

Report On Internal Control and On Compliance and Other Matters School District of Philadelphia Fiscal Year 2018



**City Controller
Rebecca Rynhart**



CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

Joyce Wilkerson, Board President
Board of Education,
440 N. Broad Street, Suite 101
Philadelphia, PA 19130

June 20, 2019

Dear Mrs. 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, 2018. Attached is the Office of the City Controller's report on internal control and on compliance and other matters.

During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. It did, however, identify four other conditions, many of which have reported on for several years. Of these findings, District management made progress on improving two of them. Additionally, management did take corrective action to remedy other previous year findings, including administrative approval of bi-weekly payroll and capital assets inaccurately reported in the District's Financial Statements.

The findings and recommendations contained in the report were discussed with management at an exit conference. We believe that, if implemented by management, the recommendations will improve the District's internal control over financial reporting. We included management's written response to the findings and recommendations as part of the report. 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.

I commend District management for the many improvements and partial resolution of these findings and I urge you to continue to work to resolve the remainder of these findings with diligence.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rebecca Rhynhart".

Rebecca Rhynhart
City Controller

CC: Board of Education Members
Mayor James J. Kenney
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 Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller audited the School District of Philadelphia's (District) basic financial statements as of and for the fiscal year ended June 30, 2018 for the purpose of opining on its 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.

FY18 Report Findings

The Controller's Office found that the District's financial statements were presented fairly, in all material respects. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, the audit work identified a number of matters involving the District's internal control over financial reporting that need management's attention. Some of the more important matters identified include:

- For years, the Controller's Office has reported that the District is not processing termination payments in a timely manner. In our fiscal year 2017 report, we noted that the District owed \$6.7 million in termination pay to more than 2,300 former employees who had left District employment. In this report, we found that the District had processed 1,236 cases of the backlog, but still owe termination payments totaling \$4.8 million to more than 1,600 former District employees (as of June 30, 2018). Our report also found that more than \$980,000 should have been escheated to the Commonwealth. While District management has increased staff and dedicated resources to addressing termination pay, the backlog still exists.
- In a limited review of student activity funds (SAFs) for 20 school locations, totaling nearly \$2.5 million (as of May 31, 2018), we observed a lack of compliance with the established procedures for properly maintaining those funds, placing them at greater risk for theft or misuse. Although District management has taken steps to increase monitoring of these funds' activities, school level personnel are not following the policies and procedures. Our review found inactive accounts, negative account balances, untimely bank reconciliations, and missing documentation to track the collection of student activity funds. The lack of compliance has been a reported finding since fiscal year 2008.

What the Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the findings in this report. Some of the more significant recommendations to the above findings are noted below.

We recommend that District management continue to work to eliminate the backlog of termination pay cases and remit the money due to the Commonwealth in compliance with Pennsylvania's escheat law. To prevent the misuse of SAFs, we recommend that management ensures school employees responsible for management of the SAFs are trained properly and held accountable for compliance with the policies and procedures.

**AUDITOR'S REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE AND
OTHER MATTERS**

**SCHOOL DISTRICT OF
PHILADELPHIA**

FISCAL 2018



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CHRISTY BRADY
Deputy City Controller

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 President and Members of
The Board of Education 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, 2018, 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 06, 2019. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change, discussed in Notes 4.J. and 4.N. to the basic financial statements, in the financial reporting entity.

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*.

Other Conditions

We noted certain conditions that are not required to be reported under *Government Auditing Standards*, but nonetheless represent deficiencies in internal control that should be addressed by management. These other conditions are listed in the table of contents and described in the accompanying report as items 2018-001 to 2018-004.

School District of Philadelphia, Pennsylvania's Response to Findings

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

Purpose of this Report

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



CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 06, 2019

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OTHER CONDITIONS

2018-001 ALTHOUGH IMPROVED, BACKLOG IN TERMINATION PAYMENTS STILL EXIST

Condition: For more than ten consecutive fiscal years we have reported that the District is not processing termination payments timely. In our fiscal year 2017 report, we commented that the District owed \$6.7 million to over 2,300 former employees that separated from service as far back as 2001. As of June 30, 2018, the District processed 1,236 of those backlogged termination payment cases.

At the conclusion of our fiscal 2018 audit, we found that termination payments totaling \$4.8 million due to over 1,600 former District employees that separated from service, some as far back as 2006, still have not been distributed. Table 1 below summarizes the amount of termination pay applicable to the 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, 2018				
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)
2017	558	\$ 1.5	\$ 0.4	\$ 1.9
2016	256	\$ 0.7	\$ 0.3	\$ 1.0
2015	99	\$ 0.2	\$ 0.1	\$ 0.3
2014 and prior	<u>752</u>	<u>\$ 0.9</u>	<u>\$ 0.7</u>	<u>\$ 1.6</u>
Total	<u>1,665</u>	<u>\$ 3.3</u>	<u>\$ 1.5</u>	<u>\$ 4.8</u>

Source: Prepared by the Office of the Controller based on the analysis of the District’s Vacation, Personnel 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 separation¹. Two sets of procedures apply; one for employees age 55 and over, and another for 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.” Those contributions are not subject to Pennsylvania’s Abandoned and Unclaimed Property Law (escheat law). However, for employees under 55, the District is required to pay the separated employee directly by check. 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, 2018, we estimate that over

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

\$980,000 should have been escheated to the Commonwealth². We are not aware of any funds that were escheated through the end of our fieldwork.

Cause: In previous years, District management had difficulty dedicating the necessary resources to eliminate the backlog of termination pay and escheatable amounts in a timely manner which led to the significant backlog of unprocessed payments. Currently, the District is in the process of working towards clearing up the backlog of cases but had not been able to complete them all in fiscal 2018.

Recommendations: To complete the distribution of termination pay owed to former employees and become compliant with labor union agreements and Pennsylvania's escheat laws, we recommend that District management:

- Continue their efforts to eliminate the backlog of outstanding termination pay cases [600118.01].
- 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].

2018-002 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, we continued to observe, as we have since fiscal year 2008, a lack of compliance with the established procedures for properly maintaining those funds as written in the SAF Manual (Manual). The combined fund balance for the 20 schools examined was \$2,492,158 at May 31, 2018. Specifically, our review found: 1) inactive accounts, 2) negative account balances, 3) untimely bank reconciliations, and 4) missing documentation required to track collection of student activity funds. Table 2 on the following page summarizes the results for each of the schools tested.

² The \$980,000 amount is derived from the rounded sum of fiscal years 2016, 2015, and 2014 and prior in column D. That amount represents the termination pay owed to employees who separated prior to fiscal year 2017.

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

School	SAFs Account Balances @ 05-31-18	SAFs with Inactive Account Balances for at least One Year	Total of Inactive Account Balances	SAFs with Negative Account Balances	Total of Negative Account Balances	Bank Reconciliations Not Completed Timely	Collection of Student Activities Funds Not Documented
Central High School	\$507,025.59	21	\$10,545.91	2	(\$362.77)		
Phila HS for Girls	\$321,858.97	80	\$106,919.32	0	\$0.00	✓	
Masterman HS	\$199,418.80	4	\$406.92	1	(\$1,804.00)	✓	
Northeast HS	\$195,200.56	5	\$52,407.85	0	\$0.00	✓	
West Phila HS	\$156,050.57	1	\$239.56	0	\$0.00	✓	
George Washington HS	\$147,706.00	9	\$5,221.69	0	\$0.00	✓	
Saul HS	\$139,983.39	6	\$8,129.98	0	\$0.00		
Creative and Performing Arts	\$124,220.91	12	\$9,598.73	0	\$0.00	✓	
Engineering and Science HS	\$113,433.70	10	\$4,220.03	0	\$0.00		
Fels HS	\$93,534.20	8	\$3,940.78	0	\$0.00		✓
Bartram HS	\$90,280.19	1	\$258.95	0	\$0.00		
Lincoln HS	\$87,977.12	7	\$1,900.15	0	\$0.00	✓	
Girard Academic Music Program	\$79,127.48	4	\$86.04	0	\$0.00	✓	
Franklin Learning Center	\$72,652.03	3	\$395.04	4	(\$3,303.37)	✓	
Academy at Palumbo	\$65,570.42	8	\$2,547.83	0	\$0.00		
Furness HS	\$62,378.16	1	\$802.00	0	\$0.00		✓
Amy Northwest	\$16,989.53	1	\$119.00	0	\$0.00		
Fitler Academic Plus	\$14,219.47	1	\$400.00	0	\$0.00	✓	
Henry A. Brown School	\$2,962.11	0	\$0.00	0	\$0.00		
Emlen School	\$1,842.13	0	\$0.00	0	\$0.00	✓	
Totals	\$2,492,431.33	182	\$208,139.78	7	(\$5,470.14)		

Source: Prepared by the Office of the Controller

Criteria: SAFs are custodial, student owned funds collected from students for specific educational purposes. The District's Manual for SAFs provides guidance for principals, financial designees, school staff, and students. It contains the rules, regulations and procedures to be followed in administering, safeguarding and accounting for the funds.

The SAF Manual states the following:

- Student Activity Sponsors should maintain adequate records to evidence student participation in activity decision making and to document the receipt of money as to the source (name of student or person), date received, and purpose of funds. Cash disbursements should be supported by a Payment Voucher (Form H-201) and original invoice and be submitted to the principal for approval.
- Bank reconciliations need to be prepared monthly and as soon as the bank statements are received. The completed and signed monthly bank reconciliation should be sent to your Accounting Compliance Monitor by the 20th of the following month based on the bank statement date.
- For inactive SAFs, students should decide on the proper school-related purpose or disposition of the surplus funds. Monies left unused for one year or more should be transferred to the Student Body Activities Account to be used for any school-related purpose.

- 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.

Effect: Failure of the schools to follow established policies and procedures will continue to place the SAFs, which at June 30, 2018 totaled \$4.81 million, at greater risk for fraud or misuse.

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

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

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

2018-003 EQUIPMENT ASSIGNED TO SOME LOCATIONS COULD NOT BE ACCOUNTED FOR

Condition: During our fiscal 2018 review of the School District's personal property, we visited eleven inventory locations, including various schools and the central administrative building. As in previous years, we discovered that some equipment, such as computers, whiteboards, and musical instruments, could not be accounted for, and that some accounting records were inaccurate. At the eleven locations visited, we selected 175 equipment items listed in the District's accounting records for testing. We found that 29 percent of those items (50 out of 175), with an acquisition value of over \$86,000, could not be located and were presumed missing, or had been removed from their locations without proper documentation. While at those eleven locations, another 145 items were haphazardly selected for testing. Of those items, 28 percent (40 out of 145) of them could not be identified in the District's accounting records. Table 3 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 of theft without detection.

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

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

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

Table 3: Summary of Conditions Noted Regarding School Equipment

Schools Visited	Items Selected from Records for Observation		Missing Items	Items Selected at Location		Items Not Found in Records	<u>Policy Not Followed</u>	
	Items Selected from Records for Observation	Items Not Observed		Items Selected at Location	Items Not Found in Records		Inventory Records Not Updated	Equipment Not Tagged
South Philadelphia High School	15	5	Projector, Printer, Audio System, Utility Rack, Counter Shutter	15	5	Copier, File Cabinet, Freezer, Stress Tester, Scale	✓	✓
West Philadelphia High School	15	7	File Cabinet, Violin, Laptop, Snow Blower, Serving Line Display, Beverage Cooler, Gas Range	15	4	Electronic Keyboard, Computer, Poster Maker, Blender	✓	✓
Masterman High School	15	4	Laptop, Projector, Serving Storage, Fryer	15	4	Steel Locker, Bookshelf, Fire Extinguisher, Filing Cabinet	✓	✓
H.A. Brown Academics Plus	10	3	Computer, Laptop Cart, Custodial Scrubber	10	1	Bookshelf	✓	✓
Mastbaum High School	15	4	Laptop Cart, Culinary Software, Poster Printer, Pizza Warmer Display	15	3	Smartboard, Filing Cabinet, Desktop	✓	✓
Fels High School	15	8	Audio Equipment, Computer, Computer Monitor, Saxophone, Smartboard, Microcomputer Hardware, Camera, Video Magnifier	15	4	Skillet, Mixer, Pizza Oven, Double Door Fridge	✓	✓
Kenderton Elementary School	10	0	None.	10	3	Laptop Cart, Projector, Smartboard	✓	
Joseph Greenberg School	10	1	Office Table	10	4	2 Filing Cabinets, Bookshelf, Wooden Desk	✓	✓
Franklin S. Edmonds School	10	3	Projector, Smart board, Medical Powerheart	10	3	Powerbrush, Projector, Filing Cabinet	✓	✓
James R. Lowell School	10	3	Science Course Kit, Audio Equipment, Janitorial Vacuum	10	2	Printer, Computer	✓	✓
Central Repair Shops	10	8	Hydraulic Floor Press, Charger, Pressure Washer, 2 Floor Jacks, Parts Cleaning System, Air Tank Stationary, Grease Pump	10	1	Jack Lift	✓	✓
PSTV – Instruction Media	10	1	Podium	10	6	Mixer, LCD TV, iMac, Tricaster Switch, Speaker, Metal Rack	✓	✓
Various Locations for Defibrillators	30	3	Defibrillators	0	0	None.	✓	✓
Totals	<u>175</u>	<u>50</u>		<u>145</u>	<u>40</u>			

Source: Office of the Controller

Recommendations: We recommend 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. We further recommend that management consider providing positive rewards for schools that maintain the most accurate inventory of their personal property [600115.05].

2018-004 TRANSPASSES MISSING AND UNACCOUNTED FOR

Condition: For the seventh consecutive fiscal year, we have reported that the District could not account for all TransPasses received for distribution to students. Our review of Student TransPass activity that occurred in February 2018³ at five selected District high schools disclosed, as in previous years, that school personnel could not account for all TransPasses received. At the five high schools visited, 706 of the 2,712 (26%) TransPasses received could not be accounted for. The unaccounted for TransPasses were part of the District’s fiscal year 2018 \$35 million Student TransPass Program and were valued at \$13,555. Table 4 below summarizes the results of our observations.

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

Table 4: Accounting for TransPass activity at Five Selected High Schools ⁵					
<u>Column A</u> High School	<u>Column B</u> Number of TransPasses Received Per Auditor	<u>Column C</u> Number of TransPasses Distributed Per Auditor	<u>Column D</u> Number of TransPasses Undistributed Per Auditor (Col. B –C)	<u>Column E</u> Number of TransPasses Undistributed Per District	<u>Column F</u> Number of TransPasses Unaccounted For (Col. D –E)
South Philadelphia H.S.	224	180	44	35	9
West Philadelphia H.S.	233	183	50	42	8
Masterman H.S.	1041	909	132	12	120
Fels H.S. ⁶	662	0	662	98	564
Mastbaum H.S.	<u>552</u>	<u>498</u>	<u>54</u>	<u>49</u>	<u>5</u>
Total	<u>2712</u>	<u>1770</u>	<u>942</u>	<u>236</u>	<u>706</u>

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

³ We tested records for the week of February 12, 2018 at each of the five high schools.

⁴ Copies of these reports are maintained at the schools, as well as the District’s Transportation Services Department.

⁵ Sources of information for the TransPass reconciliation presented in Table 4 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 Dunbar TransPass return records maintained by the School District of Philadelphia’s Transportation Department.

⁶ Fels High School was unable to provide the TransPass Distribution Sheets for the dates tested, therefore we reported zero TransPasses Distributed per Auditor.

Figure 1: TransPass Receipt/Delivery Report

Dunbar
CASH VAULT SERVICES
For Feb

Wednesday January 17,

Customer/Loc #: 24003233-011020 Rte: N/A
WEST PHILADELPHIA HIGH SCHOOL Inv: 405
4801 CHESTNUT ST Br: 989
Set: 01 Order #: 01170059
PHILADELPHIA PA 19139

Item Description	Units	Unit Order Type	Value
TransPassType1	215	233 Each	NONE
TransPassType2	21	233 Each	NONE
TransPassType3	210	233 Each	NONE
TransPassType4	21	233 Each	NONE
TOTAL	932		NONE

FORM 157 REV. 7/86

Source: School District of Philadelphia

Figure 2: School Computer Network

Week of February 12, 2018
General Transpass List
- 02/09/2018 -

Transpass by school, date of production, grade, last name, first name, address, school, grade, homeroom, reason, distance to school (mi), DOB

P	Student ID	Last Name	First Name	Address	School	Grade	Homeroom	Reason	Distance to School (mi)	DOB
5	1000000					06	401	SPECIAL ED	4.73	
6	1000000					06	114	RELEASE	8.11	
4	1000000					06	184	RELEASE	4.82	
6	1000000					09	309	RELEASE	3.02	
6	1000000					06	201	RELEASE	4.82	
6	1000000					06	204	RELEASE	4.82	
4	1000000					09	204	RELEASE	3.06	
6	1000000					06	114	RELEASE	8.11	
6	1000000					06	414	RELEASE	8.86	
4	1000000					06	205	RELEASE	1.86	
6	1000000					09	416	RELEASE	3.86	
6	1000000					09	120	RELEASE	4.23	
6	1000000					06	103	RELEASE	1.87	
6	1000000					09	415	RELEASE	3.2	
6	1000000					09	105	RELEASE	12.86	

Report generated on 02/09/18 @ 08:03 AM 1 of 5

Source: School District of Philadelphia

Figure 3: Summary of Free Student TransPasses Form

The School District of Philadelphia
Summary of Free Student TransPasses

School Name: West Philadelphia High School
School Loc #: 1020
Month & Year: FEBRUARY 2018

A. Summary of Student TransPasses Received for the Month

Number of TransPasses Received for the Month (Initial Delivery): 932 (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: 932 (A3)

B. Summary of Student TransPasses Distributed by Week:

Dates	# To Be Distributed	# Distributed	# Undistributed
Week of: 02/05/18	233	197	36
Week of: 02/12/18	233	191	42
Week of: 02/20/18	233	196	37
Week of: 02/26/18	233	181	52
Totals for the Month:	932	765	167
	(B1)	(B2)	(B3)

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

Preparer's Signature: [Signature] Date: 4/3/18
Principal's Signature: Mary J. Deen Date: 4/3/18

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

(Rev. 8/2013)

Source: School District of Philadelphia

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

Cause: The failure of school personnel and principals to properly implement procedures outlined in the District's Transportation Services Manual appear to be the cause of the unaccounted for TransPasses.

Recommendations: To improve accountability over the distribution of TransPasses to students and minimize the risk of theft, we suggest that District management actively monitor and enforce policies and procedures relating to the distribution and accounting of student TransPasses by identifying and notifying non-compliant administrators, and considering progressive disciplinary actions for those who consistently violate the policies [600111.08].

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. Our follow-up disclosed that the District made progress on the conditions below. We commend District management on its efforts.

TERMINATION PAY PROCESSING IMPROVED – BACKLOG REDUCED

During our prior audits we reported that District management failed to process and distribute millions of dollars of termination payments due to thousands of former employees. As members of various labor unions, those employees were entitled to receive their termination payments within very specific timeframes. By not distributing termination payments within the required timelines, the District appeared to be in violation of the applicable labor agreements. Termination payments for employees age 55 or older at separation were required to be directly deposited into a 403(b) plan investment account, and payments to separated employees under the age of 55 were paid directly to them by check. According to District management the reasons, in part, for the backlog of unprocessed termination payments included staffing shortage issues, and the absence of certain required forms from the separated employees that were necessary to set up the investment accounts. We recommended that the District dedicate additional staff, time, and effort to eliminate the backlog of termination pay due to former employees. We also recommended that, for former employees age 55 and older at separation, the District actively increase referral amounts to the 403(b) plan providers to complete the termination process as quickly as possible. Finally, we recommended the development and implementation of a more efficient human resource strategy for terminating employees to ensure that all necessary contact information and documents are gathered prior to employees separating from service.

During our current audit we noted improvement in those conditions. Specifically, we found that the District processed 1,236 outstanding cases from the year 2016 and prior, including all cases prior to 2006, and referred \$1.2 million to the 403(b) plan administrators for processing. Additionally, the District adopted a new approach to balancing current employee separations and the outstanding backlog, District employees spend three weeks per month processing current employee separations, and one week on the backlogged cases. Other improvements included: implementing automated systems to speed the verification and processing of termination pay cases, redesigning the instructions and paperwork required from employees at the time of separation, and increasing the positions dedicated to address the backlogged termination payments. Although we have again reported upon the backlog in the body of our report, based on the measures implemented by the District, we will no longer report on the District's need to add additional staff, time, and effort or to develop a more efficient strategy for paying terminated employees [600112.14 and 600115.01].

TRANSPASS DISTRIBUTION PROCEDURES IMPROVED

During our prior audit we noted that school personnel could not account for all TransPasses received for distribution to students. The District's Transportation Services Manual (Manual) outlined instructions on the distribution process, however, some were inadequate, and others were not implemented. For instance, according to the Manual, the employee distributing the TransPasses was required to sign the TransPass List as evidence that the qualified students received their TransPasses. That process was not always followed. Also, the instructions on the preparation of a required reconciliation form were not clearly stated. Consequently, some TransPasses at selected schools were missing and unaccounted for. We recommended that District management: 1) require that students sign for the receipt of their TransPasses; 2) adequately describe the instructions for the preparation of the forms necessary to account for distributed and undistributed TransPasses; and 3) require that two employees be involved in the distribution process.

During our current audit we noted improvement in those conditions. Specifically, we found that District management updated the procedures and now require students to sign for the receipt of their TransPass, provide school administrators with instructions on how to properly distribute and account for TransPasses, and require two employees to be involved in the TransPass distribution process. Additionally, the District created a video detailing the new procedures on the Transportation Department's webpage. Although we have again reported upon unaccounted for TransPasses in the body of our report, based on the measures implemented by the District, we will no longer report on the District's need to amend its existing procedures [600115.02, 600111.09 and 600115.03].

CAPITAL ASSETS NOW ACCURATELY REPORTED IN THE DISTRICT'S ANNUAL FINANCIAL STATEMENTS

Previously, we reported deficiencies in the District's capital assets reporting process which resulted in an understatement of specific long-term capital assets and the related depreciation in the fiscal year 2017 Comprehensive Annual Financial Report. Our prior year testing disclosed that the District's capital asset accounting procedures did not always ensure: 1) that all completed capital project costs were properly transferred out of construction in progress (CIP) and into the proper long-term asset account, and 2) that all expenditures in the CIP account were identified and allocated to a specific capital project. We recommended that the District require capital programs management to submit a complete, and properly identified list of all completed projects to the fixed asset accountant, and that the recording process be revised to include a method of verification of the completeness of the list. We further recommended that the District determine which projects the unidentified expenditures were associated with and transfer those expenditures out of CIP when the projects are complete, and record any projects identified as completed in prior years as a prior period adjustment to beginning net assets in the current fiscal year financial statements.

During our current audit of capital assets, we noted that the District recorded a prior period adjustment to properly record the capital projects completed in previous years. The adjustment reclassified \$11.4 million from CIP to the buildings and improvements asset accounts for \$2.3 million and \$9.1 million respectively. We also noted that prior period adjustments in the amounts of \$71,676 and \$554,890 respectively, to accumulated depreciation for buildings and improvements were recorded to properly adjust the net book value for these assets. Additionally, a review of the closed and completed project reports provided by the Capital Projects unit, revealed that all expenditures were properly capitalized. Lastly, we were provided with documents detailing the increased internal communication between the Accounting and Capital Projects Units. Based on our observations and the sufficient improvements made by the District, we consider these conditions resolved [600117.01, 600117.02, and 600117.03].

ADMINISTRATIVE APPROVAL OF BI-WEEKLY PAYROLL IS NOW IMPROVED

We previously reported that the District processed bi-weekly payrolls without the proper administrative approvals which increased the risk of errors or irregularities in payroll expenditures. As a result, we found that payroll was not being approved for a significant number of District employees each pay period. We recommended that District management identify and notify non-complying administrators and their supervisors, consider progressive discipline for those violating the policy, and require the appointment of a backup person to approve payroll in the absence of the primary approver.

During our current audit, we noted improvement in this condition. Specifically, we found that 97.7 percent of all payroll entered was properly approved by the appropriate administrator. The District has made a strong,

consistent effort to identify and notify non-compliant administrators, and made senior management aware of repeat offenders. The District also instituted a new online portal where principals can appoint a backup person that can sign-off on payroll in their absence. Based on the results of our testing and the measures implemented by the District, we will no longer report on these findings. However, we will continue to monitor the District's payroll processing to ensure that administrative approvals are properly applied [600111.01 and 600115.08].

GENERAL CONTROLS OVER INFORMATION TECHNOLOGY IMPROVED

In conjunction with our audit of the fiscal year 2016 Comprehensive Annual Financial Report of the School District, with the assistance of a consultant, we conducted, an evaluation of the District's ADVANTAGE⁷ information technology (IT) general controls. In May 2017, we issued a separate report to the School District detailing general IT control weaknesses in the following primary areas: access controls; security controls; configuration management; and contingency planning. As part of the current audit, we reviewed the School District's remediation efforts to address the identified control deficiencies.

The District's Office of Information Technology (OIT) resolved the prior year findings. Specifically, the District corrected deficiencies related to: (1) formal documentation of procedures for access recertification; (2) policies defining the list of auditable events required to be logged on the ADVANTAGE application; (3) policies and procedures for segregating incompatible functions; (4) incompatible duties of individuals with ALTER access to software, development, production, and testing environments; (5) evidence of retained Global access authorization forms, and; (6) procedures documenting the disaster recovery process. Details regarding each of the prior year conditions noted, and their current remediation status, are presented in Appendix I.

⁷ ADVANTAGE 2000 Financial Management and Human Resources/Payroll application

APPENDIX

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS OF IT GENERAL CONTROLS REVIEW

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><u>ACCESS CONTROLS</u></p> <p>1. <u>Periodic Access Rights Review:</u></p> <p>There is no formal documented procedure for performing access recertification of the SDP functional and technical users with access to the application, database and mainframe supporting the Advantage application.</p>	<p>While OIT had implemented processes to perform and approve granting of user access, and removal of access rights, there is a risk that over a period of time access rights will not be updated due to oversights.</p>	<p>A formal documented procedure for performing access recertification of the SDP functional and technical users with access to the Advantage application, database and mainframe supporting the Advantage application must be set up on a regular periodic basis and the evidence thereof retained [306016.01].</p>	<p>Complete: Management implemented the <i>Advantage Finance and HR/Payroll System Security Access Policy and Procedure</i>, requiring that all administrators, for both Schools and Offices, provide a list of users for their respective locations and will be asked to identify any user who should no longer have access.</p>
<p>1a. There was no evidence of Global access authorization forms for two users with access to the ADVANTAGE Finance and Human Resource application. Also, there was no evidence to show that their access had been reviewed and recertified.</p>	<p>See Risk for #1. above</p>	<p>See Recommendation for #1. above</p>	<p>Complete: This finding was resolved regarding the Global access authorization forms for the two users with access to the ADVANTAGE Finance and Human Resource application. Also, the Advantage Security policy was updated to address the annual review and recertification of access for Advantage end users.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS OF IT GENERAL CONTROLS REVIEW

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>2. <u>Periodic Review of document approvals:</u> A policy has not been documented which defines the list of auditable events required to be logged on the Advantage system. Additionally, the District has no documented procedures for periodically reviewing the logs to identify any inappropriate or unusual activity.</p>	<p>Without a review of required logs, errors or inconsistencies in the document approval process could go unnoticed.</p>	<p>SDP must develop a policy, which defines the list of auditable events required to be logged or a policy that identifies what should be logged on the Advantage application. The logged events including the users who approved the documents, their respective level of approval to the documents and the date that approvals were applied, must be formally documented. Additionally, SDP must develop documented procedures for periodically reviewing the logs to identify any inappropriate or unusual activity [306016.02].</p>	<p>Complete: This finding is resolved, and no further action is required. The logging of auditable events is part of the ADVANTAGE application suite itself, and events are logged de facto. The ADVANTAGE user documentation defines the approval levels required for the various actions of the finance, human resources, procurement, and payroll functions.</p>
<p>3. <u>Incompatible Duties:</u> Although SDP has documented an incompatible matrix, SDP was unable to provide us with policies and procedures which define how the incompatible functions are segregated and monitored and how segregation of duties is enforced.</p>	<p>While OIT documented an incompatible matrix, the lack of formal policies and procedures could increase the risk of the misidentification or mishandling of incompatible duties.</p>	<p>SDP must develop a policy and related procedure, which define how the incompatible functions (incompatible matrix) are segregated and monitored and how segregation of duties is enforced [306016.03].</p>	<p>Complete: Management implemented the <i>Advantage Finance and HR/Payroll System Security Access Policy and Procedure</i>, which formally documents how segregation of duties is enforced.</p>
<p><u>CONFIGURATION MANAGEMENT</u></p>			
<p>4. <u>Access to Software Libraries in Advantage Application:</u> There were three individuals with “ALTER” access to the software libraries associated with the application in the development, production, and testing environments. Additionally, the three individuals also had access to modify production data.</p>	<p>Having alter access to the production and non-production ADVANTAGE libraries could allow certain individuals to circumvent OIT implemented change management controls to introduce unauthorized application changes to the production environment.</p>	<p>The District should prepare an approval document for the development group users who have access to the Advantage production database and have it recertified on an annual basis [306016.04].</p>	<p>Complete: The District documents the approval of the development group user who have access to the Advantage production database. The ADVANTAGE application is designed for software migration that requires certain individuals to move the various components forward from one environment to the next.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS OF IT GENERAL CONTROLS REVIEW

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>CONTINGENCY PLANNING</u>			
<p>5. <u>Disaster Recovery Process:</u> The District does not have formal documentation detailing the ability to switch the network to the data recovery center in the event of a disaster at the main location.</p>	<p>In the event of a disruption of service the District may not be able to provide required services or continue operations until service is restored</p>	<p>The ability to switch the network connectivity of the hosted mainframe system to the Disaster Recovery data center must be documented as part of the regular IT process documentation [306016.05].</p>	<p>Complete: This finding is resolved based on the fact that the District no longer requires a manual switch from the network to a data recovery center in the event of a disaster. Currently, the District’s network is a redundant data circuit that automatically runs in two separate locations. No additional recovery process would be required, it is inherent in the normal operation of the District’s network.</p>

RESPONSE TO AUDITOR'S REPORT

RESPONSE TO AUDITOR'S REPORT



THE SCHOOL DISTRICT OF
PHILADELPHIA

Uri Z. Monson
Chief Financial Officer

Office Of The Chief Financial Officer
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Philadelphia, PA 19130
(215) 400-4500
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June 7, 2019

Ms. Rebecca Rhynhart
City of Philadelphia
Office of the Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Re: The School District of Philadelphia's Response to City Controller's Report on Internal Control and on Compliance and Other Matters – Fiscal Year 2018

Dear Ms. Rhynhart,

Please find the formal response from the School District of Philadelphia to the issues raised and the corrective actions discussed in the audit report issued on May 29, 2019 with respect to internal control, compliance and other matters.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'Uri Z. Monson', written over a light blue horizontal line.

Uri Z. Monson
Chief Financial Officer

CC: Joyce Wilkerson, President and Members of the School Reform Commission
Dr. William Hite, Chief Executive Officer and Superintendent
Kellan White, First Deputy City Controller, City of Philadelphia
Beverly Martin, Audit Director, City of Philadelphia
Marcy Blender, Comptroller, School District of Philadelphia

REPORT ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS SCHOOL DISTRICT OF PHILADELPHIA RESPONSE FISCAL YEAR 2018

The School District of Philadelphia's leadership is pleased with the outcome of the Fiscal Year 2018 financial audit which resulted in very few findings, all of which were considered "other" conditions that are not significant or material in nature or amount. In addition, all the prior year "other" conditions were addressed through corrective actions with half of them now considered resolved and the remaining ones with significant portions corrected as noted in the report. Capital asset financial reporting, administration of bi-weekly payroll and general controls over information technology were considered resolved while significant progress was made in termination pay processing and transportation TransPass reporting procedures.

Responses to the Fiscal Year 2018 audit findings are below. For the first and most focused upon finding, related to termination payments to employees, the actions needed to resolve the condition were implemented in Fiscal Year 2018 as highlighted in the Corrective Actions section of the audit report. However, due to the timing of when staff was hired and new systems and automated processes went live, the resolution did not get completed until Fiscal Year 2019 as more fully described below. The remaining other findings relate to schools not always following the financial policies and procedures already in place at the School District of Philadelphia ("District"). These findings relate to student activity funds, personal property inventory, and aspects of transportation SEPTA TransPass reporting. The monetary values related to these findings are non-consequential, and concerns relate more to the potential risks associated with non-compliance. The District continues to focus on these areas with our school administrators while prioritizing the education and instruction of the students as opposed to any consequences that may not serve the interests of the students.

OTHER CONDITIONS

2018-001 Although Improved, Backlog in Termination Payments Still Exist

Response: As noted in the "Corrective Actions Taken By District" section of the audit report, the District's management team has made significant strides providing additional resources and process improvements to implement corrective actions to process termination pay more timely both for current and prior terminated employees. Therefore, the portions of the prior year audit finding related to adding staff and creating a more efficient process is now considered resolved.

The Vacation, Personal and Illness Leave (VPIL) report used to record termination pay owed to employees on the official accounting books of the District is a point in time and, therefore, does not capture or reflect the actual amount of processing that takes place over the course of the fiscal year. There are also small differences in the number of employees owed short-term termination pay in VPIL compared with the amount of termination pay actually due because VPIL includes employee status codes which appear as a liability, but in fact may not be currently due for various personnel reasons.

In Fiscal Year 2018, management hired an outside CPA consulting firm to help the District identify and correct inefficiencies in the termination pay process and established a cross functional team including representatives from the Talent Office, Payroll, IT and Accounting to implement the recommendations and corrective actions. In addition, the District's IT staff made programming modifications to the Advantage HR/Payroll system and

developed reporting tools to further automate some of the manual processes being used to calculate termination pay and account for the termination pay requirements of the various bargaining units. This work was completed, fully tested and operational by November 2018.

As mentioned, significant progress has been made in processing termination pay cases since the implementation of the new processes and the improved Termination Pay Application. At the inception of the Termination Pay Application implementation a total of 3,938 termination cases were loaded. Since the initial load, a total of 3,760 term cases have been completed, 178 await processing and an additional 1407 cases have been added. Assistance from the CPA consulting firm and IT staff, along with the Payroll staff additions described below, has resulted in expeditiously processing termination pay in accordance with each collective bargaining agreement barring any special circumstances.

In Fiscal Year 2017, the District increased the Payroll Department staff levels by adding two Payroll Processors and in Fiscal Year 2018 an additional Payroll Processor was hired and an Auditor position was authorized but not as yet hired. This has added to the improved processing time-line and helped to significantly reduce the backlog.

The District complies with unclaimed property laws and has escheatment processes in place for unclaimed checks. Although the District provides employees with forms, on which they are to provide an updated address and tax shelter selection, obtaining necessary documentation from separated employees continues to challenge the District. In Fiscal Year 2018, the total amount of termination cases awaiting required paperwork from those over the age of 55 totaled \$1.5 million. In an attempt to address this portion of the backlog, management has shortened the time-line for setting up at the designated 403(b) investment provider "orphaned accounts" for employees who are missing provider selection information.

The District will continue its efforts to eliminate the backlog of outstanding termination payments to our former employees in accordance with the terms of their contracts.

2018-02 Student Activity Dollars Continue to be at Risk for Theft and Misuse

Response: As stated in the audit report, District management has taken steps to increase the monitoring of activity in the Student Activity Fund (SAF) accounts. These steps include the implementation of a web-based accounting system, School Funds On-line (SFO), for the student activity funds which has allowed for better monitoring, resulting in a significant reduction in the number of inactive accounts, outstanding checks and negative balances.

A Fiscal Year 2018 initiative to mandate that all schools have their Student Activity Funds bank accounts at the same bank was successfully completed. This gives all Accounting Compliance and Control Monitors (ACCMs) whom monitor and support schools fund management activities, inquiry access to all schools' bank accounts so statements can be obtained timely in addition to the efficiencies from managing only one bank relationship. This should assist in the ability to have bank reconciliations completed more timely. In addition, as of February 2019, all checks written using student activity funds are subject to positive pay procedures at the bank, thereby minimizing the risk of fraudulent checks clearing the bank.

It should also be noted, that the majority (about 75%) of the inactive account balances identified in the audit report reside at two schools and have been re-purposed to other activities in connection with the Principal's transitions at the end of the past school year and therefore are no longer at issue.

The District acknowledges that some school personnel do not always comply fully with the policies and procedures set forth in the Student Activity Fund Manual ("Manual"). This occurs because school level personnel are not always knowledgeable on the requirements in the Manual and focus their efforts on instruction. Hands-on training opportunities for new Principals and Financial Designees and access to the updated on-line Manual should lead to a better understanding. During the summer of 2019, time has been allotted as part of "New Principal Training" and principal summer professional development to address overall financial matters and there will be additional hands-on training with SFO for new Principals. This continues to build on training which has been available since the summers of 2017 and 2018 as well as hands-on training time will be available for returning principals as requested. Regarding training of other school employees responsible for Student Activity Funds (e.g. Financial Designees, School Operations Officers and Activity Sponsors), this generally happens on an individualized basis when the need is identified. The central office accounting staff assigned to schools (ACCMs) conduct training that includes the web-based system and the Student Activity Fund Manual policies and procedures. Effective July 1, 2019, the School Operations Officer position will become centralized and report through the General Accounting Department. This will provide for supervisory overview from financial personnel and should provide for more accuracy and compliance in school funds management.

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

2018-003 Equipment Assigned to Some Locations Could Not Be Accounted For

Response: Accountability over and safeguarding personal property equipment at schools and administrative offices continues to be emphasized by District leadership. We continue to see significant improvements in safeguarding and tracking equipment in recent years. Also, the District has increased its efforts to hold inventory locations accountable for their equipment inventory with positive results by automating the process to improve both accuracy and efficiency and delay new purchases of equipment if monitoring surfaces non-compliance with the established policies and procedures. Although it is important to track and inventory all assets at schools and offices, a large number of the unaccounted/untagged assets date back prior to 2001 and the assets would be fully depreciated or obsolete by 2018. In addition, the highest volume technology purchases and most at risk for theft, lap tops and chrome books, are tagged and automatically inventoried in the system before they are shipped to a location/school.

Every inventory location 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, all locations are required to designate a person responsible for their inventory and hands-on training is offered each spring for both using the PPIS system and the District's inventory policies and procedures. For Fiscal Year 2018, over

80% of all school Principals and office administrators approved and submitted their annual inventory timely and those who did not were identified to their leadership and offered support/training to complete before purchasing new federally funded assets.

In an effort to improve accountability at inventory locations, the Finance Office will continue to refine processes and controls to improve accountability and accuracy over all personal property assets. In addition, it should be noted that the District's annual inventory process coincides with audit testing and further examination of the audit details shows that some issues regarding personal property that could not be located were addressed subsequent to the audit testing.

The 50 items of the 175 selected that could not be located at the 9 schools and 3 office locations in the audit sample with an acquisition cost of over \$86,000, have a current net book value of \$27,000 at June 30, 2018 after depreciation and considering obsolescence. The \$27,000 current net book value of the items that could not be located consist of 9 items subsequently disposed in Fiscal Year 2019 with a depreciated value of \$1,800, 7 items fully depreciated with a \$0 value, and the remaining 34 items totaling \$25,200 in depreciated value.

Of the 40 items of the 145 haphazardly selected and not found in the PPIS records, a further review shows that 11 of the 40 items have been disposed in the personal property records. Two items with an approximate purchase value of \$2,400 and a depreciated value of \$700 could not be located at the time of testing but are in "active" status in the personal property records. The remaining 27 items could not be located in the personal property records and further investigation revealed that many of these items likely date back to 2001 and prior. Therefore, it would pre-date the implementation of the current personal property inventory system (PPIS) in Fiscal Year 2012. Due to the estimated age of the items, the expected depreciated value would be \$0 and therefore would have no effect on the District's financial statements.

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

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

2018-04 TransPasses Missing and Unaccounted For

Response: As described in the Corrective Actions section of the report, the District's Transportation Office successfully implemented all the prior year recommendations related to policies and procedures for TransPasses at schools and the procedural part of the finding is now considered resolved. This included requiring students to sign upon receipt, instructions to school administrators on how to properly distribute and account for them, and requiring two employees to be involved in the distribution. In addition, a video tutorial was developed and distributed.

The remaining portion of the finding is the accounting/reporting by schools of TransPasses. In an effort to correct the reporting process, during the current school year, the Transportation Department identified and compiled a list of non-compliant schools who failed to submit Summary of Free Student TransPasses Forms by November 2018 or February 2019. An email was sent to each school to the attention of the school based TransPass contact, the Principal and the Assistant Superintendent. In the email, Transportation communicated that the Summary of Free Student TransPasses Forms were delinquent, reminded them of the TransPass policies and procedures, and provided a link to the Transportation website and the video as well as electronic copies of the Summary of Free Student TransPasses Forms.

Transportation also continues to follow-up with schools via phone call when they are flagged by the Accounting Compliance and Control Monitors (ACCMs) during their periodic school monitoring.

CORRECTIVE ACTIONS TAKEN BY THE DISTRICT

Our acknowledgement of the corrective actions for Termination Payments and TransPasses are included with the responses above to the current audit findings in 2018-01 and 2018-004 respectively.

The audit report indicated that the following prior year audit findings are no longer going to be reported upon due to the implementation of corrective actions which removed the finding:

Capital Assets Now Accurately Reported in the District's Financial Statements

The prior year finding on the misclassification of capital assets in the District's financial statements between Work in Progress and Completed Projects is considered resolved due to the prior period adjustments made to the financial statements. Corrective actions included better communications between the Accounting Department and Capital Programs Department, and improved reconciliation processes to ensure that the prior condition does not re-occur.

Administrative Approval of Bi-weekly Payroll Is Now Improved

As reported by the auditors, 97.7 percent of all payroll entered was properly approved. This was accomplished by implementing all the corrective actions noted in the prior audit report which included notifying non compliers, elevating to senior management repeat offenders, appointing back-up approvers, and offering support and training as needed.

General Controls Over Information Technology Improved

We are pleased to acknowledge as stated in the auditor report, that all remaining observations in conjunction with the evaluation of the District's Advantage finance, human resources, payroll and procurement information technology environment as noted by the May 2017 review by WithumSmith+Brown, PC, have been resolved. Specifically, open findings related to the auditing of document approvals at a system level, annual access certification of system administrators, and disaster recovery circuit redundancy, have been addressed by the District or further clarified to the satisfaction of the Office of the City Controller. As a result, no further actions are required by the District at this time with respect to the processes and procedures of the general controls for the District's Advantage information system environment.

AUDITOR'S COMMENT ON AGENCY RESPONSE

AUDITOR'S COMMENT ON AGENCY RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendations. We believe this to be the case with a certain statement made in the School District of Philadelphia's (District's) response regarding the timely escheatment of unclaimed monies.

On page 17 of this report, the District's response states the following: "The District complies with unclaimed property laws and has escheatment processes in place for unclaimed checks."

Our current year testing showed that while the District has a process for escheating unclaimed accounts payable and payroll checks to the state, their current process does not address property that is payable for which no physical check has been issued for termination payments. The cases of termination payments, which have been unclaimed for two years or more, referred to on pages 1 and 2 of this report are instances where no physical check has been issued for the amounts due to former employees. As mentioned on page 1, Pennsylvania's Unclaimed Property Law states 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. Therefore, we disagree with the District's contention that it complies with unclaimed property laws and has escheatment processes in place for unclaimed checks as it relates to termination payments.