

Report On Internal Control and On Compliance and Other Matters School District of Philadelphia Fiscal Year 2019



City Controller
Rebecca Rhynhart
July 23, 2020



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

Thursday, July 23, 2020

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

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, 2019. 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 been reported on for several years. Notably, the District had processed 1,499 cases of the termination pay backlog reported in fiscal year 2018, but still owed \$4.3 million in termination to nearly 600 former employees at the end of fiscal year 2019. Other findings include issues with managing equipment inventory, Student Activity Fund dollars and student TransPasses.

While management made progress on the termination pay backlog, District leadership stated in its response to the audit findings and recommendations that they anticipate the COVID-19 related shutdown will likely affect progress on the termination pay backlog. With that in mind, I urge you to take proactive steps to expedite processing termination pay now to avoid additional delays next year. For example, the District uses a partially manual system to process termination pay. The District may want to consider transitioning to a non-manual process to avoid any future disruptions in operations.

The findings and recommendations contained in the report were shared with management during the audit process. 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 prioritizing internal controls over financial reporting, but I encourage you to prioritize resolving the termination backlog and the remainder of the findings in the report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Rebecca Rhynhart', with a stylized, cursive-like script.

Rebecca Rhynhart
City Controller

CC: Board of Education Members
Honorable James F. Kenney, Mayor, City of Philadelphia
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, 2019 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 that could have a direct and material effect on financial statement amounts.

FY19 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 several matters involving the District's internal control over financial reporting that need management's attention. Some of the more important matters identified include:

- Since fiscal year 2008, the Controller's Office has reported that the District is not processing termination payments in a timely manner. In our fiscal year 2018 report, we noted that the District owed \$4.8 million in termination pay to more than 1,600 former employees who had left District employment. In this report, we found that the District had processed 1,499 cases of the backlog, but still owe termination payments totaling \$4.3 million to nearly 600 former District employees (as of June 30, 2019). Our report also found that more than \$60,000 should have been escheated to the Commonwealth. Though improved, termination payments are still not processed in accordance with labor agreements.
- During the course of the audit, the Controller's Office visited 11 inventory locations and found poor oversight of school equipment including computers, smart boards and musical instruments. Of the 135 items selected for testing, 48 percent of the items, valued at \$88,000, could not be located and were presumed missing or had been removed from their locations without proper documentation. While at the 11 locations, an additional 135 items were haphazardly selected for testing, of which 39 percent could not be identified in the District's accounting records. Failure to accurately account for equipment increases the risk for errors in financial statements and potential fraud.

- In a limited review of student activity funds (SAFs) for 20 school locations, totaling more than \$1 million (as of May 31, 2019), we observed a lack of compliance with the established procedures for properly maintaining those funds, placing them at greater risk for fraud 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. District Management should develop a plan for consequential action for personnel that are unable to accurately account for school equipment, as well as rewards for schools that maintain accurate inventory. 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 2019



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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REBECCA RHYNHART
City Controller

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, 2019, 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 07, 2020. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a correction of an error, discussed in Note 4.M. 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 2019-001 to 2019-005.

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 07, 2020

OTHER CONDITIONS

| | | |
|----------|--|---|
| 2019-001 | Backlog In Termination Payments Still Exist | 1 |
| 2019-002 | Poor Accountability Over School Equipment Increases Risks Of Financial Statement Errors and Theft | 2 |
| 2019-003 | Student Activity Fund Dollars Continue To Be At Risk For Theft and Misuse | 4 |
| 2019-004 | TransPasses Missing And Unaccounted For | 5 |

RESPONSE TO AUDITOR'S REPORT

| | |
|---|---|
| Uri Monson, Chief Financial Officer | 9 |
|---|---|

OTHER CONDITIONS

2019-001 BACKLOG IN TERMINATION PAYMENTS STILL EXIST

Condition: In our prior year report we commented that the District owed \$4.8 million to over 1,600 former employees that separated from service as far back as 2006. At June 30, 2019, the District had processed 1,499 of those backlogged termination payment cases.

At the end of fieldwork for our fiscal 2019 audit, we found that \$4.3 million in termination payments due to over 500 former District employees who separated from service, some as far back as 2006, still had not been processed or distributed. Table 2 below summarizes the amount of termination pay applicable to two of former employees – those that are age 55 and older, who receive their compensation via a contribution to a tax-sheltered annuity plan; and those under the age of 55 who are compensated by check.

| Table 1: Employee Termination Pay Outstanding for More Than One Year as of June 30, 2019 | | | | |
|--|--|---|--|---|
| 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) |
| 2018 | 431 | \$ 2.5 | \$ 0.5 | \$ 3.0 |
| 2017 | 54 | \$ 0.4 | \$ 0.0 | \$ 0.4 |
| 2016 | 28 | \$ 0.2 | \$ 0.0 | \$ 0.2 |
| 2015 and prior | <u>84</u> | <u>\$ 0.6</u> | <u>\$ 0.1</u> | <u>\$ 0.7</u> |
| Total | <u>597</u> | <u>\$ 3.7</u> | <u>\$ 0.6</u> | <u>\$ 4.3</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 their unused accrued leave within 30-75 days of separation¹. Two sets of procedures apply; one for employees age 55 and over, and one 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 those separated employees directly by check, and those payments are subject to Pennsylvania's escheat law. 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 would appear to be in violation of applicable labor agreements. Regarding the termination pay of former employees under the age of 55 whose pay has remained uncollected for more than two years, the District may also be in violation of Pennsylvania's escheat law. As of June 30, 2019, 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 is not specified in their labor agreement with the District.

\$60,000² should have been escheated to the Commonwealth. 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 2019.

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 pace 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].

2019-002 POOR ACCOUNTABILITY OVER SCHOOL EQUIPMENT INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT

Condition: During our fiscal 2019 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, smart boards, bookcases and musical instruments, could not be accounted for, and that some accounting records were inaccurate. At the eleven locations visited we selected 135 items listed in the District's accounting records for testing. We found that 48 percent of those items (65 of 135), with an acquisition value of over \$88,000, could not be located and were presumed missing, or had been removed from their locations without proper documentation. While at those eleven locations, another 135 items were haphazardly selected for testing. Of those items, 39 percent (52 out of 135) of them could not be identified in the District's accounting records. Table 3 summarizes the results at each of the schools 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: School personnel and principals at the locations we visited failed to adequately prioritize accountability over their equipment. Similarly, as we observed last year:

²The \$60,000 amount is derived from the rounded sum of fiscal years 2017, 2016, and 2015 and prior in column D, the total of which is \$63,919. That amount represents employees who separated prior to fiscal year 2018.

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

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

Table 2: Summary of Conditions Noted Regarding School Equipment

| Schools Visited | Items Selected from Records for Observation | Items Not Observed | Items Not Observed | Items Selected at Location | Items Not Found in Records | Items Not Found in Records | Policy Not Followed | |
|------------------------------------|---|--------------------|---|----------------------------|----------------------------|--|-------------------------------|----------------------|
| | | | | | | | Inventory Records Not Updated | Equipment Not Tagged |
| Swenson Art Technology High School | 15 | 9 | Cameras, Green Screen, Xerox, Waffle Maker, Desk set, Elliptical, Lift Gate, Shelving | 15 | 7 | Bookcase, Laminator, Locker, File Cabinets, Chrome book, Shelf | ✓ | ✓ |
| John Bartram High School | 15 | 6 | Mower, Printer, Instrument Case, Sousaphone, Pull-up Bar, Beverage Cooler | 15 | 6 | File Cabinet, Locker, Laptop, Printer, Desk, Sink | ✓ | ✓ |
| William Bodine High School | 15 | 5 | Science Replicator, Projector, Printer, Macbook, Steamer Stand | 15 | 9 | Cabinets, Scale, Chair, Display Cabinet, Computer, Bookshelf, Walk-in Fridge | ✓ | ✓ |
| Roxborough High School | 15 | 8 | Camcorder, Chair, Contour Floor Display, Pole Vault Unit, Tenor Sax, Shelving, Lawn Tractor | 10 | 3 | File Cabinet, Locker, Music Stand | ✓ | ✓ |
| Martin Luther King High School | 15 | 8 | Vacuum Packing Machine, Computer, Food Bar, Snow blower, Guitar, Clay Wheel, Piano Stand, Beverage Cooler | 15 | 9 | Card Catalog, Laptop Cart, Induction Range, Cabinet, Laminator, Steel Drum, Prep Table, Cooler, Oven | ✓ | ✓ |
| William Dick | 10 | 2 | Macbook, Printer | 10 | 0 | None. | ✓ | |
| John H. Taggart School | 10 | 2 | Upright Piano, Cabinet | 10 | 4 | Shelves, Card Catalog, Bookcase, Piano Bench | ✓ | |
| Penn Alexander School | 10 | 3 | Oboe, Mower, Bassoon | 10 | 2 | Desktop Computer, Audiometer | ✓ | ✓ |
| Russel H. Conwell School | 10 | 8 | Desktop, Smart Panel, Cello, Smart board, Chrome book, Wireless Listening System, Graphing Calculator, Clarinet | 10 | 6 | Locker, Violin, Cello, Snare Drum, Bookshelf, Cabinet | ✓ | ✓ |
| Benjamin Franklin School | 10 | 4 | Mower, Desktop, Smart board, Award Maker | 10 | 5 | Cabinet, Computer Cart, Shelving, Bookcase, Macbook | ✓ | ✓ |
| Curriculum and Assessment | 10 | 10 | MacBooks, Chair, Camcorder, Drawer, File Cabinet, Laptop, Laptop Cart, Printer, Desktops | 10 | 1 | Laptop | ✓ | |
| Totals | <u>135</u> | <u>65</u> | | <u>135</u> | <u>52</u> | | | |

Source: Office of the Controller

Recommendations: We continue to 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].

2019-003 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 School Fund Manual (Manual). The combined fund balance for the 20 schools examined was \$1,134,444 at May 31, 2019. 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 4 on the following page 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 @ 05-31-19 | 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 was Not Documented |
|--------------------------------|-------------------------------------|--|---|---|---|--|--|
| Central High School | \$434,636.30 | 14 | \$8,751.81 | 0 | \$0.00 | | |
| W. B. Saul High School | \$130,308.78 | 7 | \$17,997.70 | 0 | \$0.00 | ✓ | |
| Girard Academic Music Program | \$79,551.74 | 1 | \$78.51 | 0 | \$0.00 | ✓ | |
| Science Leadership Academy @ A | \$78,142.64 | 19 | \$5,186.29 | 5 | (\$12,935.87) | ✓ | |
| Creative and Performing Arts | \$73,814.73 | 3 | \$1,378.65 | 1 | (\$446.00) | ✓ | ✓ |
| Franklin Learning Center | \$67,075.21 | 6 | \$8,496.36 | 2 | (\$533.71) | ✓ | |
| Bartram High School | \$66,137.88 | 6 | \$2,890.81 | 0 | \$0.00 | ✓ | |
| Roxborough High School | \$55,433.12 | 0 | \$0.00 | 0 | \$0.00 | ✓ | |
| Benjamin Franklin High School | \$39,326.90 | 3 | \$532.92 | 0 | \$0.00 | ✓ | |
| Horatio B. Hackett School | \$29,682.78 | 6 | \$9,122.53 | 0 | \$0.00 | | |
| Morton McMichael School | \$23,713.79 | 1 | \$20,000.00 | 0 | \$0.00 | | |
| Alexander McClure School | \$16,550.05 | 7 | \$2,729.41 | 0 | \$0.00 | | |
| George Childs School | \$10,722.40 | 5 | \$4,230.32 | 1 | (\$264.84) | | |
| Wagner Middle School | \$7,709.22 | 2 | \$4,000.00 | 0 | \$0.00 | | |
| Philip Sheridan School | \$5,423.79 | 5 | \$1,467.75 | 0 | \$0.00 | ✓ | |
| William Bryant School | \$5,309.38 | 0 | \$0.00 | 0 | \$0.00 | | |
| William McKinley School | \$4,765.77 | 0 | \$0.00 | 0 | \$0.00 | | |
| Thomas Morton School | \$3,045.50 | 2 | \$497.80 | 0 | \$0.00 | | |
| Andrew Jackson School | \$2,154.77 | 2 | \$467.60 | 0 | \$0.00 | | |
| George W. Nebinger School | \$939.80 | 6 | \$236.08 | 0 | \$0.00 | | |
| Totals | <u>\$1,134,444.55</u> | <u>96</u> | <u>\$88,064.54</u> | <u>9</u> | <u>(\$14,180.42)</u> | | |

Source: Prepared by the Office of the Controller

Criteria: SAFs are custodial, student owned funds collected from students for specific 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 Student Activity Funds.

The School Funds Manual requires 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.
- Bank reconciliations need to be prepared monthly for middle and high schools and quarterly for elementary schools as soon as the bank statements are received. The completed and signed bank reconciliation should be sent to the accounting compliance and control 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 more than one year 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, 2019 totaled \$4.62 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: We commend District management for their continued effort to minimize negative account balances, improperly retained school related funds, and the number of long outstanding checks. However, to prevent misuse of the SAFs, we continue to recommend that:

- School principals, operation officers, and school staff comply with the guidance provided 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].

2019-004 TRANSPASSES MISSING AND UNACCOUNTED FOR

Condition: Our review of Student TransPass activity that occurred in February 2019³ at five selected District high schools disclosed, as in previous years, that school personnel could not account for all TransPasses received for distribution to students. At the five high schools visited, 873 of the 2,135 (41%) TransPasses

³ We tested records for the week of February 11, 2019 through February 17, 2019 at each of the high schools.

received could not be accounted for. The unaccounted for TransPasses were part of the District's fiscal year 2019 \$36 million Student TransPass Program and were valued at \$16,762⁴. Table 5 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)⁵, 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 Schools⁶

| Column A High School | Column B Number of TransPasses Received Per Auditor | Column C Number of TransPasses Distributed Per Auditor | Column D Number of TransPasses Undistributed Per Auditor (Col. B – C) | Column E Number of TransPasses Undistributed Per District | Column F Number of TransPasses Unaccounted For (Col. D – E) |
|---------------------------------------|--|---|--|--|--|
| Martin Luther King H.S. ⁷ | 257 | 0 | 257 | 0 | 257 |
| Roxborough H.S. ⁸ | 606 | 0 | 606 | 33 | 573 |
| Bartram H.S. | 221 | 157 | 64 | 63 | 1 |
| Bodine H.S. | 481 | 464 | 17 | 11 | 6 |
| Swenson Arts/Tech H.S. | 570 | 502 | 68 | 32 | 36 |
| Total | 2135 | 1123 | 1012 | 139 | 873 |

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

⁴ The estimated cost figure of \$16,762 was calculated by multiplying the price of a five-day student TransPass by the number of unaccounted passes. Per the contract between the School District and SEPTA, the price of a five-day student TransPass in fiscal year 2019 was \$19.20.

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

⁶ The sources of information for the TransPass reconciliation presented in the table above were as follows:

- Figures in column B were obtained from the auditor's review of TransPass receipt/delivery records at the school and the District's Transportation Department.
- Figures in column C represented the auditor's count of checkmarks and/or student initials and/or signatures and/or highlights appearing on the compass report provided by school personnel.
- Figures in column E were obtained from the auditor's review of the Dunbar TransPass return records maintained at the school locations and the District's Transportation Department.

⁷ Martin Luther King H.S. was unable to provide the Compass report or the Dunbar TransPass return records for the dates tested, therefore we reported zero TransPasses Distributed per Auditor, and Undistributed per District.

⁸ Roxborough H.S. was unable to provide the Compass report, therefore we reported zero TransPasses Distributed per Auditor.

Figure 1: TransPass Receipt/Delivery Report

Dunbar
CASH VAULT SERVICES

Supply Group: Wed Jan 9, 2019
Order #: 13834295
Customer/Loc #: 0989 PHILLY TRANSPASSES
WILLIAM W BODINE HS#515 INV:9940
1101 N 4TH ST PHILADELPHIA

Product Quantity Value
TransPassType1(02/04 /2019) 481 \$0.00
TransPassType2(02/11 /2019) 481 \$0.00
TransPassType3(02/19 /2019) 481 \$0.00
TransPassType4(02/25 /2019) 481 \$0.00
Total 1,924 \$0.00

Prepped Received
01 of 01 Pieces 0
FORM 157 REV. 7/96 SN: 00000040

19 JAN 8 AM 10:39
#59
RL

Source: School District of Philadelphia

Figure 2: General TransPass List

https://reports.sos.com/PrintReport.aspx?ReportID=404&URL=VUG&X=KCYD&E&A&play=Time

| # | Student ID | Last Name | First Name | Address | Grade | Homeroom | Distance to School (mi) | Notes |
|---|------------|-----------|------------|---------|-------|----------|-------------------------|-------|
| | 09 | 409 | 6.73 | | | | | |
| | 09 | 409 | 2.06 | | | | | |
| | 09 | 409 | 8.39 | | | | | |
| | 09 | 409 | 2.44 | | | | | |
| | 09 | 409 | 6.35 | | | | | |
| | 09 | 409 | 6.53 | | | | | |
| | 09 | 409 | 2.24 | | | | | |
| | 09 | 409 | 2.55 | | | | | |
| | 09 | 409 | 6.97 | | | | | |
| | 09 | 409 | 5.58 | | | | | |
| | 09 | 409 | 6.14 | | | | | |
| | 09 | 409 | 5.98 | | | | | |
| | 09 | 409 | 2.82 | | | | | |
| | 09 | 409 | 7.48 | | | | | |
| | 09 | 409 | 6.93 | | | | | |
| | 09 | 409 | 4.64 | | | | | |
| | 09 | 409 | 5.31 | | | | | |
| | 09 | 409 | 6.07 | | | | | |
| | 09 | 409 | 6.94 | | | | | |
| | 09 | 409 | 1.98 | | | | | |
| | 09 | 409 | 1.81 | | | | | |
| | 09 | 409 | 4.23 | | | | | |
| | 09 | 409 | 5.12 | | | | | |
| | 09 | 409 | 2 | | | | | |

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: Bodine
School Loc. #: 515
Month & Year: February / 2019

A. Summary of Student TransPasses Received for the Month

Number of TransPasses Received for the Month (Initial Delivery): 1924 (A1)
Total of Any Additional TransPasses Received: - 0 - (A2)

Week 1: 1924 Week 4: 1924
Week 2: 1924 Week 5: 1924
Week 3: 1924 * Total for weeks to be placed in A2

Total Number of TransPasses Received by the School: 1924 (A3)

B. Summary of Student TransPasses Distributed by Week:

| Dates | # To Be Distributed | # Distributed | # Undistributed |
|-------------------------|---------------------|---------------|-----------------|
| Week of: <u>2-4-19</u> | <u>481</u> | <u>462</u> | <u>19</u> |
| Week of: <u>2-11-19</u> | <u>481</u> | <u>470</u> | <u>11</u> |
| Week of: <u>2-18-19</u> | <u>481</u> | <u>467</u> | <u>14</u> |
| Week of: <u>2-25-19</u> | <u>481</u> | <u>466</u> | <u>15</u> |

Totals for the Month: 1924 (B1) 1865 (B2) 59 (B3)

* Please note that blocks A3 and B1 must be the same number.
* The sum of blocks B2 and B3 must be equal to block B1.
* Block B3 is the number of TransPasses returned to Transportation Services.

Quinta Lucas 3/4/19
Preparer's Signature Date
K. Thomas 3/4/19
Principal's Signature Date

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

(Rev. 8/30/11)

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 enforce 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, District management should 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].

RESPONSE TO AUDITOR'S REPORT



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 24, 2020

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 2019

Dear Ms. Rhynhart,

Please find the formal response from the School District of Philadelphia (SDP) to the Other Conditions identified in the Audit Report issued on June 23, 2020 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,

Uri Z. Monson
Chief Financial Officer

CC: Joyce Wilkerson, Board President, SDP Board of Education
Dr. William Hite, Chief Executive Officer and Schools Superintendent
Kellan White, First Deputy City Controller
Christy Brady, Deputy City Controller
Beverly Martin, Audit Director, City Controller
Marcy Blender, Comptroller, School District of Philadelphia

School District of Philadelphia's Response to Fiscal Year 2019 Auditor's Report

The School District of Philadelphia's ("District") senior leadership is pleased with the outcome of the City Controller Auditor's Report on Internal Control and on Compliance and Other Matters ("Report") for Fiscal Year 2019. Again, for Fiscal Year 2019, there were only Other Conditions, which are not a requirement of Governmental Auditing Standards to be part of this audit Report, but brought to the District's attention for improvements. There were also no material weaknesses or significant deficiencies which would influence the financial statements presentation.

All the Other Conditions, which included: termination pay processing, personal property inventory, Student Activity Fund accounting, and SEPTA TransPass reporting, were repeat findings from prior years. For all these items, the District diligently implemented the corrective actions recommended by the auditors with noticeable progressive improvements.

As mentioned in the Report, the District has made significant strides in resolving the Termination Pay processing time-line. All three of the other findings, primarily relate to schools not always understanding or fully complying with the comprehensive policies and procedures established by administrative leadership to ensure compliance. The priorities of educating and instructing students' are consistently balanced against achieving 100% compliance and permissibility under collective bargaining terms for disciplinary action.

Following are the specific responses to each of the Other Conditions.

2019-001 Backlog in Termination Payments Still Exist

Response: The District would like to thank the City Controller for noting that the pace for eliminating the termination pay backlog has been impactful. While the Report states that the District had difficulty dedicating the necessary resources, the District utilized an external review of our process to take an overly manual process, automate where appropriate, clean up core data, and improve accuracy. This process re-engineering resulted in a more efficient and effective term pay system, which has generated improved turn-around times for completion of Termination payments.

Although the Controller's review ends as of June 30, 2019, District leadership is pleased to update the figures and note that as of March 13, 2020, the date the District buildings closed due to the Covid-19 Pandemic, the 166 outstanding cases from 2017 and earlier is now just seven (7). Most of these remaining ones have outstanding legal issues or adjudication related holds awaiting resolution. For 2018, as of March 13th, the District had reduced the 431 outstanding cases to just 72, with 69 of those outstanding cases slated to be resolved in early April. In other words, the original backlog of 1,600 cases would have been reduced to ten (10), all with extenuating circumstances.

Unfortunately, the Pandemic related closures have made the processing of Termination payments impossible. It is a partial manual process involving records from multiple systems, not all of which are accessible remotely in a secure fashion. The District has been working on a solution to these issues and finding ways to restart Termination payments now that the City of Philadelphia is in the yellow phase of opening. At that point, the 69 cases from 2018 should be resolved. Although the District had been making significant headway in keeping pace with current separations prior to the Pandemic, at the time of closing, the District had 394 cases remaining from 2019 and the number of current 2020-year cases exceeds 1,100.

We are confident that the implementation of the new process that has been so successful at reducing the backlog will help the District in its efforts to catch-up from the Covid-19 closure. However, it will take some time to make up for the over three months of processing time lost to the Pandemic. Even with the Pandemic related delays, we expect to be in a better position at the end of Fiscal Year 2020, than we were at the end of Fiscal Year 2019.

The District has processes and procedures in place to comply with current escheatment laws. For those over 55 years old the District has identified an outside vendor to process payments should an employee fail to identify a preferred tax-shelter annuity in a reasonable time-period. With the more efficient Termination pay process, the reduction in the backlog, and overall faster processing, checks will be issued more timely, and the escheatment processes followed for those 55 years old and under in a more expedited fashion.

2019-002 Poor Accountability Over School Equipment Increases Risks of Financial Statement Errors and Theft

Response: Accountability over inventory tracking and safeguarding personal property assets at schools and administrative offices is a District Board policy and emphasized by leadership. The District provides annual training and holds inventory locations accountable for their equipment inventory. If regular internal monitoring surfaces noncompliance, new grant equipment purchases are not permissible until corrected. Recognizing the importance of inventory record keeping, the District upgraded the personal property inventory accounting system (PPIS) module of its ERP Finance system in Fiscal Year 2012. Although it is important to track and inventory all assets at schools and offices, a large number of the unaccounted or untagged assets in the audit findings date back prior to 2001 and therefore the assets would be fully depreciated with no dollar value or obsolete by 2019, and therefore, would not impact the financial statements. Labeling of the highest volume technology purchases and most at risk for theft, laptops and chrome books, occurs at the warehouse before shipment. In addition, an electronic file automatically updates the PPIS inventory system for these items.

Every inventory location has on-line access to 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 2019, all school Principals and Office Administrators who did not follow District policy for inventory were identified to their leadership and provided with both support and training. In addition, as mentioned, no grant equipment purchases were allowable without corrective action.

The District's internal physical annual inventory process coincides with audit testing at the end of the school year, and therefore, the inventory records are not fully complete at the time of the testing. Further examination of the audit details shows that some issues regarding personal property that could not be located were resolved subsequent to the audit testing and before the publication of the Fiscal Year 2019 Annual Financial Report.

The net book value of the 65 items of the 135 selected that could not be located at the 10 schools and one (1) office totals to \$24,200 at the end of Fiscal Year 2019 after depreciation and considering obsolescence (acquisition cost of about \$88,000). The \$24,200 current net book value of the items that could not be located consists of three (3) items subsequently disposed in Fiscal Year 2020 with a depreciated value of \$138, 31 items are fully depreciated with a \$0 value, and the remaining 21 items totaling \$24,062 in depreciated value.

Of the 52 items of the 135 haphazardly selected and not found in the PPIS records, a further review shows that two (2) items with an approximate purchase value of \$2,100 and a depreciated value of \$0 could not be located at the time of testing but are in "active" status in the personal property records. The remaining 50 items could not be located in the personal property records and further investigation revealed that these items date back to 2001 and prior and therefore would have a depreciated value of \$0.

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 of establishment of the asset in the system.

As a means to ensure the tagging of District property 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 affixing of tags to the proper asset, identifying which assets per the inventory list are at the school, and they performed and submitted their annual inventory for accurate financial reporting. Untagged equipment observed during the audit could also result from either a timing difference between the issuance and delivery of asset tags to the school or tags intentionally removed by students.

2019-003 Student Activity Fund Dollars Continue to be at Risk for Theft and Misuse

Response: As recognized in the audit Report, over recent years, District management has taken significant steps to increase the monitoring and safekeeping of activity in the Student Activity Fund (SAF) accounts. In general, the number and dollar amounts related to specific findings have decreased, indicating that all of these steps, collectively, have been effective. These steps include the implementation of a web-based accounting system, School Funds On-line (SFO), for the student activity funds which has allowed for better monitoring, resulting in a significant reduction in inactive accounts, outstanding checks and negative balances. A Fiscal Year 2018 initiative to mandate that all schools have their Student Activity Fund bank accounts at Wells Fargo has provided the Finance Office full inquiry access to all schools' bank accounts so statements can be obtained timely and managing only one bank relationship much more efficient, amongst other things. There were also fewer schools having the finding of "Bank Reconciliations Not Completed Timely". In addition, as of February 2019, all checks written using student activity funds are subject to positive pay procedures at the bank, significantly minimizing the risk of fraudulent checks clearing the bank.

During Fiscal Year 2020, a new initiative to make it much easier accept credit cards was to begin in April 2020, but delayed due to the Covid-19 Pandemic and will now begin in Fiscal Year 2021. This initiative, a pilot program with 42 schools to accept credit cards on-line and in person, will further decrease the risk for potential theft and fraud risk by minimizing the usage of cash and checks. This will decrease the need for cash handling from various places throughout the school and provide additional benefits to students and their parents. If the pilot is successful, the plan is to roll this out to all schools in Fiscal Year 2022 and ultimately to require its usage.

The District continues to acknowledge that some school personnel do not always comply fully with the policies and procedures set forth in the comprehensive Student Activity Fund Manual ("Manual"). Hands-on training opportunities for new Principals and financial designees as well as access to the updated on-line Manual should lead to a better understanding and adherence to policies. As part of "New Principal Training" and the "School-wide Operations Training Institute" conducted in the summer of Fiscal Year 2019, sessions addressed critical issues within student funds. We plan to provide these training sessions again during the summer of 2020. In addition, training time is always 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 Accounting Compliance and Control Monitors (ACCMs) who are central office Finance employees assigned to support schools, conduct on-site training that includes the web-based system and the Student Activity Fund Manual policies and procedures.

Effective July 1, 2019, the School Operations Officer (SOO) positions became centralized and now report through the Finance Office. This provides for supervisory overview from financial personnel versus supervision by a principal more focused on educational matters. This should provide for more accuracy and compliance in Fiscal Year 2020 and going forward as well.

It is also 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 Finance Office refers the school to Internal Audit or the Inspector General for a review. In addition, when noncompliance resulting in a monetary loss is determined as resulting from the negligence of a principal, withholding of money from paychecks or in the case of separating principal, from their Termination pay is an allowable consequence and has occurred in the past.

2019-004 TransPasses Missing and Unaccounted For

Response: Schools are accountable to follow the policies and procedures the District has implemented based upon the auditor's past recommendations for properly accounting for how TransPasses are distributed and reported. Recognizing that they always do not do so, there were no requests from schools for replacements or complaints from students or parents about missing ones, leading us to conclude there was inconsequential if any financial loss from their noncompliance. Although missing and unaccounted for TransPasses increase risk for theft or misuse, if not used the District was not charged for them by SEPTA.

During Fiscal Year 2020, the Transportation Office hired one additional staff to strengthen the TransPass compliance process amongst other things. The new employee actively

monitors, trains where needed, and reinforces TransPass policies and procedures. In addition, they are to identify non-compliant schools for follow-up with Principals and their Assistant Superintendents so that they can begin progressive actions for those who consistently are not in compliance. Transportation continues to communicate with delinquent schools, remind them of the TransPass policies and procedures, and provide a link to the Transportation website and the instructional video as well as electronic copies of the Summary of Free Student TransPasses forms. Transportation also follows-up with schools via phone call when flagged by the Accounting Compliance and Control Monitors (ACCMs) during their periodic school monitoring of TransPass compliance activities.

Transportation is currently in the planning and development phase with SEPTA to transition from the Student TransPass to a SEPTA Student Key Card beginning School Year 2022. The Key Card is an electronic swipe card for eligible students used for travel to and from school. Our goal is to conduct a series of pilots to test the Student Key Card beginning January 2021.