



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

CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

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

To the Board 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 (School District), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated February 16, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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.

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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*.

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.



CHARLES EDACHERIL, CPA
Deputy City Controller



CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
February 16, 2024



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

CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the School District of Philadelphia, Pennsylvania's (School District) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2023. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, no such opinion is expressed.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements. We have issued our report thereon dated February 16, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CHARLES EDACHERIL, CPA
Deputy City Controller



CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
March 25, 2024

SCHOOL DISTRICT OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2023

Section I – Summary of Auditor’s Results:

Financial Statements:

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes X no
Significant deficiency(ies) identified? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards:

Internal control over major federal programs:

Material weakness(es) identified? ___ yes X no
Significant deficiency(ies) identified? X yes ___ none reported

Type of auditor’s report issued on compliance for major federal programs:
Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)
 X yes ___ no

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number(s)</u>
Title I Grants to Local Educational Agencies	84.010
Student Support and Academic Enrichment Program	84.424
Education Stabilization Fund	84.425
Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? X yes ___ no

SCHOOL DISTRICT OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2023

Section II – Financial Statement Findings:

None

Section III – Federal Awards Findings and Questioned Costs:

2023-001	Reporting – Significant Deficiency and Compliance Finding AL 93.600 Head Start	X
2023-002	Special Tests and Provisions – Annual Report Card, High School Graduation Rate - Significant Deficiency and Compliance Finding AL 84.010 Title I Grants to Local Educational Agencies	X

2023-001 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 93.600 Head Start

Condition: During our test for compliance with the Federal Funding Accountability and Transparency Act (FFATA), we noted that the School District of Philadelphia (School District) did not have a process in place to report subawards made under the federal Head Start program in accordance with the FFATA and award agreement. Consequently, auditors could not test for FFATA reporting compliance for this grant program. This condition was reported as finding number 2022-002 in the prior year report. Funding for this program is from the Department of Health and Human Services.

Criteria: Per the OMB’s Uniform Guidance 2 CFR Part 170, the prime recipient of a federal award must report information regarding first-tier subawards of \$30,000 or more utilizing the FFATA Subaward Reporting System (FSRS), and states that the subaward reporting requirement applies to all types of first-tier subawards. The reporting is required by the end of the month following the month in which the award is made.

Effect: Federal grantors may not have complete and accurate information to make fiscal decisions on federal awards. Additionally, there could be a lack of transparency and accountability to the public on how federal dollars are spent.

Cause: The School District of Philadelphia did not have a systematic process in place to report subawards made under the federal Head Start program in accordance with FFATA.

Recommendation: School District’s management should develop written policies and procedures which ensure that it complies with the FFATA requirement to file first-tier subaward reports.

Views of Responsible Officials and Corrective Action Plan:

The School District of Philadelphia concurs with the finding and recommendation. The District has implemented a systematic process for reporting Fiscal Year 2024 subawards under the Federal Head Start Program which is required to report under FFATA. Moving forward, the process established to ensure reporting will be maintained.

Diane Castelbuono, Deputy Chief, Office of Early Childhood Education, School District of Philadelphia, 215-400-6242

SCHOOL DISTRICT OF PHILADELPHIA

Federal Findings and Questioned Costs – June 30, 2023

2023-002 SPECIAL TESTS AND PROVISIONS - ANNUAL REPORT CARD, HIGH SCHOOL GRADUATION RATE– SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 84.010 Title I, Part A

Condition: In our testing for compliance with Special Tests and Provisions - Annual Report Card, High School Graduation Rate, we noted that School District personnel did not maintain appropriate written documentation to support the transfers of 8 out of 10 sampled students from the adjusted 2019-2020 cohort. Funding for this program is from the Pennsylvania Department of Education (PDE).

Criteria: Per the OMB’s Uniform Guidance 34 CFR 200.19 (b)(1)(ii)(B), to remove a student from the cohort, the local educational agency (LEA) must confirm in writing that the student transferred out, emigrated to another country, or is deceased. The LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. According to the PDE’s guide for reporting the Graduation, Dropout and Cohort Data Set, an LEA may not consider a student a transfer unless it knows with certainty that the student has enrolled in another secondary educational institution that offers a regular high school diploma.

Effect: Failure to maintain appropriate written documentation to support the removal of students from the 2019-2020 cohort may cause an inaccurate reporting of the 2022-2023 graduation rate and noncompliance with federal and state regulations.

Cause: School District personnel stated that they either did not maintain documentation because several years had passed since the students left or they only received verbal confirmation of the students’ transfers.

Recommendation: School District management should develop written policies and procedures which require that personnel maintain the appropriate written documentation to support student transfers in accordance with the above criteria to ensure an accurate cohort graduation rate.

Views of Responsible Officials and Corrective Action Plan:

There is an established School District of Philadelphia (“school district”) Board of Education adopted policy number 208 “Withdrawal From School” last revised in June 2020 which establishes requirements governing the withdrawal of students from school that complies with the Pennsylvania School Code and Department of Education requirements and OMB’s Uniform Guidance 34 CFR 200.19 (b)(1)(ii)(B). To comply with regulatory requirements, the school district is required to obtain written documentation for students who transferred to a private or nonpublic school system or out of the state of PA or out of the United States. According to Pennsylvania Department of Education’s (PDE) guide for reporting graduation, dropouts and cohort data, the school district is required to receive and maintain documentation of transfers.

The purpose of School District of Philadelphia Board of Education's Policy 208 is to establish requirements governing withdrawal from school that encourage students to complete an educational program that will equip them with required skills and increase their chances for a successful life beyond school. The policy requires parents/guardians withdrawing a student from school, to enroll in another

SCHOOL DISTRICT OF PHILADELPHIA

Federal Findings and Questioned Costs – June 30, 2023

Local Education Agency, to withdraw the student in person at the school where the student is enrolled. The policy states that, “No student of compulsory school age shall be permitted to withdraw without the written consent of a person in parental relation and supporting documentation.”

Although the policy is communicated, not all schools have maintained the written documentation required. Moving forward the school district will provide periodic reminders of the policy to all school leaders and secretaries who enroll and withdraw students. In addition, the Office of Student Support Services administrators will validate with principals that they are maintaining the records for withdrawing students in a safe and central location at their school offices. These strengthened procedures to include a reminder notification to school leaders and secretaries and random audits of WD03 transfers will be implemented by the end of the School Year 2024.

Karyn Lynch, Chief of Student Support Services, Office of Student Support Services, School District of Philadelphia, 215-400-6092