (their school) but unintentionally miss the additional payroll locations assigned to their schools. This results in 1-5 employees assigned to that location not being approved for the bi-weekly payroll and increases the number of pay locations not approved. During Fiscal Year 2017, when this occurred, emphasis was placed on training principals on how to approve all the payroll locations assigned to a school's payroll (TPERS) in the payroll system.

There are financial policies in place which hold administrators responsible for approving the payroll for their areas of responsibility and the District holds them accountable as part of their job responsibilities. This responsibility is part of all financial training for principals. The report which was developed to identify employees who have not approved payroll is carefully monitored by the District's Comptroller and progressive warning notices are sent to the responsible individual, copying their Chief after three times with the potential to escalate to the Superintendent's Office if noncompliance continues. Repeat offenders are encouraged to seek training and provided information on how to do so. As part of the corrective action process, instructions go to frequent offenders to appoint a back-up in the payroll system for the times they are unable to approve their payroll. In addition, for schools, their Network Office Assistant Superintendent and the Academic Office has global authority to approve the payroll for a school if a principal or their delegate (e.g., an Assistant Principal) is unable to approve payroll.

To increase the focus on approving payroll, the Chief Schools Officer, which oversees all Assistant Superintendents, has emphasized to Assistant Superintendents and principals the importance of approving payroll. The District will continue to take appropriate corrective actions with the responsible person and seek opportunities to recognize those in compliance in accordance with payroll policies and collective bargaining agreements to ensure continued compliance. Additionally, the implementation of the new ERP system over the next two years will ease the payroll approval process, and include new payroll prompts processes designed to improve compliance rates.

#### **2017-006 TransPasses Missing and Unaccounted For**

**Response:** While there is always room for improvement, the District improved the policies and procedures for the 2016/2017 school year to reflect all the recommendations put forth in the prior TransPass audit finding. The results of the corrective actions implemented to account for TransPasses have significantly reduced the number of TransPasses presumed stolen or missing in the current audit from 1,300 (\$24,000) or 20% of the sample size in Fiscal Year 2016 compared to 204 (\$3,700) or 10% of the sample size in Fiscal Year 2017.

In Fiscal Year 2017, the District revised the Summary of Free Student Form ("Form"), and created and distributed to schools a PDF and an auto fillable Excel version of the Form. Also, the District revised and updated



the policies and procedures based on the 2016 audit recommendations. New policies include the directions regarding preparation, review and "step by step" instructions on how to prepare the Form and how to verify the forms for accuracy and also recommend two employees be involved in TransPass distribution process.

The new policies and procedures, a Power Point Transpass Training Program and the revised Form with instructions, were shared with school personnel as part of the Annual Principals Summer Training session. Additionally, for school opening, they were posted on the Principals Resource Newsletter from September to December of 2017 and on the School District Transportation sitemap Web Page. As part of the enforcement drive, Principals and Assistant Superintendents of Schools not submitting Summaries received written communication-requiring compliance with policy with copies of the new policies via an email in December 2017. Transportation continues to follow-up with schools via phone call when they are flagged by the Accounting Compliance and Control Monitors (ACCMs) during their periodic school monitoring.

In response to the recommendations, the District is also implementing the changes below.

1. Revise the instructions to include the steps that should be taken when TransPasses are missing and recommend that the Summary Form be signed and reviewed for accuracy by the Principal.
2. Existing policies will be revised to include the requirement to submit the Student Transpass Eligibility List with student signatures and require submission of the Student Transpass Eligibility List to Transportation monthly and Transportation will review for accuracy.
3. The number of extra weekly TransPasses distributed to each school, each month, to accommodate monthly enrollment increases, will be reduced.
4. Scheduling Analysts and other transportation staff will call assigned schools monthly to request the Summary of Free Student TransPasses Form, the Student Transpass Eligibility List and any unused TransPasses.
5. As they are submitted, staff will review the Summary of Free Student TransPasses, the Student Transpass Eligibility List, and verify that they are both completed correctly.
6. Management will follow-up with Principals monthly to discuss issues.