

# **Report On Internal Control and On Compliance and Other Matters School District of Philadelphia Fiscal Year 2021**



**City Controller**  
**Rebecca Rhynhart**  
June 2022



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679  
(215) 686-6680 FAX (215) 686-3832

REBECCA RHYNHART  
City Controller

CHRISTY BRADY  
Deputy City Controller

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

Thursday, June 9, 2022

Dear Mrs. Wilkerson,

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller conducted an audit of the basic financial statements of the School District of Philadelphia (District) as of and for the fiscal year ended June 30, 2021. Attached is the Controller's Office report on internal control and on compliance and other matters.

During our audit, we identified one significant deficiency related to the implementation of the District's new Oracle system that replaced its legacy ADVANTAGE system for general ledger processing. Specifically, the assessment of information technology application and general controls noted inadequate review of access controls and segregation of duties. Additionally, we noted one other condition related to the untimely processing and disbursement of termination payments to separated employees. The District has greatly improved the backlog eliminating all termination payments from 2006 to 2018. We encourage the District to continue this effort and clear the remaining backlog since 2019.

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. Management's response, which was detailed and specific, is included as part of the report. We thank the District for its thorough and thoughtful response to this audit.

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

Sincerely,

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  
Dr. William Hite, Superintendent  
Uri Monson, Chief Financial Officer  
Marcy Blender, CPA, Deputy Chief Financial Officer and Comptroller



# SCHOOL DISTRICT OF PHILADELPHIA

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

### EXECUTIVE SUMMARY

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#### Why the Controller's Office Conducted the 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, 2021, 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.

#### FY 21 Report Findings

The Controller's Office found that the District's financial statements were presented fairly, in all material respects. During our audit, we identified one significant deficiency and one condition regarding the District's internal control over financial reporting that require management's attention. These matters include:

- Inadequate Review of Access Controls and Segregation of Duties (Significant Deficiency)  
As part of the audit of the District's fiscal year 2021 Annual Comprehensive Financial Report, the Controller's Office, through the use of an independent accounting firm, performed an assessment of the information technology application and general controls related to the District's new Oracle system. The assessment identified that there was no requirement to identify incompatible user access permissions as part of the system implementation. As a result, users could have access not commensurate with their job responsibilities and users may have access across incompatible roles, responsibilities, and permissions within the system, which could allow a user to bypass system controls.
- Although Improved, Backlog of Termination Payments Still Exists (Other Condition)  
Since fiscal year 2008, the Controller's Office has noted that the District is not processing termination payments to former employees in a timely manner. Although much improved, the District continues to have a backlog of termination payments to process and distribute. At the conclusion of our fiscal year 2021 audit, we found that termination payments totaling \$2.7 million were owed to nearly 500 former employees who had separated since fiscal year 2019.

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

The Controller's Office recommends that the District formally identify the areas of responsibility related to security and provisioning of access for the Oracle system and include them in an overall security program or policy. The security program or policy should include a requirement for periodic reviews of access, which should include segregation of duty considerations. The District should also develop a comprehensive document that identifies incompatible roles, responsibilities, and permissions, clearly. Additionally, the Controller's Office recommends that the District continue to work to resolve the backlog of termination payments.

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

**SCHOOL DISTRICT OF  
PHILADELPHIA**

**FISCAL 2021**





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

To the 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, 2021, 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 21, 2022. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Note 4.M. to the basic financial statements.

### **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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying report as item 2021-001 that we consider to be a significant deficiency.

### **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 financial statements. 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. This other condition is listed in the table of contents and described in the accompanying report as item 2021-002.

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

The District's responses to the findings 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 21, 2022



## CONTENTS

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	PAGE
<b>SIGNIFICANT DEFICIENCIES</b>	
2021-001 Inadequate Review of Access Controls and Segregation of Duties .....	1
<b>OTHER CONDITIONS</b>	
2021-002 Although Improved, Backlog in Termination Payments Still Exist .....	2
<b>RESPONSE TO AUDITOR'S REPORT</b>	
Uri Monson, Chief Financial Officer.....	3

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**SIGNIFICANT DEFICIENCIES**

## **2021-001 INADEQUATE REVIEW OF ACCESS CONTROLS AND SEGREGATION OF DUTIES**

**Condition:** As part of our audit of the School District's fiscal 2021 Annual Comprehensive Financial Report, we engaged an independent accounting firm to perform an assessment of the information technology application and general controls related to the School District's new Oracle system which replaced its legacy ADVANTAGE system for general ledger processing.

This review noted that the School District has not established a formally documented Segregation of Duties policy that includes identification of incompatible roles, responsibilities, and permissions. System users have been assigned access based on job function role and location, however the specific access permissions of the roles have not been reviewed by the District. Due to the lack of review, the identification of incompatible permissions within or across roles has not been performed. In addition, a periodic user access review has not been performed since the implementation of the system, which went live on July 1, 2020. Lastly, a documented security program or policy, including the District's responsibility over the Oracle system, was not provided.

**Criteria:** Although the Oracle system is a vendor hosted system, there are aspects of the security and provisioning of access to the system, which is the responsibility of the School District. Incompatible roles, responsibilities and permissions should be established to enforce segregation of duties in both the provisioning and the periodic reviewing of user access.

**Effect:** There may be users with access not commensurate with their job responsibilities. In addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.

**Cause:** As part of the system implementation, there was no requirement to identify incompatible user access permissions. A periodic review of access has not been performed due to the current focus on the implementation of the Oracle HR system.

**Recommendation:** The District should formally identify the areas of responsibility related to security and provisioning of access related to the Oracle system and include them in an overall security program or policy. As part of this security program or policy, a requirement for the performance of a periodic access review should be included. There should also be a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions. These segregation of duty considerations should be included in the periodic access reviews [306021.01].

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**OTHER CONDITIONS**

**2021-002 ALTHOUGH IMPROVED, BACKLOG IN TERMINATION PAYMENTS STILL EXIST**

**Condition:** In our prior year report we commented that the District owed \$2.2 million to over 400 former employees that separated from service as far back as 2006. During our current audit we noted substantial improvement in this condition. Specifically, we noted that the District processed all 148 outstanding cases for the period 2006 through 2018.

However, at the conclusion of our fiscal 2021 audit, we found that termination payments totaling \$2.7 million due to almost 500 former employees that separated from service, 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, 2021				
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)
2020	402	\$1.6	\$1.0	\$2.6
2019	84	\$0.0	\$0.1	\$0.1
Total	<u>486</u>	<u>\$1.6</u>	<u>\$1.1</u>	<u>\$2.7</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 they are entitled to termination pay for the unused time within 30-75 days of their separation.<sup>1</sup>

**Effect:** The District would appear to be in violation of applicable labor agreements.

**Cause:** As in previous years, District management had difficulty dedicating the necessary resources to timely address outstanding termination pay owed to employees that have separated from the School District.

**Recommendation:** Management should prioritize processing any outstanding termination payments owed to separated employees to ensure that the District is in compliance with current labor agreements [600121.01].

<sup>1</sup> The 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.

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## RESPONSE TO AUDITOR'S REPORT



**RESPONSE to 2021-001 INADEQUATE REVIEW OF ACCESS CONTROLS AND SEGREGATION OF DUTIES**

A new state of the art cloud-based Oracle Enterprise Resource Planning Finance System ("ERP Finance System") went live starting with the fiscal year beginning July 1, 2020. This was a major accomplishment for the School District of Philadelphia ("The District") because it allowed remote access to the ERP System during the Covid-19 Pandemic and significantly improved financial controls and transparency of financial information.

The District appreciates the initial assessment and evaluation of the ERP Systems' IT General and Application Controls which was performed by Eisner Advisory Group, LLC on behalf of the Office of the City of Philadelphia Controller for Fiscal Year 2021 (the first year in production for a three-year implementation). The District acknowledges that we will take corrective actions for the one significant deficiency related to access controls and segregation of duties and are pleased that all other observations in the remaining five key areas reviewed were either not applicable because there were no exceptions noted or a control deficiency of a non-major or non-significant consequence to compromise the systems' financial controls and data integrity. We commit all such findings will be rectified timely.

The District agrees with the recommendations for Finding 2021-001 and will implement the following initiatives within the next six months and continue to keep them updated periodically:

- Formally document the areas of responsibility related to access to the ERP Finance System.
- Expand upon the current security program/policy to include a more comprehensive policy with detailed procedures and documentation.
- Based upon this documentation and policy, annually perform a system access review which will be a requirement included in the policy. Segregation of duty analyses will be included as part of this review.
- Prepare a comprehensive formal document which will clearly identify incompatible roles, responsibilities and security permissions.

The District takes very seriously the security and controls associated with our ERP Finance System. During the implementation of the Oracle ERP Finance system, measures were taken to review all roles that would be assigned to System Users so that they could perform their necessary job functions. Although the roles and privileges were not formally documented, roles and privileges were reviewed by the Information Technology Office and System Module Team Leads, and assigned based upon segregation of duties and internal control and regulatory compliance considerations.

A documented security program/policy was created as part of the ERP System implementation and provided to the auditors. However, SDP commits that the policy will be updated to include a more comprehensive and detailed list of roles and privileges. Any

roles that are added subsequently will be updated within the policy document, along with implementing a periodic annual review of all users and roles assigned to them.

The District thanks our auditors for recognizing the achievement and accomplishment of implementing our new ERP Finance System. We also appreciate that during the Exit Conference they recognized the relatively few general and application control findings associated with the implementation of a new ERP System. This was accomplished remotely during a World-wide pandemic.

**RESPONSE TO 2021-002 ALTHOUGH IMPROVED, BACKLOG IN TERMINATION PAYMENTS STILL EXIST**

The School District is pleased that the City Controller noted the substantial improvement in the continued focus on reducing the backlog of Termination Payments as demonstrated by processing all outstanding cases for the period 2006 through 2018.

Although the number of outstanding cases increased slightly as noted in the Fiscal Year 2021 Auditor's Report, this time period included a significant number of months during which District operations were fully remote as required by the City. Therefore, for security and HPPA reasons, the District was unable to process any Termination Payments due to the large amount of personal financial information involved in these payments. Despite these challenges, and returning from the pandemic facing an increased backlog of cases, the District made a concerted effort to process backlog cases, resulting in only a slight year-over-increase as of June 30, 2021.

As the District has been able to both return to in person processing and develop secure systems for remote processing to prevent future disruptions, the backlog continues to be reduced. During a year of significant numbers of staff departures, payroll staff continues to both pare down the backlog and keep pace with new separations aided by the Termination Pay application. As of May 1, 2022, the total existing backlog of cases prior to June 30, 2021 is 345 cases (279 of which relate to Fiscal Year 2021 separations), totaling just under \$3.4 million. The District expects to have nearly 200 of those cases resolved by the end of May 2022, with the remaining outstanding cases consisting of either cases where the employee has declined to submit the paperwork to release the funds (despite numerous attempts to contact the employees), or deceased employees with more complex estate issues to resolve.

As recommended as a corrective action, the District will continue its unrelenting efforts to prioritize processing with due diligence all outstanding termination payments owed to separated employees.