

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

MANAGEMENT LETTER
ON
SCHOOL DISTRICT OF PHILADELPHIA'S
INTERNAL CONTROL
FISCAL YEAR 2025



City Controller
Christy Brady, CPA

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





CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

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

In planning and performing our audit of the financial statements, of the School District of Philadelphia, Pennsylvania (School District), a component unit of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2025 in accordance with the auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. The findings noted are only a result of audit procedures performed, and not all deficiencies or weaknesses in internal controls may have been identified. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses that are not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and present an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 17, 2026, on the financial statements of the School District.

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

This communication is intended solely for the information and use of School District's management and those charged with governance, and is not intended to be, and should not be, used by anyone other than those specified parties.

Handwritten signature of Charles Edacheril in cursive.

CHARLES EDACHERIL, CPA
Deputy City Controller

Handwritten signature of Christy Brady in cursive.

CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
February 17, 2026

Memo

To: Edward Rogalski, Comptroller, School District of Philadelphia
From: Deborah Ming, Audit Director, Office of the City Controller
Cc: Charles Edacheril, Deputy Controller, Office of the City Controller
Michael Herbstman, Chief Financial Officer, School District of Philadelphia
Joseph D'Alessandro, Deputy Chief of Grant Compliance and Fiscal,
School District of Philadelphia
Ashley Glasgow-Crockett, Executive Director of Federal Programs and
Compliance, School District of Philadelphia
Marcy Blender, Former Deputy Chief Financial Officer and Comptroller,
School District of Philadelphia
Kimberly Burrows, Director of General Accounting, School District of
Philadelphia
Erin Davis, Deputy Chief Financial Officer, School District of Philadelphia
Date: February 17, 2026
Re: Summary of FY 2025 Internal Control Comments

During our FY 2025 School District of Philadelphia (School District) financial statement audit, we noted several deficiencies in internal control other than significant deficiencies and material weaknesses, that are not required to be reported under *Government Auditing Standards* that should, nonetheless, be addressed by management, and present an opportunity for strengthening internal controls and operating efficiency. These conditions are identified as findings numbers 2025-001 through 2025-007. Some of these same conditions were also reported in the FY 2024 School District Management Letter on Internal Controls and other prior year reports. The findings mentioned here are summarized below:

2025-001 OUTSTANDING TERMINATION PAYMENTS

Condition: In our prior year management letter, we commented that the School District owed \$2.2 million to more than 400 former employees. As of June 30, 2025, the School District processed 272 of these cases, for separations from 2023 and prior, and another 938 cases for separations that occurred in fiscal year 2024. However, despite this progress, during our fiscal year 2025 audit, we found that termination payments increased to \$2.8 million owed to more than 700 former School District employees. Table 1 below summarizes the amount of termination pay applicable to two groups of former employees – those who are age 55 and older, whom receive their compensation via a contribution to a tax-sheltered annuity plan; and those under the age of 55 who are compensated by check.

Table 1: Employee termination pay outstanding for more than one year as of June 30, 2025

Column A	Column B	Column C	Column D	Column E
Fiscal year of separation	Number of employees owed termination pay	Termination pay owed to those age 55 & over at separation (in thousands)	Termination pay owed to those under age 55 at separation (in thousands)	Total termination pay owed (in thousands) (Col. C+D)
2024	569	\$1,546.2	\$746.7	\$2,292.9
2023	57	\$163.7	\$156.8	\$320.5
2022	55	\$6.5	\$66.1	\$72.6
2021 and Prior	48	\$17.1	\$97.7	\$114.8
Total	<u>729</u>	<u>\$1,733.5</u>	<u>\$1,067.3</u>	<u>\$2,800.8</u>

Source: Prepared by the Office of the Controller based on the analysis of the School District's Vacation, Personnel and Illness Leave Report (VPIL).

Criteria: Under the current labor agreements with many of its unionized employees, when employees separate from School District employment, they are entitled to receive termination pay for accrued but unused paid time off within 30-75 days of their separation¹. For employees under 55, the School District is required to pay the separated employee directly by check. Pennsylvania's Disposition of Abandoned and Unclaimed Property Act (escheat law) indicates that wages or other compensation for personal services that have remained unclaimed by the owner for more than two years after it becomes payable or distributable are presumed unclaimed. The law further states that all abandoned and unclaimed property is subject to the custody of the Commonwealth.

Effect: The School District appears to be in violation of applicable labor agreements. Regarding the termination pay of former employees under the age of 55 whose pay has remained uncollected for more than two years, the School District may also be in violation of Pennsylvania's escheat law. As of June 30, 2025, approximately \$320,600² should have been escheated to the Commonwealth.

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

Recommendation: School District management should prioritize processing any outstanding termination payments owed to separated employees to ensure that the School District is in compliance with current labor agreements [600121.01]. Also, management should remit termination payments that remain unclaimed for more than two years in accordance with applicable law [600123.01].

¹ The length of time for each of the contracts is as follows: SEIU 32BJ Local 1201 – 30 days; School Police Association of Philadelphia – 60 days; Philadelphia Federation of Teachers – 75 days; and the Commonwealth Association of School Administration – 75 days. The number of days applicable to Unite Here Local 634 (food service and student climate employees) is not specified in their labor agreement with the School District.

² Amount reflects the rounded sum of rows per Column D in Table 1 above for fiscal years 2023, 2022, and 2021 and prior.

As part of our audit of the School District's fiscal year 2025 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 Human Capital Management (HCM)³ and Expenses⁴ modules added to the School District's Oracle System in December 2024. This review identified the following four conditions (2025-002, 2025-003, 2025-004, and 2025-005) pertaining to access controls, segregation of duties, and configuration management in Oracle.

2025-002 INADEQUATE DOCUMENTATION OF USER ACCESS REVIEW METHODOLOGY AND APPROVALS

Condition: Although an FY 2025 Oracle User Access Review (UAR) was performed on users within 10 Board of Education departments, the following gaps were identified:

- The users subject to the annual review was based upon department numbers within the Board of Education⁵. It was not focused on a complete listing of users and accounts across the School District with certain levels of transactional access within the system. There were a number of users with more than basic transactional access associated with non-Board of Education departments which were not subject to review.
- Management did not formally document the methodology used to assemble and validate the completeness of the user access listing, which was manually compiled from multiple reports and data sources.
- The supporting documentation for requested access changes were not consistently retained, as completed Technology Access Request (TAR) forms were not available for certain identified changes, which is not in alignment with the School District's access request policies.

Criteria: UARs should include a complete listing of users and accounts with relevant access privileges and be supported by documented evidence demonstrating how the population was generated. Supporting documentation for access changes identified, including approved access request forms, should be retained in accordance with the School District's access management policies.

Effect: Without centralized documentation of UAR approvals and clearly retained evidence supporting how user access listings are generated, access reviews may not be performed consistently, completely, or in accordance with management expectations. This increases the risk of inappropriate access which could adversely affect system functionality, data integrity, or security.

Cause: Management has not formalized and documented procedures for compiling a complete user and account access listing used as part of the annual UAR.

Recommendation: Management should determine the specific access levels that should be reviewed as part of the annual UAR. Users who maintain that access levels should be subject to review regardless of where they sit in the School District [306025.01]. In addition, the steps taken to assemble the initial user list should be captured to support the completeness of the user list from the system [306025.02]. Finally, as changes are requested, corresponding documentation, including TARs, should be maintained [306025.03].

³ The HCM module covers payroll and human resource functions.

⁴ The Expenses module tracks travel and employee reimbursement expenditures.

⁵ The Board of Education is the governing body overseeing the School District of Philadelphia.

2025-003 INADEQUATE DOCUMENTATION OF PRIVILEGED-ACCESS MONITORING ACTIVITIES

Condition: Although management performs periodic reviews of Lightweight Directory Access Protocol (LDAP) administrator as part of ongoing risk-assessment and security-monitoring activities, these reviews are not formally documented and do not include evidence of completion, reviewer sign-off, or approval, limiting availability and consistency.

Criteria: Privileged-access monitoring activities should be formally documented and include evidence such as logs showing the review was completed, reviewer sign-off confirming the review was performed, and management approvals for any actions taken or exceptions identified. These records demonstrate compliance with management-established review requirements and support effective oversight of privileged-access.

Effect: Without formally documented evidence of privileged-access monitoring activities, there is an increased risk that security reviews may not be performed consistently or in accordance with management expectations. This may adversely affect system functionality, data integrity, or security.

Cause: Management has not established a process to formally document the completion and review of privileged-access.

Recommendation: Management should formally document the periodic review of the LDAP administrators. The review should capture the complete list of users, evidence of review or approval, and any actions taken through completion based upon review comments [306025.04].

2025-004 LACK OF PERIODIC PROFILE-TO-ROLE REVIEW IN ORACLE

Condition: Management did not complete an annual Profile-to-Role review in Oracle, including analysis of potential incompatible role combinations.

Criteria: Management should annually perform a documented Profile-to-Role review to ensure access privileges are appropriate, including evaluation of incompatible role combinations, and align with segregation-of-duties requirements.

Effect: Without a documented and periodically performed Profile-to-Role review, including assessment of incompatible role combinations, users may retain excessive access privileges. This could result in unauthorized transactions, elevated fraud risk, or violations of segregation-of-duties principles.

Cause: Management has not performed a Profile-to-Role review and has not formalized procedures for conducting or documenting the analysis.

Recommendation: On an annual basis, management should perform a Profile-to-Role review within the Oracle system. This should look to include identification of any incompatible role combinations. If there are any roles which are indicated as incompatible, however, still required by specific users, additional monitoring controls should be established to detect unauthorized transactions [306025.05].

2025-005 INADEQUATE DOCUMENTATION OF PRODUCTION MIGRATION ACTIVITIES

Condition: For each of the three (3) configuration changes tested, the change documentation did not specify the individual responsible for migrating changes to production. Therefore, it was not documented that the changes were migrated by an authorized individual independent of the individual who initiated or developed the change. While management indicated that the Executive Director of Systems Functional Support is responsible for migrating changes to production, there was inconsistent indication of who migrated the change to production within the ticket.

Criteria: Effective change management requires that migration of changes to the production environment be performed by authorized personnel who are independent of the individual who initiated or developed the change. Documentation should clearly identify the individuals performing the migration to demonstrate appropriate segregation of duties and to support management's monitoring and oversight of change activities.

Effect: Inadequate documentation of production migration activities increases the risk that changes may be migrated by unauthorized individuals or without proper segregation of duties. This may result in unauthorized or inappropriate system changes that could impact system functionality, data integrity, or security.

Cause: The change tickets reviewed did not consistently document the individual responsible for migrating changes to the production environment. While management has assigned responsibility for migration, this process has not been consistently reflected in change documentation.

Recommendation: Management should maintain consistent documentation within the change ticket detailing who and when the change was moved to production [306025.06].

2025-006 POOR ACCOUNTABILITY OVER SCHOOL EQUIPMENT INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT

Condition: During our fiscal year 2025 audit, we again tested the School District's oversight of its personal property assets. Our testing included selecting 147 items from the School District's Oracle inventory records to determine if the property was physically located at the school of record. We also selected another 122 items by physical observation at the same schools to determine if the School District accurately included these assets in its property records. Of the 147 items selected from property records 96 items (or 65%) with a total property value of \$297,316 could not be located. Of the 122 items selected from the field locations 74 items (or 61%) could not be found in the property records. Refer to Table 2 and Table 3 below.

Table 2: Listing of Assets That Could Not Be Located

Location	Asset Description	Cost per Inventory Records	Subtotal
Benjamin Franklin High School	Electrical Vocational Equipment	\$5,690.00	
	Vocational Equipment Beveler	3,457.99	
	Welding Equipment	6,418.00	
	Vocational Troubleshooting System	16,656.00	
	Mechanical Drivers Learning System	13,842.00	
	AV Equipment Bundle	5,053.62	
	Vocational Servo Station	1,456.00	
	Shearing Tool	1,586.00	
	Vocational Control Equipment	947.50	
	Energy Training System	19,893.00	
Refrigerator	No Cost Listed	\$75,000.11	
Laura W. Waring School	Smart Board x4	6,369.19	
	Computer Charging Cart x4	5,494.04	
	Printer	1,353.32	
	Classroom Ozobot Kit	1,172.00	
Julia R Masterman High School	Computer Charging Cart x2	2,270.78	
	Musical Instrument	501.00	
	Smart Board x2	10,825.40	
	Instructional Aid	2,150.00	
	Air Conditioning Unit	581.76	
	Piano	1,500.00	
	Artwork	500.00	
	Hot Water Heater	8,087.20	
	Sink Grease Trap	1,129.30	
Oven	6,608.35	34,153.79	
Tilden Middle School	Artwork x2	5,000.00	
	Instructional Aid x4	6,450.00	
	Telecommunication Equipment	1,370.00	
	Smart Board	5,507.43	
Gen. George A. McCall School	Server RAID Array	8,491.05	
	Printer	645.00	
	Computer Charging Cart x2	2,270.78	
	Artwork x2	600.00	
	Instructional Aid	1,059.00	
	Classroom Ozobot Kit	1,172.00	
	Meal Warmer	1,675.00	
Lunch Prep Table	548.10	16,460.93	
Constitution High School	Athletic Supplies x3	4,695.00	
	Poster Printer	4,690.00	
	Smart Board	2,850.66	
	Safe	1,175.00	
	Lunch Prep Table	683.73	
John Bartram High School	Calculator Bundle	3,586.36	
	Piano	657.00	
	Wet/Dry Vacuum x2	1,381.35	
	Smart Board x2	10,980.13	
	Photography Station	995.00	
	Technology Cart	526.01	
	Floor Machine	6,888.25	

Table 2: Listing of Assets That Could Not Be Located (Continued)			
Location	Asset Description	Cost per Inventory Records	Subtotal
Thomas G. Morton School	Musical Instrument - Electric	527.12	
	Charge Cart x2	3,048.78	
	STEM Instructional Aid	3,006.03	
	Virtual Reality Kit	2,999.00	
	Smart Board Bundle x2	10,664.70	
	Ozobot Classroom Kit	1,172.00	
	AV Equipment	2,100.00	
	Lunch Table	623.00	24,140.63
Motivation High School	Piano	657.00	
	AV Equipment Bundle x5	25,268.10	
	Schoolroom Furniture	6,200.70	
	Smartboard x2	10,825.40	
	Milk Cooler	2,819.75	45,770.95
Add B. Anderson School	Curriculum Pack	1,500.00	
	Instructional Aid	1,800.00	
	Smart Board	5,507.43	
	Poster Printer	17,396.00	
	Audio Speakers	1,247.00	
	Musical Instrument	678.99	
	Lunch Table x3	1,836.00	29,965.42
Total Property Value			\$297,316.30

Source: Prepared by the Office of the Controller

Table 3: Listing of Assets Observed That Were Not in Inventory Records			
Location	Asset Description	Quantity	Subtotal
Benjamin Franklin High School	Desktop Computer Vocational Lathe Bench Oven Deli Station Food Warming Station Refrigerator Meal Warmer	1 1 1 1 1 1 1	7
Julia R Masterman High School	Musical Instrument x2 Smart Board Printer Computer Charging Cart Student Kiosk AV Equipment Oven Refrigerator Sink	2 1 1 1 1 1 1 1 1	10
Tilden Middle School	File Cabinet Smart Board Desktop Computer x6 Chromebook Laptop Ice Machine Freezer	1 1 6 1 1 1 1	12
John Bartram High School	Desk/Furniture x2 Smart Board x2 Refrigerator Cooler Freezer	2 2 1 1 1	7
Thomas G. Morton School	Smart Board x2 Cabinet/Furniture x2 Computer Charging Cart Lunch Table Refrigerator	2 2 1 1 1	7
Motivation High School	Smart Board x5 Chromebook Freezer Refrigerator Lunch Table Meal Warmer Fan	5 1 1 1 1 1 1	11
Laura W. Waring School	Desktop Computers x7	7	7
Add B. Anderson School	Desktop Computer x3 File Cabinet x2 Cart Classroom Table Shelving Unit Chromebook Milk Cooler Lunch Table	3 2 1 1 1 1 1 1	11
Constitution High School	Laptop Computer x2	2	2
Total Items			74

Source: Prepared by the Office of the Controller

Criteria: Board of Education policy number 624, and related administrative procedures require that School District inventory records for personal property reflect the assets at each location, and be maintained so that additions, transfers, and deletions are accurately and timely updated.

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

Cause: The implementation of policies and procedures relating to personal property has been inconsistent at schools and other field locations as designated personnel have failed to maintain custody of School District property and/or properly update the related inventory records.

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

2025-007 INACTIVE STUDENT ACTIVITY FUNDS ARE NOT PROPERLY MANAGED

Condition: In a limited review of Student Activity Funds (SAFs) at 23 school locations, we observed a lack of compliance with established procedures for properly managing these funds. SAFs are custodial, student owned funds collected for specific purposes, such as school clubs, sports or memorial scholarships. As of June 30, 2025, the combined fund balance for the SAFs at the 23 schools tested was \$1,557,166. Sixteen of these schools continued to carry a total of 206 inactive SAF accounts with balances totaling \$190,218. Table 4 below summarizes the results for each of the schools tested.

Table 4: Summary of Audit Results of Student Activity Funds by School

School	SAF Account Balances @ 6-30-25	Total SAFs with Inactive Account Balances for at least One Year	Total of Inactive Account Balances
Central High School	\$313,742.04	34	\$14,324.01
Girls High School	307,901.08	55	58,496.27
Julia R. Masterman School	205,080.96	22	23,535.76
Creative and Performing Arts High School	119,153.11	13	13,764.50
W.B. Saul High School	90,417.37	5	13,159.66
Science Leadership Academy @ A	89,262.91	1	328.86
Bartram High School	82,112.55	6	3,004.54
Girard Academic Music Program	70,844.50	8	6,273.89
Roxborough High School	62,358.76	7	6,116.69
Franklin Learning Center	50,906.75	13	13,612.99
Horatio B. Hackett School	40,259.11	10	6,598.23
Benjamin Franklin High School	36,539.26	13	8,500.68
Motivation High School	35,393.11	8	18,449.73
George Childs School	11,647.38	0	0.00
Andrew Jackson (aka Fanny Coppin Jackson School)	10,384.49	2	961.50
Wagner Middle School	5,887.20	0	0.00
Alexander McClure School	5,771.88	0	0.00
Philip Sheridan (aka Gloria Casarez School)	4,968.45	5	882.42
William Bryant School	4,751.31	0	0.00
Morton Mc Michael School	4,700.53	4	2,208.72
George W. Nebinger School	4,098.69	0	0.00
Thomas Morton School	764.98	0	0.00
William McKinley School	220.06	0	0.00
Totals	\$1,557,166.48	206	\$190,218.45

Source: Prepared by the Office of the Controller

Criteria: The School District’s Manual for SAFs provides guidance to principals, operations officers, school staff and students for the management and safekeeping of these funds. The Manual states that students should decide on the proper school-related purpose or disposition of an account’s surplus funds. Monies unused for more than one year after graduation of the class or club members should be transferred to the Student Body Activities Account to be used for school-related purposes.

Effect: Failure to follow established policies and procedures could place the SAFs at risk for fraud or misuse.

Cause: School personnel do not adequately abide by the policies and procedures set forth in the SAF Manual.

Recommendation: To prevent misuse of the SAFs, we recommend that school principals, operations officers, and school staff comply with the guidance provided in the SAF Manual. District management should also continue to reinforce the importance of compliance with the Manual during annual training sessions for

school principals [600108.03]. Finally, school management should ensure that employees responsible for managing or overseeing SAFs are properly trained and held accountable for compliance with the Manual's guidance [600114.02].

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

As part of this audit, the independent accounting firm engaged to perform an assessment of the controls related to new modules in the Oracle system, also followed up on the IT general control deficiencies noted in the School District's fiscal year 2024 Management Letter on Internal Control. Their current year review noted that the School District took corrective action to remediate two previously reported conditions as discussed below.

INADEQUATE MONITORING OF THIRD-PARTY SYSTEM CONTROL REPORTS

Prior Condition: The School District did not perform a comprehensive, documented review of the Oracle Fusion SOC-1 report. Meeting minutes lacked evidence of mapping Complementary User Entity Controls (CUECs) to internal controls and did not address the impact of excluded subservice organizations or compensating controls.

Remediation Status: Complete – During the assessment, it was confirmed that the School District management mapped and responded to all control activities expected to be implemented at user entities. In addition, the School District provided evidence supporting who performed the review, when it was discussed, and evidence of management approval. Therefore, based on the current year observations, we consider this condition resolved [600124.01].

INADEQUATE DISABLING OF SYSTEM ACCESS FOR SEPARATED EMPLOYEES

Prior Condition: User access to the School District's Oracle system was not disabled promptly for terminated employees. In two cases, access continued for several days after resignation due to delays in notification and lack of backup personnel for deprovisioning.

Remediation Status: Complete – During the assessment, it was confirmed that access to the School District's Oracle system is now being appropriately disabled through an automated script that runs nightly. Sample testing was performed to evaluate the effectiveness of the automated control. Therefore, based on the current year testing, we consider this condition resolved [600124.02, 600124.03].

MANAGEMENT RESPONSE AND ACTION PLAN



Michael Herbstman
Chief Financial Officer

Office Of The Chief Financial Officer
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(215) 400-4500
Fax (215) 400-4501

5/14/2026

The Honorable Christy Brady, City Controller
City of Philadelphia
Office of the City Controller
12th Floor, Municipal Service Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

RE: Response to Summary of FY 2025 Internal Control Comments Memo.

Dear Ms. Brady:

The attached document contains the School District of Philadelphia's formal response to the Summary of FY 2025 Internal Control Comments issued on April 17, 2026, in connection with the audit of the District's Annual Comprehensive Financial Report (ACFR).

We appreciate the efforts of you, your staff, and the firm of Eisner Advisory Group, LLC (EisnerAmper) throughout the audit process and value the ongoing collaboration in strengthening the District's internal controls and financial reporting processes.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Herbstman".

Michael Herbstman
Chief Financial Officer

cc: Reginald L. Streater, Esq., Board of Education President
Dr. Tony B. Watlington, Sr., Chief Executive Officer and Superintendent of Schools
Charles Edacheril, Deputy City Controller
Melanie Harris, Chief Information Technology Officer
Deborah Ming, Audit Director, City Controller Post Audit Division
Edward Rogalski, Comptroller

Encl.

MANAGEMENT RESPONSE AND ACTION PLAN (CONTINUED)



Michael Herbstman
Chief Financial Officer

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FORMAL RESPONSES TO

SUMMARY OF THE SCHOOL DISTRICT OF PHILADELPHIA'S
FY 2025 INTERNAL CONTROL COMMENTS

FOR FISCAL YEAR ENDING JUNE 30, 2025

BY THE OFFICE OF THE CITY CONTROLLER
CITY OF PHILADELPHIA (PREPARED BY THE FY
2025 CITY CONTROLLER'S OFFICE AND THE FIRM OF
EISNER ADVISORY GROUP, LLC)

SUBMITTED BY:
MICHAEL HERBSTMAN
CHIEF FINANCIAL OFFICER
EDWARD ROGALSKI
COMPTROLLER
THE SCHOOL DISTRICT OF PHILADELPHIA
MAY 14, 2026

MANAGEMENT RESPONSE AND ACTION PLAN (CONTINUED)

SDP response to The School District of Philadelphia's
FY 2025 Internal Control Comments

1. 2025-001 OUTSTANDING TERMINATION PAYMENTS

Potential Impact: Deficiency

The School District remains focused on timely processing termination payment in accordance with labor agreements and reducing the backlog of termination payments.

Following implementation of the new Oracle human resources and payroll modules in January 2025, the District experienced transitional processing impacts associated with the new ERP environment. Despite these challenges, termination payment cases continued to be processed diligently, and the FY 2024 and prior termination payment backlog has been significantly reduced.

The Payroll Department has continued to make meaningful progress despite staffing challenges, including the resignation of a full-time payroll processor and the onboarding and training of new personnel. However, limited staffing resources continue to affect the Department's ability to fully keep pace with new separations.

Management acknowledges substantial progress has been made in resolving older outstanding cases. Of the 729 cases with termination dates in FY 2024 or earlier identified in the auditor's report, only 175 cases remain outstanding as of April 28, 2026. Of these remaining cases:

- 17 cases involve inactive employees for whom termination payments cannot yet be processed until the employees' status is updated to officially terminated.
- 36 cases involve deceased employees with outstanding documentation requirements necessary for payment processing. These cases are expected to be substantially resolved shortly.
- The remaining 122 cases are associated with labor-related holds, retroactive personnel actions, or other matters requiring additional review and resolution before payment processing can occur.

The remaining outstanding cases primarily represent operational processing delays and unresolved personnel actions, rather than payments already issued or approved for payment that would qualify for escheatment under unclaimed property laws. To the extent termination payments become payable and subsequently remain unclaimed in accordance with applicable law, the District will process such amounts in accordance with applicable escheat requirements.

District management will continue efforts to eliminate the backlog of outstanding termination payment cases. Now that the Oracle Human Resources and Payroll modules have been fully implemented, the District will continue evaluating process improvements and operational efficiencies, as resources permit, to improve the timeliness of termination payment processing.

2. 2025-002 INADEQUATE DOCUMENTATION OF USER ACCESS REVIEW METHODOLOGY AND APPROVALS

Potential Impact: Deficiency

Management agrees with the finding and the auditor's recommendations to enhance the current Oracle User Access Review (UAR) process. Specifically, management will: (1) define the access levels subject to review and use this determination to generate a comprehensive population of users; (2) ensure all users with applicable access are included in the review; and (3) maintain appropriate evidence demonstrating that Technical Access Requests (TARs) are fully reviewed and formally documented.

To address these enhancements, as part of the FY2025-2026 audit cycle, the School District is developing a formal Standard Operating Procedure (SOP) Oracle User Review document for the Oracle UAR process. The SOP will establish procedures to ensure a complete and accurate population of users with applicable access levels is reviewed, document the methodology used to generate the population, and require retention of supporting access request documentation, including evidence of review, completion, and approval.

MANAGEMENT RESPONSE AND ACTION PLAN (CONTINUED)

SDP response to The School District of Philadelphia's
FY 2025 Internal Control Comments

3. 2025-003 INADEQUATE DOCUMENTATION OF PRIVILEGED-ACCESS MONITORING ACTIVITIES

Potential Impact: Deficiency

Management agrees with the finding. As noted, the School District's IT Office currently performs periodic reviews of privileged (LDAP administrator) access as part of its ongoing security monitoring activities to provide oversight of privileged access activities.

To further strengthen internal controls, the following enhancements will be implemented:

1. Consistent formal documentation of privileged access reviews and evidence of completion;
2. Establishment of management-defined review criteria; and
3. Implementation of a standardized process to document the reviews, including retention of the complete user population reviewed, evidence of the review performed, any actions taken, and documentation of completion and approval.

These enhancements will be incorporated, along with all other corrective actions noted in the District's audit responses, into existing security monitoring procedures as part of the updates to the SOP User Review Document and will be implemented beginning with the FY2025–2026 audit cycle.

4. 2025-004 LACK OF PERIODIC PROFILE-TO-ROLE REVIEW IN ORACLE

Potential Impact: Deficiency

Management agrees with the finding. The School District IT Office will incorporate a formalized Profile-to-Role review into its Oracle User Access Review SOP, including analysis and evaluation of incompatible role combinations. This review will be performed annually beginning with the FY2025–2026 audit cycle. Procedures performed will be documented to support alignment with segregation of duties requirements, and additional monitoring controls will be implemented, where necessary, to detect any unauthorized transactions.

5. 2025-005 INADEQUATE DOCUMENTATION OF PRODUCTION MIGRATION ACTIVITIES

Potential Impact: Deficiency

Management agrees with the finding that configuration management lacked sufficient documentation and has implemented corrective actions subsequent to the audit period. The School District IT Office has reinforced its configuration management procedures to require consistent documentation within change tickets, including identification of the individual responsible for migrating changes to production and the date of migration. These enhancements are intended to ensure appropriate segregation of duties and are in place for future audit periods.

6. 2025-006 POOR ACCOUNTABILITY OVER SCHOOL EQUIPMENT INCREASES RISKS OF FINANCIAL STATEMENT ERRORS AND THEFT

Potential Impact: Deficiency

Management concurs with the audit finding and recognizes the need to strengthen accountability and accuracy over personal property records. Several initiatives have been identified and are underway or completed to meet this objective.

The condition appears to result from inconsistent execution of established procedures across decentralized locations, rather than a deficiency in control design. The effectiveness of these controls is dependent upon accurate asset coding, timely updates, and consistent adherence to established processes.

Additionally, management recognizes that the inventory reflected in the Oracle Fixed Asset system may not fully align with physical assets. This is primarily attributable to timing differences in asset tagging, changes in capitalization thresholds implemented in accordance with federal and state procurement guidelines, and the existence of obsolete or disposed assets within the records.

MANAGEMENT RESPONSE AND ACTION PLAN (CONTINUED)

SDP response to The School District of Philadelphia's
FY 2025 Internal Control Comments

During FY 2025 and continuing into FY 2026, the District has implemented and initiated several corrective actions to address the root causes identified:

- **Implementation of Asset Retirement Workflow in Oracle:** Deployed an asset retirement workflow within Oracle Fixed Assets, replacing the prior manual process and establishing centralized review and approval to improve completeness, timeliness, and auditability of disposals.
- **Procurement and Asset Classification Improvements:** Redesigning the procurement category structure to align with the PA State chart of accounts and fixed asset classifications, enhancing the accuracy and timeliness of asset recording at the point of purchase.
- **Clarification of Capitalization and Tracking Policy:** Clarified the District's capitalization and tracking policy, distinguishing between capital assets recorded in Oracle Fixed Assets and non-capital items tracked at the school or department level. Developing supplemental guidance, with General Accounting partnering with schools and administrative departments to implement consistent inventory tracking practices and leverage established successful District models.
- **Training and Communications:** Management has enhanced training and communication to support consistent execution of inventory procedures. This includes: 1) targeted training on inventory responsibilities and the Oracle asset retirement workflow, including real-time support during the annual inventory process and, 2) districtwide training supported by standardized guidance, job aids, and checklists to promote consistency. This will be further enhanced through summer sessions for Principals, Assistant Principals and Office Administrators, with a focus on accountability, asset tracking, and compliance.

Management agrees with the auditors' recommendations of consequential actions and has strengthened inventory processes and accountability through formalized procedures and oversight as follows:

- Requires annual inventory certifications at the school and administrative levels with defined timelines and accountability assigned to school leadership which requires documented sign-off of the accuracy of the inventory submissions.
- Escalation to executive leadership, including Assistant Superintendents, Associate Superintendents and Chiefs, for noncompliance with personal property guidelines and timeliness of submissions.
- General Accounting reviews submitted inventories, identifies discrepancies, and performs written follow-up.
- Established escalation protocols for missing assets, including required reporting for assets less than five years old.
- Enforces compliance through monitoring, follow-up, and potential restrictions on expenditures, including federal grant funds, for noncompliant locations.

Recognizing the legacy records need to be reviewed and updated for current policies, the following actions are underway:

- Management is conducting a comprehensive, districtwide review of legacy asset records.
- A focus on fully depreciated assets and those associated with closed locations to determine proper disposition.
- Improve inventory accuracy by retiring obsolete items and aligning physical assets with system records.

Management is committed to strengthening internal controls and inventory processes and expects these corrective actions to significantly improve the completeness and accuracy of personal property records going forward.

MANAGEMENT RESPONSE AND ACTION PLAN (CONTINUED)

SDP response to The School District of Philadelphia's
FY 2025 Internal Control Comments

7. 2025-007 INACTIVE STUDENT ACTIVITY FUNDS ARE NOT PROPERLY MANAGED

Potential Impact: Deficiency

Management acknowledges the auditors' findings regarding inactive Student Activity Fund (SAF) accounts for FY 2025 and agree with the recommendations.

The majority of inactive accounts are attributable to changes in school-level personnel, including turnover in principals and activity sponsors, which can result in temporary uncertainty regarding the original purpose of certain funds. Additional inactive balances are primarily related to residual graduation dues or awards and scholarships that were not dispersed in FY 2025 due to timing or other school-specific circumstances. Importantly, the inactive accounts found in the audit sample were already reviewed by management during the summer of 2025 and, where appropriate, consolidated in accordance with established procedures.

Based upon review, management does not believe there was intentional disregard of the established policies and procedures in the SAF Manual, which is updated annually. In order to address the inactive accounts, we again anticipate providing annual training to school-based personnel responsible for SAF administration, highlighting these policies and procedures. Sessions will be available during the Operations Convention (Ops Con), Convocation, and New Principal Training sessions that take place during the summer recess. One of these training sessions will be recorded and posted on the Accounting Services website for future reference.

Management also remains committed to strong oversight of SAFs and will continue to perform a timelier annual review and cleanup of the inactive accounts in accordance with existing policy. We will continue to address alternative ways to provide training to the employees responsible for the SAF and provide positive reinforcement to those that attend the training.