

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE AND
OTHER MATTERS

SCHOOL DISTRICT OF
PHILADELPHIA

FISCAL 2015

City Controller
Alan Butkovitz



Promoting honest, efficient & fully accountable government



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

June 23, 2016

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

Dear Ms. Neff:

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, 2015, and has issued its Independent Auditor's Report dated February 17, 2016.

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 17, 2016 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 blue ink, appearing to read "Alan Butkovitz".

ALAN BUTKOVITZ
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

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, 2015 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, 2015. 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 continued to hold \$6.5 million due to former employees that have separated from service — some as far back as 2001. In doing so, the District appears to be in violation of applicable labor agreements, and, for at least \$1.2 million of the amount, in violation of Pennsylvania's escheat law. Management has not dedicated the resources necessary to process termination pay and escheatable amounts in a timely manner.
- Nearly \$5.0 million of Student Activity Funds continued to be at risk for theft and misuse, as schools holding the funds failed to follow established policies and procedures. District management did not adequately enforce those policies and procedures.
- TransPass activity we examined at five District schools continued to suggest that passes were missing and unaccounted for. The missing TransPasses totaled nearly \$3,700 and were part of the District's \$32.9 million Student TransPass Program. Poorly designed procedures coupled with a failure to properly implement others that were in place appear to be the cause for the lack of accountability over the passes.

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.



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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, 2015, 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 17, 2016.

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
O F F I C E O F T H E C O N T R O L L E R

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

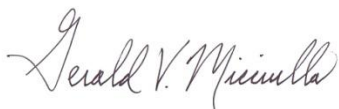
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

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.

The District's written responses to the other conditions identified in our audit is included as part of the accompanying report. We did not audit the District's responses 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 17, 2015

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OTHER CONDITIONS

2015-001 CONTROL ACTIVITIES OVER LIABILITIES

District Continues To Hold Millions Due to Former Employees

Condition: Termination pay totaling \$6.5 million due to over 2,500 former District employees that separated from service — some as far back as 2001 — has not been timely distributed. Table 1 below summarizes the amounts of termination pay applicable to two groups of former employees — those that are age 55 and older, which receive their compensation via a contribution to a tax sheltered annuity plan; and those under the age of 55 that are compensated by check.

Table 1: Employee Termination Pay Outstanding for More Than One Year as of June 30, 2015				
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 and 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)
2014	733	\$ 1.5	\$1.0	\$2.5
2013	228	0.7	0.2	0.9
2012	299	0.5	0.2	0.7
2011 and prior	<u>1,284</u>	<u>1.6</u>	<u>0.8</u>	<u>2.4</u>
Totals	<u>2,544</u>	<u>\$4.3</u>	<u>\$2.2</u>	<u>\$6.5</u>

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

Criteria: Under current labor agreements with many of its unionized employees, when employees separate from District employment, they are entitled to termination pay for unused leave time within 30 – 75 days of their separation.¹ Two sets of procedures apply – those for employees who are age 55 and older and those for employees under the age of 55. For those age 55 and older, the District deposits their termination pay with one of its 403(b) retirement plan providers as “employer contributions”. These contributions are not subject to Pennsylvania’s Abandoned and Unclaimed Property Law (escheat law). For the under 55 age group, the District is required to pay the separated employee directly by check. However, Pennsylvania’s escheat law requires 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 is presumed unclaimed. The law further states that all abandoned and unclaimed property is subject to the custody of the Commonwealth.

Effect: The District would appear to be in violation of applicable labor agreements. For those instances involving the termination pay of former employees under the age of 55 whose pay has remained uncollected for more than two years, they may also be in violation of Pennsylvania’s escheat law. At June 30, 2015, we estimate that at least \$1.2 million should have been escheated (or have been near ready for escheatment) to the Commonwealth.² We are not aware of any of these funds being escheated through the end of our fieldwork.

¹ 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 Administrators – 75 days. The number of days applicable to food service workers is not specified in their labor agreement with the District.

² The \$1.2 million amount is derived from the sum of rows for fiscal years 2013, 2012, and 2011 and prior in column D.

Cause: District management has not dedicated the resources necessary to process termination pay and escheatable amounts in a timely manner. Moreover, complicating the process and adding more time to it, District human resource management has not placed enough emphasis on obtaining the necessary information from retiring school personnel prior to their leaving District employment.

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

- Dedicate more resources to process termination pay and send escheatable amounts to the Commonwealth of Pennsylvania. As to former employees who separated at age 55 or older, the District should begin actively increasing 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]. For former employees that separated under the age of 55 and have not collected amounts due to them, the District should remit these amounts to the Commonwealth two years after they become payable or distributable to the individual [600108.08].
- Develop and implement a better human resource strategy for separating employees to ensure that all necessary contact information is gathered prior to employees separating from service [600115.01].

2015-002 CONTROL ACTIVITIES OVER FIDUCIARY FUNDS

Millions of Student Activity Fund Dollars Continued to be at Risk for Theft and Misuse

Condition: In a limited review of student activity funds (SAFs) for 20 school locations,³ we continued to observe (as we have in previous years) a lack of compliance with the established procedures for properly maintaining those funds as written in the School Fund Manual (Manual). The combined fund balance for the 20 schools examined was \$2.7 million at June 30, 2015. For the three schools visited, we found that the required bidding policy for large purchases was not being followed, and that the principals had not established the required finance committees for their SAFs accounts. For the additional 17 schools, we observed inactive accounts, improperly retained District funds, negative balances, and old outstanding checks. Table 2 below summarizes the results for each of the schools tested.

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:

³ The Controller's Office auditors visited three schools that included: Engineering & Science High School (H.S), Julia R. Masterman H. S., and Woodrow Wilson Middle School (M. S.). Auditors examined the quarterly reports on file in the District's Office of Accounting Services for the following 17 schools: John Bartram H. S., Central H. S., Creative and Performing Arts H.S., Russell Conwell M. S., Frankford H. S., Albert M. Greenfield Elementary School (E. S.), Engineering & Science H. S., Anna L. Lingelbach E. S., Franklin Learning Center, Jules E. Mastbaum H. S., Philadelphia High School For Girls, Abraham Lincoln H. S., Julia R. Masterman H. S. Northeast H. S., Roxborough H. S., Walter B. Saul H. S., South Philadelphia H. S., George Washington H. S., West Philadelphia H. S., and Woodrow Wilson M. S.

Table 2: Summary of Audit Results of Student Activity Funds by School

School	SAFs Account Balances @ 05-31-15	SAFs with Negative Account Balances	Total of Negative Balances	SAFs with Inactive Account Balances for at least One Year	Total of Inactive Account Balances	Non-Compliance with Bidding Requirements	No Established Finance Committees	Outstanding Checks Over One Year	Improperly Retained School-Related Funds
Bartram H.S.	\$121,242.00	0	\$0.00	7	\$3,094.28			✓	✓
Central H.S.	501,464.24	6	(5,140.23)	24	61,754.87			✓	✓
CAPA H.S.	81,811.49	0	0.00	9	7,292.18			✓	
Conwell M.S.	(3,301.96)	1	(3,301.96)	0	0.00				
Frankford H.S.	82,662.19	0	0.00	13	5,435.16				✓
Greenfield E.S.	25,880.00	0	0.00	1	1,661.84				✓
Engineering & Science H.S.	113,759.11	4	(\$2072.10)	12	1,459.95	✓	✓	✓	✓
Lingelbach E.S.	102,799.02	0	0.00	0	0.00				
Franklin Learning Center	88,504.51	2	(9,801.88)	5	6,858.40				✓
Jules E. Mastbaum H.S.	(22,207.94)	7	(49,653.41)	12	3,761.45				✓
Phila.High School for Girls	382,855.42	1	(212.00)	63	57,579.09				✓
Abraham Lincoln H.S.	27,762.72	4	(1,002.47)	23	26,887.75				✓
Julia R. Masterman H.S.	227,760.62	7	(3,014.30)	5	1,661.53	✓	✓		
Northeast H.S.	225,805.40	12	(17,817.08)	20	3,819.68				✓
Roxborough H.S.	74,217.67	0	0.00	13	3,939.96				✓
Walter B. Saul H.S.	198,281.99	1	(6,044.75)	2	11,810.51				
South Philadelphia H.S.	213,399.61	1	(38.46)	8	11,487.90				✓
George Washington H.S.	98,254.96	3	(1,750.64)	29	4,725.03				✓
West Philadelphia H.S.	180,912.88	0	0.00	7	8,663.85			✓	✓
Woodrow Wilson M.S.	56,361.89	0	0.00	0	0.00	✓	✓		
Totals	\$2,778,225.82	49	(\$99,849.28)	253	\$221,893.43				

Source: Prepared by the Office of the Controller

- For all photography and yearbook contracts, and for any purchases exceeding \$4,000, at least three competitive bids should be solicited and retained on file.
- 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.
- 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.
- School Related Funds (SRFs), 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.
- Expenditures should not be processed if the transactions would cause the balance of the activity fund to be negative or if the balance is already insufficient.

- Outstanding checks should be monitored as part of the bank reconciliation process. If a check is outstanding for longer than six months, the payee should be contacted to determine if he/she intends to cash the check, if the check should be reissued, or if it should be written off.

Effect: Failure of the schools to follow established policies and procedures will continue to place the SAFs, which at June 30, 2015 totaled \$4.9 million, at greater risk for fraud or misuse.

Cause: District management had not adequately enforced established policies and procedures over SAFs, nor effectively monitored activity in the funds.

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 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].

2015-003 CONTROL ACTIVITIES OVER ASSETS

TransPasses Were Again Missing and Unaccounted For

Condition: A review of Student TransPass activity at five selected District high schools for selected weeks in March 2015⁴ showed, as in previous years, that school personnel cannot account for the passes of which they take possession for distribution to the students. These TransPasses are part of the District's \$32.9 million Student TransPass Program. Among the five high schools we visited, over 200 TransPasses, valued at nearly \$3,700, were unaccounted for and presumed stolen or missing. Table 3 below summarizes the results of our observations.

Criteria: District personnel at each school should be able to account for the disposition of all TransPasses of which they take possession. The number of TransPasses received, as evidenced by the District's TransPass Receipt/Delivery report (see Figure 1)⁵ less the number distributed, as substantiated by a properly prepared and signed School Computer Network (SCN) report (see Figure 2) should represent the number of undistributed TransPasses. When properly prepared, the SCN should, at a minimum, show a notation of which students received the passes. 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 SEPTA each month.

⁴ We tested records for the week of March 23, 2015 at all the high schools except for Dobbins Career and Technical Education High School, where we tested records for the week of March 16, 2015.

⁵ Copies of these reports are maintained at the schools, as well as the District's Transportation Services Department.

Table 3: Accounting for TransPass activity at Five Selected High Schools⁶

Column A High School	Column B Number of TransPasses Received Per Auditor	Column C Number of TransPasses Distributed Per Auditor	Column D Number of TransPasses Undistributed Per Auditor (Col. B –C)	Column E Number of TransPasses Undistributed Per District	Column F Number of TransPasses Unaccounted For (Col. D –E)
GAMP [†]	340	285	55	50	5
Overbrook	288	190	98	45	53
Lincoln	960	741	219	220	-1
Dobbins CTE ^{††}	410	283	127	42	85
Ben Franklin	473	359	114	49	65
Total	2,471	1,858	613	406	207

Source: Prepared by the Office of the Controller based on analysis of data from the sources listed in footnote 6 below.

[†]Girard Academic Music Program

^{††}Career and Technical Education

Figure 1: TransPass Receipt/Delivery Report

Dunbar
CASH VAULT SERVICES

Thursday February 05,

Customer/Loc #: 24003233-012010 Rtes: N/A
FRANKLIN BENJAMIN HIGH SCHOOL Inv: 405
550 N. BROAD ST Bt: 989
Set: 01 Order #: 02050082
(FLT) (Accepted) passes

Item Description	Units	Unit Order	Unit Type	Value
TransPassType1	473	Each	NONE	
TransPassType2	473	Each	NONE	
TransPassType3	473	Each	NONE	
TransPassType4	473	Each	NONE	
TOTAL	1892		NONE	

FORM 15 REV. 7/96

Source: School District of Philadelphia

Figure 2: School Computer Network

STUDENT TRANSPORTATION LISTING
SCHOOL 201 FRANKLIN BENJAMIN HIGH SCHOOL
STUDENTS ENROLLED AS OF 03/20/15
STUDENTS WITH SELECTED TRANSPORTATION CODES T

ID	Student Name	DOB	St	Grd	RSB	Mode
500007		06/01/98	A	10	450	TRANS PASS (TQ)
500007		06/01/98	A	12	630	TRANS PASS (TQ)
500012		06/01/98	A	11	AOR	TRANS PASS (TQ)
500017		06/01/98	A	12	101	TRANS PASS (TQ)
500017		06/01/98	A	11	250	TRANS PASS (TQ)
500019		06/01/98	N	10	AOR	TRANS PASS (TQ)
500019		06/01/98	A	10	301	TRANS PASS (TQ)
500019		06/01/98	A	11	201	TRANS PASS (TQ)
500020		06/01/98	A	09	704	TRANS PASS (TQ)
500021		06/01/98	A	11	250	TRANS PASS (TQ)
500021		06/01/98	A	09	450	TRANS PASS (TQ)
500021		06/01/98	A	09	965	TRANS PASS (TS)
500022		06/01/98	A	09	401	TRANS PASS (TQ)
500022		06/01/98	A	09	401	TRANS PASS (TQ)
500022		06/01/98	A	11	204	TRANS PASS (TQ)
500023		06/01/98	A	10	701	TRANS PASS (TQ)
500023		06/01/98	A	10	701	TRANS PASS (TQ)
500023		06/01/98	A	11	201	TRANS PASS (TQ)
500023		06/01/98	A	10	304	TRANS PASS (TQ)
500024		06/01/98	A	10	703	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	10	350	TRANS PASS (TQ)
500025		06/01/98	A	09	404	TRANS PASS (TQ)
500025		06/01/98	A	09	701	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	10	701	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	10	302	TRANS PASS (TQ)
500025		06/01/98	A	11	203	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	11	201	TRANS PASS (TQ)
500025		06/01/98	A	10	301	TRANS PASS (TQ)
500025		06/01/98	A	09	404	TRANS PASS (TQ)
500025		06/01/98	A	10	100	TRANS PASS (TQ)
500025		06/01/98	A	09	452	TRANS PASS (TQ)
500025		06/01/98	A	10	303	TRANS PASS (TQ)
500025		06/01/98	A	11	620	TRANS PASS (TQ)
500025		06/01/98	A	12	250	TRANS PASS (TQ)
500025		06/01/98	A	10	150	TRANS PASS (TQ)
500025		06/01/98	A	09	605	TRANS PASS (TQ)
500025		06/01/98	A	09	965	TRANS PASS (TQ)
500025		06/01/98	A	12	101	TRANS PASS (TQ)
500025		06/01/98	A	09	703	TRANS PASS (TQ)
500025		06/01/98	A	11	201	TRANS PASS (TQ)
500025		06/01/98	A	11	702	TRANS PASS (TQ)
500025		06/01/98	A	09	704	TRANS PASS (TQ)
500025		06/01/98	A	09	401	TRANS PASS (TQ)
500025		06/01/98	A	11	201	TRANS PASS (TQ)
500025		06/01/98	A	11	202	TRANS PASS (TQ)

Source: School District of Philadelphia

⁶Sources 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 represented the auditor's count of checkmarks and/or student initials or signatures appearing on the SCN reports filed at the school.
- Figures in column E were obtained from the auditor's review of the "Summary of Free TransPasses" forms at the school.

Figure 3: Summary of Free Student TransPasses Form

The School District of Philadelphia
Summary of Free Student TransPasses

School Name: Benjamin Franklin High School

School Loc. #: 201

Month & Year: March 2015

A. Summary of Student TransPasses Received for the Month

Number of TransPasses Received for the Month (Initial Delivery): 1,892 (A1)

Total of Any Additional TransPasses Received: _____ (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: 1,892 (A3)

B. Summary of Student TransPasses Distributed by Week:

Dates	# To Be Distributed	# Distributed	# Undistributed
Week of: 03/02/15	473	410	63
Week of: 03/09/15	473	402	71
Week of: 03/16/15	473	410	63
Week of: 03/23/15	473	424	49
Totals for the Month:	<u>1,892</u> (B1)	<u>1,646</u> (B2)	<u>246</u> *(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: _____ Date: 4-7-15

Principal's Signature: _____ Date: _____

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.

Source: School District of Philadelphia

Effect: The District may be billed by the Southeastern Pennsylvania Transportation Authority (SEPTA) for missing TransPasses used by unauthorized individuals. Consequently, taxpayer funds could be needlessly and inappropriately spent.

Cause: Poorly designed procedures, 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 pass on the eligibility list (SCN) instead of requiring the employee to obtain the students' signatures.
- School employees responsible for distributing student TransPasses do not sign the bottom of the eligibility report (SCN) verifying that students received the passes as required by existing procedures. This was the case for all five high schools we visited.
- Although procedures require schools to prepare a "Summary of Free Student TransPasses" form at the end of each month, one of the high schools we visited — Overbrook — had not done so until we arrived and asked for it. Forms at two schools (Dobbins CTE and Ben Franklin), although completed, were improperly prepared, as amounts shown being distributed were actually "plugged".

Distributed amounts simply represented the difference between the number of passes received and those physically in the possession of school personnel at the end of the week.

- Existing procedures do not adequately describe actions 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];
 - they describe the processes for providing school administrators with instructions on (1) who has to 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 [600111.09]; and
 - 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].

2015-004 CONTROL ACTIVITIES OVER ASSETS

Management Needs to Protect the District against TransPass Losses Caused by Its Armored-Car Service

Condition: The contractor responsible for the armored-car collection, processing, delivery, and pick-up of SEPTA TransPasses (in connection with the District’s Student TransPass Program) failed to deliver close to 1,600 TransPasses valued at \$29,000 to several schools during fiscal year 2015. These TransPasses were never recovered. Table 4 summarizes the specific schools, dates of occurrences, number of lost TransPasses, as well as the costs associated with the lost TransPasses.

Criteria: Under contract with the District, it is implied that the armored-car transport contractor will deliver all TransPasses timely and that all of the passes will be accounted for.

Effect: Because the TransPasses were never delivered and became lost, the District had to pay SEPTA over \$29,000 to replace the passes for the students who needed them.

Table 4: Details of Lost TransPass Deliveries

School	Lost Delivery Date	Number of TransPasses Lost	Cost of the Student TransPass [†]	Cost of Lost TransPasses
West Phila High School	03/10/15	810	\$18.10	\$ 14,661.00
West Phila High School	03/10/15	270	\$21.72	5,864.40
St Francis Cabrini School	02/03/15	6	\$ 18.10	108.60
St Francis Cabrini School	02/03/15	2	\$14.48	28.96
Merion Mercy Academy	08/28/14	440	\$18.10	7,964.00
LaSalle Academy	06/23/15	70	\$ 6.00	420.00
Total		1,598		\$29,046.96

Source: Prepared by the City Controller's Office based on analysis of information obtained from Transportation Services.

Cost of lost TransPasses equal the number of TransPasses x the cost of the TransPass.

[†] Cost of TransPasses can vary based on the number of school days scheduled for the week.

Cause: District management could provide no explanation for why the armored-car transport lost the TransPasses. Additionally, although the contract with the transport service appears to contain provisions for loss recovery, the District did not hold the contractor liable for such losses.

Recommendation: District management should have legal counsel exercise its options for reimbursement of the loss incurred [600115.04].

2015-005 CONTROL ACTIVITIES OVER ASSETS

Low Priority Given to Equipment Accountability at Schools Increases Risks of Financial Statement Errors and Theft

Condition: In a limited review of school and food service personal property items at eleven schools visited, we continued to discover (as we have in previous years) equipment, such as computers, refrigerators, projectors, and musical instruments, that schools could not account for and accounting records that were inaccurate. For the eleven schools visited, we sampled 123 items of equipment listed in the District's accounting records. We observed that 35 percent of the items (43 out of 123), with a cost value of over \$65,000, could not be located and were presumed missing, or had been removed from their locations without proper documentation. An additional 124 items were haphazardly observed at those same eleven schools. Of these items, 21 percent (26 out of 124) of the items could not be identified in the District's accounting records. Table 5 below summarizes the results at each of the schools we visited.

Criteria: Accounting records for personal property at each school should reflect the assets physically in the possession of the school.

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. Moreover, there is increased risk for stolen assets.

Cause: Principals at the schools we visited failed to adequately prioritize accountability over their equipment. Similarly, as we observed last year:

Table 5: Summary of Conditions Noted Regarding School Equipment

Schools Visited	Items Selected from Records for Observation	Items Not Found	Missing Items	Items Selected at Location	Items Not Found in Records	Items Not Found in Records	Policy Not Followed			
							Inventory Records Not Updated	Equipment Not Tagged	Unauthorized Removal of Equipment	Annual Inventory Report Not Submitted
Tilden Middle	10	5	Computers, printer, projector, coat rack	10	2	Computer, laptop cart	✓		✓	
John Barry Elementary	10	1	Laminator	10	0		✓			✓
Bridesburg	10	3	Computer, saxophone, power tool	10	2	Computer, violin	✓	✓		
Dobbins CTE High	15	5	Computer hardware, printer, projector, audio visual equipment	14	3	Projector, slicer, mixer	✓	✓		
Benjamin Franklin High	15	4	Piano, digital camera, computer, projector	15	5	Projector, auto slicer, food warmer, warming cabinet, food cutter	✓	✓		
Gilbert Spruance	10	1	Snow thrower	10	1	Computer	✓			
Willard	10	1	Computer	10	0		✓			
Overbrook High	15	8	Laptop and Ipad computers, printer, medical equipment, audio visual equipment, calculators, hand tool, auto battery	15	3	Computer, lockers, stainless steel sink	✓	✓	✓	✓
GAMP	13	6	Computers, printer, refrigerator, food warmer	11	4	Computers, refrigerator, food warmer	✓	✓		
Lincoln High	15	9	Computers, auto battery scrubber, refrigerator, steamer, mixer	14	5	Milk cooler, refrigerator, steamer, mixer, deep fryer	✓	✓	✓	
Masterman High	0	0		5	1	Food steamer	✓			
Totals	123	43		124	26					

Source: Office of the Controller

- school personnel did not always accurately update their inventory equipment records;
- school personnel did not always affix school property tags to equipment;
- equipment was removed from school premises without proper authorization or documentation; and
- schools did not always submit the annually required Personal Property Inventory Reports.

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

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. Alternately, it might consider providing positive rewards for schools that maintain the most accurate inventory of their personal property [600115.05].⁷

⁷ This recommendation replaces prior years recommendations numbered as 600108.01; 600112.02; 600112.06; and 600114.01.

2015-006 INFORMATION AND COMMUNICATION

Better Internal Communication Necessary to Ensure Accurate Accounting and Reporting of Food Service Personal Property

Condition: Despite their continued use and existence, we observed that 631 pieces of Food Services Fund equipment were erroneously removed from the District's accounting records, or FAS GOV Asset Accounting system (FASGOV). Of the 631 items removed, 485 were fully depreciated; however, the remaining 146 items had a net book value of over \$43,000.

Criteria: Personal property recorded on the accounting records of an entity should represent the assets that physically exist.

Effect: Personal property assets reported in the District's June 30, 2015 CAFR for Business-type Activities were understated by \$43,000.

Cause: During fiscal 2015, a new Food Services manager was given the responsibility for submitting an equipment inventory disposal request to General Accounting for processing and approval. The manager mistakenly submitted a file to General Accounting that incorrectly identified 658 personal property items to be removed from FASGOV. Of those 658 items, only 27 actually should have been deleted from the inventory system. General Accounting received the file, uploaded it, approved it, and processed all 658 items as disposals.

Recommendation: To improve financial reporting and accountability over personal property, and to ensure that Food Service disposals are properly accounted for, we recommend that District management:

- Require Food Service management to submit clear and properly identified information for all inventory modifications [600115.06].
- Restore the Food Service personal property items erroneously deleted from FASGOV [600115.07].

2015-007 CONTROL ACTIVITIES OVER PAYROLL

Compliance with the District's Payroll Approval Policy Has Leveled Off and Needs Management's Further Attention

Condition: During fiscal year 2015, bi-weekly employee payroll was again being processed without proper administrative approvals. We observed that the District experienced a slight increase 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. The average number of employees without proper approval each pay period increased 5 percent over fiscal year 2014 — from 477 to 503 —when adjusted for a snow day that occurred on March 6, 2015 and required automatic approval by the district's computerized payroll system.⁸ As summarized in Table 6 on the following page, fiscal year 2015 district payroll reports, that identified the work locations where the administrators failed to approve their payrolls,

⁸ The number of unapproved employee payrolls on March 6, 2015 totaled 4,651.

Table 6: Summary of Unapproved Employee Payroll Checks

Pay Period	Report Date	Number of Unapproved Employees	Number of Locations
1	07/11/2014	99	30
2	07/25/2014	58	17
3	08/08/2014	43	15
4	08/22/2014	184	41
5	09/05/2014	368	73
6	09/19/2014	391	60
7	10/03/2014	383	58
8	10/17/2014	760	77
9	10/31/2014	620	90
10	11/14/2014	510	50
11	11/28/2014	543	74
12	12/12/2014	446	69
13	12/26/2014	520	68
14	01/09/2015	376	74
15	01/23/2015	694	86
16	02/06/2015	567	82
17	02/20/2015	491	70
18	03/06/2015	[†] 4,651	244
19	03/20/2015	453	79
20	04/03/2015	505	70
21	04/17/2015	747	88
22	05/01/2015	934	103
23	05/15/2015	448	72
24	05/29/2015	778	87
25	06/12/2015	578	76
26	06/26/2015	1,085	111
Total		<u>12,581</u>	

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

[†] School snow day that was excluded from the total.

show that in aggregate for the year, as adjusted, there were 12,581 employees whose paychecks were not properly approved. For fiscal year 2014, there were 12,396 employees.

Criteria: The review and approval of employee payroll by responsible individuals each pay period is an integral part of the integrity of the payroll process and should be appropriately completed by all responsible administrators.

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

Cause: Although District management had developed a payroll report to identify administrators that failed to approve payroll and sent follow-up notifications to those that were non-compliant, the effectiveness of these procedures appears to have leveled off between fiscal years 2014 and 2015. Management took no further action during the year to ensure increased compliance with its payroll approval policy.

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].
- Consider the feasibility of assigning alternate individuals that could sign-off on the payroll in the absence or frequent negligence of the primary approver [600115.08].

2015-008 CONTROL ACTIVITIES OVER ASSETS

Thousands of Dollars in Petty Cash Funds Again Identified As Missing

Condition: The audit of 15 judgmentally selected petty cash accounts at various District administrative locations and city schools disclosed that nearly \$40,000 was missing. Staff at the locations involving four of the accounts informed us they were unaware of even the existence of the accounts. Two other missing accounts were formerly held by District schools, which have since become charter schools. Reconciliation of seven other accounts after June 30, 2015 resulted in write-offs of missing funds totaling over \$5,500. Table 7 below summarizes the conditions noted at each of the administrative locations and schools we visited:

Table 7: Summary of Petty Cash Conditions

Administrative Location/School	Book Balance @ 6/30/15	Per Audit @ 6/30/15	Overage (Shortage)	Unaware of Account	Account Subsequently Closed	Converted to Charter School
1 Comprehensive Day Care	\$3,000.00	\$0.00	\$(3,000.00)			
2 Human Resources – Personnel	3,000.00	0.00	(3,000.00)	✓		
3 Southwest Region Facilities	1,000.00	0.00	(1,000.00)		✓	
4 Facilities Operation	1,200.00	0.00	(1,200.00)		✓	
5 Facilities Management Training	500.00	0.00	(500.00)		✓	
6 Southeast Region Facilities	1,000.00	0.00	(1,000.00)		✓	
7 Northeast Region Facilities	1,000.00	0.00	(1,000.00)		✓	
8 Northwest Region Facilities	1,000.00	0.00	(1,000.00)		✓	
9 Food Services	733.68	0.00	(733.68)			
10 Miller (Philadelphia Learning Academy)	6000.00	0.00	(6,000.00)	✓		
11 Gratz (Gratz Mastery Charter High School)	3,500.00	0.00	(3,500.00)			✓
12 Beeber/ARJR-Nabisco	5,000.00	0.00	(5,000.00)	✓		
13 Kensington	6,000.00	0.00	(6,000.00)		✓	
14 Olney (Olney-ASPIRA Charter School)	2,746.35	0.00	(2,746.35)			✓
15 Rush	4,000.00	0.00	(4,000.00)	✓		
Totals	<u>\$39,680.03</u>	<u>\$0.00</u>	<u>\$(39,680.03)</u>			

Source: Office of the Controller

Criteria: Assets recorded on the books and records of an entity should be accurately accounted for and reported.

Effect: The net shortage of \$39,680 identified above had not been adjusted and therefore reported amounts in the District's June 30, 2015 CAFR for Cash and Cash Equivalents were overstated by that amount.

Cause: District management had not adequately enforced established policies and procedures over petty cash accounts, nor monitored the activity over these accounts.

Recommendations: To improve financial reporting and accountability over petty cash accounts, we recommend that District management:

- Work with personnel of the administrative locations and schools that were missing money to investigate causes of the shortages and resolve discrepancies. To the extent possible, for any unresolved shortage, hold those who were responsible for the funds accountable and seek reimbursement from them for the shortages [600112.08]. When reimbursement cannot be obtained, adjust District accounting records to accurately reflect the correct carrying amount of petty cash identified during the audit [600112.09].
- Better monitor and enforce existing policies and procedures relating to the oversight and reconciliation of all petty cash funds, including a requirement that there is adequate segregation of duties over the funds. If adequate segregation of duties cannot be maintained because of staff shortages at a location, then discontinue the fund [600108.04].

2015-009 CONTROL ACTIVITIES OVER COMPLIANCE

Not All District Employees Complying With State Financial Disclosure Requirements

Condition: As in prior years, we found instances of district employees failing to comply with the Commonwealth of Pennsylvania's Financial Disclosure requirements. Our current year testing of the Statement of Financial Interests (SFI) forms filed for calendar year 2014 indicated a modest increase in the total number of non-filers over the previous year's 42 non-filers. Of the 458 employees required to file an SFI form for 2014, 53 (11.6 percent) did not satisfy their SFI filing requirements. Of these 53 non-filers, 31 were active employees. Also, we noted that 7 of the 31 active non-filers did not file an SFI form in the previous year. Among the active employees who did not file the required SFI forms in the current year were upper management officials from both the District's central administration and various schools, including an assistant superintendent, directors and numerous principals.

Criteria: The Pennsylvania Public Official and Employee Ethics Act (PA Act 93 of 1998 Chapter 11, 65 PA. C.S. §1101) (Act) requires that District employees responsible for taking or recommending action of a non-ministerial nature annually file an SFI form for the calendar year.

Effect: The Commonwealth of Pennsylvania may impose penalties, such as a fine and/or imprisonment, upon any person subject to the Act who fails to make a complete, accurate and timely filing. Additionally, potential conflicts of interest and/or related party transactions could occur and not be timely detected.

Cause: District management does not enforce the requirements to file SFI forms as set forth by the Act.

Recommendations: The District should continue its efforts to achieve full compliance with SFI filing requirements, particularly with regard to active District employees and top management [60107.05].

2015-010 CONTROL ACTIVITIES OVER COMPLIANCE

School Reform Committee Minutes for May 2013 Meeting Still Not Published

Condition: The District still has not transcribed or published minutes of the public meeting held by its governing body, the School Reform Commission (SRC), nearly two years ago on May 16, 2013. These meetings are usually published on the District's web site at <http://www.phila.k12.pa.us/>.

Criteria: The Pennsylvania Consolidated Statutes Title 65 Pa. C.S. Section 706 of the State of Pennsylvania, titled "Minutes of Meetings, Public Records and Recording of Meetings", (commonly referred to as the Sunshine Act) requires written minutes of all open meetings of agencies, including school governing bodies. The Sunshine Act requires minutes to include the following:

- date, time and place of meeting;
- names of members present;
- substance of all official actions and a record by individual member of the roll call votes taken; and
- names of all citizens who appeared officially and the subject of their testimony.

Effect: Failure to comply with the Sunshine Act could subject the District to fines and prosecution in accordance with provisions of the law.

Cause: District management has asserted that due to the large number of speakers testifying at the May 16, 2013 meeting, School personnel responsible for the minutes have not had time to transcribe the recordings into the minutes.

Recommendations: We again recommend that District management comply with the state law by ensuring written minutes are produced and published for all public meetings of the SRC. If District personnel are unable to perform this function in a timely manner, give consideration to hiring an outside service to transcribe the minutes [600112.15].

2015-011 RISK ASSESSMENT

Failure to Develop Comprehensive Risk Assessment Plan May Lead to Ineffective Use of IT Resources

Condition: We have previously reported that a comprehensive IT risk assessment had not been performed since 2007. While the District's Office of Information Technology (OIT) had a process to monitor technical risks through vulnerability scanning and had engaged a consultant to perform an operational risk assessment, a formal plan to identify and address business and compliance risks did not exist.

Criteria: Best business practice suggests that IT risk assessments be performed periodically and that such assessments be a component of an entity-wide risk management program, which is formalized and adopted by management.

Effect: Without a current and comprehensive risk assessment, IT resources may be used ineffectively in addressing risk affecting the District.

Cause: District management has not placed priority on conducting a recent business risk analysis for the organization as a whole. It believes that it is adequately managing business risk within the domain of IT General Controls.

Recommendations: OIT should develop procedures to perform periodic risk assessments and monitor gaps identified. This should be a component of an entity-wide risk management program [320112.01].

2015-012 CONTROL ACTIVITIES OVER INFORMATION SYSTEMS

Terminated Employees May Still Be Able to Access District's Information System

Condition: The Resource Access Control Facility (RACF) setting to automatically revoke (disable) user IDs after a period of log-in inactivity has not been enabled.

Criteria: Best business practice requires that a system be designed and in place to provide safeguards such as inactivity log off.

Effect: Users may be able to access system resources after employment with the District has terminated.

Cause: Management asserts that enabling the automatic revocation system in the RACF environment (which allows for a maximum automatic inactivity revocation period of 255 days) would create a significant and unnecessary administrative burden to re-enable inactive accounts for those District employees and roles that use the system on an occasional basis. In lieu of enabling this automatic revocation system, the District has a manual process for terminating access to the RACF environment for employees who have separated. Moreover, it employs a rigid five-failed attempt lockout policy on all accounts, thus preventing "brute force" attacks on any RACF account, inactive or otherwise.

Recommendation: Given that the District has an alternative manual procedure of terminating employees after separation, we will no longer continue to recommend that it enable the automatic revoking feature of the RACF [320112.06]. However, we urge IT management to periodically review all active accounts for appropriateness.

CORRECTIVE ACTIONS TAKEN BY DISTRICT

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.

Documentation for Employee Salaries Is Now Maintained in Human Resource Files

Previously we commented that the District could not provide supporting documentation or approvals for changes made to employees' Pay Progression Dates⁹ (PPD) within the Advantage System.¹⁰ When an employee is hired, Human Resources (HR) staff enter an employee's starting date and initial salary, among other personal information, into the Advantage System. However, our review of the system revealed that under certain circumstances the PPD was changed in order to adjust an employee's salary without adequate documentation or evidence of approval.

The current audit testing of 20 new hires in fiscal year 2015 resulted in a positive assessment of the District's improved HR review and documentation process. We found that all required documentation related to the employees' initial starting dates and salary changes were included in their files and in the Advantage System. We reviewed an additional 97 current employees' files to determine if the required documentation related to PPD existed. Again, we found no exceptions. Based on the results of our testing we consider this condition resolved. However, we will continue to monitor the District's compliance with documenting PPD approvals during future audits [600113.01].

Undistributed Student TransPasses Are Now Regularly Picked-Up

Previously we commented that undistributed student TransPasses were not regularly picked-up at school locations by the armored vehicle company contracted to perform the task. An ongoing dispute between the company and District management over specifics in the terms of their contract impacted the vendor's performance.

The current audit disclosed that a resolution to the dispute between the District and the armored vehicle company was agreed upon, and the company has resumed picking up the undistributed TransPasses from District locations. Therefore, we consider this condition resolved [600113.03].

Petty Cash Policy Now Obsolete As Funds Are Phased Out

In several prior reports we commented that District management announced plans to reduce the authorized amount of the petty cash funds held at various locations. To reduce each location's authorized amount, management decided to process, but not repay, the submitted petty cash reimbursement requests until the individual fund balances equaled the revised lower amounts. This practice proved to be ineffective in achieving the desired reductions because of the large number of funds with low turnover. Therefore, in November 2009, District management issued a directive instructing principals at schools with petty cash funds higher than the desired authorized amount to draw and submit checks to the District's Central Accounts Payable Unit in the amount needed to reduce the balances to the desired reductions. This policy also proved

⁹ A Pay Progression Date generally represents the start date of a union represented employee and becomes the basis for when annual salary increments occur.

¹⁰ ADVANTAGE is the District's financial and human resources database

to be ineffective, as not all the schools complied with the District's directive. The fiscal year 2014 audit revealed that 32 District locations still had a petty cash balance that exceeded the desired reduced amounts.

We also commented that the District should monitor and enforce policies and procedures relating to the management and reconciliation of all petty cash imprest funds, including a requirement that individual schools maintain adequate segregation of duties over the funds. District management acknowledged the need to improve controls over its petty cash funds. As a result, the District has closed 329 of the 429 petty cash accounts, with the plan of closing the remaining 100 accounts by the end of fiscal year 2017. The District has also imposed new guides which limit the usage of those remaining accounts.

The current audit disclosed that District management has severely limited the use of all petty cash accounts, and that most of the remaining open accounts were dormant during fiscal 2015. Consequently, management believes that enforcing its November 2009 directive would be unnecessary and has discontinued the requirement for the petty cash accounts to be reduced to the lower threshold amounts. Given the District's current intent to close the remaining petty cash accounts, we consider our previous findings regarding the District's petty cash policies obsolete [600112.10 and 600108.04].

RESPONSE TO AUDITOR'S REPORT

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 Monson
Chief Financial Officer

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June 22, 2016

Mr. Alan Butkovitz, City Controller
City of Philadelphia
Office of the City Controller
12th Floor, Municipal Service Building
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 2015

Dear Mr. Butkovitz:

The attached document contains the School District of Philadelphia's formal response to the issues raised in the audit report issued on June 10, 2016, 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

C: Marjorie Neff, Chair and Members of School Reform Commission
Dr. William R. Hite, Chief Executive Officer and Superintendent of Schools
Gerald V. Micciulla, Deputy City Controller, City of Philadelphia
Bill Rubin, First Deputy City Controller, City of Philadelphia
Beverly Martin, Audit Director, City of Philadelphia
Marcy F. Blender, Comptroller, School District of Philadelphia

Encl.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERSSCHOOL
DISTRICT OF PHILADELPHIA RESPONSE FISCAL YEAR 2015**

2015-01 District Continues to Hold Millions Due to Former Employees

Response: The School District of Philadelphia ("The District") agrees that the staffing level in the Payroll Department is not sufficient to expeditiously process all termination pay. However, because of chronic financial underfunding, the School District has been forced to weigh the staffing needs of students and schools against administrative obligations. District management realizes the importance of additional resources to address the backlog of termination pay cases and has added one dedicated position to the office beginning July 1, 2016. More resources will allow for faster processing times and the ability to research older cases to ensure accuracy and determine if there are any offsetting circumstances (such as where the employee was paid for days not actually earned or already paid). It will also allow quicker timeframes for those over 55 to be referred to the 403(b) investment provider for "orphaned accounts" for those individuals who did not make the required selection of a provider.

Although the District recognizes that eliminating the processing backlog of termination pay owed to former employees is a continuing priority, there has been considerable progress in the number of termination payments completed. In Fiscal Year 2015, 1909 term cases for a total amount of \$21.3 million were processed; this includes employees who separated from the District in Fiscal Year 2015 as well as those who separated in prior years.

The District complies with unclaimed property laws and has escheatment processes in place. Of the \$6.5 million in termination pay liabilities for the 2,500 former employees identified by the auditors, \$4.3 million relates to employees who were aged 55 or over who have separated from service and must establish a 403(b) account with one of the Plan providers in accordance with District policy. These amounts for employees over 55 are not considered 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" because they did not select a provider or are unable to be located, the District refers the cases to a provider who has contractually agreed to: establish individual accounts, make every effort to locate the former employee, and escheat the money to the State as required by law. This process was established in July 2013 and the first transfer was completed on July 19, 2013 in the amount of \$0.80 million related to 153 employees. Subsequent transfers were completed on July 18, 2014 in the amount of \$0.14 million for 23 employees from 2010 and prior and on July 17, 2015 in the amount of \$0.38 million for 89 employees separated in 2011 and prior. The transfers will continue to occur annually each July. The anticipated amount for July 15, 2016 is \$0.61 million related to 105 employees separated in 2012 and prior. The District will make an effort to initiate an additional transfer in Fiscal Year 2017 for employees who were separated from the District in 2013 and prior. The dollar amounts of the transfers are not indicative of the number of cases as the individual amounts may range from hundreds of dollars to tens of thousands of dollars. For former employees under 55, there is a process in place that every calendar year by April 15th any unclaimed payroll checks are escheated to the PA Treasury Department for the previous calendar year. The total amount escheated to the state for Fiscal Year 2015 was \$0.66 million, which included termination payments unclaimed by former employees under the age of 55.

The District agrees that it is important to gather necessary contact information prior to an employee separating from employment and currently has a comprehensive human resource process in place to obtain this information. Immediately upon notification of an employee's resignation or retirement, a letter is sent to the employee acknowledging their resignation/retirement which includes a comprehensive list of what items are required for resignation/retirement and receipt of termination pay. The employee is instructed that it is essential to provide a current address along with an investment advisor choice for those over 55. After an employee's termination pay is processed, an attempt is made to contact employees to obtain missing required information.

2015-002 Millions of Student Activity Fund Dollars Continued to be at Risk for Theft and Misuse

Response: The District recognized that the internal control policies already in place to safe guard the Student Activity Fund (SAF) assets were not always being followed by schools. This resulted from a lack of resources to oversee the requirements, as well as manually intensive reporting processes. Recognizing these issues, the District embarked on two major initiatives to mitigate exceptions to the student funds policies as follows:

- 1) As of June 30, 2015, all schools account for their SAF funds using *School Funds Online*, a web-based application that writes checks, records deposits, accounts for cash receipts, performs bank reconciliations and prepares monthly reports among other things. All schools SAF funds were converted to this automated accounting and reporting platform during the second half of fiscal year 2015. Each schools "Financial Designee" was trained on this product and it is now the only allowable method of accounting for SAF funds at the District. This provides for consistency among schools, ease and automation of reporting and bank reconciliation processes and monitoring from Central Office among many other benefits.
- 2) Along with implementing the new accounting and reporting requirements, the Student Activity Fund Manual is in the process of being rewritten to correspond with the new application and will be rolled out at the Principal Training this summer. In addition, a summary version of the Student Activity Manual, highlighting key requirements, will be available as part of the Principals Training materials, reinforced at the training sessions and posted on-line along with the more detailed revised Manual. Also, hands-on training on the use of the web-based application will continue to be offered through the District's Professional Development processes to both principals and their financial designees.

In response, to specific findings within the audit report, the following addresses the corrective actions to be implemented. Three of the six specific findings have already been remedied through the implementation of the new SAF web-based tools:

- **Non-compliance with Bidding Requirements** – This will be reinforced at the Principal Financial Training. As principals need to approve every purchase by signing the check, they are responsible for compliance with this policy.
- **Schools Did Not Establish Finance Committees** – This is policy and it will be reinforced at the summer training as well. Fortunately, no significant investment decisions were made during the year at the three schools noted, therefore no risks were incurred.
- **Activity Funds With Negative Balances** – Negative balances occur, in most instances, either because of errors in postings or an unrecorded transfer from the Student Body Activities Account fund. There are also some situations when the negative balance is accurate given the time of year (e.g. graduation and prom) – for example, the bills were paid to hold the locations and/or make deposits to vendors, but not all monies were as yet collected from the students. Many of the May negative balances were rectified by year's end. In addition, the new system provides for a warning when this occurs and it also allows for monitoring of this type of activity from Central Office. The ACCM's will again review this with the Financial Designees and resolve appropriately any negative balances.
- **Inactive Account Balances Were Not Closed** – Most of the larger inactive account balances are scholarship related. Research will be done to determine if they need to be transferred to Central Office or closed into another account. The ACCM's will review this during fiscal years 2016 and 2017. Small inactive accounts will be transferred to a related activity in connection with Fiscal Year 2016 year-end closing.

- **Old Outstanding Checks Over One Year Listed on Bank Reconciliations** - With the conversion to the new system, very old outstanding checks were not carried over to the new system. They were investigated to the extent possible and either the check was voided in the old system and another check was written or the funds were added back to the cash balance. Some checks were left, if the research was not able to be completed as many schools were converting at the same time. As of Fiscal Year 2016 year end this should be eliminated.
- **School Related Funds Were Improperly Retained** – The new manual will include specific policy details as to what types of funds collected by a school (e.g., lost book fees) need to be returned to the District and the timing. The plan is to transfer all funds belonging to the District in September of 2016. Some of these funds need to stay in the SAF, for example lost id money, as the funds makes the purchase of lost student ids from the Scholarchip System directly. The funds which need to be retained by the school for this purpose will be moved to a different activity.

2015-003 TransPasses Were Again Missing and Unaccounted For

Response: The District agrees with the current recommendations regarding accounting for TransPasses at the schools as well as monitoring and enforcing policies and procedures and has implemented the recommendations from prior years' audit reports. Prior to the start of the school year the District will continue to mail detailed instructions to the Principals of 423 schools (public, charter and non-public) for the 59,000 eligible students across the City of Philadelphia. In addition, in 2016/2017 the District will implement a new policy of requesting that TransPass returns (if applicable) and the "Summary of Free Student TransPasses" reports and Eligibility lists be sent to Transportation on a monthly basis. As part of this process the District will also reiterate the requirement for students to sign receipt for their TransPasses.

Beginning in the later part of the 2015/2016 school year the District implemented a process involving working with the Accounting Compliance and Control Monitors (ACCMs) to assist with monitoring schools to ensure policies and procedures are being followed. The ACCMs "audit" the TransPass reports when they visit schools and ensure schools are completing the reports properly if at all. The ACCMs periodically verify that the "Summary of Free Student TransPasses" reports and the Eligibility lists are accurately completed and signed. In addition, they complete a two-page TransPass checklist which summarizes their audit and this is shared with Transportation. To-date reports from 32 schools have been provided by the ACCMs. Upon receipt the Transportation Office reviews each checklist, identifies the issues, follows up with the schools and provides coaching to correct any deficiencies. In addition, Transportation will follow-up with these schools and if TransPass returns and or the "Summary of Free Student TransPasses" reports and the Eligibility lists are not received from these schools there will be consequences. Transportation is initiating the practice proposed during the prior audit of escalating failure to follow policies and procedures to the School Principals, Assistant Superintendents and ultimately the Superintendent if necessary.

To further strengthen controls at the school, and improve monitoring and enforcement of policies and procedures, the District will provide a TransPass training seminar at the Summer Principal Financial Training sessions. The seminar will cover the receiving, distributing, safeguarding and returning of TransPasses. In addition, a TransPass webinar will be developed and shared on the District Transportation website, and Principals will be asked to direct new employees handling TransPasses to this site.

2015-004 Management Needs to Protect the District against TransPasses Losses caused by the Armored-Car Service

Response: Although The District agrees that improved controls are needed and will be implemented to protect against the loss of TransPasses, the losses cited were the responsibility of the Armored-Car Service and/or school depending on the specific circumstances:

- St. Francis Cabrini School and Merion Mercy Academy: The courier accounted for the TransPasses delivered to St. Francis Cabrini School and Merion Mercy Academy. They were not delivered to the schools by the courier, but they were returned by the courier's drivers to the courier's vault and later sent back to the District as returned inventory. Therefore, no loss to the District occurred.
- LaSalle Academy and West Philadelphia High School: The TransPass losses at LaSalle Academy and West Philadelphia High School occurred because the school location ID was not presented, and TransPass packages were not properly identified and/or scanned. It is inconclusive as to whether the courier or SDP was at fault. To minimize the recurrence of this in the future District management has reminded the courier of the requirement to provide proof of delivery and verify identity by requesting the SDP issued ID of the individual who accepts the TransPasses when the scanner or location card is unavailable. District management has also reviewed the procedure with District employees and restated the requirement that all items earmarked for transport by the courier must be in properly labeled bags.

District management has notified the courier that there is a requirement to reimburse The District for the value of any TransPasses that are lost and this is a contractual obligation. District management, in consultation with its Office of General Counsel, will further investigate, and evaluate these incidents and the documents available. There is adequate recourse and insurance required under the current contract and the statute of limitations has not run out. Upon conclusion of its analysis the District will determine whether to pursue recourse under the terms of the contract.

It's important to note that the courier has been responsive to audit findings and concerns in the past, and that the courier is the only company that responded to the Districts' RFP for the transport and delivery of money instruments for the next three school years. In response to the prior year's audit the courier is honoring our reporting requirements and picking up unused TransPasses when they are properly packaged and ready upon the courier's arrival at the school. Additionally, the dollar exposure is minimal as SEPTA does not charge the District for undistributed TransPasses even if the TransPasses are not picked up from schools. SEPTA also provides a credit to the District for undistributed TransPasses.

SEPTA is working on a long term solution to eliminate TransPasses. They are currently in the process of unveiling a pilot project that involves issuing smart cards to the public beginning in June 2016. The District is in discussions with SEPTA to replace TransPasses with annually issued smart cards for the student program; their plan is to launch this program in time for the 2017- 2018 school year.

2015-005 Low Priority Given to Equipment Accountability at Schools Increases Risks of Financial Statement Errors and Theft

Response: The District agrees with the finding noted in the audit report regarding accountability issues for personal property at the school locations selected for audit. Progress has been made through reinforcement of the District's policies requiring that an accurate personal property inventory be maintained with consequences if a school location is found to be noncompliant. In an effort to improve accountability at the school locations, the District will continue to refine processes and controls to improve accountability over all personal property

assets. In addition, Central Office personnel will work with the specific school principals and inventory designees to ensure that all discrepancies identified in the audit report are properly corrected. It should be noted that the District's annual inventory process coincides with audit testing and it is likely that many of the discrepancies have been addressed prior to the school's fiscal year 2015 annual inventory submission.

Although the District agrees that accountability over personal property assets is still not at an acceptable level, it should be noted that the items in question valued at \$65,000 in the audit report represents the acquisition cost and not the current, depreciated value of the assets. This amount represents the total of both Food Services and District owned personal property in the amount \$16,000 and \$49,000 respectively or .03% of the original cost of all personal property assets of \$242 million. In addition, a review of the specific personal property items in question shows that many of the items date back 5 to 10 years and have minimal or no value at this time. The Food Service items are significantly older with one dating back to 1975. The District has many very old assets with little or no value which are still in use due to the budget crisis and the inability to replace older assets once they are obsolete.

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 Monitor (GCM) assigned to each school is responsible for hand delivering property tags directly to the Inventory Designee for each school. Further, the GCM also performs random checks to ensure that the tags are affixed to the proper asset and that assets per the inventory list can be identified at the school. As a consequence of instances of noncompliance, a school is banned from spending grant funds to purchase additional assets until they come into compliance. It should be noted that untagged equipment observed during the audit may be attributed to either a timing difference between the issuance and delivery of tags to the school or tags being intentionally removed. To improve controls over technology assets and further automate the personal property process, all Apple and Dell (the two primary authorized vendors) laptop and desktop computers are delivered to schools with an etched personal property number to address this issue.

The importance of adding serial numbers to the individual property record is stressed during the annual personal property training sessions offered through PD Planner for principals and inventory designees. To facilitate this process of adding serial numbers to further accurately track and identify equipment, schools are given the option and encouraged to provide this information in upload format to General Accounting to eliminate the need for manual entry. Serial numbers for Apple and Dell computer equipment are added at the time the property record is established in the system.

In accordance with SRC District policies 750.0 and 750.1 relating to personal property security, all equipment removed from school premises is required to be documented, signed by the borrower and authorized by the administrator/principal. In an effort to ensure compliance, the Form S-800, Property Removal Pass, is available on The Office of General Accounting website along with all other related personal property information. Principals/administrators are also reminded of this requirement as part of the year-end physical inventory process instructions.

As is the District's policy, an annual physical inventory is to be conducted at each school/office location with a complete and accurate physical inventory report submitted to the Office of General Accounting. All necessary information relating to performing and submitting the physical inventory is communicated to the school/office via email using the Advantage financial users' mailing list and posted to the Principals Information Board (PIB). Reminders are also sent out via the same channels as the submission date approaches with Accounting Compliance and Control Monitors (ACCM's) and GCM's reinforcing the importance of completing the annual inventory process to their schools. In addition to the training sessions offered, on-line video tutorials are also available. Schools/Offices not in compliance with personal property inventory policies are identified and encouraged to attend training. It should be further noted that schools that did not submit the required fiscal year 2015 annual inventory were prohibited from making purchases with grant funds in fiscal year 2016 until an accurate and complete inventory was received. The instance of compliance for the submission of the fiscal

year 2015 inventory was 89% of the 245 school locations in the personal property inventory system (these are not necessarily an entire school which could have more than one inventory location in the system – e.g., athletic fields). The District will work to achieve 100% compliance in fiscal year 2016.

2015-006 Better Internal Communication Necessary to Ensure Accurate Accounting and Reporting of Food Service Personal Property

Response: During Fiscal Year 2015, Food Service management conducted an inventory and removed many pieces of equipment from schools that were either no longer in use, have been designated to use for parts, or could not be located. During this process, a total of 631 items were moved to a file with a tab designated as “Unknown Equipment”. This information was communicated to The General Accounting Office, however, these items, with a net book value of \$43,000, were mistakenly thought to be items for deletion in Fiscal Year 2015 and removed from inventory.

While we are in agreement with the finding and subsequent recommendations for Food Service, this issue was the result of a communication error and is not indicative of systemic break-down in internal controls over Food Service inventory. To correct this condition, the 631 items referenced above will be restored as active inventory in the fixed asset system with the financial impact reported as a prior period adjustment in Fiscal Year 2016. Further, Food Service and General Accounting staff have met to develop a format for the communication of year end information to eliminate the possibility of this error reoccurring in the future.

2015-007 Compliance with the District's Payroll Approval Process Has Levelled Off and Needs Management's Further Attention

Response: The District 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. Although the goal is 100% compliance, with almost 17,000 employees, an average of 97% per payroll being approved is a significant improvement from three years ago before the new procedures were implemented.

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. The report which was developed to identify employees who have not approved payroll is carefully monitored 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 non-compliance continues. Repeat offenders are encouraged to seek training and provided information on how to do so. As part of the current corrective action process, frequent offenders are instructed to appoint a back-up in the payroll system for the times they are unable to approve their payroll. This will be reinforced to all offenders and offered as an alternative to all responsible individuals as a back-up plan. In addition, for schools, 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. The District will continue to take appropriate corrective actions with the responsible person in accordance with payroll policies and collective bargaining agreements to ensure continued compliance.

2015-008 Thousands of Dollars of Petty Cash Funds Identified As Missing

Response: As reported in the response to the prior fiscal year's internal control audit findings on petty cash funds, District management took action to eliminate the associated risks. It was determined in most instances there was no need for schools and program offices to have petty cash accounts; since the improved policy had tightened what type of expenses could be processed via petty cash versus the District's normal accounts payable and procurement processes and time-lines for payments were shortened. Therefore, a decision was made by District Finance management that all petty cash accounts at the schools and administrative offices would be eliminated; as aforementioned, to reduce the risk associated with the accounts. It was also decided that if there is justification for a program office to have a petty cash account, that a universal account would be set up under the management of the Accounts Payable department; to date, no accounts have been justified.

It continues to be the District's overall objective to eliminate any remaining petty cash accounts. However, this has proven a very difficult, time consuming task. Many of the remaining accounts' records have not been located due to the fact that responsible personnel have left the District, the age of the missing records, and many schools have closed or converted to charters. Principals are held accountable for the finances of their schools, however, most of the remaining petty cash accounts were not under the responsibility of the current principal when the noncompliance occurred and now are inactive. The current practice is that if it is determined that a Principal is responsible for a petty cash shortage; their termination pay is withheld for that amount.

Many petty cash accounts have been closed and the majority of the remaining accounts are inactive. As of May 31, 2015 there are 86 open petty cash accounts with a total book dollar value not reconciled of \$121,185, representing a small financial risk at each school. This amount and the amount reported in the audit sample, represents unaccounted funds which have not been reconciled and therefore no statement can be definitively made that the funds are missing and not in fact spent on legitimate purposes. Of the 15 accounts in the audit sample, 5 have already been reconciled and closed after the audit review period. The goal is to complete the process of reviewing and closing all remaining petty cash accounts by June 30, 2016. The District's accounting records will be adjusted accordingly.

2015-009 Not All District Employees Complying with Financial State Disclosure Requirements

Response: 100% of the active School District employees and School Reform Commissioners required under state law have disclosed their financial interests for 2015.

In recent years the District significantly enhanced its processes for ensuring 100% completion of the State's Statement of Financial Interest forms. For the 2015 Statement of Financial Interests forms (SFIs), due by May 1, 2016, an initial notice was mailed by the Office of Talent to the home addresses of covered employees and former employees on February 1, 2016. A reminder notice was mailed to those who had not submitted the forms by April 1, 2016. During the two weeks prior to the filing deadline of May 1, 2016, the Office of General Counsel (OGC) sent email messages and/or telephone reminders to active employees that had not yet completed the SFI form. OGC also provided advice and assistance to employees in covered positions on timely and accurate completion of SFIs.

Between May 3, 2016 and June 1, 2016, two attorneys in OGC reviewed all submitted SFIs to ensure that all active employees in covered positions complied with the financial disclosure requirements. On June 6, 2016, OGC sent an informal notice of non-compliance to the three active employees who had not yet disclosed their financial interests with copies to the employees' supervisors. Also, by letter dated June 6, 2016, Office of Talent notified all inactive officials and employees in covered positions of their non-compliance and of the requirement to submit a SFI form within 10 days of the notice. By June 14, 2016, 100% of the active School District employees had disclosed their financial interests.

OGC is reviewing the filed SFIs for any actual or potential conflicts of interest, and will notify employees and their department heads and supervisors of any such conflicts and will take any necessary action to resolve any actual conflicts of interest.

2015-010 School Reform Committee Minutes for May 2013 Meeting Still Not Published

Response: The District currently records all public meetings of the School Reform Commission (SRC). Minutes are then transcribed and approved by the SRC and in compliance with the Sunshine Act; all minutes are posted on the District's website and public. The District has posted all the minutes with the one exception being the meeting on May 16, 2013. This meeting was an exceptionally challenging meeting because it lasted approximately six (6) hours with an extremely high number of speakers. The auditors were provided voting

cards and agendas as documentation for the meeting. Due to the unusual nature and length of this meeting The District will not be publishing the minutes. However, a recording of the meeting is available upon request.

2015-011 Failure to Develop Comprehensive Risk Assessment Plan May Lead to Ineffective Use of IT Resources

Response: This observation is focused on District-wide business and compliance risks and IT assessments as a component, and not general IT controls operational risks. The risk assessment that was referred to as having been performed in 2007 was a District-wide initiative, and not specific to the Information Technology (IT) Office or functions. The District concedes that the organization as a whole has not conducted a recent entity-wide business risk analysis and will take under advisement the recommendation to do so. As noted, The District believes that it is adequately assessing and managing business risk, within its current financial and resource constraints, under the domain of the IT General Controls review. The District annually provides complete and comprehensive SSAE-16 reviews, both SOC-1 and SOC-2, for its financial and human resources systems, as well as conducting annual disaster recovery and business continuity tests for those environments. Additionally, the IT Office has carried out several recent internal as well as independent reviews of its systems and services, including a comprehensive application, systems, network, and physical security risk and vulnerability assessment that was conducted in 2012, with a remediation and retesting performed again in 2013. The District has had the benefit of stable senior leadership within the IT Office for over ten consecutive years. The IT Office will continue to perform independent risk and vulnerability assessments of its systems and services as frequently as resources allow.

2015-012 Control Activities Over Information Systems

Response: The District is pleased to note that this previous observation is considered resolved due to the existence of an alternative procedure of terminating employees after separation.