

# CITY OF PHILADELPHIA PENNSYLVANIA

## OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE AND  
OTHER MATTERS

SCHOOL DISTRICT OF  
PHILADELPHIA

FISCAL 2016

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

CHRISTY BRADY  
Deputy City Controller

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

July 13, 2017

Dear Ms. Wilkerson:

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, 2016, and has issued its Independent Auditor's Report dated February 15, 2017.

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 15, 2017 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 dark 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**

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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, 2016 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, 2016. 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:

- Inadequate payroll processing procedures related to updating withholdings and deduction tables increase the risk of incorrect employee deductions occurring, which could lead to insufficient collections for payments to external entities, or large amounts owed back to employees.
- Payrolls continue to be processed without proper administrative approval which increased the risk of errors and improper payroll expenditures
- Adequate resources were not applied to process termination pay and escheatable amounts in a timely manner. Consequently, the District continued to hold over \$6.6 million that should have been paid out 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, Pennsylvania's escheat law.
- Insufficient enforcement of established policies and procedures for the \$5.0 million of Student Activity Funds increase the risk of theft and 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.





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ALAN BUTKOVITZ  
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, 2016, 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 15, 2017.

### **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*.

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 response to the other conditions identified in our audit is included as part of the accompanying report. We did not audit the District's response 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.

A handwritten signature in cursive script that reads "Christy Brady". The signature is written in black ink on a light-colored background.

CHRISTY BRADY, CPA  
Deputy City Controller  
Philadelphia, Pennsylvania  
February 15, 2017

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**OTHER CONDITIONS**

## 2016-001 Payroll Deductions Process Requires Improved Control Procedures

**Condition:** The District does not have formal written procedures to ensure that local payroll tax withholding tables are updated accurately and timely. Our payroll testing of 97 employees disclosed that District management withheld City Wage Tax at an obsolete, higher rate from each of them. Our testing also disclosed that three individuals did not have the required wage garnishment fees withheld from their paychecks, and one non-union employee erroneously had union dues withheld from her paycheck.

**Criteria:** Pursuant to the City of Philadelphia Income Tax Regulations, Article IV, Section 401, the District is required to deduct wage tax from all compensation paid to nonresident employees for activities in the City of Philadelphia, and from salaries paid to employees, resident in the City of Philadelphia regardless of the place where the services are rendered. For the period of July 1, 2015 to June 30, 2016 the tax rate for residents was 3.9102% and 3.4828% for non-residents.

The District's payroll procedures for Garnishments state, "The employee will receive notification from the School District only if such notification is specified in the order. Employees may be charged an administrative fee if allowed by the order, in the amount specified by the order. Deductions withheld in error, due to the late submission of a release order, must be refunded to the employee by the garnishing entity."

Per the collective bargaining agreement an employee who is a full member of the Philadelphia Federation of Teachers will be charged one percent of their salary per paycheck for union dues.

**Effect:** The District withheld approximately \$84 thousand more from employees than required by the City Tax Code. In addition, two employees had garnishment fees collected after their respective garnishments had ended, and for a third employee a fee was never entered for the garnishment. Testing also revealed one employee was improperly charged union dues as a member of the Philadelphia Federation of Teacher even though she was a non-represented employee. The improper withholding of these deductions could lead to a large number of employees who are owed money from the District, and in some instance could lead to the District not collecting enough from employees to meet payments to external entities.

**Cause:** District management does not have an adequate control procedure in place to ensure that state and local tax withholding tables are accurately and timely updated. One employee researches changes to the rates, and a separate employee updates the rate tables. There is no documented procedure or review checklist in place to ensure that all tax withholding tables are accurately and timely updated. Garnishments fees and union dues are manually entered by the Payroll and Human Resources Departments. In addition, there is no available exception report to notify management when anomalies such as those listed above exist.

**Recommendations:** To improve the controls over employee payroll deductions, we recommend that District management:

- Develop a procedure to ensure that all tax withholding tables are updated accurately and on a timely basis. Additionally, prepare a review checklist for all withholding tables that require manual updating, which should be reviewed and approved by the appropriate supervisory personnel [600116.01].
- Create an exception report that can detect anomalies in the deductions withheld from employees. The report should identify situations in which a required deduction is not withheld, or when a deduction is withheld that is not required. For example, if union dues are withheld from an employee who has a



non-union code classification, an exception report should be created in the payroll system. The report should be reviewed by the Payroll Department and any errors should be immediately corrected [600116.02].

### 2016-002 Compliance with the District's Payroll Approval Policy Has Not Significantly Improved and Needs Management's Further Attention

**Condition:** During fiscal year 2016, bi-weekly employee payroll was again processed without proper administrative approvals. We observed that the District experienced a slight 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. The average number of employees without proper approval each pay period decreased 4 percent over fiscal year 2015 - from 503 to 482. As summarized in Table 1 below, District reports indicate that administrators failed to properly approve the bi-weekly payrolls for 12,531 employees.

**Table 1: Summary of Unapproved Employee Payroll Checks**

PAY PERIOD	REPORT DATE	NUMBER OF UNAPPROVED EMPLOYEES	NUMBER OF LOCATIONS
1	07/10/2015	51	19
2	07/24/2015	78	13
3	08/07/2015	82	25
4	08/21/2015	180	52
5	09/04/2015	491	82
6	09/18/2015	485	65
7	10/02/2015	511	65
8	10/16/2015	397	58
9	10/30/2015	491	71
10	11/13/2015	351	62
11	11/27/2015	449	62
12	12/11/2015	515	60
13	12/25/2015	526	66
14	01/08/2016	423	72
15	01/22/2016	289	48
16	02/05/2016	334	62
17	02/19/2016	615	84
18	03/04/2016	758	85
19	03/18/2016	625	81
20	04/01/2016	420	63
21	04/15/2016	448	61
22	04/29/2016	685	77
23	05/13/2016	1000	182
24	05/27/2016	917	82
25	06/10/2016	815	86
26	06/24/2016	595	81
Total		12,531	

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:** Although 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 those procedures appears to be minimal. In fiscal year 2015, there were 12,581 employees with unapproved payrolls, compared to 12,531 in fiscal year 2016.

**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].

### 2016-003 Thousands of Former District Employees Still Owed Millions in Termination Pay

**Condition:** Termination pay totaling \$6.6 million due to over 2,300 former District employees that separated from service, some as far back as 2001, has not been timely distributed. Table 2 below summarizes the amount 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 2: Employee Termination Pay Outstanding for More Than One Year as of June 30, 2016				
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)
2015	330	\$ 1.1	\$ 0.2	\$ 1.3
2014	441	\$ 1.1	\$ 0.8	\$ 1.9
2013	199	\$ 0.6	\$ 0.2	\$ 0.8
2012 and prior	<u>1,362</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 2.6</u>
Total	<u>2,332</u>	<u>\$ 4.1</u>	<u>\$ 2.5</u>	<u>\$ 6.6</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, they are entitled to termination pay for the unused leave time within 30-75 days of their separation<sup>1</sup>. Two sets of procedures apply; those employees over the age of 55 and those 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.” These contributions are not subject to Pennsylvania’s Abandoned and Unclaimed Property Law (escheat law). For employees under age 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:** The District appears 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, 2016 we estimate that at least \$2.3 million should have been escheated to the Commonwealth<sup>2</sup>. We are not aware of any funds that been escheated through the end of our fieldwork.

**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 current and previous years as well as staff reductions in the Payroll and Human Resource 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 locating terminated employees and ensure that termination payouts are made timely [600115.01].

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<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 workers is not specified in their labor agreement with the District.

<sup>2</sup> The 2.3 million amount is derived from the rounded sum of the rows for fiscal years 2014, 2013, and 2012 and prior in column D.

2016-004 Student Activity Fund Dollars at Risk for Theft and Misuse

**Condition:** In a limited review of student activity funds (SAFs) for 20 school locations,<sup>3</sup> 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 \$2.6 million at May 31, 2016. 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 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 @ 05-31-16	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.	\$118,483.55	0	0.00	1	\$60.00				✓
Central H.S.	490,872.61	0	0.00	22	58,717.13			✓	✓
CAPA H.S.	157,080.47	0	0.00	9	7,240.77			✓	
Phila. High School for Girls	346,591.43	0	0.00	64	70,511.99				✓
Frankford H.S.	67,861.50	0	0.00	23	8,412.97				✓
Walter B. Saul H.S.	197,061.40	0	0.00	1	1,377.00				
Engineering and Science H.S.	120,321.30	1	(1,158.36)	27	9,631.74				✓
Baldi M.S.	35,389.56	1	(238.00)	7	12,011.78			✓	✓
Franklin Learning Center	72,822.87	0	0	3	6,402.59				✓
Science Leadership Academy	61,578.95	7	(7,888.95)	13	4,293.15				
Constitution H.S.	20,293.74	0	0.00	1	120.57				
Julia R. Masterman H.S.	229,319.92	0	0.00	1	1,046.73			✓	✓
Northeast Sr. H.S.	228,928.49	5	(8,349.05)	22	10,376.56				✓
George Washington H.S.	113,073.01	0	0.00	14	2,974.98	✓	✓		✓
Bridesburg School	25,948.95	0	0.00	3	1,421.38				
William M. Meredith School	22,896.37	7	(5,104.01)	8	186.71				✓
West Philadelphia H.S.	167,841.84	0	0.00	14	22,671.97				✓
High School of the Future	14,246.91	0	0.00	1	1,874.00				
Thomas Edison H.S.	49,502.05	4	(5,180.88)	8	8,535.96	✓	✓		
Jules E. Mastbaum H.S.	53,059.70	7	(3,762.30)	18	7,066.42	✓	✓		✓
Totals	\$2,593,174.62	32	(\$31,681.55)	260	\$234,934.40				

Source: Prepared by the Office of the Controller

<sup>3</sup> The Controller's Office auditors visited three schools that included: Thomas Edison High School (H.S.), Jules E. Mastbaum H.S., and George Washington H.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., Phila. High School for Girls, Frankford H.S., Walter B. Saul H.S., Engineering & Science H.S., Franklin Learning Center, Science Leadership Academy, Constitution H.S., Julia R. Masterman H.S., Northeast H.S., West Philadelphia H.S., The High School of the Future, Baldi Middle School, Bridesburg Elementary School (E.S.), and Meredith School E.S.,

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

- 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 investment 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 not currently funded by the School District.
- 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.
- 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, 2016 totaled \$5.0 million, at greater risk for fraud or misuse.

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

**Recommendations:** We commend District management for the 35 percent reduction in the number of negative student activity funds (SAFs) account balances, and for the reduction in the number of checks outstanding for more than one year at June 30, 2016. However, 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].



**2016-005 Poor Accountability Over School Equipment Increases Risks of Financial Statement Errors and Theft**

**Condition:** In a limited review of school and food service personal property items at ten schools visited, we continued to discover (as we have in previous years) equipment, such as computers, snow throwers, projectors, and musical instruments, that schools could not account for and accounting records that were inaccurate. For the ten schools visited, we sampled 125 items of equipment listed in the District's accounting records. We observed that 40 percent of the items (50 out of 125), with a cost value of over \$113,000, could not be located and were presumed missing, or had been removed from their locations without proper documentation. An additional 125 items were haphazardly observed and selected for testing at those same ten schools. Of these items, 18 percent (22 out of 125) of the items, with a cost value of over \$42,000, could not be identified in the District's accounting records. Table 4 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 and for items that are on hand but not included in the District's records. 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:

- 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 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].

Table4: Summary of Conditions Noted Regarding School Equipment

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	Policy Not Followed	
							Inventory Records Not Updated	Equipment Not Tagged
Morton McMichael	10	4	Shredder/Vacuum, Air Dryer, Microcomputer Accessories & Supplies Bundle, Battery	10	0		✓	✓
CAPA	15	6	Digital Video Switcher/Mixer/Editor, Copier/Duplicator/Scanner, Camera Lens, Harp, Percussion Workstation, Bassoon	15	1	Scanner	✓	✓
Meredith Elementary	10	2	Tuba, Computer	10	1	Projector	✓	✓
Thomas A. Edison High <sup>4</sup>	15	7	Snowthrower, Automated External Defibrillator, Athletic Equipment, Diagnostics Scanner Determinator, Whiteboard-Smartboard, EKG Machine, Music Mixer	15	3	Metal Detector, Driving Simulator, Stage Light	✓	✓
AMY 5 at James Martin	10	4	Copy Machine, Computers, Gas Generator	10	6	Computers, Smartboard, Laminator, Postermaker System, Projector	✓	✓
Central High	15	7	Drum Set, Optic System, Air Watch Systems Package, Printer, Computers, Interactive Whiteboard	15	2	Piano, Copier- Transparency Maker	✓	✓
Widener Memorial	10	6	Organ, Snowthrower, Computer, Bleachers, Microphone	10	2	Spotlight, Computer	✓	✓
Feltonville Arts and Science Middle School	10	4	Computers, Wireless Challenger, iPad	10	1	Snow Blower	✓	✓
Northeast High School	15	5	Lawn Maintenance Equipment, Audio-Visual Equipment, Easy Stand Youth Stand, Scan Station, Automated External Defibrillator	15	1	Computer	✓	✓
George Washington High	15	5	Musical Instruments, Computer, Automated External Defibrillator, Athletic Equipment	15	5	Bass, Computer, Metal Detector, Pizza Oven	✓	✓
Totals	125	50		125	22			

Source: Office of the Controller

<sup>4</sup>The following high schools had items which were on the Food Services records as of April 29, 2016; however, they do not appear in FASGOV: Thomas A. Edison, Central, Northeast, and George Washington.

## 2016-006 Over One Thousand Unaccounted For TransPasses Presumed Missing or Stolen

**Condition:** A review of Student TransPass activity in March 2016<sup>5</sup> at five selected District high schools disclosed, 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 \$33.4 million Student TransPass Program. Among the five high schools we visited, over 1,300 TransPasses, valued at \$24,000, were unaccounted for and presumed stolen or missing. Table 5 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)<sup>6</sup> 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.

**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.

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<sup>5</sup> We tested records for the week of March 14, 2016 at each of the five high schools.

<sup>6</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>7</sup>

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)
CAPA <sup>†</sup>	684	601	83	23	60
Central High	2,348	2,105	243	219	24
Thomas A. Edison High	490	64	426	DNP	426
George Washington	1,261	785	476	CND	476
Northeast High	1,480	1,140	340	DNP	340
Total	6,263	4,695	1,568	242	1,326

Source: Prepared by the Office of the Controller based on analysis of data from the sources listed in footnote 7 below.

<sup>†</sup>Creative and Performing Arts

Figure 1: TransPass Receipt/Delivery Report

Source: School District of Philadelphia

Figure 2: School Computer Network

Source: School District of Philadelphia

<sup>7</sup> Sources of information for the TransPass reconciliation presented in Table 5 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. Two high schools, Thomas Edison and Northeast, did not prepare (DNP) a Summary of Free TransPasses. For George Washington High, we could not determine (CND) the amount of Undistributed TransPasses because the school distributed TransPasses for the entire month of March, all at once, rather than one week at a time, as required.

Figure 3: Summary of Free Student TransPasses Form

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

School Name: The High School For Creative And Performing Arts  
 School Loc. #: 2020  
 Month & Year: March 2016

**A. Summary of Student TransPasses Received for the Month**  
 Number of TransPasses Received for the Month (Initial Delivery): 2,736 (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: 2,736 (A3)

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

Dates	# To Be Distributed	# Distributed	# Undistributed
Week of: 02/26/16	684	684	0
Week of: 03/14/16	684	655	19
Week of: 03/11/16	684	651	23
Week of: 03/18/16	684	652	22
Totals for the Month:	<u>2,736</u> (B1)	<u>2,672</u> (B2)	<u>64</u> (B3)

\* Block B3 is the number of TransPasses returned to Transportation Services.

Preparer's Signature: [Signature] Date: 3/1/16  
 Principal's Signature: [Signature] Date: 3/1/16

\*\* 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

**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, two of the high schools we visited — Thomas Edison and Northeast — had not prepared this document. Forms at another high school, George Washington, although available, had "plugged" numbers for all activity. Moreover, these "plugged" numbers had mathematically incorrect totals. This was because George Washington distributed TransPasses to students for the entire month of March, all at once, rather than one week at a time, as required.
- 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].

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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.

### **District Management Wrote Off \$120 Thousand of Petty Cash Funds and Closed All of the Accounts**

In previous reports we commented that significant unresolved shortages existed in some of the District's petty cash accounts. We recommended that the District work with the affected schools' personnel to investigate the causes of these shortages and resolve the discrepancies appropriately. We further recommended that if adequate documentation could not be found to account for the shortages, then District management should request that responsible school personnel reimburse the District for those shortages, and that accounting records be adjusted accordingly to reflect the correct petty cash balances for the affected schools.

Over the last few years the District began closing the petty cash accounts at the schools, and by the end of fiscal 2016 the District had 88 petty cash accounts remaining, with a total unreconciled balance of \$120 thousand. During our current year testing we noted that all remaining petty cash accounts had been closed, and that the District had written off the unreconciled balance of \$120 thousand. Based on the results of our testing and the measures implemented by the District, we consider these findings resolved [600112.08], [600112.09].

### **All Active District Employees Submitted Statement of Financial Interests Forms for the 2015 Calendar Year**

Previously we reported that certain District employees were not in compliance with the Commonwealth of Pennsylvania's Financial Disclosure requirements in regards to filing Statement of Financial Interest (SFI) forms. District employees who are responsible for taking or recommending official action of a non-ministerial nature are required to file an annual SFI form.

Our current audit testing of SFI forms for calendar 2015 noted that all active employees who were required to file, had submitted a completed form. Additionally, all members of the School Reform Commission filed the required SFI form. In our audit, we found that only 18 (33.3%) of 54 inactive employees that were required to file a SFI form did not. In FY 2015, the District implemented a process of reviewing submitted forms and identifying any conflict of interests. If the District finds a conflict of interest or a potential conflict of interest, the District will consult with the individual as needed for information or clarification. Based on the results of our testing and the measures implemented by the District, we consider this finding resolved [60107.05].

### **District Management Will Not Publish Missing School Reform Committee Minutes**

Previously we reported the District did not publish School Reform Commission (SRC) Minutes for the May 16, 2013 meeting. 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 to be kept of all open meetings of agencies. District management asserted that due to the unusual length of approximately six hours and the large number of speakers testifying at the May 16, 2013 meeting, District personnel responsible for the minutes had not had time to transcribe the recordings into the minutes.

As part of the current audit, we followed up on the previous comment for the unpublished meeting minutes mentioned above, and District management informed the Controller's Office auditors that they will not publish the May 16, 2013 meeting minutes. Therefore, we will no longer comment on this matter. However,

we believe that minutes should be published for all SRC meetings and will continue to monitor the District's compliance with publishing written minutes during future audits [600112.15].

### **Erroneously Deleted Food Service Personal Property Restored To Property Listing**

During the fiscal year 2015 audit we commented that 631 pieces of Food Services Fund equipment were erroneously removed from the District's accounting records, or FAS GOV Asset Accounting system (FASGOV). The error occurred when 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.

Our current audit disclosed that a prior period adjustment was made to restore the 631 personal property items to the District's accounting records, net of accumulated depreciation. District management revised the format for the Food Services Manager to submit inventory modifications to General Accounting. Deletion requests submitted must be clearly identified in order for General Accounting to approve or process them. Based on the results of our testing and the measures District management implemented, we consider this finding resolved [600115.06] and [600115.07].

### **TransPass Losses By the District's Armored Car Service Did Not Reoccur**

Previously we commented that the contractor responsible for the armored-car collection, processing, delivery, and pick-up of SEPTA TransPasses failed to deliver transpasses to several schools.

The current audit testing of student transpasses disclosed that there were no missing deliveries to report. The District did not file any loss claims in regards to their armored-car service. Therefore we consider this condition resolved [600115.04].

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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  
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July 13, 2017

Mr. Alan Butkovitz, City Controller  
City of Philadelphia  
Office of the City Controller  
12<sup>th</sup> 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 2016

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 29, 2017, 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: Joyce S. Wilkerson, Chair and Members of School Reform Commission  
Dr. William Hite, Chief Executive Officer and Superintendent of Schools  
Christy Brady, 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 MATTERS SCHOOL  
DISTRICT OF PHILADELPHIA RESPONSE FISCAL YEAR 2016**

The School District of Philadelphia's leadership was pleased with the resolution of several prior audit findings in the Fiscal Year 2016 audit report as well as the results from the current year which showed marked improvements in the audit findings identified, all of which were considered reportable conditions and not significant or material. Specifically, prior year audit resolved items included: 1) all petty cash accounts closed, 2) 100% compliance with employee filing of statements of financial interest, 3) close-out on the non-publishing of SRC minutes from one meeting back in 2013, 4) food service personal property inventory corrected, and, 5) TransPass losses by the armor car contracted service did not re-occur.

Responses to the Fiscal Year 2016 findings are below. The first finding related to payroll deductions tax tables updates has already been corrected and the termination pay timeliness is already being addressed with the approval to hire four additional resources dedicated to this process. All the other findings relate to schools not always following 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.

**2016-01 Payroll Deductions Process Requires Improved Control Procedures**

**Response:** The School District of Philadelphia agrees with this finding and has already implemented the corrective action for the two-tax tables requiring manual entry, the primary reason for the finding. In response, at the end of December 2016, the District already implemented formal written procedures to ensure that a review and necessary updates for changes to the tax tables occurs both timely and accurately. The strengthening of controls associated with this process includes a direction memo sent from the Payroll Director to the Payroll Manager and Systems Administration Director identifying rate changes. The memo instructs the Payroll Manager to make any necessary changes to the two withholding tables that require manual updating, validation by the Systems Administration Director of the table changes, and confirmation via e-mail from both.

In December 2016, all employees impacted by the District's error in failing to update the City Wage Tax Tables in the Payroll System were issued refunds for the tax differential (the total refund amount was \$84,000). The timeliness of this correction, prior to the end of the calendar year, ensured that all employee 2016 W2 wages and tax forms were correct.

The process of verifying deductions does not easily lend itself to an exception report in many instances, such as when employees have their wages legally withheld by the courts. However, the Payroll Office and Human Resource Office team members will receive additional training and complete all necessary steps to avoid errors, while management will test on a sample basis to guard against errors. In instances where an exception report can be created, such as union dues deductions for the one employee identified in the audit report, the Director Talent Specialists will review the report and correct any errors identified.

**2016-002 Compliance with the District's Payroll Approval Policy Has Not Significantly Improved and Needs Management's Further Attention**

**Response:** The District is pleased that the number of employees with unapproved bi-weekly payrolls was reduced by 4%, resulting in 97% of employees' payrolls properly approved. The audit also found that there were no instances of improperly paid employees. However, 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 further attention. Although the goal is 100% compliance, with almost 17,000 employees, and on average only 500 not approved indicates that most locations are complying with the District's payroll approval policy.

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 trainings 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 current 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 new Chief Schools Officer, which oversees all Assistant Superintendents, will emphasize to 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.

**2016-003 Thousands of Former District Employees Still Owed Millions in Termination Pay**

**Response:** The School District of Philadelphia's management team agrees with the recommendations. Corrective actions have focused on obtaining the necessary resources to process termination pay more timely. In Fiscal Year 2017, the District approved increasing the Payroll staff levels by adding an Auditor and a Payroll Processor position to work on these efforts. For Fiscal Year 2018, District management has approved an additional Payroll Processor and Auditor. Management believes these staff additions will provide the resources needed for expeditiously processing all termination pay in accordance with each collective bargaining agreement. Additionally, the four additional staff will support faster processing times and the ability to research the older cases to ensure accuracy and determine if there are any offsetting circumstances. The office will also shorten the timeframe for setting up "orphaned accounts" (for which there is missing contact and/or provider selection information) at the designated 403(b) investment provider for those employees over the age of 55.

Before an individual leaves District employment, they receive an Employee Separation Package, which contains explicit instructions to provide both an updated home address and to choose an investment provider for those

over age 55 to receive their termination pay. The District will continue to emphasize to employees the importance of providing this information when they end their employment with the District and to update any future address changes timely. In addition, communications to Labor Union representatives will reinforce the importance of providing current addresses and a choice of investment advisors for members' timely receipt of termination pay. Every effort will continue to locate employees whose address is no longer current and checks returned with no forwarding address.

The District complies with unclaimed property laws and has escheatment processes in place for unclaimed checks. Of the \$6.6 million in termination pay liabilities due to 2,300 former employees identified by the auditors, \$4.1 million relates to employees who were age 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 age 55 are not compensation but 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 provider who has contractually agreed to: 1) establish individual accounts, 2) make every effort to locate the former employee, and 3) escheat the money to the State as required by law. Additionally, the District will explore with the provider the possibility of obtaining detailed reports regarding efforts to locate former employees. The current contract puts the responsibility for this with the investment provider. For former employees under age 55, the District has a process in place that every calendar year by April 15 any unclaimed payroll checks escheated to the Pennsylvania Treasury Department for the previous calendar year. The total amount escheated to the state for Fiscal Year 2016 was \$0.42 million, which included termination payments unclaimed by former employees under the age of 55.

To address the older cases the District worked with one of its 403(b) Plan providers, VALIC, to establish individual accounts for these former employees, to accept the employer contributions of termination pay, and to research the current address and to locate the former employees. The process, established in July 2013, for \$0.80 million related to 153 employees. Subsequent transfers completed in July 2014 in the amount of \$0.14 million for 23 employees from 2010 and prior and on July 2015 in the amount of \$0.38 million for 89 employees separated in 2011 and prior. In Fiscal Year 2016, a transfer of \$0.47 million for 89 employees separated in 2012 and prior occurred. The transfers will continue to occur annually each July. The anticipated amount for July 2017 is \$0.50 million related to 77 employees separated 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.

#### **2016-004 Student Activity Fund Dollars at Risk for Theft and Misuse**

**Response:** As noted in the audit report, the District has taken several steps over the last three years to increase the efficiency and oversight of the Student Activity Fund accounts. Most importantly, the web-based accounting system for the student activity funds resulted in a 35% reduction in the number of negative accounts and a reduction in checks outstanding for more than one year. The web-based software has increased the automation of the process, allowing for remote oversight, consistency across all schools and easier reporting for schools. A Fiscal Year 2018 initiative is to locate all Student Activity Fund accounts at the same bank to increase oversight abilities.



The District acknowledges that some school level personnel do not always comply fully with the policies and procedures in the Student Activity Fund Manual. For the most part, this occurs because school level personnel are not always knowledgeable on the requirements set forth in the Manual. Hands-on training opportunities for new and returning Principals and access to the on-line Manual should lead to a better understanding. During the summer of 2017, time has been allotted as part of "New Principals Training" to address overall financial matters and there will be additional training time with returning principals. This subject is part of the agenda along with their responsibility to comply with existing policies and procedures to protect these funds. 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 Accounting Compliance and Control Monitors conduct training that includes the web-based system and the Student Activity Fund Manual policies and procedures.

The Finance Office will also request a time slot on the overall Academic Professional Development calendar for the upcoming school year to cover this subject and emphasize the top audit findings. Principals and other school personnel are accountable for compliance and the Finance Office will provide focused individual training at the school site. If the 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 principals, from their termination pay is an allowable consequence.

In Fiscal Year 2018, there will be a newly designed website for the School District of Philadelphia containing an updated Student Activity Fund Manual. To assist in reaching more people with training in Schools Funds Management and the District-wide software being used and required by all schools, the Accounting Office is researching the potential to post web-ex tutorials.

**2016-005 Poor Accountability Over School Equipment Increases Risk of Financial Statement Errors and Theft**

**Response:** There have been significant improvements in personal property inventory controls in recent years; however, there is a continuing opportunity to improve accountability over personal property assets located in schools. The District has increased its efforts in holding schools accountable for their inventory and automating the process to improve accuracy and efficiency and making it easier for schools to comply. 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 inventory policies and procedures. There are also detailed instructions and guidance available on the District's website, which includes video instructions on using the PPIS system.

Because the District's annual physical inventory process occurs after the auditor's site visits, some of the audit findings regarding non-located personal property were already addressed. Furthermore, the items that could not be located at the 10 schools in the audit sample with a "cost" at the date of purchase of \$113,000 currently have a "net" value of \$16,600 after depreciation and considering obsolescence. Of the 50 items that could not be located, 12 items have subsequently been disposed in the system representing nearly \$33,800 of the \$113,000



total, 16 are fully depreciated assets with a \$0 value, and the remaining 22 items total \$16,000 in depreciated value.

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 to address this issue. In addition, serial numbers are loaded when the asset is entered in PPIS. This has led to a significant improvement in tracking technology assets in all locations.

To ensure proper tagging with asset numbers, the Grants Compliance Monitors (GCM) assigned to each school hand delivers asset tags directly to the Inventory Designee for each school. Further, the GCMs perform random checks to ensure affixing of tags to the proper asset, assets per the inventory list are at the school, and they performed and submitted their annual inventory for accurate financial reporting. One consequence of non-compliance is that schools cannot spend grant funds to purchase additional assets until they come into compliance. Untagged equipment observed during the audit in some instances is the result of either a timing difference between the issuance and delivery of tags to the school or tags having been intentionally removed by students.

#### **2016-006 Over One Thousand Unaccounted For TransPasses Presumed Missing or Stolen**

**Response:** The District is pleased to report that the corrective actions implemented to ensure the armored car service used for the collection and delivery of TransPasses resulted in no missing deliveries. The prior year audit finding is considered resolved.

The School District agrees with the current recommendations to improve monitoring, accountability and the related policies and procedures. Implementation of many TransPass audit recommendations and corrective actions from the Fiscal Year 2015 findings occurred in Fiscal Year 2017. The Transportation Office offered a summer training seminar as part of the new Principals orientation. A link to a video of the summer training was placed on the Transportation website and shared with all Principals. At the beginning of Fiscal Year 2018, Transportation plans to reach out to Assistant Superintendents of schools that are unresponsive to requests to submit Summary Forms. In addition, the District has continued to strengthen controls at the schools through training, monitoring activities and escalating non-compliance to appropriate management (e.g., Principals and Assistant Superintendents).

The Transportation Office is in the process of amending the TransPass policies and procedures to reflect the audit recommendations. Transportation will also recommend that schools have two staffers involved in the TransPass distribution process. Additionally, students will be required to provide a signature next to their name in order to receive an assigned TransPass. Transportation will continue to monitor the process to ensure compliance and take progressive escalation measures if non-compliance continues.

The completion of the existing Summary of Free TransPass Form requires both the preparer and the principal to sign the form. The Transportation Office will recommend that the staffer prepares the form and the principal

check for accuracy and reinforce that their signatures are required to validate that this occurred. This process is to be required in procedures and training opportunities to schools and feedback provided after the review of Summary Forms by the Transportation Office.

Implementation of the improved "Summary of Free TransPass Form" and guidelines began in April 2017 to include the improved directions regarding preparation and review and "step by step" instructions as recommended in the prior findings. Monthly, the new form is included in the Principals' Newsletter distributed via e-mail to all principals throughout the District. Emphasis of these changes will be in the new Web-Based Guidelines, the Annual Principals Summer Training and the School Opening guidance letter.

There continues to be a close working relationship between Transportation and the Accounting Compliance and Control Monitors (ACCMs) who assist with supporting and monitoring schools' finances and ensuring policies and procedures are in place and working. Since implementation in Fiscal Year 2016, the ACCMs reviewed procedures in 83 schools; 42 in Fiscal Year 2016 and 41 in Fiscal Year 2017. Transportation reviews the reports generated by the ACCMs, identifies the issues, follows up with the schools by phone and or email and provides coaching to correct any deficiencies. Because of the relationship between the ACCMs and Transportation, issues in schools cited for having unprepared and incorrectly prepared Summaries in the Fiscal Year 2016 audit report have already been corrected. Unfortunately, audit samples selected were from the period prior to our intervention. In addition to working with the ACCMs, beginning in Fiscal Year 2018 Transportation has designated Transportation Scheduling Analysts who interact with schools regularly to call TransPass schools monthly and remind them to complete and return the Summary Form, and return unused TransPasses.

Looking to the future, SEPTA continues to work on a long-term solution to eliminate TransPasses. During our last meeting, SEPTA management indicated that January 2018 is the tentative date for unveiling a pilot project that involves issuing smart cards to the schools. When implemented, this new process should increase controls over TransPasses and automate the manual processes currently in existence.