



CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
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 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, 2021, 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 21, 2022.

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.

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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 have not been 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item [2021-001] that we consider to be a significant deficiency.

Compliance and Other Matters

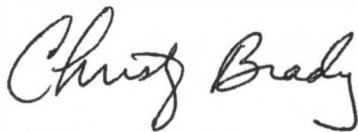
As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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*.

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was 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
July 19, 2022



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

Report on Compliance for Each Major Federal Program

We have audited the School District of Philadelphia, Pennsylvania's (School District) compliance with the types of compliance requirements described 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, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance

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with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item [2021-001]. Our opinion on each major federal program is not modified with respect to this matter. The School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs.

The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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.

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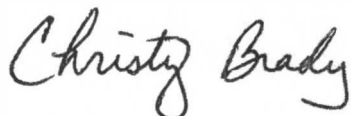
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item [2021-002], that we consider to be a significant deficiency.

The School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the 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, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements. We issued our report thereon dated February 21, 2022, 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 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.



CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
July 19, 2022

Section IV.

Schedule of Findings and Questioned Costs

SCHOOL DISTRICT OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2021

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? X yes _____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)

___ yes X no

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Coronavirus Relief Fund	21.019
Career and Technical Education – Basic Grants to States	84.048
English Language Acquisition State Grants	84.365
Education Stabilization Funds	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, 2021

Section II – Financial Statement Findings:

Page

2021-001 Inadequate Review of Access Controls and Segregation of
Duties – Significant Deficiency and Compliance Finding

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Section III – Federal Awards Findings and Questioned Costs:

2021-002 Cash Management – Significant Deficiency and Compliance Finding
Education Stabilization Funds – CFDA #84.425

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2021-001 INADEQUATE REVIEW OF ACCESS CONTROLS AND SEGREGATION OF DUTIES – SIGNIFICANT DEFICIENCY

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].

Views of the Responsible Officials and Corrective Action Plan:

Response: 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

SCHOOL DISTRICT OF PHILADELPHIA

Financial Statement Findings – June 30, 2021

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, the District 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.

2021-002 CASH MANAGEMENT – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Education Stabilization Funds – CFDA #84.425

Condition: In our review of the School District’s (District) interest calculations and remittances for grants that received advanced funds, we found that the District did not include \$9,151 of interest earned on advances received from the PA Department of Education (PDE). The interest calculation for the Education Stabilization Funds Program (ESF) was erroneously omitted from the District’s annual interest calculation and remittance in February 2022. District management concurred with our finding and recalculated the interest due, and remitted the funds to the PDE. The funding for this grant is from the U.S. Department of Education.

Criteria: 2 CFR section 200.305(9) Interest earned amounts up to \$500 per year may be retained by the non-federal entity for administrative expense. Any additional interest earned on federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System (PMS) through an electronic medium using either the Automated Clearing House (ACH) network or a Fedwire Funds Service payment.

Effect: The School District’s erroneous omission delayed payment of \$9,151 in interest earned on fiscal 2021 ESF cash advances.

Cause: Although the School District has a process in place to identify all new grants, there was a breakdown in the process for calculating the total amount of interest due on advance grants. Consequently, the ESF grant was not ported to the final annual interest calculation spreadsheet and was omitted from the remittance. This resulted in an understatement of interest owed to the PDE.

Recommendations: We recommend that the School District strengthen its internal controls over the interest calculation process to ensure that grants are not omitted from the annual calculation and remittance.

Views of the Responsible Officials and Corrective Action Plan:

Contact Person: Charles Gibson, Accounting Manager, Office of General Accounting, School District of Philadelphia, (215)400-6102

Response: The District agrees with the auditor’s assessment and recommendations and that we incorrectly did not remit interest earned of \$9,151 (0.008 %) of the Education Stabilization Funds Program (ESF) received in the audit period due to human error and subsequently corrected it. The District will improve the quality controls by: 1) having an additional level of management review and approval, and, 2) document the calculation procedures so that no steps in the process are missed. However, the District believes that a \$9,000 finding in the context of \$690 million in activity does not rise to the level of a significant deficiency because there was a process in place to check for advance grants using the FAI (Financial Accounting Information System) PDE website, and all the other grants under audit were correctly included and interest remitted as required. The District has already implemented the corrective action and will ensure that this same circumstance will not reoccur in the future.