



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
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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 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, 2025, 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 17, 2026.

### **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 17, 2026



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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 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, 2025. 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, 2025.

#### *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 2025-001 and 2025-002. 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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. We consider the deficiency in internal control over compliance described in accompanying schedule of findings and questioned costs as item 2025-001 to be a material weakness.

*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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-002 to be a significant deficiency.

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 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.

*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, 2025, 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 17, 2026, which contained unmodified opinions on the 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 GAAS. 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 27, 2026

## **Section IV.**

# **Schedule of Findings and Questioned Costs**

**SCHOOL DISTRICT OF PHILADELPHIA**

*Schedule of Findings and Questioned Costs – June 30, 2025*

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?  X  yes \_\_\_ 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>ALN Number(s)</u>
Child and Adult Care Food Program	10.558
Special Education Cluster	
Special Education Preschool Grants	84.173
Special Education Grants to States	84.027
Supporting Effective Instruction State Grants	84.367
Temporary Assistance for Needy Families	93.558
Education Stabilization Fund	84.425
English Language Acquisition State Grants	84.365

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

Auditee qualified as low-risk auditee?  X  yes \_\_\_ no

Section II – Financial Audit Findings:

None

Section III – Federal Awards Findings and Questioned Costs:

2025-001	Cash Management – Material Weakness and Compliance Finding ALN 93.558 Temporary Assistance for Needy Families (TANF)	33
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***SCHOOL DISTRICT OF PHILADELPHIA***

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*Schedule of Findings and Questioned Costs – June 30, 2025*

2025-002	Subrecipient Monitoring – Significant Deficiency and Compliance Finding ALN 93.558 Temporary Assistance for Needy Families (TANF)	35
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**2025-001 CASH MANAGEMENT – MATERIAL WEAKNESS AND COMPLIANCE FINDING**

**Assistance Listing 93.558 Temporary Assistance for Needy Families (TANF)**

**Condition:** During our audit of the TANF grant program, we found that the School District advanced \$225,000 to four providers that were not for immediate cash requirements as required by 2 CFR 200.305. Specifically, the advanced funds were disbursed in August 2024 for services to be provided 10 months later, in June 2025. The funds that were advanced to the provider represent 7% of the total grant expenditures in fiscal year 2025 for the TANF grant program. Funding for this program is passed through the PA Department of Human Services from the U.S. Department of Health and Human Services.

**Criteria:** 2 CFR 200.305(b)(1) states advance payments to a recipient or subrecipient must be limited to the minimum amounts needed and be timed with actual, immediate cash requirements of the recipient or subrecipient in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the recipient or subrecipient for direct program or project costs and the proportionate share of any allowable indirect costs.

**Effect:** Advancing funds prior to the services provided increases the risk of misappropriation of federal funds and may result in a loss of funds that the School District may not be able to recover.

**Cause:** The School District did not have adequate controls in place for the review of advance payments.

**Recommendation:** We recommend that the School District develop internal controls to ensure advance payments are limited to the subrecipient’s immediate cash requirements in accordance with 2 CFR Part 200.305(b)(1).

**Views of Responsible Officials and Corrective Action Plan:**

The School District has reviewed the Cash Management finding and agrees that the pre-payment was too far in advance of the services rendered. The finding centers on the fact the FY25 prepayment was made 10 months in advance (August of 2024) of the June, 2025 service period. The prepayment was for the appropriate reason of ensuring the timely completion of the award closeout within the timeline required by the grantor. Further, the prepayment was appropriately reconciled to the actual services provided. Still, the SDP self-identified the timing issue and corrected the issue during the audit period. In October 2024, the District's Grant Compliance Office implemented enhanced grant payment procedures districtwide, which added the control of the Compliance Office providing first level of approval of service invoices in the Accounting system to ensure program manager due diligence regarding service invoice validation and timely processing. From October 2024 forward, the District ensures that any prepayment for services is allowable and reasonable, and that such prepayments be made as close to the date of service as feasible, and is limited to the subrecipient’s immediate cash requirements.

## **SCHOOL DISTRICT OF PHILADELPHIA**

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### ***Federal Findings and Questioned Costs – June 30, 2025***

While the District agrees with the factual elements of the finding, we respectfully disagree with the classification of this issue as a material weakness in internal control over compliance. In our view, the condition represents a significant deficiency, as it was limited in scope, did not result in questioned costs or loss of funds, and did not impact the allowability or ultimate use of program expenditures.

Accordingly, we do not believe the condition rises to the level of a material weakness, as it does not create a reasonable possibility of material noncompliance with program requirements.

Jennifer Pitt, Executive Director, Operations • Prevention & Intervention, School District of Philadelphia, 215-400-4930

#### **Auditor’s Comment on Agency’s 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 or do not address the recommendations. We believe that to be the case with regard to the School District's response above.

In their response School District management states:

*“While the District agrees with the factual elements of the finding, we respectfully disagree with the classification of this issue as a material weakness in internal control over compliance. In our view, the condition represents a significant deficiency, as it was limited in scope, did not result in questioned costs or loss of funds, and did not impact the allowability or ultimate use of program expenditures.”*

During our audit, we reviewed four advances, which represented 100% of the population. Accordingly, our testing was comprehensive with respect to this control. In addition, our audit found that the timing of the advances did not comply with requirements that payments be made as close as administratively feasible to the period of performance. Specifically, the advances were issued for services associated with the last month of the grant period, demonstrating that funds were provided in advance of need.

**2025-002 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING**

**Assistance Listing 93.558 Temporary Assistance for Needy Families (TANF)**

**Condition:** During the fiscal year 2025 audit of the TANF program, we found that the School District of Philadelphia (SDP) did not comply with the grant’s subrecipient monitoring requirements. Specifically, SDP failed to review subrecipient audit reports for all four subrecipients selected for testing, which together expended approximately \$2.5 million. Two of the four subrecipients did not have a current Independent Public Accountant (IPA) report, including one that had not been audited since fiscal year 2021. As a result, the School District could not adequately assess subrecipient risk. Furthermore, one subrecipient’s most recent IPA report (FY 2021) identified material noncompliance. Finally, SDP did not report the expenditures for all four providers as subrecipient expenditures on the Schedule of expenditures of Federal Awards (SEFA). Funding for this program is passed through the PA Department of Human Services from the U.S. Department of Health and Human Services.

**Criteria:** OMB’s Uniform Guidance Code of Federal Regulations 2 CFR Part 200 Subpart D 200.331(a) states that a subaward recipient may be considered a subrecipient of the pass-through agency if the recipient has its performance measured in relation to whether the objectives of a federal program were met, has responsibility for programmatic decision making, and is responsible for adherence to applicable Federal program requirements specified in the Federal award. Additionally, 2 CFR Part 200.331(c) states that in determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement.

Furthermore, 2 CFR Part 200.332(b)(2) states that pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, which may include consideration of such factor as the results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F of this part, and the extent to which the same or similar subaward has been audited as a major program.

Additionally, 2 CFR Part 200.332(d) states that pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward; and issuing a management decision for applicable audit findings pertaining only to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521.

## ***SCHOOL DISTRICT OF PHILADELPHIA***

### ***Federal Findings and Questioned Costs – June 30, 2025***

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Finally, 2 CFR Part 200.510(b) states the Schedule of expenditures of Federal Awards must include the total amount provided to subrecipients from each Federal program.

**Effect:** Failure to perform sufficient risk assessments and review financial reports for subrecipients increases the risk of noncompliance with subrecipient monitoring requirements set forth in the Uniform Guidance, which could lead to the School District having to pay back federal awards. In addition, subrecipient expenditures may not be accurately reported in the School District’s SEFA.

**Cause:** The School District inappropriately classified the four providers as contractors rather than subrecipients. However, SDP included the following terms that indicate the providers meet the criteria of subrecipients in its Request for Proposals, which were also incorporated into the contracts with these providers:

- Providers will be monitored and compensated through a performance-based model.
- They are required to perform, at a minimum, 21 core services listed in the grant agreement, including case management services and ongoing assessments of participant needs.
- They must establish an efficient and knowledgeable staffing structure, including requiring all personnel to participate in required program professional development as directed by state and local TANF (ELECT) administration.
- The Program Supervisor is responsible for day-to-day program oversight and management.
- The Case Manager will ensure quality and continuity of personnel responsible for case management duties. The School District does not have its own case managers.
- Providers will be monitored through quarterly site visits and monthly documentation reviews. After assessing the Quarterly Performance Report, the School District may sanction providers for unmet requirements.
- Providers must comply with all policy and program design changes issued by the PA Department of Human Services and Pennsylvania Department of Education.
- TANF (ELECT) funding shall be used to supplement, not supplant, existing funding.

In addition, indirect costs, which are generally embedded for contractors, were included in the budget of the provider agreements. Three of the four providers also reported TANF expenditures on their SEFAs and identified SDP as a pass-through entity in their most recent IPA reports.

**Recommendation:** We recommend that SDP re-evaluate its criteria to determine whether providers are subrecipients or contractors in accordance with 2 CFR 200.331. Additionally, SDP should implement procedures to ensure subrecipient risk assessments are performed in compliance with 2 CFR 200.332(b)(2) and that all required monitoring procedures are conducted. Finally, SDP should ensure all subrecipient expenditures are properly reported on the SEFA.

**Views of Responsible Officials and Corrective Action Plan:**

The School District of Philadelphia (SDP) has reviewed 2025-002 Subrecipient Monitoring finding and disagrees with the classification of the four entities referenced as subrecipients.

The four nonprofit entities (Community in Schools of Philadelphia, Jewish Family and Children, Congreso de Latino Unidos, and Turning Points for Children) at issue are contractors rather than subrecipients. In recognition of the sometimes-overlapping characteristics of subrecipients and contractors, the decision rests with the SDP as the pass-through entity to classify these relationships. 2 CFR 200.331 states, “The pass-through entity is responsible for making case-by-case determinations to determine whether the entity receiving Federal funds is a subrecipient or a contractor.” Consistent with the rest of the section, SDP made a case-by-case analysis and used sound judgment in classifying each agreement as a contract. This process is also documented, as SDP uses a classification form when making these determinations to ensure the analysis is aligned with 2 CFR 200.331.

SDP concluded that the four nonprofit entities met the characteristics of contractors based on the following determinations:

- Each entity “operates in a competitive environment” (2 CFR 200.331(b)(3))
- All four entities were selected through a competitive procurement process, in accordance with SDP’s procurement procedures and 2 CFR Part 200.
- Each entity “provides goods or services that are ancillary to the implementation of a Federal program” (2 CFR 200.331(b)(4))

The four nonprofit entities were procured to provide case managers in schools, which is ancillary to the implementation of the ELECT TANF program. Their role is limited to providing those specific staffing services as established in the contract, and does not constitute program responsibility for achieving the objectives of the award. This is directly opposite of the characteristics of a subrecipient, which includes an entity that “determines who is eligible to receive what Federal assistance” (2 CFR 200.331(a)(1)), “has responsibility for programmatic decision-making” (2 CFR 200.331(a)(3)), and “implements a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity” (2 CFR 200.331(a)(5)).

Each entity “is not subject to compliance requirements of a Federal program as a result of the agreement” (2 CFR 200.331(b)(5))

These entities are also not responsible for compliance with the ELECT TANF requirements as a condition of receiving funding. They must meet the terms and conditions of the contract, while SDP maintains controls of program administration. A subrecipient “has its performance measured in relation to whether the objectives of a Federal program were met” (2 CFR 200.331(a)(2)) and “is responsible for adherence to applicable Federal program requirements specified in the Federal award” (2 CFR 200.331(a)(4)). The four entities are not responsible for programmatic requirements and, therefore, do not meet the characteristics of a subrecipient.

The auditors relied on language included in the contract to argue that the entities at issue had performance measured against the grant objectives and were responsible for programmatic decision making. This is not

## ***SCHOOL DISTRICT OF PHILADELPHIA***

### ***Federal Findings and Questioned Costs – June 30, 2025***

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accurate. Program Supervisors, also known as Program Managers, employed by the contractors do not make programmatic decisions. Programmatic decisions, made by District staff with the title of Program Coordinators, execute those decisions. Those decisions are then disseminated to the contractors inside schools within the guidelines given by the grantor. For the contractor invoice payment, the District staff reviews performance metrics entered into the District database to assess the amount of students' service hours and education hours, enrollment and quarterly home visits performed by contractor staff. District staff make monthly visits to all program sites to verify that contractors are servicing students and maintaining records consistent with the grantor and District program design. All of these activities are not evidence of a subrecipient relationship, but a best practice model of accountability oversight of contractors. Still, the SDP acknowledges that the language the audit highlighted in the contract could be better clarified to demonstrate the substance of the relationship between the entities and the District. The SDP will review its RFP for these services and adjust its resulting contract terms and conditions to better clarify the intended contractual relationship and expected services.

Further, the recovery of indirect costs is not determinative of a subrecipient status under 2 CFR Part 200. It was indicated that a factor relied on for concluding the four entities were subrecipients is that the contracts provided that, as part of the agreed-upon pricing, the entities could recover their indirect costs. However, contractors can, and often do, incorporate indirect costs in their contract pricing arrangements (see, e.g., FAR 31.201-1: "The total cost . . . of a contract is the sum of the direct and indirect costs allocable to the contract)." Thus, this alone is not determinative of the substance of the relationship. Instead, the SDP is responsible for making a determination based on the substance of the relationship, considering the factors in 2 CFR 200.331.

Accordingly, the SDP's classifications were consistent with federal requirements. Because these entities were properly classified as contractors, the subrecipient monitoring requirements outlined in 200.332 are not applicable. This includes the requirement that the pass-through entities must ensure subrecipients have audits (2 CFR 200.332(g) and that the pass-through reviews the results of a subrecipient's audit as part of the monitoring process (2 CFR 200.332(e)).

The finding states the effect of classifying the entities as contractors rather than subrecipients potentially increases the risk that the entities used the funds for noncompliant activities. However, consistent with 2 CFR 200.318(b), the SDP maintains robust oversight of its contractors to ensure performance according to the terms and conditions of the agreement. See previous description of the District's oversight of these contractors. This level of oversight and review of the four entities' services under the agreements mitigates the risk of noncompliance.

Based on the reasons noted above, the SDP's criteria for evaluating the classification of third-parties as subrecipients or contractors is appropriate and aligned to 2 CFR 200.331. Here, the SDP reasonably exercised its discretion and evaluation criteria to classify the entities as contractors. However, when the SDP subawards funds, it has documented procedures to ensure subrecipient risk assessments are performed, appropriate monitoring is conducted, and subrecipient expenditures are reported on the SEFA.

Supporting documentation of the District's contractor versus subrecipient analysis, including the policies and procedures referenced above, is included in Appendices A–C and supports the District's determination.

Jennifer Pitt, Executive Director, Operations • Prevention & Intervention, School District of Philadelphia, 215-400-4930

## **SCHOOL DISTRICT OF PHILADELPHIA**

*Federal Findings and Questioned Costs – June 30, 2025*

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### **Auditor’s Comment on Agency’s 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 or do not address the recommendations. We believe that to be the case with regard to the School District's response above.

In their response School District management states:

*“Each entity “provides goods or services that are ancillary to the implementation of a Federal program” (2 CFR 200.331(b)(4))*

*The four nonprofit entities were procured to provide case managers in schools, which is ancillary to the implementation of the ELECT TANF program. Their role is limited to providing those specific staffing services as established in the contract, and does not constitute program responsibility for achieving the objectives of the award. This is directly opposite of the characteristics of a subrecipient, which includes an entity that “determines who is eligible to receive what Federal assistance”(2 CFR 200.331(a)(1)), “has responsibility for programmatic decision-making” (2 CFR 200.331(a)(3)), and “implements a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity” (2 CFR 200.331(a)(5)).*

*Each entity “is not subject to compliance requirements of a Federal program as a result of the agreement” (2 CFR 200.331(b)(5))*

*These entities are also not responsible for compliance with the ELECT TANF requirements as a condition of receiving funding. They must meet the terms and conditions of the contract, while SDP maintains controls of program administration. A subrecipient “has its performance measured in relation to whether the objectives of a Federal program were met” (2 CFR 200.331(a)(2)) and “is responsible for adherence to applicable Federal program requirements specified in the Federal award” (2 CFR 200.331(a)(4)). The four entities are not responsible for programmatic requirements and, therefore, do not meet the characteristics of a subrecipient.*

*The auditors relied on language included in the contract to argue that the entities at issue had performance measured against the grant objectives and were responsible for programmatic decision making. This is not accurate. Program Supervisors, also known as Program Managers, employed by the contractors do not make programmatic decisions. Programmatic decisions, made by District staff with the title of Program Coordinators, execute those decisions. Those decisions are then disseminated to the contractors inside schools within the guidelines given by the grantor. For the contractor invoice payment, the District staff reviews performance metrics entered into the District database to assess the amount of students' service hours and education hours, enrollment and quarterly home visits performed by contractor staff. District staff make monthly visits to all program sites to verify that contractors are servicing students and maintaining records consistent with the grantor and District program design. All of these activities are not evidence of a subrecipient relationship, but a best practice model of accountability oversight of contractors. Still, the SDP acknowledges that the language the audit highlighted in the contract could be better clarified to demonstrate the substance of the relationship between the entities and the District. The SDP will review its RFP for these services and adjust its resulting contract terms and conditions to better clarify the intended contractual relationship and expected services.”*

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We did not solely rely on the language in the contracts. The documentation that was reviewed during the audit were Independent Public Accountant reports, risk assessments, budgets, monitoring reports, subrecipient/contractor determinations, and ELECT program guidelines.

The School District RFP and contract language is written to ensure the School District is compliant with the ELECT program objectives from PDE. See below for the exact wording:

*“The range of services that are to be provided to ELECT participants is vast and the services cover a wide range of topics. Case notes must reflect the full spectrum of these services. This includes maintaining forms, showcasing academic and personal support, and sharing of resources. Every aspect of case management provided needs to be mirrored in the notes and should reflect the full gamut of services offered to ELECT participants. Direct services must include individual services (case management and quarterly visits) and educational or enrichment field trips. Indirect services and attempted contacts must be included.*

- *Consider when reviewing notes whether the following services and supports are being provided:*
  - *Childcare/child support issues*
  - *Goal setting and progress*
  - *ELRC support*
  - *Attendance updates and support*
  - *Relationship issues*
  - *Completion of quarterly visits*
  - *Health information (participant and child)*
  - *Family engagement*
  - *Co-parenting*
  - *Academic support*
  - *Postsecondary discussions*
  - *Mental health*
  - *Transportation*
  - *Benefits from attending workshops*

*Supervisory or program operational details do not belong in files. (e.g., a supervisor sharing updates on the Goal Setting process at team meeting is not a service)*

#### *Case Manager*

*Programs are required to employ at least one Case Manager per every 25 participants. Exceptions may be considered by PDE. It is critical that individuals placed in said positions are empathetic, supportive, and committed to assisting expectant and parenting teens. Individuals in this role must be capable of providing the required program components and case management services as outlined in these guidelines.*

*Case Managers are expected to:*

- *Liaise with community service providers, educators, and health providers with and on behalf of the participants;*
- *Advocate for the rights, strengths, and needs of the participants;*
- *Encourage participant self-sufficiency in learning to identify, access, and utilize*
- *resources effectively;*
- *Document all case management activities and educational items in the appropriate case files in a timely manner, detailing and effectively telling the participant’s story, and ensuring effectiveness*

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- of services and support to the participants; and*
- *Respect the participants, their rights and confidentiality and work to ensure others treat the participants with the same respect.”*

As noted above, case management is a core service of the TANF ELECT program that supports student services and drive outcomes which are mutually exclusive to ancillary services. Additionally, the School District does not employ any case managers and rely solely on the decisions of the providers.