

SCHOOL DISTRICT OF PHILADELPHIA AND
PHILADELPHIA INTERMEDIATE UNIT #26

PHILADELPHIA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001 AND 2000
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

WITH FINDING, OBSERVATION, RECOMMENDATIONS

AND STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

THROUGH OCTOBER 17, 2006



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SECTION I

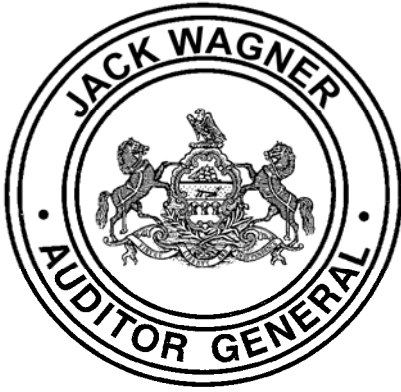
SCHOOL DISTRICT OF PHILADELPHIA

PHILADELPHIA COUNTY, PENNSYLVANIA

AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001 AND 2000

THROUGH OCTOBER 17, 2006



The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the School District of Philadelphia for the years ended June 30, 2004, 2003, 2002, 2001 and 2000 and in certain areas extending beyond June 30, 2004. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

During the time period of our performance audit of the School District, the Commonwealth of Pennsylvania assumed governing control of the School District effective December 22, 2001, by declaring it financially distressed in accordance with Sections 691 and 696 of the Public School Code. Shortly thereafter, a five-member School Reform Commission (SRC) was established. The SRC exercises all powers and has all the duties of the Board of Education.

Our audit was limited to the following objectives:

- . Objective No. 1 - To determine if the School District of Philadelphia complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- . Objective No. 2 - To determine if the School District of Philadelphia took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

To plan and perform our audit of the School District of Philadelphia, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the School District of Philadelphia was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the findings as detailed in the Conclusions-Objective No. 1 section of this report. We also found that the district did not take appropriate corrective action to address the findings and recommendations contained in our prior audit report, as detailed in the Conclusions-Objective No. 2 section of this report. Furthermore, we identified internal control weaknesses as discussed in the observation. The chart below lists the findings and observation by section and title:

Objective No. 1

- Finding – Lack of Documentation Necessary to Verify Bus Drivers' Qualifications
- Observation – Internal Control Weaknesses in Bus Drivers' Qualifications Administrative Policies

Objective No. 2

- Finding – Significant Control Weaknesses Exist in the District's Child Accounting System
- Finding – Certification Irregularities
- Finding – Continued Improper Student Activity Fund Practices
- Finding – Inadequate General Computer Controls over the Advantage 2000 System
- Finding – Inadequate General Computer Controls Environment

We believe that our recommendations, if implemented by the district, will improve the internal control weaknesses identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Independent Auditor's Report (Continued)

In addition to the findings, we also wish to address the following matters. The School District has had sustained deficits in its District-Wide Basic Financial Statements as reported in its Comprehensive Annual Financial Reports (CAFR). Although the June 30, 2003 School District CAFR reported a positive General Fund balance of \$132.2 million, the District-Wide Basic Financial Statement Total Net Assets reported a deficit of \$547.4 million. The District's June 30, 2004 CAFR showed the General Fund balance reduced to \$43.6 million, and the District-Wide Basic Financial Statement Total Net Assets reported an increased deficit of \$682.6 million.

Whereas the general fund financial statements present a narrower set of financial information and generally include only short-term information, the district-wide financial statements provide information about the School District as a whole, and present a longer-term view of the School District's finances.

This trend continued as reported in the School District's June 30, 2005 and 2006 CAFRs. At June 30, 2005, the District's General Fund reported a positive balance of \$56.5 million and then a deficit of \$66.1 million at June 30, 2006. The District-Wide Basic Financial Statements Total Net Assets reported a deficit of \$925.3 million at June 30, 2005 and an increased deficit of \$1,111.3 million at June 30, 2006.

In August 2002, the School District announced a five-year plan that reprioritized District spending and capitalized on untapped local, state, and federal resources to maximize revenue streams. The goal of the School District's financial plan was to increase academic opportunities and lay the foundation for an expanded school construction and renovation program. That plan projected a positive fund balance through 2008.

On May 24, 2004, the SRC issued a new mandate and mission for the School District. Known as the "Declaration of Education;" the vision and goals set forth were to drive district spending through 2008, when the goals are to be achieved. The Declaration established outcome-based goals in the areas of academic achievement, early literacy, school climate and security, community collaboration, equity, and operations. Additionally, in Fiscal Year 2004, the School District launched the Capital Improvement Program. Though initially planned as a \$1.5 billion program that would span over the course of five years, the 2004 CAFR reported that total new construction, renovations, and repairs will total \$2.4 billion through 2011.

Independent Auditor's Report (Continued)

As noted in the School District's June 30, 2006 CAFR, the School District of Philadelphia faces an immediate financial challenge because of the continuing negative fund balances. The total needs for new construction, renovations, and repairs have now been identified to total \$3.1 billion from Fiscal Year 2006 through Fiscal Year 2012. The 2006 CAFR reports that the District remains fully committed to the educational reform initiatives defined in the SRC's Declaration of Education. In order to meet those goals while making budget adjustments, the District extensively prioritized and evaluated its budget and programs. The 2006 CAFR reports that the School District is seeking to make adjustments to the Fiscal Year 2007 budget in order to generate an operating surplus sufficient to re-establish a positive fund balance. Finally, the School District reported that it was also in the process of making a substantial revision to its Five-Year Financial Plan. The Five-Year Plan will explicitly address the School District's need to rebuild an adequate fund balance reserve beginning in Fiscal Year 2008 to ensure that the School District does not return to a negative fund balance in the future.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

October 17, 2006, except for Objective No. 2,
Findings No. 4 and No. 5 for which the date is
November 21, 2005

/s
JACK WAGNER
Auditor General

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The School District of Philadelphia is located in Philadelphia County and encompasses an area of approximately 130 square miles. The school district has a population of 1,470,151, according to a 2004 local census. The administrative offices are located at 440 North Broad Street, Philadelphia, Pennsylvania.

According to school district administrative officials, during the 2003-04 school year, the district provided basic educational services to 189,770 pupils through the employment of 768 administrators, 10,431 teachers, and 8,102 full-time and part-time support personnel. Special education was provided by the district and the Philadelphia Intermediate Unit #26. Occupational training and adult education in various vocational and technical fields was provided by the district.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 57 through 60 of this report for a listing of the state revenue the district received during the 2003-04, 2002-03, 2001-02, 2000-01, and 1999-00 school years and for descriptions of the state revenue received by category.

Effective January 3, 2000, an amendment to the Home Rule Charter was approved by a voter referendum providing, among other things, that members of the School Reform Commission shall be appointed by the mayor for four-year terms commencing on May 1 of the year a mayor's term of office begins.

As a result of Act 46 of 2001, a five-person reform commission with terms of up to seven years was appointed by the Governor and Mayor to oversee the district. The School Reform Commission is responsible for the operation, management and educational program of the district, including all financial matters related to the district.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31st of the following fiscal year.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

Our audit objectives were:

- . Objective No. 1 - To determine if the School District of Philadelphia complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- . Objective No. 2 - To determine if the School District of Philadelphia took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

The scope of our audit covered the years ended June 30, 2004, 2003, 2002, 2001 and 2000, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires School Reform Commission members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School Reform Commission members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

CONCLUSIONS – OBJECTIVE NO. 1

The first objective of our audit was to determine if the School District of Philadelphia complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the School District of Philadelphia complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the Conclusions-Objective No. 2 section of this report and the finding listed below. Additionally, we identified internal control weaknesses as noted in the observation included in this report. The findings, observation and recommendations were reviewed with representatives of School District of Philadelphia, and their comments have been included in this report.

Finding – Lack of Documentation Necessary to Verify Bus Drivers’ Qualifications

The School District of Philadelphia provides transportation for elementary and middle school students through the use of the district’s own transportation and contracted transportation providers. We reviewed the personnel files of the bus drivers¹ who were district employees and the files of the bus drivers who were employees of the district’s transportation contractors to determine whether they were properly qualified to transport the students of the district. Our review found that 32 of the 191 bus drivers sampled were transporting students without the required documentation.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following five requirements:

1. possession of a valid driver’s license;
2. completion of school bus driver skills and safety training;
3. passing a physical examination;
4. lack of convictions for certain criminal offenses; and
5. official child abuse clearance statement.

¹Defined as any person transporting students.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding (Continued)

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation (PennDOT).² As explained further below, the fourth and fifth requirements were set by the Public School Code of 1949, as amended (Public School Code),³ and the Child Protective Services Law (CPSL)⁴, respectively.

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the CPSL requires prospective school employees to submit an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

As part of our audit procedures to verify bus drivers' qualifications, we requested a master list of bus drivers as of July 19, 2005. Upon receipt of this list, we initially selected a random sample of 10 percent of the 1,448 and 1,240 bus drivers listed as being employed by the district and by the contractors, respectively. Upon presenting our sample to district personnel, we were informed that the list of district-employed drivers incorrectly included all district-employed persons authorized to drive a city vehicle. The district identified and removed these persons and presented us with a second list. We then selected a second random sample of 10 percent of the 1,240 bus drivers listed as being employed by the district and upon presenting this list to district personnel we were informed that this second list incorrectly included supervisory personnel, maintenance personnel and mechanics. After these employees were identified and removed, we selected and presented our third and final sample of 10 percent of the 616 district-employed drivers to district personnel.

² 67 Pa. Code § 71.1 *et seq.*

³ 24 P.S. § 1-111.

⁴ 23 Pa.C.S. § 6355.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding (Continued)

We reviewed the personnel files of a random sample of 191 of the 1,856 drivers currently employed by the School District of Philadelphia and the district’s transportation contractors and found a significant number of drivers had incurred violations of various requirements as follows:

	<u>Population</u>	<u>Sample Size</u>	<u>Number of Violations</u>	<u>Number of Drivers Incurring Violations</u>
District	616	62	15	15
Contractor A	410	41	-	-
Contractor B	222	22	25	10
Contractor C	70	7	2	1
Contractor D	38	4	-	-
Contractor E	32	4	-	-
Contractor F	165	17	6	1
Contractor G	9	1	-	-
Contractor H	16	2	8	2
Contractor I	20	2	6	1
Contractor J	36	4	1	1
Contractor K	54	6	4	1
Contractor L	1	1	-	-
Contractor M	36	4	-	-
Contractor N	<u>131</u>	<u>14</u>	<u>-</u>	<u>-</u>
Totals	<u>1,856</u>	<u>191</u>	<u>67</u>	<u>32</u>

The following table summarizes the types of violations incurred by the 32 bus drivers:

	<u>Invalid License</u>	<u>Invalid ‘S’ Endorsement</u>	<u>Invalid Physical</u>	<u>Lack of Driver Training Certificate</u>	<u>Lack of Criminal History Record Information</u>	<u>Lack of Child Abuse Clearance Statement</u>	<u>Grand Total</u>
District	-	-	-	-	15	-	15
Contractor B	6	-	-	-	9	10	25
Contractor C	1	-	1	-	-	-	2
Contractor F	1	1	1	1	1	1	6
Contractor H	2	2	2	2	-	-	8
Contractor I	1	1	1	1	1	1	6
Contractor J	-	-	-	-	-	1	1
Contractor K	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>4</u>
Totals	<u>12</u>	<u>5</u>	<u>6</u>	<u>5</u>	<u>26</u>	<u>13</u>	<u>67</u>

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding (Continued)

Details of violations:

- . district employed 15 drivers who each did not possess criminal history record information;
- . Contractor B employed six drivers who did not possess valid licenses, criminal history record information clearance and child abuse clearance statements; three additional drivers did not have criminal history record information clearance and child abuse clearance statements and one driver, in addition to these nine, did not have a child abuse clearance statement;
- . Contractors C, F, I, J, and K employed one driver each with the violations listed; and
- . Contractor H employed two drivers with each of the violations listed.

Our review found that the causes of the above violations are as follows:

- . District personnel stated that they did not require criminal background checks when the law became effective, January 1, 1986. District personnel stated that they started requiring criminal history record information clearance for the district-employed drivers beginning with the 1990-91 school year even though Act 34 of 1985 requiring criminal background checks became effective January 1, 1986. We extended our audit procedures to determine if district-employed drivers hired during the 1990-91 school year and thereafter provided the required criminal history record information clearance as asserted by the district. We obtained the hire dates of the 62 district drivers in our sample and found 32 drivers hired during the 1990-91 school year or later, all of which had the required criminal history record information clearance. It should be noted that, of the remaining 30 bus drivers employed by the district, 15 are cited above, 12 are grandfathered under Act 34 because they were hired prior to January 1, 1986 and three were grandfathered under Act 34 but changed jobs within the district and obtained clearances.
- . Contractor B stated in a letter that the list of drivers provided to the district included all cab drivers in their system, including cab drivers who were not assigned to drive for the district and several drivers who no longer worked for the contractor;

SCHOOL DISTRICT OF PHILADELPHIA
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Finding (Continued)

- . Contractor C stated in a letter that the driver was no longer employed as of December 2004 but was on the current roster of bus drivers provided to us;
- . Contractor F stated in a letter that they sent the driver's personnel file to the corporate office at the time of the employee's termination, corporate office subsequently went out of business and the file could not be located;
- . Contractor H stated in a letter that they could not provide the required drivers' licenses (CDL) with an "S" endorsement, proof of annual physical examinations and proof of driver training certifications because the building where the records were stored collapsed;
- . Contractor I stated in a letter that they are relocating out of state and the file was packed and could not be located. Additionally, the driver in question resigned in November 2004.
- . Contractor J stated in a letter that the driver in question was never assigned to a district route; and
- . Contractor K stated in a letter that the driver in question was never employed by them.

As previously discussed, we were provided several lists of district-employed bus drivers. Additionally, our review found that the list of bus drivers we received from the district for Contractors B, C, J and K included employees that were either terminated, deceased, never worked for the contractor or never drove a route for the district. This leads us to question the reliability of the data provided to us by the district and whether the district is aware of who is transporting its students.

Recommendations

The School Reform Commission and district administrators should:

- . review the district-employed bus drivers' files and obtain both the criminal history record information clearance and the child abuse clearance statements for all drivers hired after January 1, 1986 where one is not on file;

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding (Continued)

- immediately obtain, from the transportation contractors, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the district possess proper qualifications;
- ensure that the district's transportation coordinator reviews each driver's qualifications prior to that person transporting students;
- maintain files, separate from the transportation contractors, for all contractor drivers servicing the district and work with the contractors to ensure that the district's files are up-to-date and complete;
- maintain an up-to-date and reliable listing of all district and contracted bus drivers; and
- establish procedures to ensure that cab drivers who do not possess the required criminal history record information clearance and child abuse clearance statement do not transport the district's students.

Response of Management

Management provided the following response agreeing with the finding as follows:

Following the passage and enactment of certain new and revised regulations issued by the Pennsylvania Department of Transportation ("PennDOT"), and those found in the Public School Code of 1949, as amended ("Public School Code") and the Child Protective Services Law ("CPSL") respectively, the School District took action to both ensure that employees hired prior to the promulgation of the new standards met all applicable requirements and that implementation of the new standards were reflected in the School District's recruitment and hiring practices for this class of employees. More specifically and after researching all files, the School District prepared and made requests to obtain Criminal Record Background and Child Abuse Clearance Checks for 185 and 270 bus drivers, respectively. Subsequently, all Criminal Record Background Checks were received and there was no evidence in any of the records that would prohibit the School District from hiring any of the employees in this regard. Although at the time of this audit, only 179 Child Abuse Clearance Checks were received by the School District, all such documentation was returned and is now on file. Similar to the criminal records background checks, all child abuse checks were completely clear.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding (Continued)

In addition, the School District investigated and confirmed that all bus drivers listed as in this audit as “lacking credentials” never operated any bus routes for the School District despite being listed as employed by a particular transportation vendor. Notwithstanding this fact, management of the School District will ensure that transportation vendors only provide the identity and names of employees who actually serve in this capacity in the future.

Likewise, the School District commits to ensuring that ALL (whether or not the person is a School District employee or contracted employee) who transport public school students meet all respective and applicable qualifications, such qualifications are validated and that proper approval is secured by management as part of the School District’s recruitment and hiring practices. Management will also continue to collaborate with representatives of PennDOT to more routinely and systematically validate driver’s license and certification documentation.

Lastly, the School District accepts the recommendation of the Auditor General to maintain employee files, separate from those of transportation vendors, for all contracted drivers that directly serve the School District and its students. Management commits to monitoring all transportation vendors to ensure that all such records are complete and current.

Auditor’s Conclusion

We are pleased that the school district has adopted, or will adopt, our recommendations. We will follow-up on this issue in our next audit of the district.

Observation – Internal Control Weaknesses in Bus Drivers’ Qualifications Administrative Policies

As stated in the Finding in this section of our report, Section 111 of the Public School Code of 1949, as amended, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.⁵

⁵ 24 P.S. § 1-111.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Observation (Continued)

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.⁶

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Due to the missing documentation discussed in the Finding, we could not adequately determine whether any serious crimes occurred that would call into question some of the applicants' suitability to have direct contact with children. Furthermore, neither the district nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with, or convicted of, serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations

The School Reform Commission and district administrators should consider, in consultation with the district's solicitor:

- developing a process to determine, on a case-by-case basis, whether prospective and current employees of the district and the district's transportation contractors have been charged or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children; and
- implementing written policies and procedures to ensure that the district is notified when drivers are charged with, or convicted of, crimes that call into question their suitability to continue to have direct contact with children.

⁶ 23 Pa.C.S. § 6355.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Observation (Continued)

Response of Management

Management provided the following response agreeing with the observation as follows:

Although the School District maintains policies and procedures that meet all minimum federal, state and local requirements for this class of employees, the School District agrees with the recommendation of the Auditor General that adoption and implementation of additional safeguards may be advisable in some circumstances. For example, the School District developed and spearheaded an initiative that requires the submission of current and clear criminal record and child abuse clearances for all bus drivers BEFORE any driver is permitted to transport School District students. This requirement was placed in all new contracts with transportation companies retained by the School District and will be added to those remaining contracts upon renewal or re-issuance, if applicable. This requirement is in addition to verification of a valid Commercial Driver's License, Certificate of Completion and Health Certification.

For prospective employees of the School District, employment applications will be revised to require that an employee immediately notify the School District in the event that he or she is the subject of any criminal investigation during the term of his or her employment. This requirement will also be reflected in any and all written offers of employment made by the School District and maintained in personnel files.

Auditor's Conclusion

We are pleased that the school district has adopted, or will adopt, our recommendations. We will follow-up on this issue in our next audit of the district.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of our audit was to determine if the School District of Philadelphia took appropriate corrective action to address the findings and recommendations contained in our prior audit report for the years ended June 30, 1999, 1998 and 1997 and in certain areas extending beyond June 30, 1999. The status of these findings along with a description of the School Reform Commission's disposition of each recommendation was determined by one or more of the following procedures:

- review of the School Reform Commission's written response, dated August 30, 2005, to the Department of Education, replying to the Auditor General's audit report for the years ended June 30, 1999, 1998 and 1997 and in certain areas extending beyond June 30, 1999;
- tests performed as a part of, or in conjunction with, the current audit; and
- questioning of appropriate district personnel regarding specific prior years' findings and recommendations.

Finding No. 1 – Significant Control Weaknesses Exist in the District's Child Accounting System

The Department of Education (DE) calculates a school district's subsidies and reimbursements based on reports prepared and submitted by each school district. One of the reports submitted by each district is the "Annual Attendance and Membership Report" (PDE 4062). The data contained in this report is one of the factors used in the calculation of the school district's subsidies and reimbursements. Our prior audit of pupil membership and attendance, which attempted to substantiate membership reports submitted to DE, found numerous deficiencies about whether state subsidies paid to the district were consistent with the district's funding entitlement.

We recommended that the School Reform Commission require district personnel to:

- assign overall responsibility to a specific individual or individuals to ensure that its child accounting systems provide accurate and complete data;
- implement and maintain a system of internal controls that includes general and application computer controls and audit trails to ensure accuracy of the data;

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

- ensure that its policies and procedures meet DE requirements and that its personnel are following these policies and procedures; and
- require district personnel to adhere to Chapter 11 requirements when reporting pupil membership and maintain evidence of absences that are legally excused or evidence that compulsory attendance prosecution has been or is being pursued.

We further recommended that DE:

- require the district to provide sufficient, competent, reliable data to support the approximately \$2.2 billion in subsidies and reimbursements paid to the district based on the data from the fiscal years we audited;
- determine whether it is appropriate to assess a monetary penalty against the district if the supporting documentation is not provided; and
- ensure that the district's child accounting membership reporting can be supported and verified prior to issuing future payments.

In their response to our prior audit report, management stated that it disagreed with many of the conclusions reached in the finding, but did describe a number of proposed solutions regarding how the issues could be remedied. These proposals included making a number of organizational changes and implementing some initiatives designed to improve student attendance. Management also committed to making needed changes in how it reports student attendance.

During our current audit we determined that the district continues to generate its annual membership reports, which are submitted to DE, from the pupil accounting system maintained by the district's School Computer Network (SCN) on the Data General mainframe computer. As part of our current audit procedures, we requested the membership and attendance data that the district used to create the PDE-4062 report, which was submitted to DE for the 2003-04 school year. The district provided five different versions of membership data during a four month period. Although each version of data narrowed the differences between the data and the PDE-4062 report, we had different reconciling problems with each version of data. We were unable to reconcile any version of data to the PDE-4062 report, and district management was unable to explain why the data did not reconcile to the PDE-4062 report.

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Finding No. 1 (Continued)

Additionally, as part of our audit procedures to determine data integrity, we compared the membership and attendance data provided by the district for the 2003-04 school year to the students' permanent records. We selected the same ten high schools as we did in our prior audit; Audenreid, Carver, Edison, Girard Academy of Music Program, Simon Gratz, Martin Luther King, Northeast, Olney, Overbrook, and George Washington High Schools. We note that prior to the 2003-04 school year, Audenreid was closed by the district, resulting in the testing of nine high schools. We then randomly selected 15 students from each of the nine high schools for a total sample size of 135 students to perform our test of supporting documentation. We requested roll sheets, required to be maintained by teachers, for the selected 135 pupils for review of child accounting reporting. The district could not locate roll sheets for 45 percent of the pupils. Of the roll sheets provided, 46 percent did not reconcile to the number of membership days reported to DE for those students. Further, 73 percent of the roll sheets did not reconcile to days of attendance recorded by the SCN for those pupils. In summary, of the 135 student roll sheets selected for testing, there was an overall error rate of 70 percent when attempting to reconcile to numbers reported to DE and an overall error rate of 85 percent when attempting to reconcile student roll sheets to days of attendance recorded by the SCN.

In addition, we attempted to review the records of ten additional students beyond the 15 students discussed above from each of the nine schools selected to perform testing of unexcused absences greater than 10 consecutive days. However, because one school did not have any students in this category and one school had only three, our total sample consisted of 73 students. Of these 73 pupils, the district could not locate roll sheets for 52 pupils (71 percent) to substantiate their attendance. For the remaining 21 pupils in our sample, the district did provide roll sheets; however, roll sheets for 20 of these students did not reconcile to SCN records.

The purpose of this test was to determine compliance with Chapter 11 of the Regulations of the State Board of Education, revised and made effective December 20, 1986, which provides in Section 24:

Unaccounted absences - Children whose names are on the active membership roll, who are at any time in the school year absent from school for 10 consecutive school days, shall thereafter be removed from the active membership roll unless one of the following occurs:

- (i) The district has been provided with evidence that the absences may be legally excused.
- (ii) Compulsory attendance prosecution has been or is being pursued.

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Finding No. 1 (Continued)

We also reviewed the permanent records of five students from each of the nine schools that had a “Y” designation on their computer record. The purpose of the “Y” designation is to signify that compulsory attendance prosecution is being pursued by the courts. One of our prior audit recommendations was to require district personnel to adhere to Chapter 11 requirements when reporting pupil membership and maintain evidence of absences that are legally excused or evidence that compulsory attendance prosecution has been or is being pursued. Because one school did not have any students in this category and one school had only three, the total sample consisted of 38 students. Of these 38 pupils, the district could not locate the permanent records for 13 pupils (34 percent). Although the district provided permanent records for 25 students, 22 did not contain evidence that compulsory attendance prosecution has been or is being pursued. We recognize that the SCN contains evidence that compulsory attendance prosecution has been or is being pursued; however, the student’s permanent records do not support that assertion.

Based on the results of our current audit, we concluded that the district did not take appropriate corrective action to address this finding.

Recommendations

We again recommend that the School Reform Commission require district personnel to:

- assign overall responsibility to a specific individual or individuals to ensure that its child accounting systems provide accurate and complete data;
- implement and maintain a system of internal controls that includes general and application computer controls and audit trails to ensure accuracy of the data;
- ensure that its policies and procedures meet DE requirements and that its personnel are following these policies and procedures; and
- require district personnel to adhere to Chapter 11 requirements when reporting pupil membership and maintain evidence of absences that are legally excused or evidence that compulsory attendance prosecution has been or is being pursued.

We again further recommend that DE:

- require the district to provide sufficient, competent, reliable data to support the more than \$4 billion in subsidies and reimbursements paid to the district based on the data from the fiscal years we audited;

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Finding No. 1 (Continued)

- determine whether it is appropriate to assess a monetary penalty against the district if the supporting documentation is not provided; and
- ensure that the district's child accounting membership reporting can be supported and verified prior to issuing future payments.

In addition to the recommendations noted above, the district should ensure that the database used to create the reports submitted to DE is backed up at the time of preparation of the PDE-4062 report. That snapshot of the database should be stored to substantiate the membership for the school year and be available for audit. If, for any reason, revisions are required to the PDE reports, the district should be prepared to explain and/or provide audit evidence of those revisions.

Response of Management

Management provided a written response as follows:

Although the School District continues to face challenges with both reducing truancy citywide and improving attendance processes and procedures to ensure accurate data collection, the School Reform Commission and the School District maintain their commitment to both initiatives as financial and educational reform priorities. Consequently, the School District will expand programs that have shown positive results while also aggressively investigating and implementing a number of new initiatives and collaborative efforts.

Despite the implementation of School District policies and procedures for student attendance, management recognizes that improvements in staff training for new principals and administrative staff and monitoring and enforcement of these policies and procedures are still necessary and vital to our success. Thus, the School District is taking steps to provide additional professional development seminars designed to address these management tasks and will commit to holding senior management more accountable in this area.

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Finding No. 1 (Continued)

Since submitting the School District's Corrective Action on November 21, 2005 . . . the Office of School Management reports that:

1. Collaborative efforts with various local government agencies, the judiciary, law enforcement and faith-based and community organizations remain a high priority for the School District. By illustration, the establishment of eight de-centralized truancy courts has improved communication and participation of families and schools in truancy proceedings. Although the intervention threshold was first lowered from 50 to 25 unexcused absences as evidenced in the prior audit, it was again lowered from 25 to eight during the last academic year;
2. Statistics show that approximately 300 truancy-related complaints by residents and retailers were received and logged through the School District's 24-hour Truancy Hotline during the 2005-2006 academic year (its first full year after implementation);
3. Creation and adoption of an automated home dialing system which is designed to call the homes of students who failed to report to school without a valid excuse was launched and approximately 30,000 telephone calls are placed by this system on a daily basis. A total of 16,944,398 telephone calls were placed during the 2005-2006 academic year;
4. Since the program's inception, over 200 area residents, parents, and grandparents were hired by community- and faith-based organizations to serve as Parent Truancy Officers. These individuals make home visits, truancy assessments and work with School District staff to provide support in improving attendance and other truancy prevention efforts;
5. To foster further compliance, Truancy Liaisons will be assigned to Regional Offices supporting the Director of School Support regarding attendance issues and principals must identify a Truancy Coordinator at each school; and

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Finding No. 1 (Continued)

6. Regional Business Managers, under the purview of the Chief Financial Officer and who report to the Comptroller of the School District, will assist in management's efforts to foster compliance and maintenance of all records by conducting random compliance checks and holding senior management more accountable for tracking and monitoring.

More recently, the School District launched a citywide expanded Anti-Truancy Project ("Project") in collaboration with the Mayor of the City of Philadelphia. Letters were sent to parents of truant students directing them to attend a mandatory meeting at the Liacouras Center in October of 2006 where the Mayor personally addressed the audience. . . . The initiative has five major components including: (i) increasing the hours of operation of Regional Truancy Courts; (ii) expanding the number and frequency of Truancy Sweeps and the number of Truancy Support Centers from two to six; (iii) augmenting the number of Parent Truant Officers; (iv) launching an extensive truancy awareness media campaign; and (v) providing more intensive and thorough social service interventions through referrals, screenings and assessments.

Besides the above truancy intervention efforts and working in conjunction with the Office of Information Technology, the School District developed and implemented an automated attendance tracking system following the issuance of a Request for Proposal issued in September of 2005. Using smart card technology, this system assumes all students are absent until they "tap" their student ID card in or are marked present in the system. This system was implemented and available for use in the 2006-2007 academic year in 59 comprehensive high schools and will be available for use in certain middle schools before the start of the 2007-2008 school year. On a nightly basis, the information from this attendance collection system is sent to the School District's main Student Information System ("SIS"), the School Computer Network ("SCN"). On a monthly basis, schools are required to reconcile their attendance records with reports that are generated by this system. It is the intent of the School District to no longer solely rely on paper Roll Sheets for attendance but to use the system records where this attendance collection system is available. In fact, management hopes to reduce its reliability on all manual attendance processes in an effort to better streamline this vital area of data collection and monitoring.

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Finding No. 1 (Continued)

The School District does, however, disagree with the auditors' findings that management could not reconcile any version of the data that was provided during this audit. More specifically, the School District created a record for every student that was counted at each school and during a definite period of time. This record contained data that was used as input, along with the data that went into the report. Generally, the School District accounted for the students with days to be backed out. The logic to provide the output file is complex and with each iteration, there were changes to the logic. As the findings indicate, each iteration narrowed the difference. On November 16, 2005, the School District created an audit file that matched the state report numbers after further refining the logic used. The state auditors never received the final output because the School District was informed that the auditors would not accept any more files. Although this information was always readily available and can be provided, the School District established the process of backing up the data starting with the 2005-2006 PDE 4062 reports and created written documentation to support the data. This is now a standard part of the School District's processes.

Prior to 2004, the School District managed its data center internally. Effective January 31, 2004, however, the School District outsourced its mainframe operation to Verizon Corporation. This includes the IBM mainframe as well as the Data General. As part of the School District's migration to Verizon, the Data General was migrated during the summer of 2005 with an upgrade to a Sun Solaris server. Stricter measures of user access were implemented with an additional form to be completed by all new users with supervisor approval to enter and to retrieve data from the SCN. In addition, an initial massive data cleanup effort was undertaken to eliminate users who were no longer active in the SCN. This process will continue on an annual basis each summer to ensure that only authorized school personnel have access to student data.

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Finding No. 1 (Continued)

In addition and in December of 2004, the School District began implementing the Data Warehouse project, which will be phased in through late 2007, that will allow for centralized reporting of data. The Data Warehouse is being implemented pursuant to a contract with the IBM Corporation. The Data Warehouse project includes formal business process re-engineering of the collection of data. A Data Quality Committee was formed and is comprised of School District executives from various central offices. These representatives are considered the Data Stewards of the information not only with regard to individual student data but also for business processes and internal controls. Processes and internal controls are being put into place to ensure the accuracy and integrity of the data. In other words, these Stewards are “data owners” and no data will be transferred to or by any source without the “owner” verifying the accuracy of the data.

In August of 2005, the School District issued a Request for Proposal in an effort to select a vendor to lead and execute the first phase of a major initiative to dramatically improve student administration processes at the school-level. This initiative is referred to as the Student Administration Modernization (“SAM”) Project and is divided into two phases: namely “SIS Selection” and Implementation. The SIS Selection Phase includes business process review and RFI development. By the end of the SIS Selection Phase, process transformation goals will be more clearly defined. The intent of this project is to begin the planning process for a new SIS to replace the current student information systems including, primarily, the School Computer Network (“SCN”) or as identified in this audit, Data General. While this is a multi-year, multi-million dollar project, the School District anticipates that the first phase, which is a nine-month project, will allow it to identify current business processes that involve student data requiring re-engineering and other improvement. This first phase of the project-the business process review-is nearing completion. As a part of the new SIS and new processes, general and application computer controls will be identified and considered.

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Finding No. 1 (Continued)

In the interim, the School District standardized the collection and reporting processes of and with respect to the completion of attendance sheets and the input of such data in the SIS. On-going professional training sessions for principals, assistant principals and other school administrators are held to continually stress the importance of this function. Regional Superintendents and senior management are charged with monitoring and fostering compliance and accuracy of all attendance data. For example, principals must now approve monthly attendance reports. More recently, attendance reconciliation processes and procedures were developed and will be implemented by the Audit Services department as part of its audit plan. The audit plan includes, but is not limited to: (a) random school attendance internal audits; (b) file maintenance at each school that must contain all the requests for changes on data that is entered into the SIS; and (c) a 90-day spot check review to ensure that proper procedures for data management are being followed on a regular and consistent basis.

Likewise, the School District continues to revise and disseminate the Principal's Policies and Procedures Manual which includes a dedicated section containing Procedures for Monitoring Student Attendance to all attendance designees, counselors, assistant principals and principals. Mandatory training sessions were provided that included an emphasis in the areas of accuracy and consistent attendance keeping practices and truancy procedures. Furthermore, the Office of School Management is currently developing a district-wide professional development course in the areas of attendance keeping and monitoring and truancy procedures for regional support teams, principals, teachers, secretaries and counselors. This professional development course is inclusive of Chapter 11 and other laws and policies governing the School District's responsibilities in the areas of child accounting and truancy procedures. Procedures and forms required when dealing with student absences will be reviewed and disseminated and strategies for monitoring teacher Roll Books will also be thoroughly discussed. Executive management and officials of the School District will form a dedicated working group that will include representatives of all central and regional offices that share child accounting and monitoring responsibilities to discuss strategies to insure that attendance information kept in pupil pockets and the SIS data matches and is accurate.

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Finding No. 1 (Continued)

Auditor's Conclusion

In their response to the findings and recommendations, district management has outlined an extensive plan regarding how it intends to correct the many concerns expressed related to the weaknesses which exist in the child accounting system. We hope that these initiatives are successful. It appears, however, that management has failed to address in its management response the basic recommendation that the district provide sufficient, competent, reliable data to support the approximately \$4 billion in subsidies and reimbursements paid to the district based on the data referred to in the finding. The district simply should back up its database at the time it prepares the PDE 4062 report and be prepared to explain any manual adjustments that occur subsequent to that backup.

Regarding management's assertion in the response that "the auditors would not accept any more files" we note that on June 6, 2005, we requested a data file of students reported to DE on the PDE 4062 report for the 2003-04 school year. The data did not reconcile to the PDE 4062 report submitted to DE, nor did four more versions of data that were provided during the next four months. In order to proceed with our audit in a timely manner, we stopped accepting any more versions as of November 18, 2005. The district is incorrect in its management response when it states "The state auditors never received the final output ..." and also incorrect that it "... matched the state report numbers ...". We began testing a sample of students at the high schools from the last version of data received. This data file on the CD received from the district has an internal date stamp of November 16, 2005. As stated in the body of the finding above, our detail tests of the data to the student records revealed a 70 percent to 85 percent overall error rate.

We hope that the district's current efforts to educate and supervise those persons responsible for student accounting will create improvements in these areas. We hope that the district now understands the importance of backing up the student data at the time the PDE 4062 report is prepared. We also hope the district understands the importance of being able to explain any manual adjustments to that data, so that data and/or manual adjustment documentation is available for audit evidence. Records created at the time of the event will be more reliable than records recreated at the time of our audit.

Any subsequent improvements or changes in management representations will be evaluated in the next audit. The finding remains as presented.

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Finding No. 2 – Certification Irregularities

During our prior audit of professional employees' certification and assignments for the period July 1, 1999 through June 30, 2002, we selected ten high schools out of a population of 47 high schools for testing: these ten high schools were Audenreid, Carver, Edison, Girard Academy of Music Program, Simon Gratz, Martin Luther King, Northeast, Olney, Overbrook, and George Washington. The selection method for these high schools is explained in Finding No. 1 in this section of our report. We reviewed the certificates of every teacher in each of these schools for a total of 1,168 certificate files examined. We found possible certification irregularities as follows: four individuals may have worked on expired certificates, five individuals held assignments for which they may not have been properly certificated, and six individuals may have been employed without certification.

As certification irregularities are not determined by our department, information pertaining to the certificates and assignments in question were submitted to the Bureau of Teacher Certification and Preparation (BTCP), DE for final determination. If BTCP confirmed the possible irregularities, the district would have been subject to a subsidy forfeiture totaling up to \$45,401.

We recommended that the district, in conjunction with BTCP's determination:

- establish controls to ensure that all professional employees are properly certificated for their positions at the time of assignment; and
- ensure the individuals cited in this finding receive proper certification for assigned positions or reassign them to areas for which they are properly certified.

We also recommended that DE adjust the district's future allocations to recover any forfeiture that may be levied and review the propriety of the certificates and assignments of professional personnel who were assigned to positions at the school that we did not test.

The School Reform Commission, in its written response, agreed in part with our finding as follows:

The District employs over 11,000 teachers. After reviewing the 15 audit findings, the Department of Human Resources challenges eight of the assertions and agrees with seven of the citations. When putting this finding in the context of a percentage of teachers employed (.06%), the District deems the finding immaterial and inconsequential. However, the District reports that its records indicate the following:

Northeast High School, 3 citations: The District agrees with these citations.

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Finding No. 2 (Continued)

Washington High School, 3 citations: The District disagrees with all three citations. [Individual No. 1] is certified and teaches French. There is no record of [Individual No. 2] and [Individual No. 3]. They are not School District teachers.

Audenreid High School, 1 citation: The District agrees with this citation.

Olney High School, 1 citation: The District disputes this citation. [Individual] is certified and teaches Physical Science.

Strawberry Mansion, 1 citation: The District agrees with this citation.

Gratz High School, 6 citations: The District agrees with two citations, but disputes 4 citations. [Individual No. 1] is certified and teaches English, [Individual No. 2] is certified and teaches Social Studies, [Individual No. 3] is certified and teaches Physical Education, [Individual No. 4] is not a School District teacher.

It is important to note in the response that while the District agrees with seven citations, all have subsequently been rectified. The teachers noted all now comply with certification requirements.

On July 21, 2003, BTCP upheld 12 of the 15 possible certification irregularities. DE deducted a subsidy forfeiture of \$27,221 from the district's June 2004 basic education funding allocation.

Our current audit of professional employees' certification and assignments for the period July 1, 2002 through June 30, 2006, was conducted to determine compliance with requirements of the Public School Code (PSC), BTCP, and DE's Certification and Staffing Policies and Guidelines. We selected three of the ten high schools with the highest rate of possible certification irregularities from the prior audit. These three high schools were: Simon Gratz, Northeast, and George Washington. As part of our audit procedures, we requested a professional personnel listing (PPL) from the district's Human Resources department. We reviewed the certificates of every teacher in each of these three high schools for a total of 530 certificate files examined.

Additionally, as part of our audit procedures, we compared the PPL provided by the district's Human Resources department to the individual high school's professional directory provided by the high schools resulting in the identification of an additional 104 professional individuals for a total of 634 professional individuals. Our audit found that 8 individuals may have been employed prior to receiving certification, and 3 individuals may have been employed without certification. Our review of the PPL resulted in 1 citation while review of the directory resulted in 10 citations.

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Finding No. 2 (Continued)

On January 12, 2007, BTCB confirmed the irregularities for 11 employees. Therefore, the district is subject to subsidy forfeitures, as follows:

<u>School Year</u>	<u>Subsidy Forfeitures</u>
2005-06	\$3,499
2004-05	3,209
2003-04	802
2002-03	<u>2,013</u>
Total	<u>\$9,523</u>

Additionally, of the 104 professional employees not listed on the PPL, the district could not provide supporting documentation for ten employees.

Based on the results of our current audit, we concluded that the district did not take appropriate corrective action to address this finding.

Recommendations

We again recommend that district personnel should:

- establish controls to ensure that all professional employees are properly certificated for their positions at the time of assignment;
- ensure the individuals cited in this finding receive proper certification for assigned positions or reassign them to areas for which they are properly certified; and
- review the propriety of the certificates and assignments of professional personnel who were assigned to positions at the schools that were not tested.

Additionally, district personnel should:

- ensure that all professional employees listed in the district's directory are also included on the PPL and that they are properly certified for their assignment; and
- ensure that appropriate documentation is on file for all professional employees listed in the directory.

Furthermore, DE, in conjunction with BTCB's determination, should adjust the district's future allocations to recover any forfeiture that may be levied.

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Finding No. 2 (Continued)

Response of Management

Management provided the following response agreeing in part with the finding, as follows:

As evidenced by the significantly reduced number of findings during this most recent performance audit, the Office of Human Resources has made strides in this area of compliance and regulation. In fact, specific procedures are now in place to assure that all candidates for professional employment are properly certified in accordance with the law and the regulations as promulgated by the Pennsylvania Department of Education. The Office of Human Resources is in, and now maintains, constant contact with representatives of the Bureau of Teacher Certification and Preparation concerning the professional certification of all potential candidates.

More specifically, only 13 possible irregularities out of 530 professional employees were identified by auditors over a four-year period rendering a possible irregularity rate of 2%. While the School District recognizes that all professional staff must hold appropriate and required certification, management will review and research all citations that were identified to determine the status of each certification.

The School District, however, disagrees with the assertions by auditors that the Office of Human Resources was not aware of the additional “104 professional employees not listed in the professional listing.” After further review, a large number of these employees were not full-time, appointed employees nor were many of them considered “professional employees.” For example, many were found to be in categories including retired teachers working on a per diem basis as authorized, short- and part-time employees, coaches, school volunteers, and tutors. In accordance with applicable School District policies, all persons employed by it in this or in ancillary capacities must meet all appropriate employment requirements and regulations. The School District will investigate the names of these “questionable” candidates and, in turn, will review their employment status. Should corrective action be required at that time, the School District will ensure that all appropriate requirements are satisfied.

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Finding No. 2 (Continued)

Auditor's Conclusion

BTCP made its final determination and detailed two of the original 13 citations for a total of 11 upheld citations. The district's response of management is referring to our original 13 citations.

As stated in the body of our finding, we identified 104 employees listed on the individual high schools' professional directories that were not on the PPL provided by the district's Human Resources department. Of these 104 employees, the district could not provide supporting documentation for 10 employees. Nowhere did we assert that the Office of Human Resources was not aware of the additional 104 professional employees that were not listed on the PPL. Therefore, this finding will stand as presented. We will follow-up on this issue during our next audit of the district.

Finding No. 3 – Continued Improper Student Activity Fund Practices

Our prior audit of the district's student activity funds was for the purpose of determining compliance with the Public School Code (PSC) and the district's written policies and procedures for the management of these funds. Our audit scope included the 2001-02 school year and was limited to ten high schools. Our audit found, for each of the schools tested, the fund custodian did not always adhere to board policy, resulting in improper practices as follows:

- . General Fund type purchases were made from Student Activity Funds;
- . Trust and Agency Funds were commingled with Student Activity Funds;
- . interest earnings were not properly prorated;
- . inactive accounts were included in the schools listing of active accounts;
- . deficit cash balances were noted for various accounts;
- . minutes of student activity club meetings were not maintained; and
- . graduated class accounts were included in the schools listing of active accounts.

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Finding No. 3 (Continued)

We recommended that school district management:

- . ensure the principals adhere to and enforce adopted board policy and other applicable criteria;
- . prohibit the practice of making disbursements from accounts for non-student related purposes;
- . ensure all Trust and Agency Funds are properly accounted for and not reported in the Student Activity Fund;
- . ensure interest income is prorated to the various student accounts, in accordance with board policy;
- . ensure any employee of the district, being paid for services, has their remuneration properly processed through the payroll system;
- . purge all inactive student activity accounts;
- . prohibit the practice of making disbursements from accounts with deficit cash balances;
- . ensure that formal student organizations control each account operating within the Student Activity Fund; and
- . purge all graduated class accounts and require that, prior to graduation, the members of each class designate the educationally related purpose for which their fund should be applied.

The School Reform Commission, in its written response, disagreed with numerous aspects of this finding. The School Reform Commission stated that it is in compliance with its policies and procedures regarding student activity funds. Where the School Reform Commission did agree with our recommendations it noted that it will make efforts to comply.

Our current audit scope included the 2005-06 school year and was limited to the ten high schools reviewed during our prior audit. Prior to the 2003-04 school year, Audenreid High School was closed by the district and for the 2005-06 school year, Olney High School was split into two individual high schools-Olney East and Olney West. Our audit found, for each of the ten schools tested, the fund custodian did not always adhere to board policy, resulting in improper practices as follows:

- . Trust and Agency Funds were commingled with Student Activity Funds;

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Finding No. 3 (Continued)

- . interest earnings were not properly prorated;
- . inactive accounts were included in the schools listing of active accounts;
- . deficit cash balances were noted for various accounts;
- . minutes of student activity club meetings were not maintained; and
- . graduated class accounts were included in the schools listing of active accounts.

However, our audit found no General Fund type purchases being made from the district's Student Activity Funds.

Trust and Agency Funds were not accounted for separately from Student Activity Funds

Scholarship/Memorial accounts were accounted for and reported within the Student Activity Fund for seven of the ten high schools. Scholarship/Memorial accounts are Trust and Agency Funds. The Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems requires Trust and Agency to be segregated and accounted for separately from Student Activity Fund monies. Non-student donors provided the revenue for these accounts. Student groups did not raise the funds and had little, if any, control over their disbursement.

Interest earnings were not properly prorated

Interest earned by seven of the ten high schools was not prorated to the appropriate accounts. No documentation exists to verify that any student group waived the right to their respective portion of interest earned by investment of their funds.

Inactive accounts were included in the schools' listing of active accounts

In six of the ten high schools reviewed, we found that certain accounts which showed no activity were carried on the summary of student activity funds. The account balances were carried over from previous years' operations. Inactive accounts increase bookkeeping costs and are susceptible to misuse.

Deficit cash balances were noted for various accounts

Our review found that five of the ten schools had maintained accounts with deficit cash balances. This required the use of other clubs' funds to cover the shortfalls.

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Finding No. 3 (Continued)

Student activity operations should be a learning process for students. Good business practices prohibit accounts operating with deficit cash balances. The operation of student activity accounts with deficit cash balances teaches students poor business practice and required the use of other student account's monies.

Minutes of student activity club meetings were not maintained

Our review of six of the ten high schools, found that no documentation supporting the formation of any club or organization contained in the listing of student activity funds was maintained. Furthermore, no written minutes could be provided for meetings held to document that students were involved in the decision making process of the student organization regarding the finances.

Graduated class accounts were included in the schools' listing of active accounts

Three of the ten high schools reviewed included accounts for classes that graduated. The account balances for each were carried over from previous years' operations. Maintaining graduated class accounts increase bookkeeping costs and increases the funds susceptibility to misuse.

In summary, our current audit found that the district did take appropriate corrective action to address the following two recommendations from our prior audit:

- . prohibiting the practice of making disbursements from student activity accounts for non-student related purposes; and
- . ensuring that any employee of the district, being paid for services, has their remuneration properly processed through the payroll system.

Therefore, based on the results of our current audit, we concluded that the district did not fully address this finding.

Recommendations

We again recommend that school district management should:

- . ensure the principals adhere to and enforce adopted board policy and other applicable criteria;
- . ensure all Trust and Agency Funds are properly accounted for and not reported in the Student Activity Fund;
- . ensure interest income is prorated to the various student accounts, in accordance with board policy;

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Finding No. 3 (Continued)

- . purge all inactive student activity accounts;
- . prohibit the practice of making disbursements from accounts with deficit cash balances;
- . ensure that formal student organizations control each account operating within the Student Activity Fund; and
- . purge all graduated class accounts and require that, prior to graduation, the members of each class designate the educationally related purpose for which their fund should be applied.

Response of Management

Management provided the following response agreeing with the finding as follows:

Generally and despite management's best efforts to date, the School District recognizes that the administration of Student Activity Funds ("SAF") continues to be a significant challenge and an area where compliance deficiencies still exist after this function was de-centralized. While the School District diligently continues to address these deficiencies and to improve internal controls over this function, management does not disagree with either the findings or most of the recommendations noted in this year's audit report.

For example, specific directives were issued by the Chief Financial Officer and distributed to all appropriate personnel responsible for handling these funds and management still requires mandatory training of all principals, school secretaries and school operations officers on all applicable policies and procedures contained in its manual. More recently, a major undertaking was initiated in 2006 not only to specifically address these deficiencies by requiring the issuance of disciplinary action for non-compliance but also to update various sections of the Student Activity Fund Manual ("Manual") and to make the information more readily available to all personnel by placing it on the School District's web site. A cross-functional team of associates from the Accounting and Audit Services departments is working on this project. The updated Manual includes sections that address all of the deficiencies identified in the audit and management anticipates completion of this project shortly. The School District's goal is to then have the revised Manual on-line and accessible before March of 2007.

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Finding No. 3 (Continued)

In addition to updating the Manual, Audit Services increased the emphasis it places on compliance of SAF policies by increasing the number of SAF audits in its 2007 audit plan. Since April of 2006, Audit Services performed nine SAF reviews. Many of our audit findings corroborate the findings identified by this most recent audit. Regional Business Specialists (“RBS”), who are tasked with coordinating these types of financial activities in the field, are also emphasizing compliance with SAF policies by performing random desk reviews. In addition, the School District budgeted and filled two additional RBS positions in order to better focus attention to these important financial functions at the schools. Directors of School Support Services and Regional Superintendents are now formally notified of audit results and assist the RBS by contacting principals and independently addressing all financial concerns identified.

Furthermore, we continue to stress the importance of using Quickbooks. In fact, the updated Manual includes Quickbooks links and attempts to increase awareness across the School District about the importance of using accounting software as aides to account for financial activities. Similar to the mandatory training of all new principals and school-based administrative personnel, financial training sessions were also held at each of Regional Offices this past fiscal year as a means of addressing specific problem areas, emphasizing the importance of these policies and providing a refresher course for those whom handle these functions.

More recently, the School Reform Commission passed Resolution No. SRC-4, dated November 15, 2006, that created the Financial Accountability Unit (“FAU”) whose charge, among others, is to both monitor and hold managers responsible and accountable for adhering to School District policies and procedures as they relate to spending practices, adhering to internal financial controls and obtaining proper approvals. If it is found that policies and procedures were violated, it could lead to disciplinary action and possible termination. The spending and reporting policies within Student Activity Funds are covered under this resolution.

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Finding No. 3 (Continued)

Accordingly, the Office of School Management will continue to communicate to the field through postings on the Principal Information Board (“PIB”), weekly updates to Regional Superintendents and via regional meetings, the necessity and importance of fiscal responsibility and integrity. *See*, for example, “Audit Findings on Internal Controls Requiring Immediate Attention and Corrective Action.” The Office of School Management will continue to work closely with Accounting, Audit Services and the Inspector General to report /correct problems identified by schools or other central office personnel.

More specifically, the School District responds to the specific findings as follows:

Trust and Agency Funds were not accounted for separately from Student Activity Funds

Although School District policy does permit small grants (less than \$5,000) and collected token money to be [accounted for] with SAF monies, a portion of the new Manual will re-emphasize that Trust and Agency Funds are to be segregated and accounted for separately when reporting the activities of these funds. Any schools failing to properly record and account for any funds as a result of any future internal audit or random desk compliance check will now be reported to regional supervisors and executive management, monitored by appropriate central finance offices and subjected to random and periodic audits to foster and ensure compliance in the future. Should future violations be found, School District personnel will be subject to disciplinary action including termination in accordance with School District policy and applicable collective bargaining agreements.

In addition, the continued use and familiarity with Quickbooks (as the preferred reporting mechanism of the School District) will make it easier for central administrative personnel to both identify and monitor non-compliance. In fact, Quickbooks treats and requires separation of each account as a separate fund. In schools, however, the cost and time of maintaining multiple checking accounts is often impractical given the size of the School District and the number of funds maintained by school staff.

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Finding No. 3 (Continued)

Interest earnings were not properly prorated

Despite the requirements of the Public School Code, the Auditor General issued a statement which authorized school districts to adopt policies that would permit student organizations to waive their right to interest earnings and assign such rights to other student activity accounts. Consequently, the School Reform Commission authorized the School District to adopt and implement such a policy and practice. More specifically, revisions to the Manual include the following language:

“Preferably, interest earned on Student Activity Funds checking account is to be prorated to each activity based on its average monthly balance. If this is not practical (because the amount of interest earned is not material or is minimal or because there are too many funds), however, then it is permissible to apply the interest earnings directly to the General Activity Fund.”

The School District, however, accepts the findings of this audit that no such waivers were properly obtained despite internal policies. Any schools that are found to have failed to secure such waivers during any future internal audit or random desk compliance check will now be reported to regional supervisors and executive management, monitored by appropriate central finance offices and subjected to random and periodic audits to foster and ensure compliance in the future. Should future violations be found, School District personnel will be subject to appropriate disciplinary action in accordance with School District policy and applicable collective bargaining agreements.

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Finding No. 3 (Continued)

Inactive accounts were included in the schools' listing of active accounts

As noted in the School District's previous response to this finding, accounts that are inactive for more than one year should be closed. The School District cannot unilaterally or centrally close such accounts without the students' consent because of previous litigation brought against it. Consequently, the School District implemented the use of "Class Will" forms that are contained in the SAF manual. Likewise, the Manual contains the following revised language:

". . . When an activity becomes inactive, a decision must be made about the disposition of those funds. Students must be allowed to vote on alternatives for the disposition of surplus class dues."

The School District will continue to stress the importance and need to secure all Class Will consent forms so that inactive accounts may be properly closed where warranted. Any schools found to be failing to have such forms readily available during any future internal audit or random desk compliance check will now be reported to regional supervisors and executive management, monitored by appropriate central finance offices and subjected to random and periodic audits to foster and ensure compliance in the future. Should future violations be found, School District personnel will be subject to appropriate disciplinary action in accordance with School District policy and applicable collective bargaining agreements.

Deficit cash balances were noted for various accounts

Although the School District agrees that it is important to teach students the use of sound business practices, deficit (cash) balances in some accounts are maintained by design as reported in prior audit years. Given the socio-economic challenges that face many of our students and their families, graduation costs, for example, are often subsidized by donations and/or the school's General Activity Fund. Notwithstanding limited circumstances where deficit (cash) balances are planned and pre-approved by a principal, this practice is otherwise not permitted as dictated by School District policy. Specifically, the revised Manual states, in pertinent part, that:

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Finding No. 3 (Continued)

“ . . . Once the budget has been prepared, it must be formally adopted by the sponsor and the students...The principal is responsible for monitoring the progress of all activities by receiving and reviewing periodic reports (including budget to actual performance) from activity sponsors. All material variances should be investigated and explained. Such financial oversight by the principal will help ascertain if the program is maintaining a surplus or running a deficit...The School Operation’s Officer shall not process any expenditure if the balance of the activity account is insufficient...The management of Student Activity Funds shall be in accordance with sound business practices including budget and accounting practices” and policies of the School District “which may be subject to periodic audit.”

As with all other audit findings, any principal who is found in continued violation of this policy as a result of future internal audits and desk compliance checks will now be reported to regional supervisors and executive management, monitored by appropriate central finance offices and subjected to random and periodic audits to foster and ensure compliance in the future. Should future violations be found, School District personnel will be subject to disciplinary action including termination in accordance with School District policy and applicable collective bargaining agreements.

Minutes of student activity club meetings were not maintained

Despite senior management’s best efforts in this instance, this area continues to remain a challenge for the School District and management accepts this finding. Additional language stressing the importance of student participation in the decision making process includes, but is not limited to:

“ . . . In order to evidence the involvement of students...detailed minutes are to be kept of each meeting showing students present, the issues to be resolved, and the decision/outcome that was reached . . . The principal is responsible for reviewing and signing the meeting minutes from all activities.”

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Finding No. 3 (Continued)

Any principal who is found in continued violation of this policy as a result of future internal audits and desk compliance checks will now be reported to regional supervisors and executive management, monitored by appropriate central finance offices and subjected to random and periodic audits to foster and ensure compliance in the future. Should future violations be found, School District personnel will be subject to appropriate disciplinary action in accordance with School District policy and applicable collective bargaining agreements.

Graduated class accounts were included in the schools' listing of active accounts

As in prior audit years, the School District continues to disagree with this finding. Management's review and interpretation of the case of *The Shade-Central City School District v. Class of 1974* implies that Graduate Class funds can be deposited into the SAF checking account and the School District has allowed this practice as a result. Management opines that the activities contemplated in this account are, in fact, educationally related since students learn how to plan, budget, coordinate, and manage student and school-wide graduation activities. Nonetheless, the School District will refer this matter to the Office of General Counsel for a more formal review and opinion of whether the School District is properly adhering to the requirements of the Public School Code.

In spite of this more formal position, the revised Manual contemplates the following language:

The graduating class or disbanding organization must use for, or commit to, a proper school-related purpose the unexpended balance of its account prior to graduation or dissolution, or as soon as reasonably possible thereafter, but in no case longer than one year...Monies left unused or uncommitted for one year or more after graduation of the class or club members shall be deemed to have been committed and transferred to the Student Body Activities Account for any school-related purpose.

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Finding No. 3 (Continued)

The School District agrees to the recommendations outlined in this Performance Audit Report and agrees to:

- Take appropriate measures to ensure principals adhere to and enforce adopted board policy and other applicable criteria by conducting periodic internal audits and random desk compliance checks, reporting violations to regional supervisors and executive management, monitoring future compliance and subjecting repeat violators to disciplinary action when warranted;
- Ensure that all Trust and Agency Funds are properly accounted for and are reported separately in SAF accounts;
- Whenever practical, ensure that interest income is prorated to the various student accounts in accordance with board policy or charge it to an agreed upon account with the proper authorizations if the amount is immaterial;
- Close all inactive student activity accounts after taking proper actions to transfer balances, if necessary;
- Prohibit the practice of making disbursements from sub-accounts with deficit cash balances;
- Take measures as described above to ensure that formal student organizations control each account operating within the SAF; remind principals and class sponsors of their responsibilities to maintain accurate minutes of student meetings in writing throughout each academic year until district-wide compliance improves; and
- Purge all graduated class accounts and require that, prior to graduation, the members of each class designate the educationally related purpose for which their funds should be applied.

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Finding No. 3 (Continued)

When the new on-line SAF manual is made available, the School District, through its Accounting and Audit Services departments, is going to initiate a campaign to raise awareness in the schools about the importance of complying with the manual. This campaign will be followed up with audits by Auditing Services and with desk reviews by the Regional Business Specialists. It is management's belief that these initiatives, with the support of the Regional Superintendents and the Office of School Management, will have a positive impact and will lead to a reduction in SAF audit findings in future audits.

Auditor's Conclusion

The Department of the Auditor General has not issued a statement pertaining to the proration of interest earnings. The Student Activity Funds Guide published by the Pennsylvania Association of School Business Officials in conjunction with the Pennsylvania Association of School Administrators and the Pennsylvania Association of Elementary and Secondary School Principals with respect to interest earnings states:

Because 24 P.S. §5-511(d) provides that Student Activity Funds "... remain the property of the respective school, class, organization, club, society or group," procedures are needed to deal with prorating of interest earnings to the depositor organizations or to authorize other disposition of the interest earned.

Prorating of interest is clearly the preferred procedure, but the board may adopt a policy allowing the various organizations to waive prorating and assign their right to interest earnings to the Student Body Activities Account or other proper student activity. The latter procedure would be most commonly used where the interest earnings of the individual organizations are inadequate to justify the administrative expense and effort involved in prorating the interest earnings.

We are pleased that, although the district disagrees with certain sections of our finding, it states that it will address all issues that we cited. We will follow-up on this issue during our next audit of the district.

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Finding No. 4 - Inadequate General Computer Controls over the Advantage 2000 System

During our prior audit, we performed a review of the Office of Information Technology's (OIT) information systems general computer controls as of September 24, 2002. Part of our review consisted of performing follow up procedures to selected findings noted in the Office of the Controller, City of Philadelphia, "Study and Review of the Application Controls of the School District of Philadelphia's Advantage 2000 System."

We recommended the following:

- . development of formal written policies and procedures for the Advantage 2000 System including at a minimum policies regarding logical access (i.e. user access rights, terminations of employees, password administration);
- . development of a policy that requires users to change passwords every 30 to 60 days or earlier if a user feels that their password has been compromised;
- . creation of a systems access log that can be monitored by the School District of Philadelphia (SDP) to identify system access attempts (unsuccessful and successful) and unusual time access attempts;
- . enforcement of the Acceptable Use Policy Section L.1 e. that forbids sharing of user id and passwords;
- . completion of the draft Disaster Recovery Plan, including specific requirements and testing for the Advantage 2000 System; and
- . development of procedures to ensure that payrolls are not processed without proper approvals.

The School Reform Commission, its written response to the Labor, Education and Community Services Comptroller's Office, agreed with our recommendations and stated that new policies and procedures had been implemented that should improve the district's general computer controls. New policies over computer usage and password controls have been implemented. District officials also stated that improvements would be made in the training provided to school principals and in the approval and authorization of payrolls. The School Reform Commission disagreed with our finding regarding the tracking of potential security violations.

Our current audit included a review of the internal controls relevant to the District's Office of Information Technology (OIT) general computer control environment as of November 21, 2005, and was limited to reviewing the status of the findings and recommendations included in our prior audit report for the years ended June 30, 1999, 1998 and 1997, which was issued November 18, 2003.

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PERFORMANCE AUDIT REPORT

Finding No. 4 (Continued)

We found the following weaknesses still exist as of November 21, 2005:

- . An overall lack of policies and procedures exist for the Advantage 2000 System;
- . The Advantage 2000 System does not provide for or otherwise track potential security violations such as failed access attempts or unsuccessful attempts at unusual times;
- . Secretarial staff use principals' IDs and passwords to process payroll approval;
- . The disaster recovery plan has not been tested; and
- . OIT circumvents the approval and authorization process for payroll by processing every payroll run regardless of approval being obtained from authorized persons.

Because data supporting district reports and applications are maintained and processed on the district's networks, the integrity of the control environment surrounding the computer system is critical to ensure accurate computations and to provide a reliable audit trail. Further, as more reliance is placed on networked computers, appropriate controls are essential for ensuring a secured environment.

During interviews in which the above information was disclosed, district personnel stated that they do not have adequate staffing to remedy some of the weaknesses noted above--making adequate segregating of personnel duties difficult. Other weaknesses, such as not tracking security violations and inappropriate use of principals' IDs and passwords, exist due to lack of established policies and procedures.

Based on the results of our current audit, we concluded that the district did not fully address the recommendations from our prior audit.

Recommendations

We again recommend that the district strengthen their general computer controls over the Advantage 2000 system by implementing the following corrective actions:

- . develop formal written policies and procedures for the Advantage 2000 system including at a minimum policies regarding logical access (i.e. user access rights, terminations of employees, password administration);

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Finding No. 4 (Continued)

- create a systems access log that can be monitored by SDP to identify system access attempts (unsuccessful and successful) and unusual time access attempts;
- enforce the Acceptable Use Policy Section L.1 e. that forbids sharing of user id and passwords;
- ensure the draft Disaster Recovery Plan is complete and include specific requirements and testing for the Advantage 2000 System; and
- ensure that payrolls are not processed without proper approvals.

Response of Management

Management provided the following response, as follows:

Generally, the School District does not agree with most, if not all, of the findings cited in this most recent performance audit concerning general computer and internal controls with respect to the Advantage 2000 System. In fact, the School District provided a corrective action plan, on November 21, 2005, . . . documenting improvement and measures undertaken since the previous performance audit. Unlike the audit processes used by the state auditors for other categories at hand, the School District was not afforded the professional courtesy of an on-site visit to further refute any of these findings prior to their actual receipt. Thus, the School District had and still maintains supporting documentation evidencing the implementation of corrective measures following previous audit years.

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Finding No. 4 (Continued)

Nonetheless, the Systems Administration Unit (“SAU”), which is charged with the administration of the Advantage Finance, Human Resource and Payroll systems, constantly updates and maintains adequate policies and procedures relevant to the use and integrity of the information contained in these data systems. Most of these policies and procedures are posted on the School District’s main website and can be found in hard copy. The SAU also plans, coordinates and manages training sessions on the functionality and proper use of all data input systems contained in the Advantage 2000 system for all School District employees throughout the year. Policies and procedures are, in fact, distributed during these training sessions. In addition, the School District developed, published and disseminated an Advantage Security Policy which is also available and disseminated to all users of the system. For example, there are different levels of security access that is directly tied to job functionality to protect and safeguard all stored data in all systems and applications and to ensure that only authorized users are privy to sensitive financial and personal employee information. . . . Accordingly, the School District respectfully requests that documentation to support the finding of “an overall lack of policies and procedures exist for the Advantage 2000 System” be provided so that the School District may be in a position to adequately respond and present itself.

Likewise, the School District respectfully objects to the finding that the “Advantage 2000 System does not provide for or otherwise track potential security violations such as failed access attempts or unsuccessful attempts at unusual times.” To the contrary, the RACF Security Application that runs above the Advantage 2000 System tracks all attempts, both successful and unsuccessful, and a system access log is generated. . . . In fact and after three unsuccessful attempts, all of the user’s privileges are revoked and the user must notify the Office of Information Technology to be reinstated. The Advantage 2000 System application resides on an outsourced mainframe platform controlled by the applicable vendor. The adequacy and reliability of these internal controls are verified by an annual SAS70 Audit Report conducted and provided by an independent auditor. This audit tests internal controls and processes based on federal standards and copies are provided to the Controller of the City of Philadelphia and the School District’s Comptroller for review. . . .

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Finding No. 4 (Continued)

Although the disclosure and sharing of payroll identification access codes and passwords is a direct violation of School District policies and procedures including the Computer and Internet Authorized Use Policy, the School District continues to find violations in this area, particularly at the school level by secretaries and principals despite management's best efforts to prohibit this practice. For instance, directives by and through the Chief Financial Officer were disseminated to all schools and posted on the Principal's Bulletin Board reiterating the School District's policy in this area and allowed for assignment of this function to other school administrators to help address the problem. . . . The directives specifically prohibit the employee who initially "entered" payroll in the system to approve the data input under any circumstances. Furthermore, the directives included language warning of possible disciplinary action in accordance with collective bargaining agreements should violations continue to be found following briefings and consultations with representatives from various bargaining units. The School District accepts this finding and will continue to investigate avenues to better foster compliance.

Similar to the above findings, however, the School District takes exception to the finding that its Disaster Recovery Plan is not complete and has not be properly tested. During the time of this audit, the School District developed and maintained a documented Disaster Recovery Plan with SunGard Availability Services. Following the outsource of data center operations to Verizon Information Technologies, L.L.C. in January of 2004, a new Disaster Recovery Plan for the Advantage 2000 System was later finalized and, in fact, includes specific requirements and testing criteria. More recently, aspects of the Disaster Recovery Plan was tested in October of 2006 with further testing scheduled annually. . . . Although a few high level qualifiers for data sets were missed, no issues were noted concerning the upgraded operating systems.

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Finding No. 4 (Continued)

As previously stated in past audits, the School District's Payroll Department expends an enormous amount of time engaging schools and other central offices that have failed to properly approve their departmental payroll prior to the applicable Friday night payroll processing run. An automatic approval process is a functionality of the system and is known as a "payroll sweep" for all users that failed to complete the processing of payroll to ensure that all completed exception pay items are processed along with the applicable payroll run. If the School District did not allow for payroll sweeps, employees at various locations would receive payment for all workdays and exception pay documents would be purged from the system without inclusion in paychecks and reserve banks. Although the School District is aware that it is preferable to have the appropriate individual approve each payroll batch manually, this is not practical given the School District's size. Notwithstanding, the School District runs a report that documents all payroll batches that were "force approved." This report will now be shared by regional supervisors, executive management and the internal Audit Services department to further monitor and track non-compliance. Employees who continue to violate this policy and procedure will be subject to disciplinary action including termination and in accordance with collective bargaining agreements.

Auditor's Conclusion

On June 10, 2005, the district designated one person as a "point of contact" to coordinate all of our audit requests, including on-site visits. We complied with the district's request, and we formally requested on June 13, 2005 through the audit liaison all audit evidence to support any corrective action regarding the control weaknesses in this finding. Although minimal communication occurred with the district between our initial request and additional follow-up requests over a four month period, the audit evidence that we requested was not provided by October 18, 2005. We informed the audit liaison on October 18, 2005, that due to the time elapsed since our original request, we would not accept any audit evidence after October 31, 2005, and we would re-issue the prior year finding stating that the district did not provide evidence of corrective action to the finding. Most importantly, the district's statement in its management response that it was "... not afforded the professional courtesy of an on-site visit..." is simply inaccurate. We met with district representatives on September 12, 2005 and October 19, 2005 at the district administration building on Broad Street, and the audit liaison was present at the September 12, 2005 meeting.

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Finding No. 4 (Continued)

On October 28, 2005, we received an electronic mail from the audit liaison asking for clarification of the audit evidence we requested, and we responded the same day. On November 21, 2005, after we drafted the status of the prior year finding, we received an electronic mail with nine attachments, which the district represented as its response to our June 13, 2005 request. We considered the evidence provided and cleared the control weakness related to users being forced to change their passwords and adjusted the finding status accordingly.

However, none of the other evidence provided on November 21, 2005, was considered sufficient to eliminate the remaining control weaknesses. The fieldwork for the evaluation of information technology matters was concluded on November 21, 2005 and is reflected by the dual dating of fieldwork completion in the audit report.

We appreciate the district's difficulties related to the move of its entire administrative operations during the summer of 2005; however, we believe we provided sufficient time to respond to our requests. The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the next audit. The finding remains as presented.

Finding No. 5 – Inadequate General Computer Controls Environment

During a prior audit we performed a review of the internal controls relevant to the district's Office of Information Technology (OIT) general computer control environment as of September 24, 2002.

We recommended that:

- certain programmers for the Data General and IBM systems, in addition to an outside contractor, not have the ability to access production data and libraries and not be able to change programs and move them into the production environment;
- user IDs on the Data General system be automatically deactivated after an excessive number of invalid access attempts;
- the district require employees granted access to the IBM system prior to 1994 to have approved logical access forms on file;

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Finding No. 5 (Continued)

- . formal procedures be developed and put in place for monitoring system violation reports (i.e. logs of excessive invalid access attempts), and that the district require evidence of monitoring unusual system activity;
- . users of the Data General system be required to follow effective password management such as changing passwords every 90 days and requiring passwords be alphanumeric and/or at least six characters in length;
- . OIT automatically delete terminated employees' access to all applications; and
- . the Disaster Recovery Plan for the Data General and the IBM systems be tested.

The School Reform Commission did not provide a written response to this finding.

During our current audit, we performed a review of the internal controls relevant to the district's computer-controls environment. Our review was limited to follow-up on the status of the findings and recommendations included in our prior audit report for fiscal years ended June 30, 1999, 1998 and 1997, which was issued November 18, 2003. We found that the district failed to provide any audit evidence that corrective action was implemented to address the following weaknesses as of the close of the fieldwork for this objective:

- . certain programmers and outside contractors have the ability to access production data and libraries, change programs and move them into the production environment;
- . there are no formal procedures in place for monitoring system violation reports (i.e. logs of excessive invalid access attempts), nor is there any evidence that monitoring unusual system activity is occurring;
- . although access to IT resources may be disabled, there are no procedures in place to automatically delete terminated employees' access to all applications;
- . although a disaster recovery plan exists, there is no evidence that it has been tested;
- . system User IDs are not automatically deactivated after an excessive number of invalid access attempts; and

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Finding No. 5 (Continued)

- employees granted system access prior to 1994 do not have approved logical access forms on file.

Based on the results of our current audit, we concluded that the district did not fully address the recommendations from our previous audit.

Recommendations

We continue to recommend that the district strengthen their computer controls by implementing the following corrective actions:

- restrict programmers and outside contractors access to ensure that they do not have the ability to access production data and libraries, change programs and move them into the production environment;
- establish and implement formal procedures for monitoring system violation reports (i.e. logs of excessive invalid access attempts) and monitoring unusual system activity;
- establish and implement procedures to automatically delete terminated employees' access to all applications;
- test the disaster recovery plan;
- implement procedures which automatically deactivate system user IDs after an excessive number of invalid access attempts; and
- develop and maintain approved logical access forms on file for those employees granted system access prior to 1994.

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Finding No. 5 (Continued)

Response of Management

Management provided the following response, as follows:

Generally, the School District does not agree with most, if not all, of the findings cited in this most recent performance audit concerning its' general computer internal controls. Similar to the School District's Response in Finding No. 4 above, the School District provided a corrective action plan, on November 21, 2005, documenting improvement and measures undertaken since the previous performance audit. Unlike the audit processes used by the state auditors for other categories at hand, the School District was not afforded the professional courtesy of an on-site visit to further refute any of these findings prior to their actual receipt. Thus, the School District had and still maintains supporting documentation evidencing the implementation of corrective measures following previous audit years.

For instance, the School District's System Programmers and outside consultants do not have either system access or the ability to modify production or library data. This type of access is severely constrained district-wide and specifically limited only to contained OIT senior management personnel. . . . Similarly, the School District does not agree with the finding that it does not possess any "formal procedures . . . for monitoring system violation reports (i.e. logs of excessive or invalid access attempts) nor is there any evidence that monitoring unusual system activity is occurring." Akin to the Advantage 2000 System, the School District's general computer system applications and network reside on an outsourced computing platform controlled by an outside contractor. The adequacy and reliability of these internal controls, such as excessive or invalid access attempts, are verified by an annual SAS70 Audit Report provided by an independent auditor. This information is reviewed by senior management of the OIT and referred to executive management personnel for further action, if warranted. This audit tests all processes and internal controls against federal standards. Senior management of OIT may also request access logs at any time from the outside contractor should the need arise or if the School District deems it necessary.

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Finding No. 5 (Continued)

The School District does, however, agree to the finding and recommendation concerning a failure to automatically delete terminated employees' access to all applications immediately after an employee is terminated or voluntarily resigns to a limited extent. Because security applications operate independently, changing the status of an employee's access to ALL applications remains both a manual process and an automated process. For example and once the Office of Human Resources terminates an employee in the system, OIT terminates access to certain applications (i.e. network access and email) within 24 hours. In addition, OIT alerts other departments via email of the need to terminate access to other applications immediately after receiving input from the Office of Human Resources.

Contrary to the auditor's assertion, the School District did test its Disaster Recovery Plan in October of 2006. More specifically, the results of the testing showed that Finance, Payroll and Human Resource systems came up and were available and the evening cycles for the Finance and Human Resource on-lines were run successfully. Although the Transportation on-lines functioned properly, there were some minor challenges with the Transportation monthly run, however. . . . The testing also showed that all CICS regions were up and running with the exception of only the new region and the contractor was notified. OIT is fully investigating all minor glitches and is prepared to make all necessary adjustments.

Although the School District does agree with the finding and recommendations, to a limited extent, concerning the School District's need to implement processes and procedures which automatically deactivate user identifications and access after an excessive number of invalid attempts, all Advantage 2000 System and mainframe users are automatically denied access and identifications are deactivated after three failed attempts. By way of further illustration, the Student Information System ("SIS") was hosted on a DGUX platform that did not support automatic identification deactivation after a threshold of invalid access attempts. The School District's SIS is now hosted on a Solaris platform. Implementation of identification deactivation after five failed attempts is scheduled for June of 2007 by the OIT.

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Finding No. 5 (Continued)

Lastly, the School District does not agree that it does not possess approved logical access forms for employees granted access prior to 1994. The School District's System Administration Unit reviewed all application access and maintains executed forms on file. In order to properly respond to this finding in more detail, however, the School District respectfully requests that more information produced by the auditors testing be provided.

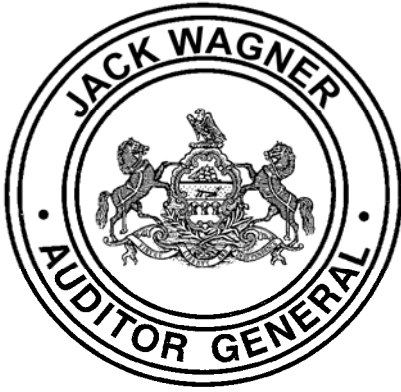
Auditor's Conclusion

The district designated one person as a "point of contact" to coordinate all of our audit requests, including on-site visits. We complied with the district's request, and we formally requested through the audit liaison all audit evidence to support any corrective actions taken regarding the control weaknesses detailed in this finding. Four months after our request, the audit evidence still had not been provided by the district. We then informed the audit liaison that, due to the time that had elapsed since our original request, we would only accept audit evidence if it was provided within the next two weeks; if no audit evidence was provided by that time, we would re-issue the prior years' finding stating that the district did not provide evidence of corrective action to the finding. Most importantly, the district's statement in its management response that it was "... not afforded the professional courtesy of an on-site visit..." is simply inaccurate. We met with district representatives twice at the district administration building on Broad Street, and the audit liaison was present at the initial meeting.

Three days before the district's deadline for submission of audit evidence, we received an electronic mail from the audit liaison asking for clarification of the audit evidence we requested, and we responded the same day. Three weeks later, after we drafted the status update to the prior years' finding, we received an electronic mail with nine attachments, which the district represented as its response to our request. We considered the evidence provided and found none of it to be sufficient to eliminate the control weaknesses in the finding. Further, the district's assertion that it tested its disaster recovery plan in October of 2006 was communicated to the auditors when the management responses were received on January 16, 2007, which is clearly beyond our fieldwork completion for all segments of this audit.

Fieldwork completion for the evaluation of information technology matters is reflected by the dual dating of the audit report.

We appreciate the district's difficulties related to the move of its entire administrative operations during the start of our audit; however, we believe we provided sufficient time to respond to our requests. The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the next audit. The finding remains as presented.



SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Schedule of State Revenue Received

The district reported it received state revenue of \$1,048,912,206, \$1,014,138,136, \$919,440,637, \$867,299,554 and \$828,305,204, respectively, for the years ended June 30, 2004, 2003, 2002, 2001 and 2000, as detailed in the following schedule:

STATE REVENUE	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Basic Education	\$ 746,061,191	\$ 726,020,481	\$699,336,914	\$658,793,956	\$641,630,570
Read to Succeed	659,501	3,541,752	6,345,634	7,504,017	3,621,329
Charter Schools	28,446,656	28,446,656	1,657,104	895,475	926,735
School Performance Incentives	-	4,664,303	3,646,593	-	1,973,904
Tuition for Orphans and Children Placed in Private Homes	918,279	1,008,062	662,716	968,965	531,249
Educational Empowerment/School Improvement	15,518,703	16,326,700	16,416,184	16,464,878	-
Homebound Instruction	27,335	33,282	37,862	30,962	36,704
Vocational Education	6,483	110,830	231,468	45,656	64,340
Alternative Education	9,713,857	11,285,910	3,947,946	2,126,596	-
Special Education	111,420,299	107,979,586	106,326,492	94,713,826	88,983,051
Adult Literacy	197,296	233,518	204,410	-	-
Transportation	25,700,907	24,824,770	18,769,883	18,676,593	17,149,359
Rental and Sinking Fund Payments	5,444,946	6,556,419	7,390,714	7,895,403	4,614,385
Health Services	4,541,081	4,832,648	4,834,262	4,737,886	4,787,503
Vocational Training of the Unemployed	6,209	39,908	-	-	-
Social Security and Medicare Taxes	37,646,104	36,717,556	34,742,839	34,909,741	33,040,962
Retirement	22,259,394	6,171,273	5,976,596	11,206,782	22,224,134
General Fund Extra Grant	25,000,000	25,000,000	-	-	-
Other Program Subsidies/Grants	<u>15,343,965</u>	<u>10,344,482</u>	<u>8,913,020</u>	<u>8,328,818</u>	<u>8,720,979</u>
<u>TOTAL STATE REVENUE</u>	<u>\$1,048,912,206</u>	<u>\$1,014,138,136</u>	<u>\$919,440,637</u>	<u>\$867,299,554</u>	<u>\$828,305,204</u>

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received (Source: Pennsylvania Accounting Manual)

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Educational Empowerment/School Improvement

Grants distributed to school districts on the Education Empowerment List or certified as Education Empowerment Districts to assist in the implementation of their school district improvement plans. These grants are authorized by Act 16 of 2000 and Section 1709-B of the Public School Code.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506 and 2507 of the Public School Code.

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

Adult Literacy

Revenue received from the Commonwealth to expand the availability of adult literacy and other adult education programs authorized by Act 143 of 1986.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

SCHOOL DISTRICT OF PHILADELPHIA
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Vocational Training of the Unemployed

Revenue received from the Commonwealth as subsidy for expenditures for projects for vocational training of the unemployed. Payments are made in accordance with Section 2508.3 of the Public School Code.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

General Fund Extra Grant (Account 7599)

Revenue received from the Commonwealth as basic education funding allocation for school districts of the first class for schools previously designated as partnership schools under the School Reform Commission Resolution for enhancements in curriculum, material and equipment, including computer hardware, professional development programs, improved or newly established accountability measures for employees, safety and security measures and other costs associated with such agreements.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

SECTION II

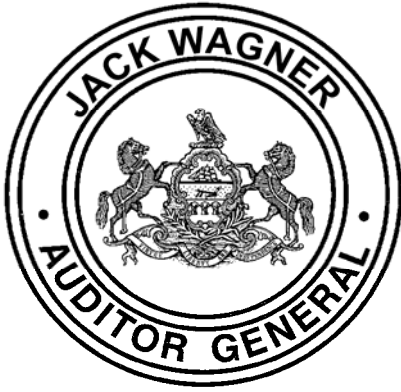
PHILADELPHIA INTERMEDIATE UNIT # 26

PHILADELPHIA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001 and 2000
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

THROUGH OCTOBER 17, 2006



The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the Philadelphia Intermediate Unit #26 for the years ended June 30, 2004, 2003, 2002, 2001 and 2000, and in certain areas extending beyond June 30, 2004. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The objective of our audit was to determine if the Philadelphia Intermediate Unit #26 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

To plan and perform our audit of the Philadelphia Intermediate Unit #26, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the Philadelphia Intermediate Unit #26 was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

October 17, 2006

/s/
JACK WAGNER
Auditor General

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The intermediate unit (IU) is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to provide specialized services including programs for special education, nonpublic schools, and management services. The IU covers an area identical to that of the city on the School District of Philadelphia. The IU is governed by the same State Reform Commission members as the district. During the 2003-04 school year, approximately 33,000 students benefited from IU services.

The accounts of the IU are organized on the basis of programs and account groups, each of which are considered a separate accounting entity. IU resources are allocated to, and accounted for, in individual programs based on purposes for which the funds are to be spent and the means by which spending activities are controlled.

The various programs which receive Commonwealth funds are accounted for in the following:

General Fund

The general fund is the primary operating fund of the IU. It is used to account for all financial resources and accounts for the general governmental activities of the IU.

Services provided participating school districts through the general fund included:

- . administration;
- . curriculum development and instructional improvement;
- . educational planning;
- . instructional materials;
- . management services;
- . continuing professional education;
- . pupil personnel;
- . state and federal liaison; and
- . nonpublic program subsidy - Act 89.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT
BACKGROUND

General Fund (Continued)

For the years ended June 30, 2004, 2003, 2002, 2001 and 2000, the Commonwealth provided \$15,890,877, \$17,134,716, \$17,254,445, \$16,350,376 and \$15,755,142 in general operating funds, as detailed in the General Fund Schedule of State Revenue on page 71. Additional revenue was derived from local and federal sources. Expenditures for the same periods were \$63,224,103, \$51,449,909, \$49,958,147, \$38,482,614 and \$32,897,807, respectively. Refer to the Supplementary Information on pages 72 through 73 of this report for descriptions of the state revenue received by category.

Special Revenue Fund

The special revenue fund accounts for the financial resources received to provide, maintain, administer, supervise and operate schools, classes, service programs, and transportation for exceptional children in accordance with the school laws of Pennsylvania and the approved IU plan for special education. The special revenue fund accounts for financial resources available for programs and services for exceptional children in state centers, state hospitals, private licensed facilities, and other child care institutions.

The special education program offered services at all grade levels for pupils whose physical, mental, or emotional needs required such services. If appropriate facilities were not available in a neighborhood school, the IU provided the necessary transportation.

Special education programs included:

- . gifted support;
- . learning support;
- . life skilled support;
- . emotional support;
- . deaf or hearing impaired support;
- . blind or visually impaired support;
- . speech and language support;
- . physical support;
- . autistic support; and
- . multihandicapped support.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT
BACKGROUND

Special Revenue Fund (Continued)

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. IUs received direct funding for certain institutionalized children programs, CORE services, special payments to certain IUs, and a contingency fund. For the years ended June 30, 2004, 2003, 2002, 2001 and 2000, the Commonwealth provided \$52,398,649, \$46,084,364, \$44,773,831, \$41,706,291 and \$37,653,789 in direct funding, as detailed in the Special Revenue Fund Schedule of State Revenue on page 74. Additional revenue was derived from contracted services with other local education agencies, local, and federal sources. Expenditures for the same periods were \$222,380,744, \$211,342,299, \$200,002,029, \$192,744,535 and \$185,704,868, respectively.

Generally, state subsidies and reimbursements are paid based on approved budgets in the year the IU incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the IU throughout the year, final payments are normally made in June. Refer to the Supplementary Information on page 75 of this report for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. IU annual financial reports and the related certified audits of the payments are not available before October 1st of the following fiscal year.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT
OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE AND SCOPE

Our audit objective was to determine if the Philadelphia Intermediate Unit #26 (IU) complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit;

The scope of our audit covered the years ended June 30, 2004, 2003, 2002, 2001 and 2000, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of an IU requires State Reform Commission members to establish and maintain internal controls to provide reasonable assurance that specific IU objectives will be achieved. State Reform Commission members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the IU's internal controls as they relate to the IU's compliance with state laws, regulations, contracts, grant requirements, and administrative procedures. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

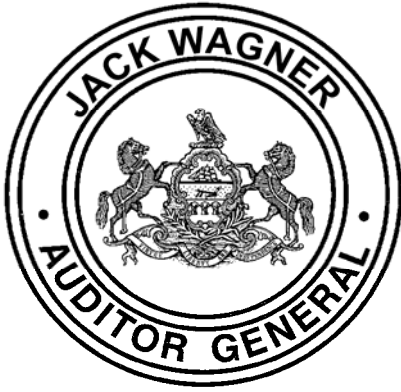
As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, Annual Financial Reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a IU's operations for a given year until after this information becomes available.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

CONCLUSION

The objective of our audit was to determine if the Philadelphia Intermediate Unit #26 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Philadelphia Intermediate Unit #26 complied with state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.



PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

General Fund Schedule of State Revenue

In its annual financial reports for the years ended June 30, 2004, 2003, 2002, 2001 and 2000, the IU reported state revenue of \$15,890,877, \$17,134,716, \$17,254,445, \$16,350,376 and \$15,755,142, respectively, as detailed in the following schedule:

<u>STATE REVENUE</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Operating Subsidy	\$ 518,633	\$ 518,633	\$ 518,633	\$ 502,476	\$ 476,836
Capital Subsidy	16,311	16,311	16,311	16,311	16,311
Safe Schools	-	14,998	8,031	-	-
Nonpublic – Act 89	14,933,528	14,716,294	14,721,876	14,269,639	14,065,657
Social Security and Medicare Taxes	40,082	59,979	179,848	91,537	44,379
Retirement	379,064	86,071	88,661	128,686	213,882
Technology Grants	-	1,717,430	1,721,085	1,292,013	-
Other Program Subsidies/Grants					
Link-to- Learn	3,259	-	-	49,714	938,077
Your Schools, Your Money	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>TOTAL STATE REVENUE</u>	<u>\$15,890,877</u>	<u>\$17,134,716</u>	<u>\$17,254,445</u>	<u>\$16,350,376</u>	<u>\$15,755,142</u>

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received – General Fund per the Pennsylvania Accounting Manual

General Operating Subsidy

Revenue received from the Commonwealth to support the operational expense of the intermediate unit.

Capital Subsidy

Revenue received from the Commonwealth to support expenditures for office space, classrooms, buses, garages, warehouse space, equipment and similar facilities which have received prior approval by the Secretary of Education.

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

Nonpublic – Act 89

Revenue received from the Commonwealth for payment of expenditures incurred in operation of programs authorized by Act 89 of 1975.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Technology Grants

Revenue received for technology initiatives that allow schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

General Fund (Continued)

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Special Revenue Fund Schedule of State Revenue

In its annual financial reports for the years ended June 30, 2004, 2003, 2002, 2001 and 2000 the IU reported state revenue of \$52,398,649, \$46,084,364, \$44,773,831, \$41,706,291 and \$37,653,789, respectively, as detailed in the following schedule:

<u>STATE REVENUE</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Special Education – CORE	\$ 3,991,573	\$ 3,861,559	\$ 3,826,835	\$ 3,479,585	\$ 3,182,108
Transportation	40,014,858	35,908,770	34,749,000	32,001,500	27,246,170
Social Security and Medicare Taxes	6,057,678	5,572,090	5,572,907	5,152,031	4,724,953
Retirement	<u>2,334,540</u>	<u>741,945</u>	<u>625,089</u>	<u>1,073,175</u>	<u>2,500,558</u>
<u>TOTAL STATE REVENUE</u>	<u>\$52,398,649</u>	<u>\$46,084,364</u>	<u>\$44,773,831</u>	<u>\$41,706,291</u>	<u>\$37,653,789</u>

PHILADELPHIA INTERMEDIATE UNIT #26
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received – Special Revenue Fund (Source: Pennsylvania Accounting Manual)

Special Education - CORE

Revenue received from the Commonwealth to provide the necessary administrative and management functions required to sustain, the intermediate unit's special education unit in order to deliver the Department of Education's required support for school districts. This support includes administrative and management, data collection, and program evaluation services.

Transportation

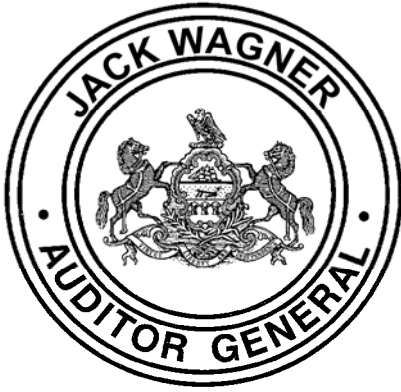
Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.



BUREAU OF SCHOOL AUDITS

AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the superintendent of the school district, executive director of the IU, the School Reform Commission members, our website address at www.auditorgen.state.pa.us, and the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

Mr. John Godlewski
Director, Bureau of Budget and Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.