

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

**MANAGEMENT LETTER
ON
SCHOOL DISTRICT OF PHILADELPHIA'S
INTERNAL CONTROL
FISCAL YEAR 2024**



City Controller
Christy Brady, CPA

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





CITY OF PHILADELPHIA

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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

To the Board 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, 2024 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. The findings noted are only a result of audit procedures performed, and not all deficiencies or weaknesses in internal controls may have been identified. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we noted several deficiencies in internal control other than a significant deficiency or a material weakness, that are not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and present an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated February 18, 2025, on the financial statements of the School District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments with School District management and if you wish, we will be pleased to discuss them further at an 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 18, 2025

Memo

To: Marcy Blender, Deputy CFO, Accounting Services, Controller
From: Beverly Martin, Audit Director
CC: Charles Edacheril, Deputy Controller
Robert Mott, Audit Manager
Emilie Davis, Audit Manager
Date: February 18, 2025
Re: Summary of FY 2024 Internal Control Comments

During our FY 2024 School District of Philadelphia (School District) audit, we noted several deficiencies in internal control other than significant deficiencies or material weakness, that are not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and present an opportunity for strengthening internal controls and operating efficiency. These conditions are identified as finding numbers 2024-001 through 2024-004. These same conditions were also reported in the FY 2023 School District Management Letter on Internal Controls and other prior year reports. The findings mentioned here are summarized below:

2024-001 TERMINATION PAYMENTS REMAIN OUTSTANDING

Condition: In our prior year report, we commented that the School District owed \$1.7 million to more than 300 former employees that separated from service as far back as 2016. As of June 30, 2024, the School District had processed 197 of the backlogged termination payment cases that occurred prior to fiscal year 2023. However, the backlog is not fully cleared, and the total amount owed has increased.

During our fiscal year 2024 audit, we found that termination payments totaling \$2.2 million are due to more than 400 former School District employees, most of whom separated from service during fiscal year 2023. Termination pay is applicable to two groups of former employees – those 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 below summarizes the amount of termination pay due to each group.

Table 1: Employee termination pay outstanding for more than one year as of June 30, 2024

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 thousands)	Termination pay owed to those under age 55 at separation (in thousands)	Total termination pay owed (in thousands) (Col. C+D)
2023	312	\$1,511.1	\$522.3	\$2,033.4
2022	63	\$10.7	\$68.9	\$79.6
2021	34	\$10.5	\$5.9	\$16.4
2020 and Prior	23	\$10.0	\$56.6	\$66.6
Total	432	\$1,542.3	\$653.7	\$2,196.0

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 employees separate from the School District, they are entitled to receive termination pay for accrued but unused paid time off within 30-75 days of their separation¹. Additionally, uncollected termination pay for employees under the age of 55 is subject to Pennsylvania's Abandoned and Unclaimed Property Law (escheat law). The escheat law indicates that 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 is in violation of applicable labor agreements. The School District is also in violation of Pennsylvania's escheat law by not timely processing termination payments to former employees under the age of 55. As of June 30, 2024, approximately \$131,000² in payments to this group would have been eligible for escheatment to the Commonwealth of Pennsylvania.

Cause: School District management continues to have difficulty dedicating the necessary resources to address outstanding termination pay owed to separated employees.

Recommendation: School District management should prioritize processing outstanding termination payments owed to former employees to ensure that the School District is in compliance with current labor agreements [600121.01]. Management should also determine if payments due to former employees under the age of 55 are subject to Pennsylvania's escheat law [600123.01].

¹The length of time for each of the contracts is as follows: SEIU 32BJ Local 1201 – 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 Unite Here Local 634 (food service employees) is not specified in their labor agreement with the School District.

² The rounded sum of rows per Column D in Table 1 above for fiscal years 2022, 2021, and 2020 and prior.

2024-002 INADEQUATE MONITORING OF THIRD-PARTY SYSTEM CONTROL REPORTS

Condition: In our fiscal year 2022 report, we commented that the School District did not perform a formal, documented review of the Oracle Fusion³ Service Organization Control (SOC)-1 report⁴ (SOC-1 report). To address this finding, the School District's Office of Information Technology and Data Management planned to conduct periodic meetings to document their review of the SOC-1 report within ten days of its release. Reliance on a service organization, Oracle America, Inc. (Oracle) to support key financial and/or accounting processes require formalized monitoring controls by the School District to ensure that any issues at Oracle are evaluated for impact to the School District. However, our current year review of general information technology controls found that although the Office of Information Technology and Data Management held a meeting to review the fiscal year 2024 SOC-1 report, minutes of the meeting were insufficient. They did not indicate that the mapping of the Complementary User Entity Controls (CUECs) to controls within the School District was reviewed. Additionally, the minutes did not include a discussion evaluating the impact of the exclusion of a subservice organization used by Oracle for cloud hosting services that was not covered by the SOC-1 report in relation to data security. The minutes also did not address whether compensating controls are in place or whether additional assurance (e.g. obtaining an additional SOC-1 report or conducting a risk assessment) is necessary to mitigate risks resulting from the lack of coverage.

Criteria: A comprehensive review of a SOC-1 report includes a process in which the control activities, that the service organization, Oracle, expects to be implemented at the user entity (School District), are mapped to corresponding (or complementary) internal controls that are currently implemented and maintained by the School District. CUECs must be suitably designed and effectively in place to achieve the control objectives stated in the SOC-1 report. The review should document the acceptance of the suggested internal controls.

Effect: Failure to carry out and document a comprehensive review of SOC-1 reports can cause the School District to over rely upon the controls in place at these service and subservice organizations.

Cause: The meeting minutes prepared to document the review of the SOC-1 report did not include relevant details about the review process, including clearly documenting the review of CUECs.

Recommendation: Review of the SOC-1 report should be formally documented. This includes documenting the mapping of CUECs to controls within the School District and ensuring that all service organizations are evaluated [600124.01].

³ Oracle Fusion is the accounting system of the School District of Philadelphia.

⁴ SOC-1 Reports are AICPA defined reports which are performed by public accounting firms to evaluate and report on the controls at a third-party service provider. SOC-1 reports allow management and auditors to gain comfort over controls at a third-party service provider without the need to perform their own audit procedures.

2024-003 INADEQUATE DISABLING OF SYSTEM ACCESS FOR SEPARATED EMPLOYEES

Condition: As part of our fiscal year 2024 audit, we noted that user access to the School District's Oracle system⁵ was not disabled for terminated employees in a timely manner. We found that for two of the 30 terminated employees tested, access to the Oracle system continued for several days after each of the employees resigned. One user's employment ended on June 27, 2023, but system access was not disabled until July 5, 2023. The other employee resigned on February 2, 2024, but the Food Service department did not instruct Human Resources (HR) to remove the user's access rights until February 12, 2024. A similar condition was cited in our fiscal year 2021 and 2022 reports.

Criteria: When users are suspended or terminated, their access to key systems should be disabled immediately or in a reasonably timely manner.

Effect: Unauthorized system access is maintained, possibly allowing users to perform unapproved transactions.

Cause: In the first of the resignations noted above, the talent specialist responsible for deprovisioning system access was on vacation, and the School District did not have another employee assigned with the authorization to perform this task. In the other instance, eleven days had passed before the Food Service department notified HR that the employee had resigned.

Recommendation: To reduce the risk of unauthorized access to School District operating systems, we recommend that:

- in the absence of key HR personnel, management assign the responsibility for disabling system access to other responsible employees [600124.02].
- School District management stress to its departments the importance of immediately communicating employment changes, such as suspensions and terminations, that could affect HR's ability to manage personnel access to key operating systems [600124.03].

2024-004 POOR ACCOUNTABILITY OVER SCHOOL EQUIPMENT INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT

Condition: During our fiscal year 2024 audit, we followed-up on our testing of the School District's oversight of its personal property assets. Our testing included selecting 125 items at 10 schools from the School District's Oracle inventory records to determine whether the property was physically located at the school of record. We also selected another 125 items through physical observation at the same schools to assess whether the School District had accurately included these assets in its property records. Of the 125 items selected from property records, 69 items (or 55%) with a total property value of \$124,275 could not be located. Of the 125 items selected from physical observation, 53 (or 42%) items could not be traced to property records in Oracle. Tables 2 and 3 below summarize the results at each of the schools observed.

⁵ The Oracle system was acquired during fiscal year 2021 to replace the School District's legacy ADVANTAGE system for general ledger processing.

Table 2: Listing of Assets That Could Not Be Located			
Location	Asset Description	Cost per Inventory Records	Subtotal
Samuel Fels High School	JVC Digital Video Recorder	2,890.00	\$10,092.75
	Bretford Mobility Cart	1,799.95	
	Pizza Warmer	1,315.80	
	Laminator	1,277.00	
	Piano	1,185.00	
	Snowthrower	875.00	
	Work Table	500.00	
	Dell Chromebook	250.00	
Fox Chase School	Poster Printer	5,999.00	\$20,282.43
	Smartboard with Cart	5,507.43	
	Lawn Mower	2,450.00	
	Apple iMac	1,777.00	
	Sony Digital Camcorder	1,498.00	
	Cello	749.00	
	Laptop Charging Cart	700.00	
	Piano	699.00	
	Toshiba 32" HDTV	600.00	
	Dell Chromebook	303.00	
Abraham Lincoln School	Steam Table	4,000.00	\$20,949.43
	Poster Printer	3,695.00	
	Walk In Freezer	3,594.00	
	Lawn Mower	2,450.00	
	Lexmark Printer	1,972.00	
	Outdoor Table	1,774.04	
	Softball Pitching Machine	1,700.00	
	Dell Charging Cart	1,135.39	
	Dell Latitude	629.00	
Robert B Pollock School	Fender Portable PA System	1,699.99	\$7,110.97
	Cannon HD Camcorder	1,698.03	
	Dell Latitude 7420	1,399.00	
	Trumpet - Marching Baritone	1,208.00	
	Four Drawer File Cabinet	559.95	
	Saxophone - Alto	546.00	

(Continued) Table 2: Listing of Assets That Could Not Be Located			
Location	Asset Description	Cost per Inventory Records	Subtotal
Swenson Arts and Technology	Versa Studio Inkjet Printer/Cutter	6,795.00	
	Sony Alpha Digital Camera	5,269.00	
	Snap-On Automotive Lift	4,098.74	
	Bosch Genysis Performance 5-Gas Module	3,213.97	
	Apple iMac 24 inch	1,777.00	
	Panasonic 4k Professional Camcorder	1,679.71	
	Cannon EOS Creator	849.00	
	Green Screen (Audio Visual)	769.00	
	Belgian Waffle Maker- Double	609.00	
	Dell Chromebook	312.00	\$25,372.42
Creative and Performing Arts High School	Piano - Boston Upright	6,650.00	
	Oboe	2,861.00	
	Studio Clay Mixer	2,656.00	
	Xerox Phaser Printer	2,294.98	
	French Horn	1,858.00	
	Apple iMac 24 inch	1,777.00	
	Clarinet	811.00	
	Epson Surecolor Inkjet Printer	739.00	\$19,646.98
William M. Meredith School	Smartboard 6065	1,299.60	
	Vacuum Wet/Dry	1,241.66	
	Ozobot Robot Classroom 18 Pack	1,172.00	
	Public Access Computer Table	661.95	
	Yamaha Clarinet	547.00	\$4,922.21
George W. Sharswood School	Leap Pad Mobile Learning Center	1,527.61	
	Smartboard - M685	1,439.57	
	Instructional Aids Class Package	1,350.00	
	iPad with STM Case	781.04	
	Charging Cart	700.00	
	Dell Chromebook	250.00	\$6,048.22
Francis S. Key School	HP Digital Piano	2,599.00	
	Apple iMac 24"	1,769.00	
	Apple MacBook Air	1,238.00	
	Epson Powerlite Projector	1,049.00	
	Charging Cart	700.00	\$7,355.00
Horace Furness High School	Student Table - 4 Person	1,795.00	
	Charging Cart	700.00	\$2,495.00
Total Property Value			\$124,275.41

Table 3: Listing of Assets Observed That Were Not in Inventory Records			
Location	Asset Description	Quantity	Subtotal
Samuel Fels High School	Charging Cart	2	
	Electric Keyboard Piano	1	
	Snow Power Brush	1	
	Apple iMac	1	5
Fox Chase School	Apple iMac	2	
	Food Service Cabinet	2	
	Food Service Desk	1	5
Abraham Lincoln School	Apple iMac	1	
	Dell Chromebook	1	2
Robert B Pollock School	Apple iMac	1	
	Podium	1	
	Violin	1	
	Metro Food Warmer	1	
	Two Door Reach-in Refrigerator	2	
	Continental Freezer	1	7
Swenson Arts and Technology	Four- Drawer File Cabinet	2	
	Two Door Cabinet	1	
	GBC Heat Seal	1	
	Desk	1	
	Drill Press	1	
	Nugier Press	1	
	Continental Freezer	1	8
Creative and Performing Arts High School	Dell Chromebook	5	
	Flute	1	6
William M. Meredith School	Apple MacBook	3	
	Apple iMac	2	5
George W. Sharswood School	Charging Cart	1	
	Wood Desk	2	
	Table	1	
	Metal Desk	1	5
Francis S. Key School	File Cabinet	2	
	Metal Cage	1	
	Four-Drawer File Cabinet	1	4
Horace Furness High School	Wood Bookshelf	1	
	File Cabinet	1	
	Metal Stand	4	6
	Total Items		53

Criteria: Board of Education Policy No. 624, and the related administrative procedures require that School District inventory records for personal property reflect the assets at each location, and be maintained so that additions, transfers, and deletions are accurately and timely updated.

Effect: The net book value of assets reported in the School District's ACFR may inaccurately include items that are no longer physically on hand, and items that are on hand but not included in the School District's records. Moreover, there is increased risk for assets to be stolen when inventory policies are not consistently and timely implemented, as such misappropriations could go undetected.

Cause: The implementation of policies and procedures relating to personal property has been inconsistent at individual field locations and schools have failed to prioritize their obligation to maintain custody of School District property and update the related inventory records.

Recommendation: We continue to recommend that School District management incorporate into its policies and procedures over personal property a plan outlining consequential actions that will occur when school personnel do not follow prescribed policies and procedures. We further recommend that management consider providing positive incentives for schools that maintain the most accurate inventory of their personal property [600115.05].



Michael Herbstman
Chief Financial Officer

Office Of The Chief Financial Officer
440 North Broad Street, Suite 304
Philadelphia, PA 19130
(215) 400-4500
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May 15, 2025

Ms. Christy Brady, CPA
Mr. Charles Edacheril, CPA
City of Philadelphia
Office of the Controller
1230 Municipal Service Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Re: The School District of Philadelphia's (SDP) Response to the Fiscal Year 2024 Audit Management Letter on Internal Control Comments

Dear Ms. Brady and Mr. Edacheril,

Please find the response from the School District of Philadelphia to the Other Conditions:

2024-001 Termination Payments Remain Outstanding
2024-002 Inadequate Monitoring of Third-Party System Control Reports
2024-003 Inadequate Disabling of System Access for Separated Employees
2024-004 Poor Accountability Over School Equipment Increases Risks of Financial Statement Errors and Theft

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

Sincerely,

Michael Herbstman
Chief Financial Officer

Cc. Beverly Martin, Audit Director, City Controller
Marcy Blender, Deputy Chief Accounting Services, SDP Comptroller
Emilie Davis, Audit Manager, City Controller
Robert Mott, Audit Manager, City Controller

The following is School District of Philadelphia's (District's) Management Responses to the auditor's internal control findings other than significant deficiencies or material weaknesses that are not required to be reported under Government Auditing Standards, but will be addressed by responsible management.

2024-001 TERMINATION PAYMENTS REMAIN OUTSTANDING

The District continues to focus on diligently reducing the backlog of termination payments. In comparison to last year's report, the number of term cases with term dates in Fiscal Year (FY) 2022 or prior decreased from 317 to 8 with the dollar value dropping from \$1.7 million to \$65 thousand. The majority of the FY 2023 backlog has been processed. Of the 432 cases with term dates FY 2023 or prior cited in Table 1 of the Auditor's letter, there are only 39 cases remaining. The dollar value of those cases dropped from \$2.2 million to \$323 thousand. Of the 39 cases 32 are for deceased employees with outstanding paperwork needed for payment. These cases will be escheated to the state in June 2025. The remaining seven are due to other labor-related holds or retroactive changes in employee status which triggered termination. Any cases eligible for payment will be processed and/or paid.

As of May 12, 2025, the total existing backlog of cases for employees who separated in FY 2024 are 946 (208 of which relate to employees over 55 who have not submitted Tax Sheltered Annuity (TSA) selections). The District will continue processing all term pay and any without TSA paperwork will be processed for submission to VALIC, the TSA company the School District contracts with for our orphaned account process. There are 45 orphan cases totaling over \$266 thousand currently in progress to be sent to VALIC in July 2025. The School District expects to have all of the remaining FY 2024 cases processed by the end of December 2025.

Additionally, we are streamlining the process for term pay related to the families of deceased employees. This new policy should help manage the magnitude of the backlog in that area.

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. Now that the Oracle module for human resource management and payroll has been fully implemented, and the staff has been fully trained in the new termination pay application, we anticipate a continued decrease in the backlog.

2024 - 002 INADEQUATE MONITORING OF THIRD-PARTY SYSTEM CONTROL REPORTS

The District representatives of the Oracle SOC-1 Policy Review Committee will implement a more structured framework which includes a review of the mapping of the CUECs. This review will ensure a consistent analysis throughout the report and enhance the documentation of the quarterly meeting minutes and the CUECs. The quarterly SOC-1 reports will be clearly detailed in the report and mapped based on the District's technology environment. These changes will be implemented with the first review of the SOC-1 reports for 2025. These improvements will allow the District to better identify gaps in coverage and deploy compensating controls when needed to mitigate risks.

2024-003 INADEQUATE DISABLING OF SYSTEM ACCESS FOR SEPARATED EMPLOYEES

The District will take the following actions by September 2025.

The District will cross train so there are at least three Talent employees knowledgeable in the timely processing of employee separations. A back-up plan will be documented to ensure consistent and continuous processing of separations each business day.

The District will enhance and reinforce communications regarding timely notification and processing of separations through:

- More specific language on the importance of timely notification of separations in the 2025-26 Employee Handbook, and,
- Leadership meetings where school leaders and their supervisors are present; Operations executive leadership meetings (held weekly) to be shared with all operational departments to include Transportation, School Safety, Food Services, etc.; Talent executive team leadership meetings, to be shared and reiterated to all Talent department staff; and reiterated in Talent-wide team meetings.

The Oracle HCM/Payroll System automatically disables an employee's access once they are coded as terminated in the system.

2024-004 POOR ACCOUNTABILITY OVER SCHOOL EQUIPMENT INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT

The District acknowledges the importance of maintaining accurate and timely personal property inventory records in accordance with Board of Education Policy No. 624 and its related administrative procedures.

The District is committed to safeguarding public assets and ensuring the integrity of financial reporting through stronger adherence to both new and already established inventory protocols.

The District has initiated a review of current inventory practices and is developing a comprehensive action plan, to be fully implemented by March 2026, to reinforce accountability and improve compliance across all locations.

This plan will include:

- Clear assignment of inventory responsibilities at each school and administrative office site.
- More frequent training sessions for relevant personnel on inventory procedures and system updates.
- Development of a tiered system of accountability, which may include both consequences for non-compliance and recognition for exemplary adherence to inventory procedures.
- Review of new functionality available in the Oracle ERP Fixed Asset module to improve tracking and reporting capabilities and disposal of assets from inventory no longer in use.
- Additional training materials made available to the asset custodians through the Oracle user interface.

As part of the current adherence measures, the District currently withholds access to federal grant funds from schools that fail to comply with required inventory procedures.

The District utilizes the Oracle ERP Fixed Asset module to manage personal property inventory records. Several of the assets reported as "not found" were items of computer equipment, which are assets in Oracle for the purpose of capitalization but not the source for location tracking. These assets are instead maintained separately in the School District's Staffing Management System (SMS) inventory module, which is tailored to track IT assets and devices assigned to students and staff. In addition, the District's fixed asset policies do not require the inventory tracking of some of the items listed in observed but not located as they do not meet the thresholds to be included (e.g., a filing cabinet, musical instruments, etc.).

AUDITOR'S COMMENTS ON AGENCY RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid, misleading, or do not address the recommendations. We believe this to be the case with certain statements made in the School District of Philadelphia's (School District's) response regarding the accountability over school equipment.

At the bottom of page 11 of the memorandum that accompanies the FY 2024 School District Management Letter on Internal Controls the District's response states the following: "The District utilizes the Oracle ERP Fixed Asset module to manage personal property inventory records. Several of the assets reported as "not found" were items of computer equipment, which are assets in Oracle for the purpose of capitalization but not the source for location tracking. These assets are instead maintained separately in the School District's Staffing Management System (SMS) inventory module, which is tailored to track IT assets and devices assigned to students and staff. In addition, the District's fixed asset policies do not require the inventory tracking of some of the items listed in observed but not located as they do not meet the thresholds to be included (e.g., a filing cabinet, musical instruments, etc.)"

We disagree with the School District's assertion that they are not required to track inventory items because they do not meet certain thresholds. The property observed during our testing had inventory tags attached, indicating they should be included in the School District's personal property inventory listings. Although the School District's fixed asset policy does not specifically reference separate inventory tracking systems, auditors utilized both the Oracle Fixed Asset module and the SMS inventory module to perform our testing of inventory records.