

# CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

**MANAGEMENT LETTER**  
**ON**  
**SCHOOL DISTRICT OF PHILADELPHIA'S**  
**INTERNAL CONTROL**  
**FISCAL YEAR 2023**



City Controller  
**Christy Brady, CPA**

*Ensuring transparency, accountability,  
and fiscal integrity in city government*





# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
1230 Municipal Services Building  
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Philadelphia, PA 19102-1679  
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CHRISTY BRADY  
City Controller

CHARLES EDACHERIL  
Deputy City Controller

To the President and Members of  
The Board of Education of the  
School District of Philadelphia

In planning and performing our audit of the financial statements, of the School District of Philadelphia, Pennsylvania (School District), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2023 in accordance with the auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we noted a deficiency in internal control other than a significant deficiency or a material weakness, that is not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and presents an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestions regarding this matter as well as the corrective actions taken to resolve four prior year findings. This letter does not affect our report dated February 16, 2024, on the financial statements of the School District.

We will review the status of this comment during our next audit engagement. We have already discussed the comment with School District management and if you wish, we will be pleased to discuss it further at the exit conference.

This communication is intended solely for the information and use of School District's management and those charged with governance, and is not intended to be, and should not be, used by anyone other than those specified parties.

Handwritten signature of Charles Edacheril in cursive.

CHARLES EDACHERIL, CPA  
Deputy City Controller

Handwritten signature of Christy Brady in cursive.

CHRISTY BRADY, CPA  
City Controller

Philadelphia, Pennsylvania  
February 16, 2024

# Memo

**To:** Marcy Blender, Deputy CFO, Accounting Services, Controller  
**From:** Beverly Martin, Audit Director

**CC:** Charles Edacheril, Deputy Controller  
Donovan Hensley, Special Project Assistant – Accounting Services  
Deborah Ming, Audit Director  
Robert Mott, Audit Manager

**Date:** February 16, 2024  
**Re:** Summary of FY 2023 Internal Control Comments

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During our FY 2023 School District of Philadelphia (School District) audit, we noted a deficiency in internal control other than a significant deficiency or a material weakness, that is not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and presents an opportunity for strengthening internal controls and operating efficiency. This condition is identified as finding number 2023-001. The same condition was also reported in the FY 2022 School District Report on Internal Control and on Compliance and Other Matters (Internal Control Report). Additionally, we noted that School District management resolved four prior year conditions reported in the FY 2022 Internal Control Report identified as numbers 2022-001, 2022-003, 2022-004, and 2022-005. The findings mentioned here are summarized below:

## **2023-001 OUTSTANDING TERMINATION PAYMENTS**

**Condition:** In our prior year report, we commented that the School District owed \$1.4 million to almost 200 former employees that separated from service as far back as 2016. As of June 30, 2023, the School District processed 1,318 of the backlogged termination payment cases of which 1,189 were from 2022 and the remaining 129 were from 2021 and prior.

At the conclusion of our fiscal 2023 audit, we found that termination payments totaling \$1.7 million due to more than 300 former School District employees that separated from service, still had 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, 2023**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>
<b>Fiscal year of separation</b>	<b>Number of employees owed termination pay</b>	<b>Termination pay owed to those age 55 &amp; over at separation (in thousands)</b>	<b>Termination pay owed to those under age 55 at separation (in thousands)</b>	<b>Total termination pay owed (in thousands) (Col. C+D)</b>
2022	255	\$1,438.2	\$194.8	\$1,633.0
2021	34	9.2	7.7	16.9
2020	13	1.1	55.5	56.6
2019 and Prior	15	11.6	1.4	13.0
<b>Total</b>	<b><u>317</u></b>	<b><u>\$1,460.1</u></b>	<b><u>\$259.4</u></b>	<b><u>\$1,719.5</u></b>

Source: Prepared by the Office of the Controller based on the analysis of the School 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 School District employment, they are entitled to termination pay for the unused time within 30-75 days of their separation<sup>1</sup>. Termination pays for employees under age 55 could be subject to Pennsylvania’s Abandoned and Unclaimed Property Law (escheat law). For employees under 55, the School 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 School 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 School District may also be in violation of Pennsylvania’s escheat law. As of June 30, 2023, approximately \$64.6 thousand (the rounded sum of rows per Column D in Table 1 above for fiscal years 2021, 2020, and 2019 and prior) should have been escheated to the Commonwealth.

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

**Recommendation:** School District management should prioritize processing any outstanding termination payments owed to separated employees to ensure that the School District is in compliance with current labor agreements [600121.01]. Also, management should remit the unclaimed amounts due to the Commonwealth two years after they become payable or distributable to former employees that separated under the age of 55 [600123.01].

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

## RESOLVED FY 2022 FINDINGS

Our current year review noted that the School District took corrective action to remediate prior-noted conditions related to: (1) inadequate review of access controls and segregation of duties (2022-001); (2) inadequate deprovisioning of system access (2022-003); (3) no formal policy for configuration changes (2022-004); and (4) inadequate monitoring of third-party system control reports (2022-005). See the details below regarding the corrective action implemented for each prior-noted condition.

### 2022-001 INADEQUATE REVIEW OF ACCESS CONTROLS AND SEGREGATION OF DUTIES

**Prior Condition:** A formally documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities, and permissions, had not been established. Users had been assigned access based upon job function role and location, however the specific access permissions of the roles had not been reviewed by the School District. As a result, identification of incompatible permissions within roles or across roles had not been performed. In addition, a periodic user access review had not been performed since the implementation of the system which went live July 1, 2020. Finally, a documented security program or policy, which includes the School District's responsibilities over the Oracle system, was not provided.

**Remediation Status: Complete** - School District management provided its analysis of the Oracle roles for the system's financial modules which was conducted to identify incompatible roles, responsibilities, and permissions. Also, we observed that the School District management formally established a written Security Policy and Procedures, which documented the School District's security program and its responsibilities over the Oracle system, addressed provisioning and deprovisioning of system access, and contained a list of security profiles along with their related Oracle roles and assigned School District job titles. Additionally, the Security Policy and Procedures contained a requirement for an annual user access review, which included (1) confirming that only active employees had system access; (2) verifying that employee whose system status is suspension, no pay, or on extended leave do not have roles assigned; and (3) determining whether all roles included in the policy are applicable based upon job title and confirming access with department managers. Therefore, based on the current year observations, we consider this condition resolved [306021.01].

### 2022-003 INADEQUATE DEPROVISIONING OF SYSTEM ACCESS

**Prior Condition:** For one (1) out of 25 terminated users tested, the user's system access was not disabled in a timely manner. The user was suspended without pay, awaiting a board decision for termination, however, the user's access was not disabled during the period between suspension and approval of termination.

**Remediation Status: Complete** - Per the School District's Security Policy and Procedures, when an employee is put into one of the below listed statuses in the Advantage HR System, there is now a programmatic solution that automatically removes the employee's role access in the system until which time the status is changed. Therefore, based on the current year observations, we consider this condition resolved [306021.02].

- O – Suspension
- Z – No Pay
- E – 89 Day Leave
- T – Educational Leave
- B – Sabbatical Leave

### 2022-004 NO FORMAL POLICY FOR CONFIGURATION CHANGES

**Prior Condition:** A formal policy for configuration changes, including the procedures for requesting changes from Oracle and the supporting vendor, was not maintained. In addition, a formal list of change

requests, including Oracle requested changes, configuration changes, and emergency changes, was not maintained.

**Remediation Status: Complete** - School District management provided a formal Oracle Configuration Change Management Policy and Procedures which documents the process for configuration changes. The School District uses Gravity Forms, a plugin to the School District's WordPress software which supports its Web publishing, as the mechanism to collect requests and approvals for configuration changes. Gravity Forms has a workflow process with various forms to document the change request, the approval of the department chief, the confirmation of development changes, the sign-off by the requestor of the change, and the confirmation of migration to the production environment. Therefore, based on the current year observations, we consider this condition resolved [306021.03].

## **2022-005 INADEQUATE MONITORING OF THIRD-PARTY SYSTEM CONTROL REPORTS**

**Prior Condition:** There was no formal, documented review of the Oracle Fusion Service Organization Control (SOC) 1 report.

**Remediation Status: Complete** - School District management informed us that the School District's Office of Information Technology and Data Management now meets quarterly to review the Oracle Fusion SOC 1 report. School District management provided us with the results from its Quarter One 2023 meeting when the Oracle Fusion SOC 1 report for calendar 2022 was reviewed. Therefore, based on the current year observations, we consider this condition resolved [306021.04].



Office Of the Chief Financial Officer  
440 North Broad Street, Suite 304  
Philadelphia, PA 19130  
(215) 400-4500

Michael Herbstman  
Chief Financial Officer

May 13, 2024

Ms. Christie Brady, CPA  
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 the Fiscal Year 2023 ACFR Audit Management Letter on Internal Control

Dear Ms. Brady,

Please find the formal response from the School District of Philadelphia to the Other Condition 2023-01 on Outstanding Termination Payments.

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 "Michael Herbstman".

Michael Herbstman  
Chief Financial Officer

Cc: Reginald L. Streater, Esq., Board President  
Tony B. Watlington Sr., Ed. D, Superintendent and CEO  
Charles Edacheril, Deputy City Controller  
Beverly Martin, Audit Director, City Controller  
Marcy Blender, Comptroller, School District of Philadelphia.

**SCHOOL DISTRICT OF PHILADELPHIA RESPONSE TO 2022-23 ALTHOUGH IMPROVED, BACKLOG IN  
TERMINATION PAYMENTS STILL EXIST**

The School District continues to focus on reducing the backlog of Termination Payments. In comparison to last year's report, the number of term cases with term dates in fiscal year 2021 dropped from 149 to 34, with an outstanding dollar amount reduced from \$1.2 million to \$17,000.

As the District returned to in person processing and developed secure systems for remote processing to prevent future disruptions, the backlog continues to be reduced. There are a number of cases that remain on the backlog list due to various personnel actions outside of the purview of the Payroll Department. This year, despite having one full-time payroll processor on extended leave, the payroll staff continues to pare down the backlog aided by the Termination Pay application. However, the lack of processors continues to hinder the ability to completely keep pace with new separations.

As of March 22, 2024, 88 of the 232 cases on the Vacation, Personal, Illness Leave (VPIL) report with termination years 2022 and prior have been processed. The 125 cases totaling \$1.1 million have not yet been paid due to lack of Tax Sheltered Annuity (TSA) paperwork but will be submitted to VALIC, the TSA company the District contracts with for our orphaned account process. The remaining 19 cases from FY22 and prior are ineligible for term pay.

In the past, the Payroll staff has given a great deal of latitude to deceased employees' families to submit required certificates and other paperwork. That latitude has resulted in delays in starting the escheatment process. However, in Fiscal Year 2023, termination pay for 51 estate cases has been processed to trigger the escheatment process. There are currently 31 estate cases in house awaiting paperwork totaling \$316,131. Payments for these cases will be processed in June 2024 to trigger the escheatment process.

As recommended, District management will continue its efforts to eliminate the backlog of outstanding termination pay cases and escheat to the Commonwealth those payments that become distributable to separated employees under the age of 55.