



CITY OF PHILADELPHIA

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CHARLES EDACHERIL
Acting 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, 2022, 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 14, 2023.

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.

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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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

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*.

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School District's response to the findings identified in our audit and 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 the financial statements and, accordingly, we express no opinion on the response.

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
Acting City Controller
Philadelphia, Pennsylvania
February 14, 2023



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CHARLES EDACHERIL
Acting 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 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, 2022. 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 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, 2022.

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.

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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.

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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 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 2022-002. Our opinion on each major federal program is not modified with respect to this matter.

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 item 2022-002 to be a significant deficiency.

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, 2022, 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 14, 2023, 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.



CHARLES EDACHERIL, CPA
Acting City Controller
Philadelphia, Pennsylvania
March 28, 2023

Section IV.

Schedule of Findings and Questioned Costs

SCHOOL DISTRICT OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2022

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)
X yes ___no

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number(s)</u>
Child and Adult Care Food Program	10.558
Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Supporting Effective Instruction State Grants	84.367
Education Stabilization fund	84.425
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323
Temporary Assistance for Needy Families	93.558
Head Start	93.600
Disaster Grants – Public Assistance	97.036

Dollar threshold used to distinguish between Type A and Type B programs: \$3,258,919

Auditee qualified as low-risk auditee? X yes ___no

SCHOOL DISTRICT OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2022

Section II – Financial Audit Significant Deficiency:

2022-001	Inadequate Review of Access Controls and Segregation of Duties	23
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Section III – Federal Awards Findings and Questioned Costs:

2022-002	Reporting – Significant Deficiency and Compliance Finding AL 93.600 Head Start	25
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2022-001 INADEQUATE REVIEW OF ACCESS CONTROLS AND SEGREGATION OF DUTIES

Condition: Prior year testing noted that a formally documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities, and permissions, has not been established. Users have been assigned access based upon job function role and location, however the specific access permissions of the roles have not been reviewed by the School District of Philadelphia (School District). Due to this condition, identification of incompatible permissions within roles 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 July 1, 2020. Finally, a documented security program or policy, which includes the School District’s responsibilities over the Oracle system, was not provided. Our current year follow up disclosed that as of June 30, 2022, corrective action to prevent the recurrence of this condition has not been implemented.

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 SoD 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 implementation of the system, there was not a required step 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 School 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 SoD considerations should be included in the periodic access reviews.

Views of Responsible Officials and Corrective Action Plan:

To address the audit finding of the security policy, The School District has taken the necessary steps to implement a formal plan. In order to do that with the components outlined in the finding, we have implemented a process for the security plan diagnosis which will lead to a formal policy to include: overall diagnosis, prescription and policy plan. This work began on 9/1/22 and is scheduled to conclude 3/31/23, as outlined in the below timeline. Most of the work has been completed as of the date of this response, 3/21/23.

1. Security Plan analysis 9/1/22 – 9/30/2022
 - Identify current roles and profiles of Finance positions – Complete

SCHOOL DISTRICT OF PHILADELPHIA

Financial Statement Findings – June 30, 2022

2. Duty Policy 10/1/22 – 1/31/23
 - Create a segmentation of duty policy where we have identified the incompatible roles – Complete

3. Security Plan Diagnosis 10/1/22 – 3/31/23
 - Identify risks in current security. All department reviews are complete. Of the 128 action items identified and documented, eight action items remain to be completed. The remaining eight action items will be completed by the end of March 2023

4. Annual Review
 - Perform annual review every May and complete each review at the end of the Fiscal Year.

5. Security Policy – 9/1/22 - 3/31/23
 - All steps above will be included in the overarching security policy for The School District. The policy was provided during the audit; however the policy will be updated to reflect the necessary changes including requiring an annual review.

2022-002 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. 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: School District management was not aware of the FFATA reporting requirement. Therefore, School District management 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 District agrees with this finding. The District will ensure that all federal awards are reviewed for FFATA reporting and will codify the method by which that occurs in a formal procedure.

Marcy Blender, Comptroller, Office of Finance, School District of Philadelphia, 215-400-5435