

SCHOOL DISTRICT OF PHILADELPHIA
PHILADELPHIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Robert L. Archie Jr., Esq., Chairman
School Reform Commission
School District of Philadelphia
440 North Broad Street
Philadelphia, Pennsylvania 19130

Dear Governor Corbett and Mr. Archie:

We conducted a performance audit of the School District of Philadelphia (District) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 17, 2006 through May 6, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008, 2007, 2006 and 2005. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in four findings noted in this report. For example, we found that the District's continued lack of an independent Safe Schools Advocate violates the law, and that it has made no serious effort to restore the position. In addition, we identified four matters unrelated to compliance that are reported as observations. Furthermore, our audit included an expanded examination of the District's school safety practices. This review resulted in three findings noted in this report. However, because our concern that revealing them publicly could endanger the security of students and staff, we shared some specific safety concerns related to the District's buildings exclusively with the administration. A summary of these results is presented in the Executive Summary section of the audit report.

Furthermore, while our audit did not examine the appropriateness of the salaries paid to the District's administrators, we were nevertheless disturbed about the employment contract awarded to Superintendent Arlene Ackerman by the School Reform Commission (SRC), which pays her a seemingly generous salary and bonuses. The contract awarded to Dr. Ackerman permits a compensation package that is especially generous compared to other peer school districts or for any public official for that matter. Although Dr. Ackerman has recently announced she will accept 20 furloughed days in response to the District's dire financial condition, we firmly believe that the SRC should not have allowed such generous terms in her employment contract, especially performance and retention bonuses. Our position is unwavering in that there are no circumstances under which bonuses are appropriate for public employees. Specifically, the use of taxpayer dollars to reward the activities of any public official/employee is counterintuitive to the idea of government, which is meant to serve the interests of the greater good. Therefore, we hope that the District will avoid entering into future employee contracts that permit the payment of these taxpayer subsidized benefits. Instead, the District should use any extra money that would have been paid in bonuses to support its mission of providing students with a quality public education.

On the issue of swaps (Observation #1), while we are pleased that the District has heeded our advice to divest itself of its remaining swaps contracts, we are disappointed that the District refuses to renounce the use of swaps in the future. Furthermore, we find the District's explanation of its recent restructuring to be highly disingenuous. First of all, no mention is made of the fact that, as reported in the December 14, 2010, edition of *Bloomberg Businessweek*, the District had to make a termination payment of \$63 million to get out of this batch of soured swaps deals. The fact that this termination fee is being financed over a period of eleven years is cold comfort to the taxpayers of the District, because this merely obscures the fact that such an enormous loss was incurred as a result of entering into the swaps in the first place.

Secondly, in April 2010, the District claimed that, despite paying \$26.6 million to terminate an earlier batch of swaps deals, the use of swaps had cost the District \$25 million (currently \$28 million) *less* than if it had issued conventional fixed-rate financing. The District's explanation of the latest restructuring conveniently fails to mention that, in light of the \$63 million the District just paid to terminate the most recent batch of swaps, its ill-conceived foray into swaps has actually cost the taxpayers some \$35 million *more* than if the District had merely issued conventional fixed-rate debt.

Finally, we also find the District's claim that the debt restructuring will generate approximately \$25 million of "positive budgetary impact" in fiscal years 2010-11 and 2011-12 to be specious. The "positive budgetary impact" is a mere illusion that results from a combination of issuing variable-rate debt at historically low current rates and financing the termination payments over an extended period of time. However, variable-rate debt is highly volatile, so the low current rates, and interest costs to the District, are nearly certain to rise in the future. In addition, the long-term financing of the termination payments merely obscures the fact that a \$63 million cost has been incurred and must be absorbed. We view the restructuring as being designed to avoid the pain now and to defer to the future any worries about rising interest costs and the costs of amortizing the termination payments.

Our position today is the same as it was when we issued our first report on swaps in November 2009. The fundamental guiding principle in handling public funds is that they should never be exposed to the risk of financial loss. Swaps may be perfectly acceptable in the private sector, where private citizens are free to decide how much risk they can tolerate when their own money is at stake. But they should have no role in government, where it is the taxpayers' money that is at stake. Public debt should be financed with fixed interest rates that are transparent, reliable, and easily understood by decision-makers and the public. Accordingly, we strongly urge the School District of Philadelphia to amend its Debt Policy to unequivocally and permanently renounce and forswear the use of swaps in the future.

Our findings, observations, and recommendations have been discussed with District's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

March 16, 2011

cc: **SCHOOL DISTRICT OF PHILADELPHIA**
School Reform Commission Members



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SECTION I

SCHOOL DISTRICT OF PHILADELPHIA

PHILADELPHIA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of Philadelphia (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures, and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period October 17, 2006 through May 6, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08, 2006-07, 2005-06 and 2004-05.

District Background

The District encompasses approximately 130 square miles. According to 2000 federal census data, it serves a resident population of 1,449,000. According to District officials, in school year 2007-08, the District provided basic educational services to 164,742 pupils through the employment of 10,288 teachers, 8,364 full-time and part-time support personnel, and 1,146 administrators. The District received \$1.4 billion in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified four compliance-related matters reported as findings and four observations on matters unrelated to compliance that are reported as observations. This audit also contains three findings related to school safety.

Finding No. 1: The School District of Philadelphia Still Does Not Have a Safe Schools Advocate As Required By State Law. On August 14, 2009, the funding for the Philadelphia Office of Safe Schools Advocate (Advocate) was entirely removed from the state "bridge" budget, and was subsequently never restored in the final budget. Consequently, the state closed this statutorily mandated office, which was charged with monitoring the District's significant safety issues. The Department of Education (DE), the state agency responsible for overseeing the Advocate, stated that it "would continue to carry out the functions of the safe-school's law, and did not agree with the interpretation that the advocate's position itself is statutorily required." However, doing so not only violates the law, but completely eliminates the independence of this vitally needed position, one of its most important aspects. Furthermore, at the time of the office's removal, the District, which is most impacted by the Advocate's absence, made no serious effort to restore the position, and still has not done so a year later (see page 8).

Finding No. 2: The District Continues to Lack the Documentation Necessary to Verify Its State Subsidies and Reimbursements. Our audit continues to show the District was unable to provide us with the documentation necessary to verify that it correctly reported its membership and attendance data DE. Consequently, we could not determine whether the District received the correct amount of state subsidies and reimbursements based on that information. Specifically, auditors were unable to reconcile the 2006-07 school year membership and attendance reports from the District's child accounting database with source documentation that should have demonstrated that the submitted data was accurate. As a result, we could not validate the accuracy of the District's computer generated information, and therefore, could not rely upon this data in order to draw conclusions about whether the District requested and received the correct amount of state funding from DE (see page 14).

Finding No. 3: The District Continued Its Improper Student Activity Fund Practices. Our audit found that the District's student activity fund management for the 2008-09 school year continued to be out of compliance with the Public School Code, and with the District's own policies. These results were the product of our efforts to determine whether the District had implemented our recommendations from the student activity fund findings in our two previous audit reports covering the 2001-02 and 2005-06 school years (see page 19).

Finding No. 4: Serious Internal Control Weakness Over Germantown High School's Student Activity Funds Could Create Opportunities for Fraud. Our audit found that the District's Germantown High School had serious internal control weaknesses over its student activity funds,

which could create opportunities for fraud. Moreover, the school shares the District's overall non-compliance issues related to the management of these funds (see page 23).

Observation No. 1: The District Continues to Finance Some of Its Debt with Interest-Rate Management ("Swap") Agreements, Which Could Jeopardize Taxpayer Funds. While the District recently reduced the amount of debt it has tied to swap agreements by \$300 million, and has agreed not to enter into any new swap agreements during the current poor economic climate, we remain concerned about the very large amount of money the District continues to maintain in these derivative instruments. As such, we recommend that, when market conditions are favorable, the District should divest itself of all existing swap agreements in order to avoid remaining engaged in risky and complicated financial instruments that gamble with public funds (see page 28).

Observation No. 2: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications. Our audit found that the District had not implemented our prior audit recommendation regarding bus drivers' qualifications (see page 71). We made our recommendations in the interest of the protection of students, and here reiterate those recommendations (see page 33).

Observation No. 3: The School District of Philadelphia Should Protect Its Safety Programs and Operations from Possible Future Spending Cuts. Some of the District's spending cuts at the end of FY 2009-10 could have a negative impact on its overall safety operations. Specifically, in June 2010, the District eliminated 33 managers whose primary role was to maintain order and safety in their

assigned schools. Likewise, the size of the District's school police force is expected to decline. These issues are of particular concern given that the District will likely experience future financial challenges that may lead to further spending cuts (see page 35).

Observation No. 4: Continued Inadequate General Computer Controls Over the Advantage 2000 System. We followed-up on the status of our findings and recommendations from the previous audit report released on April 5, 2007, regarding the District's inadequate general computer controls over the District's Advantage 2000 system. We found that, while the District did take steps to address three of our five prior recommendations related to logical controls and system access, it did not implement our other two recommendations. Moreover, because these recommendations were also in our prior report released on November 18, 2003, this is the third time that we have proposed them to the District (see page 40).

Safe School Review

Finding No. 1: The School District of Philadelphia Has Failed to Ensure That Its School Police Officers Have the Level of Training Mandated By State Law. Our review of the Public School Code and the District's policies and procedures found that the District has failed to ensure that its school police officers have the level of training mandated by state law (see page 49).

Finding No. 2: The School District of Philadelphia Lacked the Documentation Necessary to Demonstrate That Certain School Police Officers Have Passed Statutorily Required Background Checks. Our audit found that the District lacked the documentation necessary to demonstrate that certain school police officers have passed the required background checks (see page 59).

Finding No. 3: The School District of Philadelphia Should Take Steps To Address Potential School Building Safety Concerns. The District has 284 schools located throughout the City. These buildings provide services to the District's 163,064 students and are, on average, 85 years old. It is the District's responsibility to maintain, repair and secure each building. To its credit, the District conducts annual internal facility safety audits that the administration uses to identify weaknesses and/or areas in need of further attention (see page 63).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations, related to an audit we conducted of the 2003-04, 2002-03, 2001-02, 2000-01 and 1999-00 school years, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to lack of documentation necessary to verify bus drivers' qualifications (see page 71) and certification deficiencies (see page 73).

However, we found the District had not taken appropriate corrective action in implementing our recommendations pertaining to significant control weaknesses existing in the District's child accounting system (see page 72), continued improper student activity fund practices, inadequate

general computer controls over the Advantage 2000 system (see page 75), and internal control weaknesses in bus drivers' qualifications administrative policies (see page 76).

Appendix A

The District provided a lengthy response to the findings and observations included in the audit report. We have attached the District's response in its entirety (see Appendix A at the end of this report). We have also included our rebuttal to the District's response in this section.

Audit Scope, Objectives, and Methodology

Scope

What is a school district performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period October 17, 2006 through May 6, 2010, except for the verification of professional employee certification which was performed as of June 1, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we typically use the term school year rather than fiscal year. The District's school year and fiscal year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g., basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District enter into any qualified interest-rate management agreements, or swaps?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Is the District's student activity fund management in compliance with all appropriate laws and guidelines?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

District management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information; and
- Compliance with applicable laws, contracts, grant requirements, and administrative procedures.

objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as pupil membership records.
- Deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with District operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 5, 2007, we reviewed the District's response to DE dated August 15, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

The School District of Philadelphia Still Does Not Have a Safe Schools Advocate As Required By State Law

Criteria relevant to the observation:

In November 2000, the General Assembly established the position of the Philadelphia Safe Schools Advocate in response to the District's significant safety challenges. As required by the 2000 amendments to the Safe School Provisions of the Public School Code of 1949, as amended, 24 P.S. § 13-1310-A *et seq.* (enacted on June 30, 1995), the Advocate is responsible for monitoring the District's compliance with reporting incidents of violence, assisting victims of school violence, and compiling an annual report regarding the level of violence in the District. In addition, the former Advocate regularly monitored whether the District was complying with its memorandum of understanding with the Philadelphia Police Department regarding the handling of incidents of school violence.

On August 14, 2009, the funding for the Philadelphia Office of Safe Schools Advocate (Advocate) was entirely removed from the state "bridge" budget, and was subsequently never restored in the final budget.¹ Consequently, the state closed this statutorily mandated office, which was charged with monitoring the School District of Philadelphia's (SDP) significant safety issues. The Department of Education (DE), the state agency responsible for overseeing the Advocate and for implementing recommendations related to this finding, stated that it would "continue to carry out the functions of the safe-school's law, but [did] not agree with the interpretation that the advocate's position itself is statutorily required."² However, DE's decision to absorb this function not only breaks the law, but also completely eliminates the independence of this position, one of its most important aspects. Furthermore, at the time of the Advocate's removal the District, which is most impacted by the Advocate's absence, made no serious effort to restore the position, and still has not done so a year later.

Section 1310-A(a) of the Public School Code of 1949 (PSC), as amended, clearly requires the following: "The Secretary of Education shall establish, with the [statutorily required Office of Safe Schools], safe schools advocate for each school district of the first class . . . The advocate shall establish and maintain an office with the school district."³

Thus, it is evident that this position is statutorily mandated and that the position's functions cannot be performed by others or in any other manner. In addition, this section of the PSC states that this independent office will have three specific responsibilities: (1) monitoring the District's compliance with reporting incidence of violence,

¹ In a letter dated September 17, 2009, we issued an interim audit finding to the District and to DE regarding the elimination of the Advocate. Our conclusion then was also that the Public School Code (PSC) mandates the Advocate position.

² Graham, Kristen A., "PA Official: Vacancy Hurts Philadelphia Schools," *The Philadelphia Inquirer*, September 18, 2009, p. 2.

³ 24 P.S. § 13-1310-A(a). According to the PSC, the School District of Philadelphia is the only school district of the first class in the Commonwealth.

(2) assisting victims of school violence, and (3) compiling an annual report regarding the level of violence in the District.

Based on the need for independence, the funding for the Advocate position came completely from a direct Commonwealth appropriation. State officials indicated that the removal of the Advocate's funding was the result of budget cuts. However, for the prior two fiscal years (2008-09, 2007-08), the office's annual appropriation did not exceed \$400,000,⁴ which does not seem like an unreasonable amount of money for such an essential function, particularly because the state's total education budgets for those years were approximately \$10 billion dollars, respectively.⁵ Furthermore, safety has historically been a critical issue in the District, which educates roughly nine percent of all of the Commonwealth's K-12 students.⁶ Thus, given the high stakes involved, the Advocate's appropriation seems very appropriate.

The Advocate's office demonstrated its vital importance by its continued school safety improvements in two areas, among others, over the past few years: accurate violent incident reporting and appropriate disciplinary action. For example, in the Advocate's *2006-2007 Annual Report*, he highlighted the fact that the District had in previous years failed to report particular incidents to DE, even though existing law required the District to do so.⁷ This reporting is critical because it is included in data provided to DE, which uses it to decide whether a school should be labeled as "persistently dangerous" under the federal No Child Left Behind Act. Under this federal law, once a school is designated as "persistently dangerous"⁸ its students are permitted to transfer to a safer school of their choice.

⁴ Obtained from the "2007-08 and 2008-09 Enacted Budget Line Item Appropriations," Pennsylvania Office of Budget http://www.portal.state.pa.us/portal/server.pt/community/past_budgets/4571, p. 5 and 6 respectively.

⁵ Ibid. pp. 6 and 7 respectively.

⁶Statistic based on information from the Pennsylvania Department of Education, Division of Data Services http://www.portal.state.pa.us/portal/server.pt/community/enrollment/7407/public_school_enrollment_reports/62054, October 1, 2009.

⁷ Office of Pennsylvania Safe Schools Advocate, "Annual Report for 2006-2007." (March 5, 2008), p. 8.

⁸ In Pennsylvania, a "persistently dangerous" school is any public elementary, secondary, or charter school that meets any of the following criteria in the most recent school year and in one additional year of the two years prior to the most recent school year: (1) for a school whose enrollment is 250 or less, at least 5 dangerous incidents; (2) for a school whose enrollment is between 251 to 1,000, a number of dangerous incidents that represents a least 2% of the school's enrollment; or (3) for a school whose enrollment is over 1,000, 20 or more dangerous incidents. See 22 Pa. Code § 403.2.

Historically, all of Pennsylvania’s “persistently dangerous” schools have been located in the District.⁹ Moreover, the same report underscored the District’s failure to comply with federal and state law by not expelling those students who brought weapons to school.¹⁰ Specifically, it stated that “in 2006-07 the District did not expel a single student - not even the nine students who brought guns to school.”¹¹

The Advocate’s office issued a very different annual report for the 2007-08 school year. It stated that the District had taken steps to address the violent incident reporting issue to the point that the District could be commended for “becoming the only large school district in the country telling the truth about the violence in its buildings.”¹² Furthermore, the report stated that the chair of the School Reform Commission had reinvigorated the District’s School Safety Advisory Committee, for which the Advocate became a co-chair. Finally, the Advocate reported that in December 2008, the District had held its first expulsion hearing in three years.¹³

Clearly, the former Advocate’s work has had a very positive impact on the District’s safety and security. However, much remains undone. For example, DE’s list of “persistently dangerous” schools for the 2009-10 school year had increased by five, to a total of 25, and, once again, all of those schools were in the District.¹⁴ Likewise, the District reported nearly 15,000 more criminal incidents during the 2007-08 school year, an increase of 14 percent from the previous year.¹⁵ While this increase may be due in part to more accurate reporting, such levels of violence demonstrate a continued need for independent oversight and collaborative problem solving, functions that the position of the Advocate was successfully providing to the District until the position was eliminated.

⁹ Pennsylvania Department of Education, “SY 2009-2010 Persistently Dangerous Schools,” http://www.portal.state.pa.us/portal/server.pt/community/unsafe_school_choice_option/7417/persistently_dangerous_schools/508690, Downloaded October 25, 2010.

¹⁰ See 20 U.S.C. § 7151 and Office of Pennsylvania Safe Schools Advocate, *Annual Report for 2006-2007* (March 5, 2008), p. 10.

¹¹ *Ibid.* 10

¹² Office of Pennsylvania Safe Schools Advocate, *Annual Report for 2007-2008* (February 27, 2009), pp. 6-7.

¹³ *Ibid.* 7

¹⁴ Pennsylvania Department of Education, “SY 2009-2010 Persistently Dangerous Schools,” http://www.portal.state.pa.us/portal/server.pt/community/unsafe_school_choice_option/7417/persistently_dangerous_schools/508690, Downloaded October 25, 2010.

¹⁵ Office of Pennsylvania Safe Schools Advocate, *Annual Report for 2007-2008* (February 27, 2009), p. 9.

About the Pew Charitable Trusts-Philadelphia Research Initiative research study:

The three primary educational institutions within the city of Philadelphia - traditional public schools, charter/cyber charter schools, and Catholic schools - are evolving. Charter schools are growing dramatically, while both traditional schools and Catholic schools are witnessing enrollment decreases. To find out what the city's parents think about these trends and how they are coping with them, the Philadelphia Research Initiative commissioned a poll of 802 parents with children in local schools, half in district-run schools and a quarter each in charter and Catholic schools, and then conducted focus groups of poll participants. The full results of the study, *Philadelphia's Changing Schools and What Parents Want from Them*, can be found by going to: www.pewtrusts.org/our-work_report_detail.aspx?id=59683

Furthermore, the results of a recent Pew Charitable Trusts' Philadelphia Research Initiative survey (see left text box) mirrored the concerns of these parents, and also demonstrated that the District still has very serious safety issues. The survey results showed that parental dissatisfaction with District-run schools is driven to a large degree by concerns over a perceived lack of safety and discipline within those schools. Specifically, only 31 percent of parents with children in District-run schools gave them excellent ratings on safety. By comparison, 67 percent of charter-school parents, and 73 percent of Catholic school parents, gave their schools excellent safety ratings. Moreover, 29 percent of parents with children in District-run schools rated their schools as "fair" or "poor" on safety, compared to five percent for charters and, only one percent for Catholic schools.¹⁶

Thus, it is plain to see that the District's safety initiatives, including its incident reporting, continue to need enhanced monitoring, and that the public would continue to appreciate, and likely benefit from, the presence of an independent voice for victims of school violence. Moreover, this latter function is perhaps one of the most significant reasons for maintaining the Advocate's independence. As an autonomous proponent for the victims of school violence, the Advocate provided an outside resource for parents who wished to report concerns about the safety problems they found in their children's schools.

The failure to maintain the independence of the Advocate position is of particular concern now that the DE has taken over the functions of that office. In doing so, it has eliminated the single point of contact for concerned parents and the public, and replaced it with what could be perceived as a faceless state bureaucracy. For example, when auditors called the only number listed in DE's program directory for a Safe School's Advocate hotline, the message indicated that if the caller left their name and the reason for their call someone would get back to them within two business days. Again, this may give a concerned parent, or a school violence victim, the

¹⁶ Ferrick, Tom and Horwitz, Laura. "Philadelphia's Changing Schools and What Parents Want from Them" (June 2010). Pew Charitable Trusts/Philadelphia Research Initiative, pp. 2-3.

impression that they will not be receiving individualized attention.

The removal of the independent Advocate's office and DE's absorption of its duties is a violation of state statute. Moreover, the action denies the District's students access to the full range of statutorily mandated support for their safety challenges. Further, as demonstrated above, the Advocate had a real and positive impact on the District. However, more work remains to be done and the District's current safety position illustrates the need for continued oversight. Finally, eliminating the independent Advocate, who was specifically charged with assisting victims of school violence, negatively impacts those individuals seeking help in particular if these victims fear retribution.

Thus, while we acknowledge that the District has no direct involvement in the funding, hiring, or selection of the Advocate, we also recognize that it, its students and its parents, have the most to lose from the elimination of this independent office. Therefore, we continue to encourage the District to take whatever steps it can to begin a dialogue with city and state officials, in order to try to get this important position reinstated. Likewise, we recommend that DE work with state officials to find the funding necessary to restore the independent Safe Schools Advocate's office within the District.

Recommendations

The *School District of Philadelphia* should:

1. Lobby city and state officials to reinstate the independent Safe Schools Advocate's office.

The *Department of Education* should:

2. Work with state officials to find the funding necessary to restore the independent Safe School Advocate's office, as required by state law, who can function as a single point of contact for parents and victims of school violence.

The *General Assembly* should:

3. Consider modifying current state law to establish the Safe Schools Advocate's office as an independent agency.

Management Response

Please see page A-2.

Auditor Conclusion

Please see page A-3.

Finding No. 2 →

The District Continues to Lack the Documentation Necessary to Verify Its State Subsidies and Reimbursements

Criteria relevant to the finding:

Various parts of Section 25-2502 of the Public School Code (PSC) 24 P.S. § 25-2502, establish formulas for calculating the state education funding paid to the Commonwealth's school districts. These formulas are intended to equalize the money and, therefore, the educational opportunities throughout the Commonwealth. Several of these formulas are based on pupil membership and attendance data.

In addition, Section 518 of the PSC, 24 P.S. § 5-518, requires that school districts retain their financial records for a period of no less than six years. Because DE uses districts' membership and attendance reports to determine payments for various state subsidies, it is critical that districts maintain the data entry forms and source documentation to support these reports and, therefore, their state funding. Otherwise, it is impossible for districts to prove that their public resources are properly accounted for and/or that they are used for their intended purpose. It is the district management's responsibility to maintain the relevant evidence that supports its Commonwealth subsidy payments.

Once again, the District was unable to provide us with the documentation necessary to verify that it correctly reported its membership and attendance data to DE. Consequently, we could not determine whether the District received the correct amount of state subsidies and reimbursements based on that information. Specifically, auditors were unable to reconcile the 2006-07¹⁷ school year membership and attendance reports from the District's child accounting database with source documentation that should have demonstrated that the submitted data was accurate. As a result, we could not validate the accuracy of the District's computer generated information and, therefore, could not rely upon this data in order to draw conclusions about whether the District requested and received the correct amount of state funding from DE.

DE calculates several subsidies and reimbursements based on the membership and attendance reports it receives from the Commonwealth's school districts. These subsidies include basic education funding, which constitutes the districts' largest source of state money, and special education funding. Consequently, a district's failure to accurately maintain and report this data calls into question the legitimacy and appropriateness of the bulk of its state taxpayer funding.

The District generates the membership and attendance reports it submits to DE from its student database, also called the School Computer Network. As part of our review, we initially conducted a basic validity check on the data by comparing the District generated membership and attendance reports for the 2006-07 school year to the Summary of Child Accounting Data¹⁸ for the same period. The information on these reports should match, as the

¹⁷ Please note that the 2006-07 membership and attendance data was the most current available when we began our audit. While an additional year of this data (2007-08) became available during the course of our audit, we did not have time to look at it because it took the District more than seven months to provide us with the membership and attendance information from our initial request.

¹⁸ The Summary of Child Accounting Data or PDE-4602 summarizes the membership and attendance data submitted to DE by the district and by other school districts, intermediate units and/or area vocational technical schools on their behalf.

District uses its student membership and attendance database to compile the data it submits to DE. Unlike in prior audits, we found that these two reports reconciled within a reasonable percentage of error. Therefore, we continued our testing by comparing the roll sheets in a small selection of students' permanent files to the computer generated membership and attendance reports for that same period. Roll sheets are the daily attendance records that teachers keep to indicate whether a student is present or absent from class. We attempted to match these sheets against the District's computerized data, in order to validate the accuracy, reliability, and completeness of the reports sent to DE for the purposes of calculating the District's state subsidies and reimbursements.

In our previous audit, we randomly selected 15 student records at each of nine District high schools, and compared their roll sheets to the reports from the District's student membership and attendance database. In that instance, we found that **all** nine high schools lacked sufficient student record information, and that 46 percent of the data that the District provided did not match the information in its database, making it impossible for us to validate the accuracy, reliability and completeness of the District's computerized system.

Based on these previous results, we focused our initial testing at those schools with the least amount of supporting documentation in our prior review because they had the highest risk of a continuing problem. Therefore, we began our review by randomly selecting student records from the worst of the nine high schools tested in the previous audit. If we found that the District had taken corrective action at this school, then we would continue to expand our testing at other schools.

Specifically, we randomly selected the roll sheets for 15 students attending Overbrook High School, which had provided the least amount of requested documentation in the prior audit. The District could not locate the roll sheets for 60 percent, or 9 of the 15, pupils in our selection. In addition, all six of the roll sheets that the District provided to us failed to reconcile with the days of attendance recorded for those pupils in the District's database. Based on these results, we concluded that the information the District provided on the 15 selected records was so poor

that further test work to determine the reliability, accuracy, and completeness of its student membership and attendance database was unnecessary.¹⁹ Likewise, we decided it was impossible to conduct an actual membership review with data that was unreliable and potentially inaccurate. Thus, once again, we found that we could not draw any conclusions about the accuracy of the District's state subsidies and reimbursements. Moreover, our inability to do so calls into question the legitimacy and appropriateness of the bulk of the District's state taxpayer funding.

This District's inability to support the accuracy of its membership and attendance data is of particular concern given that during the audit period (2004-05 through 2007-08) the District's general fund received \$4.2 billion in state subsidies, reimbursements and grants, and then another \$1.3 billion in the 2008-09 school year.²⁰ Moreover, the results of our current review are similar to those in findings contained in the District's last five cyclical audits, which collectively covered more than a ten-year period. Specifically, in each of these previous engagements, as in the current one, the District was unable to provide source documentation that should have verified the accuracy of the information in its computer system. Therefore, we have not been able to conclude on whether the District received the appropriate state subsidies and reimbursements based on membership and attendance data for more than a decade. Again, these findings are particularly disturbing because in those ten years the District has received approximately \$9.1 billion²¹ of state money attributable to its membership and attendance reports.

Furthermore, our results regarding the District's poor record-keeping are not unique. According to an April 16, 2010, internal memo released by the U.S. Department of Education, Office of Inspector General

¹⁹ The previous audit report made a recommendation regarding the District's compliance with Chapter 11 of the regulations of the State Board of Education, which details those students who should not be included in the membership and attendance counts, and the maintenance of evidence that absences are legally excused and/or that compulsory attendance prosecution has been or is being pursued. However, because the results of our initial test work indicated that the District's performance was so deficient, we determined that it was imprudent to try to assess the District's compliance with these matters.

²⁰ "Comprehensive Annual Financial Report: A component Unit of the City of Philadelphia, Pennsylvania," School District of Philadelphia, Pennsylvania, Year Ended June 30, 2009, pp. 88, as well as the Comprehensive Annual Financial Reports for years ended June 30, 2005, 2006, 2007, and 2008.

²¹ This amount was derived from the SDP's last ten Comprehensive Annual Financial Reports.

(OIG), it has recommended the District be labeled as a “high-risk grantee” based on the results of its January 15, 2010 audit report. One of the report’s findings was that the District did not maintain adequate supporting documentation for training and professional development expenditures. As a result of this potential designation, the OIG may place special conditions on all of its future grants to the District and coordinate enhanced monitoring of the District. Thus, these findings by the federal government both confirm our conclusions and highlight the pervasiveness of the District’s recordkeeping issues.²²

Recommendations

The *School District of Philadelphia* should:

1. Improve its recordkeeping at the school level, to ensure that source documentation is available for audit.
2. Implement and maintain a system of internal controls, which includes general and application computer controls, and manual compensating controls, to ensure data accuracy.
3. 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 and that a snapshot of the database be stored to substantiate the membership for the school year and be available for audit. If, for any reason, revisions are required to the DE reports, the District should be prepared to explain and/or provide audit evidence of those revisions.
4. Provide sufficient, competent, and reliable data to support the more than \$4.2 billion in subsidies and reimbursements paid to the District’s general fund based on the information for the audited years (2004-05 to 2007-08) and all subsequent years after that.

The *Department of Education* should:

5. Ensure that the District’s membership and attendance data can be supported and verified prior to issuing future payments.

²² West, Keith, Assistant Inspector General for Audit, “Philadelphia School District Designation as a High-Risk Grantee Control Number ED-OIG/L03K0002, (April 16, 2010), pp. 1-2.

Management Response Please see page A-4.

Auditor Conclusion Please see page A-6.

Finding No. 3

The District Continued Its Improper Student Activity Fund Practices

Criteria relevant to the finding:

Section 511(d) of the Public School Code (PSC) provides, in part:

“Such funds shall not be the funds of the school district but shall remain the property of the respective school, class, organization, club, society, or group. . . .”

In addition, the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems requires trust funds to be segregated and accounted for separately from Student Activity Fund monies.

The District’s Student Activity Funds Manual, General Principles states:

5b) “In order to evidence the involvement of students in the decision-making process, detailed minutes are to be kept of each meeting showing students present, the issues to be resolved, and the decision/outcome that was reached.”

7) “Preferably, interest earned on the student activity funds checking account is to be prorated to each activity based on its average monthly balance. However, if this is not practical (because the amount is not material or because there are too many funds), then it is permissible to apply the interest earnings directly to the Student Body Activity Account (SBAA).”

continued . . .

Our current audit found that the District’s student activity fund management for the 2008-09 school year continued to be out of compliance with the Public School Code (PSC) and with the District’s own policies. These results were the product of our efforts to determine whether the District had implemented our recommendations from the student activity fund findings in our two previous audit reports covering the 2001-02 and the 2005-06 school years. The District’s sustained lack of compliance is of particular concern because, as of the end of the 2008-09 school year, its total student activity fund balance is more than \$918,197.²³ Weak management practices can create opportunities for fraud, and with that amount of student money at stake, the District must ensure that student funds are properly protected.

Because our current audit work was part of a follow-up process, we limited our review to the ten high schools that we cited in our two previous audit reports’ student-activity fund findings. The District has a total of 62 high schools. These ten selected schools included: (1) Engineering and Science, (2) Thomas A. Edison, (3) Girard Academy of Music Program, (4) Simon Gratz, (5) Martin Luther King, (6) Northeast, (7) Olney East, (8) Olney West, (9) Overbrook, and (10) George Washington. We again found that the fund custodians, and ultimately the principals, in these ten high schools did not always adhere to the District’s policies, and/or the PSC, when overseeing their schools’ student activity funds. Specifically, the District failed to ensure that its schools did the following:

1. Divide scholarship and memorial funds from student activity funds.
2. Properly prorate interest earnings.
3. Separate inactive accounts from the list of active accounts.

²³ Please note that this figure was compiled based on the total amount of funds audited at the 10 selected high schools. There are a total of 62 high schools in the District.

8) “The management of Student Activity Funds shall be in accordance with sound business practices and accounting procedures . . .”

The District’s Student Activity Funds Manual regarding the school operations officer (SOO) states:

H2) “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.”

4. Avoid deficit cash balances in various accounts.
5. Maintain minutes of student activity club meetings.
6. Separate graduated class accounts from the listing of active accounts.

Scholarship and Memorial Accounts Were Not Separated From Student Activity Funds

All ten of the high schools accounted for and reported on scholarship and memorial funds within their student activity funds. However, because these accounts receive revenue from non-student donors, the state accounting manual categorizes scholarship and memorial monies as trust funds. Moreover, it requires that school districts keep them separate from student activity funds. This division is particularly important given that student groups did not raise all the funds and, therefore, had little, if any, control over their disbursement.

Interest Earnings Not Properly Prorated

Fund custodians at seven of the ten high schools did not prorate the interest earned to the appropriate activity accounts or to the Student Body Activity Account.

Inactive Accounts Included In the Schools’ Listing of Active Accounts

For seven of the ten high schools reviewed, we found that fund custodians had carried inactive accounts over from the previous years’ operations and had included them on the summary of student activity funds. Inactive accounts increase bookkeeping costs, and are susceptible to misuse.

Deficit Cash Balances Noted For Various Accounts

Fund custodians at five of the ten high schools we reviewed maintained accounts with deficit cash balances. This situation required them to use the funds of other clubs to cover the shortfalls.

Good business practices prohibit the operation of accounts with deficit cash balances. In addition, it is inappropriate for fund custodians to use other student activity monies to

cover these shortfalls. In doing so, they are condoning the misuse of these funds because the students who raised the money in the positive accounts did not do so to cover the activities of a different group. Moreover, student activity operations should be a learning process for students. Instead, maintaining accounts with deficits teaches them poor financial management.

Documentation and Minutes of Student Activity Club Meetings Not Maintained

Three of the ten high schools we reviewed did not maintain documentation supporting the formation of the clubs and organizations on their student activity fund listing. Furthermore, the fund custodians could not provide written minutes of the meetings they held in order to involve the students in the financial decisions related to their organizations.

Graduated Class Accounts Included In the Listing of Active Accounts

Fund custodians at three of the ten high schools reviewed maintained active student activity accounts for classes that had already graduated. The fund custodians had carried the balances for these accounts forward from the previous years' operations. In addition, several of the graduated student accounts had deficit balances. Maintaining graduated class accounts increases bookkeeping costs, and increases the susceptibility of the funds to misuse.

Student activity funds are particularly vulnerable to fraud because they are typically held at the building level, making them highly accessible, frequently in the form of cash, and are not as rigorously monitored as other school accounts because they do not include taxpayer money.²⁴ The District's Germantown High School demonstrated this vulnerability in June 2009, when it became public that a former School Operations Officer had pleaded guilty to stealing \$23,024 from its student activity funds (see Finding No. 4). Consequently, because it is likely that nearly all of the District's 63²⁵ high schools have student

²⁴ Fusco, Armand A., *Ending Corruption and Waste in Your Public School*, Yankee Institute for Public Policy, (December 2007), p. 4.

²⁵ "High School Planning Guide: A Directory of High Schools for 2010 Admissions," School District of Philadelphia, http://www.phila.k12.pa.us/hsdirectory2010/HSDirectory2010_web.pdf.

activity funds, and that the total amount of these funds is quite high, the District should proactively protect these vulnerable funds against fraud. It should accomplish this goal by adhering to its own policies and procedures and the PSC mandates.

Recommendations

The *School District of Philadelphia* should:

1. Ensure the principals and fund custodians adhere to and enforce adopted board policy and other applicable criteria.
2. Ensure all scholarship and memorial accounts are properly accounted for and not reported in the student activity fund.
3. Ensure interest income is prorated to the various student accounts, in accordance with board policy.
4. Purge all inactive student activity accounts.
5. Prohibit the practice of making disbursements from accounts with deficit cash balances.
6. Ensure that formal student organizations control each account operating within the student activity fund.
7. 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.

Management Response

Please see page A-7.

Auditor Conclusion

Please see page A-10.

Finding No. 4

Serious Internal Control Weakness Over Germantown High School's Student Activity Funds Could Create Opportunities for Fraud

Criteria relevant to the finding:

Section 511(d) of the PSC, 24 P.S. 5-511(d), provides, in part:

“ . . . such funds shall not be the funds of the school district but shall remain the property of the respective school, class, organization, club, society, or group. . . . ”

The District's Student Activity Funds Manual, General Principles state:

- 8) The management of Student Activity Funds shall be in accordance with sound business practices and accounting procedures . . .

Our current audit found that the District's Germantown High School had serious internal control weaknesses over its student activity funds, which could create opportunities for fraud. Moreover, the school shares the District's overall non-compliance issues related to the management of these funds.

We chose to review Germantown High School's student activity fund management specifically, because, on June 30, 2009, its former School Operations Officer (SOO) pled guilty to stealing \$23,024 from the school's student activity funds. To its credit, District management was responsible for discovering the fraud that took place at the school. However, while the SOO's guilty plea required her to repay the amount stolen this action did not guarantee that the school had taken the necessary corrective action to prevent such an episode from happening again.

In addition, because we included a finding on the District's student activity fund management in our previous audit report, our specific review of Germantown High School included follow-up work to determine if the District had implemented our prior recommendations. We found that as a whole, the District was still out of compliance with the PSC and with its own policies. For example, we reviewed 10 high schools, including Germantown, and found that all of them failed to separate active and inactive accounts. The detailed results of our follow-up review are in Finding No. 4 (see page 74).

Our specific review of Germantown High School's student activity fund management found several internal control weaknesses, which could make these funds more susceptible to fraud and/or misuse. These weaknesses are of particular concern given the recent theft from the school's student activity funds.

As part of this review, we requested that the high school's administrators produce cancelled checks, invoices, vouchers, and student authorization forms for four of the largest disbursements and one randomly selected

disbursement²⁶ from fiscal year 2008-09. Similarly, we also asked the administrators to provide us with receipts and deposit slips for 17 deposits, which we selected based on their size and the frequency with which they appeared in the individual student activity account (15 were from the 2008-09 school year and two were from the 2009-10 school year).

The high school’s administrators could not provide us with the receipt and deposit slips for any of the selected transactions. Instead, all that they produced was a spreadsheet that they created, detailing the activity for eight of the selected deposits. The high school’s administrators provided no information on the remaining nine requested deposits. Therefore, because we could not test the spreadsheet’s accuracy by tying it to source documentation and because we had no information on the remaining nine selected deposits, we could not conclude on the appropriateness of the high school administrators’ student activity fund management.

The high school’s administrators did provide all of the requested cancelled checks. Each check should typically be accompanied by a payment voucher, which indicates the name of the account, who the disbursement is payable to, the amount of the disbursement, its purpose and the signed approvals. Likewise, all of the checks should have some type of student authorization. In addition, some checks may also include an invoice depending on the nature of the disbursement.

Our review showed the following:

Sample Check	Voucher	Invoice
1	No	No*
2	Yes	Yes
3	No	Yes
4	Yes	No
5	Yes	No*

*These checks were for charitable donations and did not necessarily require an invoice.

Two of the five checks did not have accompanying vouchers. Therefore, there was no way to determine if the disbursements were appropriate. In addition, one of the

²⁶ Three of the largest disbursements were from one account.

five checks was missing an invoice, so we could not determine whether the amount expended was accurate.

Furthermore, the school was unable to provide any evidence demonstrating student involvement in the decision to make these five disbursements, which is required by the District's student activity fund manual.

The pervasive lack of source documentation, including receipts, deposit slips, payment vouchers and evidence demonstrating student participation, maintained for Germantown High School's student activity funds is a serious internal control deficiency. Without such information, it is impossible for the school's administrators, or any other party, to account for the transactions going in and out of these funds. In addition, there is no way to ensure the appropriateness of these transactions, or that students were involved in the decision making process. Therefore, money may be missing or inappropriately used without the school, or the District's, knowledge.

Furthermore, because the District is responsible for the overall record keeping at its schools, our results regarding Germantown High School's lack of proper documentation have wider implications. When combined with our current membership finding (see page 14) and our other student activity fund finding (see page 19), it appears that the District has a rather pervasive recordkeeping problem. Moreover, our auditors are not the only ones to identify these issues. As previously discussed, the U.S. Department of Education's Office of Inspector General (OIG) has recommended the District be labeled as a "high-risk grantee," based on the results of its January 15, 2010 audit report. Overall, the report concluded that the District did not have adequate fiscal controls in place to account for federal grant funds. Specifically, the OIG report included the following weaknesses:

- Poor controls over personnel expenditures charged to federal grants;
- Inadequate controls in place to ensure that non-payroll expenditures met federal regulations and grant provisions;
- Inadequate or unenforced policies and procedures for

journal voucher processing, travel, imprest fund reimbursements, inventory tracking, and contracting; and

- Absent policies and procedures for various fiscal processes, which included monitoring budgets, purchasing from the vendor, charging of transportation costs, allocating single audit costs, and calculating and charging of indirect grant funds.

As a result of this possible designation, the OIG will place special conditions on all of its future audits of the District.²⁷ Thus, these findings confirm our conclusions and highlight the pervasiveness of the District's recordkeeping issues.

Given the Germantown High School's very recent experience with theft, these serious internal control lapses related to poor recordkeeping are of great concern. In addition, these management breakdowns leave open the question of whether any additional money has been taken from the school's student activity funds since the school operations officer entered her guilty plea.

Recommendations

The *Germantown High School* should:

1. Implement our recommendations from Finding No. 4 (see page 74).
2. Retain support documentation for all deposits.
3. Prohibit the disbursement of funds without the signature of a student officer.
4. Immediately conduct a review of its student activity fund management and take steps to ensure that no additional monies have inappropriately been taken from their student activity accounts.

The *School District of Philadelphia* should:

5. Oversee Germantown High School's internal review of its student activity fund management, and verify that it is taking immediate corrective action to correct its

²⁷ West, Keith, Assistant Inspector General for Audit, "Philadelphia School District Designation as a High-Risk Grantee Control Number ED-OIG/L03K0002, (April 16, 2010), pp. 1-2.

serious internal control weaknesses.

6. Conduct its own review of Germantown High School's student activity accounts to ensure that no additional monies have been taken inappropriately.

Management Response

Please see page A-10.

Auditor Conclusion

Please see page A-11.

Observation No. 1 →

The District Continues to Finance Some of Its Debt with Interest-Rate Management (“Swap”) Agreements, Which Could Jeopardize Taxpayer Funds

Criteria relevant to the observation:

“The Local Government Unit **Debt** Act,²⁸ Act 177 of 1997, as amended by Act 23 of 2003 (53 Pa. C.S. § 8001 *et seq.*) authorizes local government units, including school district, to include qualified interest rate agreements in connection with the issuance of bonds and notes.”

While the School District of Philadelphia recently reduced the amount of debt it has tied to swap agreements by \$300 million, and has agreed not to enter into any new swap agreements during the current poor economic climate, we remain concerned about the very large amount of debt the District continues to have tied to these derivative instruments. As such, we recommend that, when market conditions are favorable, the District should divest itself of all existing swap agreements in order to avoid remaining engaged in risky and complicated financial instruments that gamble with public funds.

Current state law permits school districts to enter into qualified interest-rate management agreements, known more commonly as “swaps.” Swaps are financial instruments that form a contract between a school district and an investment bank, speculating on the direction interest rates will move, as well as other unpredictable factors. Specifically, the party to the contract that guesses correctly about whether interest rates will go up or down gets paid by the party to the contract that guesses incorrectly. This is called a swap interest payment. The amount of money changing hands is determined by several factors, including the amount of the debt associated with the swap and the overall fluctuation of interest rates.

In theory, swaps allow school districts to enter into variable-rate debt financing, and thereby take advantage of low interest rates, while at the same time mitigating the possibility of those same interest rates rising. In reality, however, swaps are complicated, risky financial instruments that can needlessly waste taxpayer funds if the District bets incorrectly on which way interest rates will move. Likewise, districts can end up wasting funds on financial advisors, legal fees, and underwriting fees, especially if these services are not competitively bid and evaluated for independence. Additionally, swaps can cause districts to pay large termination fees to the investment banks.

²⁸ Please note that the title of this Act includes the word “Debt.”

For example, our department's November 2009 special investigation of the Bethlehem Area School District's 13 swaps, which were related to \$272.9 million in debt, found that the District's use of 2 of its 13 swaps cost taxpayers \$10.2 million more than if it had issued a standard fixed-rate bond or note, and \$15.5 million more than if the District had simply paid the interest on the variable-rate note without any swap at all. The Bethlehem Area School District's losses were largely due to excessive fees and other charges, especially a \$12.3 million payment that it made to an investment bank for terminating one of the two agreements. The potential financial impact associated with the Bethlehem Area School District's other 11 swaps could not be determined because the agreements were still in effect at the time of the investigation. The experience of this one school district illustrates the potential financial cost to entities that enter into swaps, particularly if they have to be terminated for any reason when the interest rates are not in the party's favor.

As a result of our investigation of the Bethlehem Area School District, and because we discovered that it had more debt tied to swaps than any other school district in the Commonwealth, we sent the School District of Philadelphia a letter on December 3, 2009, urging it to terminate its active swaps and refinance them with conventional debt instruments. Our letter also advised the District that it should avoid getting into these or any other exotic financial instruments in the future, and that it should assess the financial consequences that would transpire if it suffered the same negative experience with swaps as the Bethlehem Area School District and others. In addition, we encouraged the District to hire financial advisors through a competitive selection process and to periodically evaluate the quality, cost, and independence of the services provided.²⁹

The School District of Philadelphia has in excess of \$1 billion dollars of debt tied to swaps. By comparison, the Bethlehem Area School District's debt tied to swaps, the second largest among the Commonwealth's school districts, is one quarter of that amount. Therefore, the

²⁹ On December 17, 2009, the Department sent a similar letter to all 500 school districts making the same recommendations, including that they all avoid entering into any additional swaps.

School District of Philadelphia is, in effect, gambling with a very large quantity of taxpayer's money.

To its credit, in a letter dated December 17, 2009, the School District of Philadelphia's Chief Business Officer (CBO) reported that the District was already implementing one of our primary recommendations. Specifically, he stated that the District was hiring financial advisors through a competitive selection process, and periodically evaluating the quality, cost, and independence of the services provided. However, in response to our initial questioning of the District's large number of swap agreements, he replied that "we cannot agree with your proposal that the School District [of Philadelphia] should immediately terminate its existing swaps [sic] agreements, because to do so at this moment would cost Philadelphia and Pennsylvania taxpayers millions of dollars."

Likewise, in the same letter, the District's CBO reported that, according to its independent swap valuation expert, it would cost \$119.8 million to terminate all of its existing swap contracts.³⁰ Moreover, he cited numerous points regarding why its investment in swaps was appropriate, including that:

- Swaps were reasonable for the District given its debt position;
- The District did not overly expose itself to risk;
- The District realized debt service savings from swaps; and
- The District's large size made it unique, and thus, not comparable to other school districts.

Furthermore, the District's CBO indicated that it had realized "\$11.85 million in savings," which it had been able to invest in educational programs. As a result of this reinvestment, he argued that the District "has cumulatively saved an additional \$25 million in debt service costs since 2004 by issuing synthetically fixed rate debt related to its swaps." Nevertheless, we maintain our position that any

³⁰ As of March 2010, this estimate has been reduced to \$93 million. This reduction is due to favorable market conditions for the District.

approach that essentially condones gambling with public funds is not appropriate for a school district or a municipality.

After sending additional letters to the District's CBO further questioning its involvement with swaps, he responded on April 30, 2010, informing us that the District had reentered the capital markets in April 2010, and had converted approximately \$300 million of its swap portfolio into fixed-rate debt. According to the CBO, this restructuring resulted in \$4.04 million in net present value savings. He also noted that these savings would have been even higher had the District not had to pay \$26.6 million in termination fees. According to the same letter, this refinancing reduced the District's swap related debt from 41.4 percent to 30.8 percent of the District's total debt portfolio. Furthermore, the District's CBO agreed with our conclusion that the current economic environment does not lend itself well to the entering into new derivative instruments, and he stated that the District had no plans to enter into any more of these arrangements in the near future.

While we would have preferred that the District had never engaged in these risky investments in the first place, we are encouraged by the District's decision to evaluate its existing swaps more closely and to take action to divest itself of these agreements when the market conditions are suitable. However, we caution the District that as it monitors the status of the market, it should also keep an eye on the progress of legislation recently introduced in both chambers of the General Assembly with bipartisan support, which would ban school districts, local governments and municipal authorities from risking taxpayer money in interest-rate swap agreements.

Recommendations

The *School District of Philadelphia* should:

1. Continue its plans to divest itself from its existing swap agreements when market conditions are favorable, and avoid entering into any new agreements in the future.
2. Monitor the progress of legislation proposed in the General Assembly to ban school districts, local governments, and municipal authorities from entering into swap agreements.

Management Response Please see page A-11.

Auditor Conclusion Please see page A-12.

Observation No. 2 →

Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relevant to the observation:

Section 111 of the Public School Code (PSC) 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 of 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 Child Protective Services Law (CPSL), 23 Pa. C.S. § 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our current audit found that the District had not implemented our prior audit recommendation regarding bus drivers' qualifications (see page 76). We made our recommendations in the interest of the protection of students, and here reiterate those recommendations.

The ultimate purpose of the requirements of the PSC and the CPSL, cited in the text box to the left, is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, we believe 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 implementing written policies and procedures to ensure that the district is immediately informed of any charges and convictions that may have occurred after the commencement of employment.

Neither the District nor the transportation contractors had adopted written policies or procedures, as we recommended in the prior audit, 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. The 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 District of Philadelphia* should:

1. Implement written policies and procedures to ensure that the District is notified when current employees of the District's transportation contractors are charged with or convicted of crimes that call into question their

suitability to continue to have direct contact with children.

2. Ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Management Response

Please see page A-15.

Auditor Conclusion

Please see page A-15.

Observation No. 3 →

The School District of Philadelphia Should Protect Its Safety Programs and Operations from Possible Future Spending Cuts

While it is evident that future budgetary challenges will likely force the District to examine a variety of cost cutting options, we recommend that in doing so it ensures the integrity of its current school safety programs and operations.

The District's current fiscal outlook appears dubious. Its adopted budgets for school years 2009-10 and 2010-11³¹ project general fund deficits of approximately \$74.1 million, and approximately \$99.7 million respectively.³² Likewise, the District's Comprehensive Annual Financial Report for fiscal year 2008-09, the most recent available, showed that even though the District ended that fiscal year with a positive general fund balance, its total net assets were approximately negative \$1.2 billion, resulting from an excess of liabilities over assets.³³ This situation is particularly unfavorable, because the statement of net assets compares what is owned to what is owed. Therefore, it generally depicts an organization's overall long-term financial position.

In addition, the enacted Commonwealth budget for fiscal year FY 2010-11, which was signed into law on July 6, 2010, provided \$144.8 million less in state basic education funding than the Governor had originally proposed in his executive budget from February 9, 2010.³⁴ This decrease in funding means that the District will receive approximately \$35 million less in state support than it had originally anticipated. The District has indicated that

³¹ Please note: The District's school year and fiscal year are identical. Each period covers July 1 through June 30.

³² "Comparative Statement of Revenues, Obligations and Changes in Fund Balance Operating Budget, Exhibit A," School District of Philadelphia, Fiscal Year 2010-11, p. 1. <http://webgui.phila.k12.pa.us/uploads/X6/I /X6I ZgZbv6Ux6fRdpve9ZQ/FY2010-11-SDP-Operating-Budget-Supporting-Documents.pdf>, Downloaded July 19, 2010.

³³ "Comprehensive Annual Financial Report: A component Unit of the City of Philadelphia, Pennsylvania," School District of Philadelphia, Pennsylvania, Year Ended June 30, 2009, p. 34.

³⁴ "2010-11 Enacted Budget Line-Item Appropriations," Pennsylvania Office of the Budget, p. 7. and "2010-11 Governor's Executive Budget," p. E14.4, Pennsylvania Office of the Budget, http://www.portal.state.pa.us/portal/server.pt/community/current_and_proposed_commonwealth_budgets/4566, Downloaded July 19, 2010. Please note that further cuts were made to the state's basic education funding in August 2010 (see 2010-11 Enacted Budget Line-Item Appropriations with Budget Freeze Amounts, August 2010.) As a result, BEF funding went from \$5,121,339 (not including American Recovery and Reinvestment Act Funds), to \$5,071, 339. This cut brings the total reduction from what the Governor originally proposed to 194.8.

this reduction is large enough that it “will hurt somewhat.”³⁵ However, the District is also getting an additional \$20 million from the Philadelphia City’s tax amnesty program, so its net FY 2010-11 funding loss is approximately \$15 million.³⁶

Finally, the District administration’s presentation to the School Reform Commission on May 26, 2010, administrators stated that:

“If the PA Basic Education Subsidy is not increased in FY 2010-11 and the Federal Stimulus funds provided to the School District in FY 2009-10 and FY 2010-11 are not replaced, [the District] revenue shortfalls will be so great that [the District] will be unable to maintain a balanced budget exclusively with operational spending cuts. [The District] will also be required to make spending cuts that will have a negative impact on learning outcomes and student success.”³⁷

Moreover, the District expects its revenues in fiscal year 2010-11 to grow by a maximum of \$148.3 million. However, it is also forecasting its fiscal year 2009-10 base expenditures to rise by \$223.9 million, which will create a funding gap. According to the District, this trend is due to mandated increases in the following areas: (1) utility costs, (2) pensions, (3) debt service, (4) health care, and (5) charter school payments.³⁸

Based on the many financial challenges enumerated above, the District will likely have to review options for future cost cutting. Recent developments suggest that the District may consider reducing the resources applied to its school safety programs and operations. For example, in June 2010, the administration decided to eliminate 33 of the District’s climate managers, whose primary role was to maintain order and safety in their assigned schools.³⁹ Now, only 27 of the original 60 such managers are still working

³⁵ Hardy, Dan, “Even With State Subsidy, Pennsylvania School Budgets Facing Cuts,” *The Philadelphia Inquirer*, July 2, 2010.

³⁶ Hill, Miriam, “Philadelphia Collects More Than Expected From Tax-Amnesty Program,” *The Philadelphia Inquirer*, July 7, 2010.

³⁷ “Adoption of the Proposed Budget Fiscal Year 2010-11 (July 1, 2010-June 30, 2011) Presentation to School Reform Commission,” School District of Philadelphia, p. 10.

³⁸ *Ibid.* p. 8.

³⁹ Graham, Kristen A. and Susan Snyder, “Climate Managers Fired, Deputy Superintendent Hired,” *The Philadelphia Inquirer*, June 11, 2010.

in the District’s schools. Moreover, the District is only paying half of the salaries for these remaining climate managers. The individual schools either have to fund the rest, or use the money for other programs,⁴⁰ which opens up the possibility of more climate manager lay-offs.

Similarly, according to its May 26, 2010 budget presentation to the School Reform Commission, the District’s administration expects the size of its school police force to decline in the current budget year. Specifically, the District foresees its school police force shrinking from a high of 455 in fiscal year 2009-10 to a projected low of 439 FTEs in fiscal year 2010-11. This change represents a reduction of 16 officers.⁴¹

Projected FTE Levels for Specific District Positions				
Position Type	FY 2008-09 Amended FTEs	FY 2009-10 Estimated Actual FTEs	FY 2010-11 Projected FTEs	Difference
School Police Officers	425	455	439	-16

*Information obtained from May 26, 2010 presentation of the School District of Philadelphia to the School Reform Commission regarding the District’s “Adoption of the Proposed Budget Fiscal Year 2010-2011, pg 30.

Moreover, this same budget presentation also suggests that the administration would consider reducing the District’s complement to fiscal year 2008-09 levels if potential shortfalls could not be eliminated solely through operating efficiencies.⁴² If this plan were applied to the District’s school safety operations, its school police force would receive an additional 14 position reduction.⁴³ Such reductions have the potential to negatively impact the District’s overall safety and security.

In prior school years, the District had tried to minimize the impact of budget cuts on its educational programs and

⁴⁰ Ibid.

⁴¹ “Adoption of the Proposed Budget Fiscal Year 2010-11 (July 1, 2010-June 30, 2011) Presentation to School Reform Commission,” School District of Philadelphia, May 26, 2010, p. 30.

⁴² Ibid. p. 13.

⁴³ Ibid. 30.

academic reforms.⁴⁴ However, the same level of concern should be applied to ensuring that such cuts have a minimal impact on the safety and security of its students and staff. Maintaining a safe physical and psychological environment for students and staff is a prerequisite for teaching and for optimal learning. As such, school safety is an important factor influencing student learning and achievement, making educational success and safety go hand-in-hand.

The importance of safety and security to the District's students and parents cannot be overemphasized. For example, a June 2010, study by the Pew Charitable Trusts, which featured a poll of 802 Philadelphia city parents with school age children, "found that school safety was a major concern and accounts for the largest differences in how parents view their schools."⁴⁵ In addition, only 31 percent of parents whose children attended District schools indicated that they do an excellent job handling safety, as compared to 67 percent of charter school parents, and 73 percent of parents whose children attended Catholic schools.⁴⁶ Thus, it is in District administration's best interest to ensure the integrity of its current school safety programs and operations, and to prevent them from being negatively impacted by spending cuts, just as it has done for its educational and academic programs.

In addition, the District's experience with violence and crime intensifies its need to ensure that it maintains adequate safety programs and operations. All 25 of the Commonwealth's persistently dangerous schools under the federal No Child Left Behind Act are located in the District, which indicates that these schools have had a significant number of dangerous incidents resulting in an arrest.⁴⁷ Likewise, media articles and annual reports from the abolished Office of the Philadelphia Safe Schools Advocate have repeatedly documented the District's continued struggles with providing effective security to its students. (See Finding No. 1, pp. 8-13).⁴⁸

⁴⁴ "Comprehensive Annual Financial Report: A component Unit of the City of Philadelphia, Pennsylvania," School District of Philadelphia, Pennsylvania, Year Ended June 30, 2009, pp. 3-4.

⁴⁵ Woodall, Martha, "Philly Parents Want More School-Choice Options, Study Says," *The Philadelphia Inquirer*, June 29, 2010.

⁴⁶ Ibid.

⁴⁷ Pennsylvania Department of Education, "SY 2009-2010 Persistently Dangerous Schools," http://www.portal.state.pa.us/portal/server.pt/community/unsafe_school_choice_option/7417/persistently_dangerous_schools/508690, Downloaded October 25, 2010.

⁴⁸ This position was eliminated from the state budget for the 2009-10 fiscal year.

With such an uncertain financial future, the District's administration must set priorities for determining which programs and operations will experience spending reductions and which areas will be minimally impacted. Given the District's history of serious safety issues, the strong connection between its school climate and its academic goals, and the significance its parents place on school safety, the District must try to spare its safety operations from serious future spending reductions. Doing so will permit its students and their families to maintain some level of educational achievement in difficult economic times.

Recommendations

The Philadelphia School District should:

1. Where appropriate, make every effort to protect its safety operations from future spending cuts.
2. Continue to avoid unnecessary spending cuts that negatively impact its educational goals.

Management Response

Please see page A-15.

Auditor Conclusion

Please see page A-16.

Observation No. 4

Continued Inadequate General Computer Controls Over the Advantage 2000 System

As part of our current audit, we followed-up on the status of our findings and recommendations from the previous audit report released on April 5, 2007, including those regarding the inadequate general computer controls over the District's Advantage 2000 system. This system is responsible for maintaining the District's payroll, accounts payable, and procurement functions.

In doing so, we found that, while the District did take steps to address three of our five recommendations related to logical controls and system access, it did not implement our other two recommendations. Moreover, because these recommendations were also in our prior report released on November 18, 2003, this is the third time that we have proposed them to the District.

Specifically, our current audit found that as of December 17, 2009, the District had not provided evidence to demonstrate that it had taken corrective action to address the following weaknesses:

1. Administrative assistants' use of principals' user IDs and passwords to process payroll approval.
2. Office of Information Technology's processing of every payroll run regardless of whether it obtained approval from authorized personnel, circumventing the District's payroll approval and authorization process.

The integrity of the control environment surrounding the Advantage 2000 computer system is critical because the system maintains and processes the data supporting the District's many reports and applications. Therefore, the internal controls over this system must be sufficient to ensure accurate computations and to provide a reliable audit trail. Furthermore, as more reliance is placed on networked computers, appropriate controls are essential for ensuring a secured environment.

Recommendations

The *School District of Philadelphia* should:

1. Enforce the Acceptable Use Policy Section L.1 e. that forbids sharing of user IDs and passwords.
2. Ensure that payrolls are not processed without proper approvals.

Management Response

Please see page A-16.

Auditor Conclusion

Please see page A-17.



School District of Philadelphia Safe Schools Review



INTRODUCTION

In May 2007, the Department of the Auditor General began a new safe schools initiative to assist local education agencies (LEA) in their efforts to provide students with a safe and secure learning environment. We conduct these reviews in concert with our standard cyclical performance audits, which typically include an assessment of the LEA's compliance with applicable state laws, as well as operational best practices. Our safe schools assessment procedures typically focus on each LEA's emergency planning and prevention activities and school safety policies and procedures, and include an on-site review of the safety measures at selected school buildings within the LEA.

Unfortunately, the School District of Philadelphia (District) has a history of serious school safety concerns. For example, all 25 of the Commonwealth's persistently dangerous schools under the federal No Child Left Behind Act are located in the District, which indicates that these schools have had a significant number of dangerous incidents resulting in an arrest.¹ Likewise, media articles and annual reports from the abolished Office of the Philadelphia Safe Schools Advocate have repeatedly documented the District's continued struggles with providing effective security to its students.²

As a result of these issues, the District has amplified its emphasis on the importance achieving a safe school environment. For example, the District has made safety one of the main goals in its latest strategic plan entitled "Imagine 2014." Specifically, the plan defines a safe learning environment as one of the factors leading to student success.

¹ In Pennsylvania, a "persistently dangerous" school is any public elementary, secondary, or charter school that meets any of the following criteria in the most recent school year and in one additional year of the two years prior to the most recent school year: (1) for a school whose enrollment is 250 or less, at least 5 dangerous incidents; (2) for a school whose enrollment is 251 to 1000, a number of dangerous incidents that represents at least 2 percent of the school's enrollment; or (3) for a school whose enrollment is over 1000, 20 or more dangerous incidents. *See* 22 Pa. Code § 403.2.

² This position was eliminated from the state budget for the 2009-10 fiscal year.

The historic magnitude of the District's safety issues, and its own increased emphasis on the importance of mitigating these security matters, drastically increased the significance³ of the issue in the context of our audit and required us to deviate from our traditional safe schools review. Consequently, we determined that it was necessary to conduct a more targeted review of specific areas related to the District's school safety.

SAFE SCHOOL OBJECTIVES

This section of our audit focused on the training and preparedness of the District's school police force and on the security in its individual school buildings. Specifically, we examined whether the District's school police officers received the proper level of training based on the requirements of the Public School Code (PSC) and whether the District took appropriate steps to ensure that the officers obtained the background checks required by state law prior to their employment. In addition, we conducted onsite reviews of 15 of the District's 284 school buildings using our standard building security checklist to examine the overall safety climate at these schools and to follow-up on the status of the District's annual internal safety assessments conducted at these same locations.

Scope

For our objective related to the District's school police force, our scope was the period July 1, 2006 through June 30, 2010.

For our objective related to the security of the District's individual school buildings, our scope was the period October 5, 2009 through October 15, 2009.

³ Government Auditing Standards issued by the Comptroller General of the United States defines significance in a performance audit as the relative importance of a matter within the context in which it is being considered. It also states that the concept of significance assists auditors when deciding the type and extent of audit work performed. (Standard 7.04)

Methodology

We addressed our objectives by:

- Conducting interviews with District administration officials, including officials from the Office of School Climate and Safety; the District's Inspector General, and the Office of Safe Schools Advocate.
- Reviewing pertinent laws related to school police and school police training.
- Reviewing District school police policies and procedures.
- Reviewing District school police training curriculums.
- Interviewing officials from the Pennsylvania School Board Association regarding their views on the training and authority of school police officers.
- Interviewing members of the School Police Association of Philadelphia, the union representing District school police officers.
- Reviewing information from comparable urban school districts including: Pittsburgh, New York City, Los Angeles, Houston, and Baltimore;
- Reviewing District files to ensure that school police officers had obtained necessary background clearances as required by Commonwealth law.
- Reviewing copies of all District safety audits completed for the past two years (2006-07 and 2007-08).
- Comparing the findings for the 19 District schools reviewed in the City of Philadelphia, Office of the Controller's May 2008 report on facility conditions, with the letter grades these schools received from the District's safety audits that same year.
- Selecting a targeted sample of 15 District schools (approximately five percent of schools, not including charters).

- Conducting building reviews at each school with appropriate school building staff (e.g., principal, assistant principal, or climate officer).

Finding No. 1

The School District of Philadelphia Has Failed to Ensure That Its School Police Officers Have the Level of Training Mandated By State Law

Our review of the Public School Code of 1949, as amended (PSC), and the School District of Philadelphia's policies and procedures found that the District has failed to ensure that its school police officers have the level of training mandated by state law. The PSC requires that school police officers who hold particular powers, including the authority to issue summary citations and/or to detain individuals until local law enforcement is notified, receive training before they commence employment in compliance with the Municipal Police Officers' Education and Training Program (MPOETP) provided for under Chapter 21, Subchapter D of the General Local Government Code. This training program is more commonly known as "Act 120 training."

Although the District's school police officers have these particular powers, the District does not ensure that its officers receive Act 120 training before they commence employment. Specifically, the District does not require its recruits to complete Act 120 training prior to being hired, nor does it pay for its officers to receive this training after they join the school police force. Instead, the District provides its school police officers with 142 hours of classroom instruction, which is 420 hours less than what is provided under an Act 120 training program. Moreover, the District's training program offers an inconsistent amount of practical instruction.

According to the District, its school police recruits do not have to complete Act 120 training because they must adhere to the requirements of the PSC, rather than the General Local Government Code. However, the PSC clearly indicates that, if school police officers hold specific powers, they must complete an Act 120 training program before they commence employment. In addition, because the District has historically had more violent incidents than any other school district in the Commonwealth, it needs a police force that is as well trained as any other in the City of Philadelphia.

Consequently, the District must ensure that all of its school police officers receive the proper training. To achieve this goal, the District should make certain that, in compliance with the Public School Code, all of its new school police officers have completed an MPOETP training program. In addition, given that Act 120 training for current police officers is not required by state law and because of certain implementation difficulties (as further explained later in the finding), we recommend that all current officers should at the minimum receive additional in-service training to better prepare themselves for their duties.

How large is the District's police force?

As of April 2009, the District employed approximately 400 school police officers. According to statistics provided by DE, the District employs 72 percent of all known school police officers in the Commonwealth.⁴ In fact, if the District's school police force were recognized as a municipal police department, it would be the third largest police department in the Commonwealth.⁵

What training does the Public School Code require for school police officers?

Under the original provisions of the PSC, school police officers were appointed with the same law enforcement powers as state constables.⁶ In 1997, the

⁴ Statistics provided by PDE's Bureau of Community and Student Services for FY 2007-08. Section 778(a.1)(3) of the Public School Code, 24 P.S. § 7-778(a.1)(3), requires any school district which employs a school police officer to annually report to PDE's Office of Safe Schools the date and type of training provided to each school police officer. However, as reported by the Department of the Auditor General's Bureau of Departmental Audits, in December 2008, PDE has not established this statutorily required office. See *A Special Performance Audit of the Department of Education: Safe School Initiatives*, December 2008, pp. 37-39.

⁵ According to research conducted by the Municipal Police Officers' Education and Training Commission (MPOETC), as of June 2009, there were 1,131 municipal police departments in the Commonwealth. Of these 1,131 police departments, only 2 departments have more than 400 officers in their ranks—the city police departments of Pittsburgh and Philadelphia. However, state law does not recognize the District's school police force as a municipal police department. See 53 Pa.C.S. § 2162.

⁶ Under former section 16 P.S. § 1216 (transferred to 13 P.S. § 40 and then recently repealed by Act 49 of 2009, effective December 8, 2009), state constables were defined as "peace officers". However, the term "peace officer" is a confusing term, as it indicates a law enforcement responsibility that today has been largely replaced by Act 120-certified police officers. Constables also serve the minor judiciary by serving civil and criminal process, transporting prisoners, and maintaining court security.

General Assembly enacted Act 30, which amended the PSC to more clearly define school police officer authority. Act 30 omitted references equating the authority of school police officers to that of state constables and inserted new language permitting the courts to give school police officers specific powers enumerated in Section 778(c)(2) and (3) of the PSC:

- (c) Such school police officer so appointed shall severally possess and exercise all the following powers and duties:
 - (2) If authorized by the court, to exercise the same powers as are now or may hereafter be exercised under authority of law or ordinance by the police of the municipality wherein the school property is located.
 - (3) If authorized by the court, to issue summary citations or to detain individuals until local law enforcement is notified.⁷

In 2004, the General Assembly enacted Act 70, which requires school police officers who possess the powers outlined in Section 778(c)(2) and (3) of the PSC to complete specific advanced law enforcement training, known commonly as “Act 120 training,” before they commence employment.⁸ Section 778(b.1) states as follows:

- (b.1) Every school police officer who has been granted powers under subsection (c)(2) **or (3)** or has been authorized to carry a firearm must, **before entering upon the duties of his office**, successfully complete training as set forth in 53 Pa.C.S. Ch. 21 Subch. D.⁹

The District’s school police officers have been granted both of the important court-approved powers permitted under Section 778(c)(3) of the PSC.¹⁰ Specifically, the officers can issue summary citations and detain individuals until local law enforcement is notified.

⁷ 24 P.S. § 7-778(c)(2) and (3).

⁸ Such advanced training must be in compliance with the Municipal Police Officers’ Education and Training Program provided for under Chapter 21, Subchapter D of the General Local Government Code, 53 Pa.C.S. § 2161 *et seq.*

⁹ 24 P.S. § 7-778(b.1). [Emphases added.]

¹⁰ 24 P.S. § 7-778(c)(3).

Summary offenses are minor criminal offenses, such as parking and disorderly conduct violations, which result in a citation being issued to the defendant. The District's school police officers can issue such citations within the District's borders. However, in practice, District policy only allows them to issue parking tickets. The Philadelphia Police Department handles all other summary offenses.¹¹ Lastly, District school police officers do detain suspects and may even transport those suspects when the Philadelphia City police are unavailable.

As stated previously, the PSC imposes explicit training requirements for school police officers possessing specific court-approved powers before they commence employment. Consequently, school police officer training requirements are dictated by the level of specific authority the officers hold. Unlike certified police officers¹² who must always complete Act 120 law enforcement training, school police officers must only attain such training when they receive certain explicit court-approved powers. Because the District's school police officers have such powers, they must complete an Act 120 training program before they commence employment.

What is the difference between an Act 120 training program and the District's school police training program?

Act 120 Training: Act 120 training is an extensive, approximately 26-week program conducted at a Municipal Police Officers' Education and Training Program (MPOETP)-police academy, approved by the Municipal Police Officers' Education and Training Education Commission (MPOETC). Such programs require that recruits complete 562 hours of classroom instruction, which is divided into several educational modules. In order to graduate from the police academy, recruits must pass

¹¹ The Philadelphia City Council authorized the District's school police officers to enforce the City's truancy or "curfew" ordinance in March 2009. Under this ordinance, between 9 a.m. and 1 p.m. on school days, parents of children who should be enrolled in a District school and are not in school can receive a summary citation and a \$25 fine. Repeat offenders can face fines of up to \$300. However, the District has yet to use this authority. This ordinance does not provide any information about why the time period of 9 a.m. to 1 p.m. was selected for the curfew.

¹² Section 2162 of Chapter 21, Subchapter D of the General Local Government Code, 53 Pa.C.S. § 2162, defines a "police officer" as, among others, "[a] full-time or part-time employee assigned to criminal or traffic law enforcement duties . . . [for a] police department of a county, city, borough, town or township."

exams covering each of these modules. In addition, recruits must successfully complete 192 hours of practical learning in areas such as firearms, patrol vehicle operations, and physical fitness. Thus, in total, Act 120 training consists of just over 750 hours of standardized law enforcement instruction. Moreover, in order to maintain their certification, all Act 120 graduates must annually attend at least 12 hours of mandatory MPOETP approved in-service training.¹³ For example, mandatory training requirements for 2010 include legal updates, use of force, initial response to police incidents, and contemporary forensics.¹⁴

Other Philadelphia law enforcement agencies, including the Southeastern Pennsylvania Transportation Authority (SEPTA) transit police force, require that their officers complete an Act 120 training course. Similarly, the Pittsburgh Public Schools, the Commonwealth's second largest school district, also requires its school police officers to complete Act 120 training.

The District's School Police Training: Instead of mandating that its school police officers obtain Act 120 training, the District maintains its own education program. However, the District training consists of only 142 hours of classroom instruction, or 420 hours less than an Act 120 training program. Additional training hours are given through practical "on-the-job" instruction. However, the length of this instructional time and the topics covered vary for each officer. Thus, while the District has worked with representatives from the MPOETC, as well as the Philadelphia Police Academy, to conduct and facilitate its training program, the District's training is not as comprehensive as Act 120 training.

The District does not have a formal policy requiring that its school police officers participate in annual in-service training. However, our audit found that, for the past three years, officers have received between 12 and 17 hours of continuing education annually. The District also gives its patrol officers additional training on the use of batons and

¹³ See 37 Pa Code § 203.52.

¹⁴ Municipal Police Officers' Education and Training Commission, "2010 Mandatory In-service Training Program." www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_190926_744889_0_0_18/MPOETC_MIST_2010_Course_Descriptions.pdf, accessed April 27, 2010.

pepper spray. The District’s in-service training typically consists of updates on gang activities within the City of Philadelphia, but has also included instruction on legal updates, cyber bullying, and the District’s implementation of the “single-school culture.”¹⁵

Why has the District failed to comply with the Public School Code, and what is the potential impact?

The General Assembly’s numerous changes to the state law governing the powers and responsibilities of the Commonwealth’s school police officers could have made it challenging for school districts to establish appropriate training requirements for their officers. For example, when the District originally created its school police force in 1967,¹⁶ the officers held powers equivalent to those of state constables. Today, the powers of the District’s school police officers are more comparable to those of municipal police officers. Furthermore, the overall authority of school police officers remains ambiguous because, as stated earlier, school police do not fall within the state law’s definition of a “police officer” under Section 2162 of Chapter 21, Subchapter D of the General Local Government Code.¹⁷ This distinction also creates a resource issue for many school districts because it makes them ineligible to receive training cost reimbursements from the MPOETC.¹⁸

Nevertheless, the PSC is clear that a school police officer who has specific powers must receive Act 120 training before he/she commences employment, regardless of whether he/she has the same authority as a municipal police officer who is certified. Moreover, the General Assembly’s amendments to the PSC have all demonstrated that the legislative intent is to ensure that school police officers are as well trained as possible.¹⁹

¹⁵ As defined by the current District superintendent, single-school culture is a way of organizing and running a school. It centers on shared norms, beliefs, values, and goals and results in agreed-upon processes and procedures that produce consistency in practice.

¹⁶ According to the School Police Association of Philadelphia, the union representing the District’s school police officers, school police have served in the School District of Philadelphia since 1967.

¹⁷ 53 Pa.C.S. § 2162.

¹⁸ See 53 Pa.C.S. § 2170.

¹⁹ The Statutory Construction Act provides that “[w]hen the words of the statute are not explicit, the intention of the General Assembly may be ascertained by considering, among other matters: (1) The occasion and necessity for the statute. (2) The circumstance under which it was enacted. . . . (4) The object to be attained.” 1 Pa.C.S. § 1921(c). Therefore, it is reasonable to conclude that the General Assembly intended for Commonwealth school districts to

In addition, the District's experience with violence and crime intensifies its need to have the most skilled and well-qualified police force as feasibly achievable. All 25 of the Commonwealth's persistently dangerous schools under the federal No Child Left Behind Act are located in the District, which indicates that these schools have had a significant number of dangerous incidents resulting in an arrest.²⁰ Likewise, media articles and annual reports from the abolished Office of the Philadelphia Safe Schools Advocate have repeatedly documented the District's continued struggles with providing effective security to its students.²¹

For example, in December 2009, *The Philadelphia Inquirer* reported that 30 Asian students were attacked in South Philadelphia High School, focusing attention on the District's apparently persistent problem with violence against immigrant students.²² Moreover, other articles have chronicled the events surrounding two of the District's school police officers who apparently handcuffed and beat a student as he arrived late to school.²³ The school's video surveillance system recorded the incident, and the administration's investigation led to the dismissal of one officer and disciplinary action against the other.²⁴ As shown by this example, a school police officer who lacks adequate training could end up inflaming the problem he or she is meant to address.

have well-trained school police forces and that it added subsection (b.1) to Section 778 of the Public School Code in 2004 to effectuate the purpose of making certain that new school police officers are properly trained.

²⁰ In Pennsylvania, a "persistently dangerous" school is any public elementary, secondary, or charter school that meets any of the following criteria in the most recent school year and in one additional year of the two years prior to the most recent school year: (1) for a school whose enrollment is 250 or less, at least 5 dangerous incidents; (2) for a school whose enrollment is 251 to 1000, a number of dangerous incidents that represents at least 2 percent of the school's enrollment; or (3) for a school whose enrollment is over 1000, 20 or more dangerous incidents. *See* 22 Pa. Code § 403.2.

²¹ This position was eliminated from the state budget for the 2009-10 fiscal year.

²² Graham, Kirsten A. and Jeff Gammage, "Attacking immigrant students not new, say those involved." *The Philadelphia Inquirer* (Dec. 18, 2009).

²³ Graham, Kristen A. "District wants Frankford High Officer Fired." *The Philadelphia Inquirer* (Dec. 24, 2009).

²⁴ Russ, Valerie, "District to ax one cop, discipline second in altercation with student." *Philadelphia Daily News* (Dec. 24, 2009).

What should the District do to correct the problem?

1) In order to comply with the PSC, the District should ensure that all of its new school police officers have completed an Act 120 training program “before entering upon the duties of his [or her] office.”

We recommend that the District only accept applications for new police officers from individuals who have already completed an Act 120 training course. This practice will not only bring the District in to compliance with the PSC, it will also eliminate the need for the District to pay for its new hires to attend an Act 120 training program.

2) The District should enhance the capabilities of its current school police officers by providing them with an expanded in-service training program.

We recognize that a proposal to have all of the District’s current school police officers undergo Act 120 training, which is not currently required by state law, would severely deplete the District’s budget. Additionally, we note that recommending Act 120 training for current school police officers would present other difficulties, such as potential collective bargaining issues and the inability of some current officers to pass the physical and academic exams required for graduation. Therefore, we are not recommending that the District require its current school police officers to obtain Act 120 training.

However, because of the many safety and security challenges that the District faces, it is imperative that it have the most well-trained school police force possible. Furthermore, our review of the MPOETC-approved police officers' training curriculum and our internal discussions with management and union leaders support the conclusion that additional training would be helpful in better preparing officers for the demands of working in the District's schools. Consequently, the District should enhance the capabilities of its current school police officers by providing them with an expanded in-service training program. This additional instruction should focus on topics that were not previously covered in the District's trainings, increase the current officers' overall training hours, and offer the officers additional opportunities for practicing new skills. The District should also consider an expanded in-service training module that would incorporate a testing component to ensure that the participants retain key instructional concepts as long as the District takes the proper steps to garner support for such a component during the negotiations over the next school police officers' collective bargaining agreement.

We noted that legislation was introduced in the Pennsylvania House of Representatives that would have required school districts to ensure that all of their school police officers received Act 120 training within two years of the new law's effective date. Furthermore, the legislation would have made this training more affordable, by revising the definition of "police department" and "police officer" in the General Local Government Code to include a "school police department" and "school police officer," respectively, thereby making school districts eligible for the MPOETP's training cost reimbursements. Although, this bill was not passed during the 2009-10 regular session, its proposal demonstrates that such a change by the Legislature is possible. As a result, we encourage the District to develop and implement its additional in-service classes as soon as possible. By doing so, it will put the 400 officers currently serving the District in a better position to complete Act 120 training, should that become a requirement of their job.

Recommendations

The *School District of Philadelphia* should:

1. Only hire new police officers who have already completed an Act 120 training course.
2. Ensure that all of its current police officers participate in an expanded in-service training program.

Management Response

Please see page A-17.

Auditor Conclusion

Please see page A-18.

Finding No. 2

The School District of Philadelphia Lacked the Documentation Necessary to Demonstrate That Certain School Police Officers Have Passed Statutorily Required Background Checks

What Background Checks Must School Police Officers Obtain?

Pennsylvania state law requires that all prospective school police officers obtain three background checks, which must be from the immediately preceding year, including:

- (1) Pennsylvania Department of Public Welfare (DPW) child abuse clearance;²⁵
- (2) Pennsylvania State Police (PSP) criminal background check;²⁶ and
- (3) Federal Bureau of Investigations (FBI) criminal history check.²⁷

Section 111(e) of the PSC lists certain criminal offenses that would prohibit an individual from serving as a school police officer if convicted in the preceding five years.²⁸ Furthermore, Section 6355(b) of the CPSL prohibits a school administrator from hiring an applicant if DPW verifies that he or she was named as the perpetrator of a founded report of child abuse or a founded report for school employee (founded reports).²⁹

²⁵ 23 Pa.C.S. § 6355(a)(1).

²⁶ 24 P.S. § 1-111(a.1) and (b).

²⁷ 24 P.S. § 1-111(c.1). The FBI criminal history check (FBI check) requirement was added to Section 111 of the Public School Code through Act 114 of 2006 and applies to all school police officers hired after April 1, 2007.

²⁸ 24 P.S. § 1-111(e).

²⁹ 23 Pa.C.S. § 6355(b). Under Section 6303 of the CPSL, 23 Pa.C.S. § 6303, the definition of a “founded report” is as follows: “[a] child abuse report . . . if there has been any judicial adjudication based on a finding that a child who is a subject of the report has been abused, including the entry of a plea of guilty or nolo contendere or a finding of guilt to a criminal charge involving the same factual circumstances involved in the allegation of child abuse.” Furthermore, the definition of a “founded report for school employee” is “[a] report . . . if there has been any judicial adjudication based on a finding that the victim has suffered serious bodily injury or sexual abuse or exploitation, including the entry of a plea of guilty or nolo contendere or a finding of guilt to a criminal charge involving the same factual circumstances involved in the allegations of the report.”

The School District of Philadelphia requires that all prospective school police officers obtain these three background checks prior to being hired. Once an applicant submits these documents, the District's Office of Human Resources is supposed to review the documents to ensure that there are no disqualifying convictions or founded reports that would prohibit an applicant from serving as a school police officer. If an applicant cannot present these background checks, the District is supposed to reject him or her from the pool of potential recruits.

How Many District School Police Officers Lacked A Background Check?

As part of our audit of the District's safety and security practices, we randomly selected the personnel files of 39 of the District's 394 school police officers to determine whether these officers had received the appropriate statutorily required background checks when they were hired. All 39 of the school police officers whose files we reviewed were hired before the FBI check requirement became effective on April 1, 2007. Consequently, they were not required to have an FBI check.

However, our review found that 13 of the 39 personnel files were missing a copy of the PSP criminal background check (PSP check). In addition, one of these 13 personnel files was also missing the required DPW child abuse clearance. This lack of documentation regarding the PSP check is particularly serious because none of the officers in our sample were subject to the FBI check. As a result, the PSP check would have been the only method for ensuring that the officers did not have a disqualifying criminal conviction that would have prohibited their employment as a school police officer with the District.

Why Were These Background Checks Missing?

On October 6, 2009, we contacted a District administrator and requested copies of the 14 missing checks for the 13 school police officers. We made three additional attempts to obtain this documentation from the District. After several unsuccessful attempts by the District to locate the files, we were informed that the District misplaced some of its files and records upon moving to a new

administration building in 2005. However, as of the date of this report, the District administration had still not provided us with the missing information. The District remains confident that its thorough candidate review process would have ensured that all 13 school police officers obtained these background checks and that their records were free from any convictions that would have prevented them from serving. However, without the supporting documentation, we cannot confirm the District's assertion.

What Should The District Do To Correct This Problem?

The District should take steps to ensure that, in compliance with state law, it has all of the mandated background checks on file for each of its school police officers when hired and, thereby, will have demonstrated that each of its officers are suitable to serve in their positions. Because the District cannot provide our department with copies of the required background checks for 13 of the 39 officers whose personnel files we reviewed, we cannot provide assurance to residents of the District and other taxpayers that the District made certain that these officers' mandated checks were done before they were hired.³⁰ In fact, it calls into question the qualifications of these individuals and whether it is appropriate for them to serve in their current capacity as school police officers.

Recommendations

The School District of Philadelphia should:

1. Immediately obtain current PSP background checks for the 13 school police officers identified in our audit, as well as a current DPW child abuse clearance for the officer whose personnel file we identified as not having this mandated check. The District should closely examine these documents to ensure that each of the 13 officers was free from disqualifying convictions and/or founded reports that would have prohibited them from holding their job when hired. In addition, the District should determine, on a case-by-case basis,

³⁰ Section 111(g) of the Public School Code, 24 P.S. § 1-111(g), provides that “[a]n administrator, or other person responsible for employment decisions in a school or other institution under this section who willfully fails to comply with the provisions of this section commits a violation of this act and shall be subject to [a] civil penalty... not to exceed two thousand five hundred dollars (\$2,500).” Furthermore, under 6355(c) of the CPSL, 23 Pa.C.S. § 6355(c), a school administrator “who willfully violates this section shall be subject to an administrative penalty of \$2,500.”

whether any of the 13 school police officers have been charged with or convicted of crimes, which even though not disqualifying under state law or committed beyond the five-year look back period, affect their suitability to have direct contact with children. If the District discovers any issues on the reports that affect the police officers suitability to have direct contact with children, it should take any necessary personnel actions.

2. Conduct a review of all of its other current school police officers' personnel files to ensure that each file contains the required background checks. Any missing checks should be obtained immediately, and then subsequently reviewed to ensure that the officers would not have been prohibited from holding their jobs when hired. In addition, the District should determine on a case-by-case basis whether any of these police officers have been charged with or convicted of crimes, which even though not disqualifying under state law or committed beyond the five-year look back period, affect their suitability to have direct contact with children. If the District discovers any issues on the reports that affect the police officers suitability to have direct contact with children, it should take any necessary personnel actions.
3. Implement written policies and procedures to ensure that the District is notified when current employees of the District are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to a personnel action.
4. Establish stronger internal controls to ensure that personnel files are not misplaced when they are moved.

Management Response

Please see page A-20.

Auditor Conclusion

Please see page A-21.

Finding No. 3

The School District of Philadelphia Should Take Steps To Address Potential School Building Safety Concerns

What is the Condition of the District's Buildings

The School District of Philadelphia (District) has 284 schools located throughout the City. These buildings provide services to the District's 163,064 students and are, on average, 85 years old. It is the District's responsibility to maintain, repair, and secure each building. To its credit, the District conducts annual internal facility safety audits that the administration uses to identify weaknesses and/or areas in need of further attention. The District's Office of School Climate and Safety conducts these facility safety audits, which consist of a general review of items such as checking to ensure that exterior lighting, surveillance cameras, and locks are in working condition, among other security items. The data from these reviews is compiled by the Office of Accountability and ultimately generate a letter grade of A through F for each building, depending on the number and extent of the weaknesses identified. According to administrators in the Office of Climate and Safety, the results of these internal facility safety audits are among the District's performance measures for determining whether it has successfully met its safety goals.

Nevertheless, a number of schools have structural and/or other maintenance problems that could not only create challenging educational surroundings, but also present potential safety and security vulnerabilities for students and staff. For example, in May 2008, the City of Philadelphia's Office of the Controller (City Controller) released a report that examined the condition of 19 randomly selected school buildings.³¹ The City Controller found that many of the sampled buildings had serious deficiencies, including fire and electrical hazards, broken windowpanes, structural problems, and non-functional equipment. All of these issues can contribute to a lack of safety and security, as well as create a difficult learning environment.

³¹ City of Philadelphia, Office of the Controller, School District of Philadelphia Review of Facilities Conditions Auditor's Report (May 2008).

Why Did We Review School Building Safety Issues?

In May 2007, the Department of the Auditor General began a new safe schools initiative to assist local education agencies across the Commonwealth in their efforts to provide students with a safe and secure learning environment. As part of this assessment, we conduct tours of a selection of schools in each district using a Department checklist that identifies safety and security weaknesses. We based our checklist on information from several organizations that promote the most respected best practices in school safety, including the PSP, the U.S. Secret Service, the OIG, and the Pennsylvania Emergency Management Agency.³²

The checklist is divided into the following 15 categories:

Checklist Topic Area
Building Entrance and Exit
Buses and Parking
Keys and Identification
Deliveries
Monitoring and Surveillance
Building and Grounds Security
Doors and Windows
Communication Systems
Visitor Procedures
Building Interior (During School Hours)
Building Interior (After School Hours)
Internet Security
Bullying Prevention
Practice Drills
Risk and Vulnerability Assessments

These reviews are important because school safety is a component of school climate. “School climate” is a term that describes a school’s physical and psychological aspects, which are the prerequisites for teaching and for optimal learning, and the conditions most susceptible to change. As such, school safety is an important factor influencing student learning and achievement because of its

³² Other notable organizations include: the U.S. Government Accountability Office, the Pennsylvania Department of Education, the Virginia Department of Education, the Texas School Safety Center, the National Clearinghouse for Educational Facilities, and the National School Safety Center.

connection to the physical and social aspects of school climate. For example, school buildings that appear safe, secure, and orderly promote a physical environment conducive to learning. Moreover, schools with clearly defined behavioral standards and with policies that encourage communication between students and staff create a supportive learning environment. Collectively, these various facets of a school climate, including school safety, can support or impede learning.

How Did We Conduct These Reviews?

We conducted building reviews between October 5, 2009 and October 15, 2009, using three two-person audit teams. All of the noted weaknesses identified in our reviews are accurate as of that period.

Because of the large number of buildings maintained by the District, it was impossible for us to review all school buildings. Therefore, we chose a targeted selection of 15 schools based on three prioritized criteria:

- 1) Review of District internal facility safety audits for 2007-08;
- 2) Schools labeled as “persistently dangerous” for 2008-09; and
- 3) Schools reviewed by the City Controller as part of the facilities and conditions audit released in May 2008.

The District’s Office of School Climate and Safety conducts annual facility safety audits that focus on the schools’ compliance with several items, such as whether they have functioning surveillance cameras and locks. The District’s Office of Accountability compiles the data from these reviews and assigns each building a letter grade of A through F, depending on the number and extent of the weaknesses identified. In an effort to obtain an inclusive representation of the District’s buildings, we included in our sample schools from each of the District’s letter grade categories, and cross-referenced that information with school type. As a result, we selected five schools representing each grade and school type. In addition, we selected two schools that were also labeled “persistently

dangerous” under the federal No Child Left Behind Act, and two that were included in the City Controller’s review. The following table further explains the composition of our targeted selection:

District’s Facility Safety Audit Grade	Number of High Schools Selected	Number of Middle School Selected	Number of Elementary School Selected
A	1*	1	1
B	1	1	1
C	1	1#	1
D	2	<i>None Available</i>	1#
F	<i>None Available</i>	2*	1
Total	5	5	5

Key:
 * Classified as a persistently dangerous school.
 # This school was also reviewed by the City Controller.

In conducting our building security reviews, each audit team met with the selected school’s principal (or other designee) and briefly discussed matters pertaining to school safety. Auditors then performed the actual review using the checklist and determined if any weaknesses existed in each topic area. Noted weaknesses were then reviewed with the school building principal (or designee) for accuracy.

What Were Our Results?

The specific, detailed results of our reviews were provided to the District. We cannot make information about a school building’s safety weaknesses public because such information could make the facility a target for individuals wishing to commit a crime. We can provide general information on the results of certain topic areas that we do not believe put the District’s students and staff at risk. These results are presented in two categories:

- (1) weaknesses that originate from lack of compliance with a legal mandate; and
- (2) weaknesses based on best practices in school safety.

Legal Compliance Weaknesses

Failure to post anti-bullying policy:

Section 1303.1-A(b) of the PSC requires school districts to have an anti-bullying policy and to have the policy available in all classrooms and publicly posted in a prominent location where such notices are usually posted.³³ Of the five district high schools that we reviewed, none had an anti-bullying policy posted in its classrooms. Additionally, four of the five high schools did not have this policy posted in a prominent location in the building.

Best Practices Weaknesses

Lack of documentation supporting practice drills:

The state Emergency Management Services Code requires that schools annually conduct at least one disaster response or emergency preparedness plan drill.³⁴

In addition, the U.S. Government Accountability Office (GAO) indicates that it is important for school districts to conduct careful assessments of what went well and what did not go well following a drill. GAO states that such analyses can contribute to improving emergency management. Consequently, we also check to see if school officials have conducted after-action reviews, in which building administrators identify areas for corrective action.

Our building reviews found that the schools were typically practicing some type of emergency preparedness plan drill. However, documentation was not available for us to review for all drills in 9 out of the 15 schools. This lack of documentation is a concern because if the schools do not keep a record of the results of their drills, it is difficult for them to follow-up on issues requiring corrective action.

³³ 24 P.S. § 13-1303.1-A(b).

³⁴ 35 Pa C.S. §7701(f).

Every school reviewed failed to block one inappropriate website from student access:

Overall, we found that the District did a good job in blocking inappropriate websites. Specifically, the District's web filters successfully blocked pornographic, online gambling, and similar types of inappropriate websites. However, our auditors could access a web-based chat site at all of the 15 schools that they reviewed. We encourage districts to block web-based chat sites, as individuals wishing to establish inappropriate communications with children often use these methods.

One of the schools reviewed had exterior doors that could not be opened from the inside:

Our audit found that 1 out of 15 schools we reviewed had at least six exit doors that could not be opened from the inside without unlocking the deadbolt. This issue could be a serious safety concern if the building had to be evacuated in an emergency. Schools should ensure that exterior doors are locked from the outside, but still allow a way out in an emergency.

Several schools reviewed had not conducted risk and vulnerability assessments:

Our audit found that 5 out of 15 schools we reviewed had deficiencies related to risk and vulnerability assessments. In 3 of the 5 schools cited, the school had not conducted a building specific risk and vulnerability assessment. In the remaining two cases, the schools had completed assessments, but the plans had not yet been included in the District's plan or overall emergency planning process. Risk and vulnerability assessments are critical components in identifying a school building's potential threats. Consequently, such assessments are vital in seeking appropriate means for countering those threats.

Recommendations

The *School District of Philadelphia* should:

1. Ensure that each of its schools have an anti-bullying policy available in each classroom and publicly posted in a prominent location in each building.
2. Ensure that each of its schools do the following:
 - continue to conduct an annual emergency preparedness plan drill;
 - prepare and maintain a detailed confidential report of the results of the drill, including an evaluation of how any subsequent annual drills could be enhanced; and
 - send the District’s administration a copy of the confidential report in a timely manner, which will allow the District to identify those schools that are the most in need of assistance for future drills.
3. Ensure that its web filters block any inappropriate websites and web-based chat sites.
4. Ensure that each school building’s exterior doors are locked from the outside, but still permit ready egress in an emergency.
5. Ensure that each of its schools do the following:
 - conduct periodic risk and vulnerability assessment of its building; and
 - send the District’s administration a copy of the confidential assessment in a timely manner so that the District can identify those schools that have the most security and safety vulnerabilities, and are the most in need of assistance.

Management Response

Please see page A-21.

Auditor Conclusion

Please see page A-24.

Other Audit Follow-up

Philadelphia City Controller Facilities Audit

Two of the 15 school buildings we reviewed were listed as having deficiencies in the Philadelphia City Controller's May 2008 facilities report. In one of these two schools, we found that all of the deficiencies noted in the City Controller's report had been corrected, except for two floor tiles that were still missing from the school's stairwell. We found that the other of the two school buildings had been closed and that the students had moved into a new building. Therefore, it was not possible to follow-up on the deficiencies identified in the City Controller's report.

District's Office of School Climate and Safety 2007-08 Facility Safety Audits

As we conducted our building security review, we also followed-up on the results of each school building's Office of School Climate and Safety 2007-08 Facility Safety Audit and determined whether the schools had corrected any identified deficiencies. We found that all of the schools we reviewed had made an effort to address the deficiencies noted in their most recent facility safety audit. However, four schools did have outstanding issues that may represent serious safety concerns. Therefore, we suggest the District immediately contact these schools to determine the status of their corrective action plans. In addition, we suggest that the District continually monitor any serious concerns uncovered in its annual facility safety audits until all issues are remedied. We encourage the District to continue conducting facility safety audits at each of its school buildings. Facility reviews help to identify a school's potential problem areas and to improve a school's overall safety climate. Furthermore, we suggest that the District consider expanding its current facility safety checklist to include a review of additional school safety best practices.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of Philadelphia (District) for the school years 2003-04, 2002-03, 2001-02, 2000-01 and 1999-00 resulted in six reported findings and one observation as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the District Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the District did not implement all the recommendations related to the six findings and one observation.

<i>School Years 2003-04, 2002-03, 2001-02, 2000-01 and 1999-00 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Lack of Documentation Necessary to Verify Bus Drivers’ Qualifications</i></u></p> <ol style="list-style-type: none"> 1. Review 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. 2. 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. 3. Ensure that the District’s transportation coordinator reviews each driver’s qualifications prior to that person transporting students. 4. Maintain files, separate from the transportation contractors, for all contractor drivers 	<p>Background:</p> <p>In our prior audit we reviewed the personnel files of both bus drivers employed by the District and those employed by of the District’s transportation contractors, to determine whether they were properly qualified to transport the students. Our review found that 32 of the 191 bus drivers files selected for examination were missing the required documentation.</p>	<p>Current Status:</p> <p>Our current audit found that:</p> <ul style="list-style-type: none"> • The District obtained and reviewed the required clearances for all District employed bus drivers hired after January 1, 1986. We did not note any issues on these criminal history records or on the child abuse clearance statements. • The contractor employed bus drivers cited in our prior audit report are no longer employed by the contractors. • The District put procedures in place to ensure drivers have the proper paperwork before transporting students. • The District currently maintains an up-to-date listing of all District and contractor bus drivers, and maintains personnel files for both groups of bus drivers. In addition, it is working with its contractors on a system to

<p>servicing the District and work with the contractors to ensure that the District's files are up-to-date and complete.</p> <p>5. Maintain an up-to-date and reliable listing of all District and contracted bus drivers.</p> <p>6. 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.</p>		<p>ensure that the listings and files are kept up-to-date.</p> <p>Our current audit of bus drivers' qualifications found that one contracted driver did not have the required criminal history on file. When informed of this discrepancy, the District had the contractor remove the driver from driving District students. However, no other discrepancies were found.</p> <p>Therefore, we concluded that the District did take appropriate corrective action to address our prior recommendations.</p>
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<p><u>II. Finding No. 2:</u> <u>Significant Control Weaknesses Exist in the District's Child Accounting System</u></p> <p>We recommended that the School Reform Commission require District personnel to:</p> <ol style="list-style-type: none"> 1. Assign overall responsibility to a specific individual or individuals to ensure that its child accounting systems provide accurate and complete data. 2. Implement and maintain a system of internal controls that includes general and application computer controls and audit trails to ensure accuracy of the data. 3. Ensure that its policies and procedures meet DE requirements and that its personnel are following these policies and procedures. 	<p>Background:</p> <p>In order to verify that the District received the correct amount of state subsidies and reimbursements, during our prior report, we requested the membership and attendance data that the District used to create the summary report it submitted to DE for the 2003-04 school year. The District provided five different versions of membership and attendance data over a four month period. Although each version of data narrowed the differences between the District's data on file and the summary report, it never fully reconciled. Furthermore, District management was unable to explain why the two reports did not agree.</p> <p>In addition, we tried to validate that the information in the District's membership and attendance database was accurate by comparing it to the source documentation used to create it. However, the District could not locate the information for 45 percent of our requests. In addition, we found that there was an error rate of 85 percent when the documentation that the District did provide was compared to what was recorded in its database.</p>	<p>Current Status:</p> <p>Based on our current audit, we determined that, other than addressing recommendations one and three, the District did not take appropriate corrective action to address our prior recommendations. See Finding No. 2 (page 14).</p>
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<p>4. 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.</p>		
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<p><u>III. Finding No. 3:</u> <u>Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Establish controls to ensure that all professional employees are properly certificated for their positions at the time of assignment. 2. Ensure the individuals cited in this finding receive proper certification for assigned positions or reassign them to areas for which they are properly certified. 3. Review the propriety of the certificates and assignments of professional personnel listing (PPL) who were assigned to positions at the schools that were not tested. 4. 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. 5. Ensure that appropriate documentation is on file for all professional employees listed in the 	<p>Background:</p> <p>In our prior audit, we reviewed the professional certification and assignments of 634 individuals from three District high schools, covering the period July 1, 2002 through June 30, 2006. Based on our review, we found that eight individuals may have been employed prior to receiving certification, and three individuals may have been employed without certification. DE's Bureau of School Leadership and Teacher Quality later accepted our findings.</p> <p>In addition, 104 of the 634 professional employees we examined were not listed on the District's PPL. Instead, we identified them from the individual high school's professional directories. In addition, the District could not provide certificate and assignment information for ten of these 104 employees.</p>	<p>Current Status:</p> <p>Our current audit found that, as of July 17, 2009, the District had implemented procedures for ensuring that all professional employees are properly certified at the time of their assignment.</p> <p>We also found that of the individuals cited in our prior audit:</p> <ul style="list-style-type: none"> • Eleven either were dismissed or resigned. • One became properly certified in December 2005. • One became properly certified in October 2008. However, this individual did not possess proper certification for the period September 1, 2006 to September 30, 2008. <p>In addition, as part of our current review, we examined the certification and assignments for 10 randomly selected professional employees from each of the three high schools we reviewed in the prior audit. We found that of the 30 selected 29 possessed the proper certification for their assignments. The remaining</p>
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<p>directory.</p> <p>6. DE, in conjunction with Bureau of School Leadership and Teacher Quality's (BSLTQ) determination, adjust the District's future allocations to recover any forfeiture that may be levied.</p>		<p>individual possessed permanent certification in Chemistry, but in the 2008-09 school year was assigned to teach two periods of Physics each day. As of July 17, 2009, the District assigned this teacher's two Physics classes to an individual with the appropriate Physics certification.</p> <p>Finally, DE deducted \$9,523 from the District's June 2008 basic education funding payment to resolve this finding.</p> <p>Based on our current findings we determined that the District did take appropriate corrective action.</p>
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<p><u>IV. Finding No. 4:</u> <u>Continued Improper Student Activity Fund Practices</u></p> <ol style="list-style-type: none"> 1. Ensure the principals adhere to and enforce adopted board policy and other applicable criteria. 2. Ensure all Trust and Agency Funds are properly accounted for and not reported in the Student Activity Fund. 3. Ensure interest income is prorated to the various student accounts, in accordance with board policy. 4. Purge all inactive student activity accounts. 5. Prohibit the practice of making disbursements from accounts with deficit cash balances. 6. Ensure that formal 	<p>Background:</p> <p>Our prior audit found that for each of the schools tested, the fund custodian did not always adhere to board policy, resulting in the following improper practices:</p> <ul style="list-style-type: none"> • 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. 	<p>Current Status:</p> <p>Our current audit found that the District did not implement any of our recommendations. See Finding No. 3 (page 19).</p>
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<p>student organizations control each account operating within the Student Activity Fund.</p> <p>7. 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.</p>		
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<p><u>V. Finding No. 5:</u> <u>Inadequate General Computer Controls over the Advantage 2000 System</u></p> <ol style="list-style-type: none"> 1. 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). 2. Create a systems access log that can be monitored by District to identify system access attempts (unsuccessful and successful) and unusual time access attempts. 3. Enforce the Acceptable Use Policy Section L.1 e. that forbids sharing of user IDs and passwords. 4. Ensure the draft Disaster Recovery Plan is complete and include specific requirements and testing for the Advantage 2000 System. 5. Ensure that payrolls are not processed without proper approvals. 	<p>Background:</p> <p>Our prior audit found continued weaknesses related to the District’s general computer controls related to its Advantage 2000 system. The following weaknesses still existed:</p> <ul style="list-style-type: none"> • 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’ user IDs and passwords to process payroll approval; and • Office of Information Technology circumvents the approval and authorization process for payroll by processing every payroll run regardless of approval being obtained from authorized persons. 	<p>Current Status:</p> <p>Our current audit found that the District only addressed 3 (number 1, 2 and 4) of our 5 prior recommendations. Therefore, we concluded that the District did not take appropriate action. See Observation No. 4 (page 40).</p>
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<p><u>VI. Finding No. 6:</u> <u>Inadequate General Computer Controls Environment</u></p> <ol style="list-style-type: none"> 1. 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. 2. Establish and implement formal procedures for monitoring system violation reports (i.e., logs of excessive invalid access attempts) and monitoring unusual system activity. 3. Establish and implement procedures to automatically delete terminated employees' access to all applications. 4. Test the disaster recovery plan. 5. Implement procedures which automatically deactivate system user IDs after an excessive number of invalid access attempts. 6. Develop and maintain approved logical access forms on file for those employees granted system access prior to 1994. 	<p>Background:</p> <p>Our previous audit found continued weaknesses in the District's internal controls related to its computer environment. Specifically, we found that the following weaknesses still existed:</p> <ul style="list-style-type: none"> • 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 information technology 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 • Employees granted system access prior to 1994 do not have approved logical access forms on file. 	<p>Current Status:</p> <p>Our current audit found that the District addressed 3 of our 6 (number 2, 4 and 5) prior recommendations. However, the District provided us with additional explanation on October 28, 2010, to substantiate that it had addressed the remaining weaknesses to the best of its ability.</p>
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<p><u>VII. Observation: Internal Control Weaknesses in Bus Drivers' Qualifications Administrative Policies</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, 	<p>Background:</p> <p>In our prior audit, we found that due to the missing documentation discussed in the current 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, we found that neither</p>	<p>Current Status:</p> <p>Our current audit found that the District has policies and procedures in place to determine whether its prospective bus drivers and/or those employed by its</p>
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<p>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.</p> <p>2. Implement 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.</p>	<p>the District nor its transportation contractors had written policies or procedures to ensure that they are notified if current employees are 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. We determined that this lack of written policies and procedures was an internal control weakness and that it could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.</p>	<p>contractors, have been charged with or convicted of crimes that, even though not barred by state law, could affect their suitability to have direct contact with children.</p> <p>However, neither the District nor its 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. Therefore, we concluded that the District did not take appropriate corrective action. See Observation No. 2 (page 33).</p>
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APPENDIX A

Audit Responses from the School District of Philadelphia with Corresponding Rebuttal by the Department of the Auditor General

REGULAR AUDIT FINDINGS AND OBSERVATIONS

Finding No. 1: The School District of Philadelphia Still Does Not Have a Safe Schools Advocate As Required By State Law

School District's response:

The Safe Schools Advocate is a Commonwealth official, not a School District official. State law established the Advocate position and the related office, and placed both within the Office of Safe Schools of the Pennsylvania Department of Education.

Responsibility for funding the office of the Safe Schools Advocate is likewise a responsibility of the Pennsylvania General Assembly and the Governor, a fact that the Auditor General's Performance Audit Report (the "Report") acknowledges.

Between FY2000-01 and FY2006-07, the Commonwealth budget provided between \$800,000 and \$1,100,000 annually to support the Safe Schools Advocate. In FY2007-08 that funding was reduced to \$387,000 and then it was further reduced to \$342,000 in FY2008-09. In FY2009-10, funding for the office was eliminated.

The School District of Philadelphia (the "School District") did not advocate for the defunding of the Safe Schools Advocate, but we understand why the Commonwealth made this decision. We are aware that the reduction and subsequent elimination of funding for this office was one of hundreds of cuts that were made to the Pennsylvania budget during the period in question. Due to the Recession, state revenue growth was very low in FY2007-08, and state revenues then dropped by 10% (\$2.6B) in FY2008-09. Despite numerous spending cuts imposed on the FY2008-09 budget, the Commonwealth still ended FY2008-09 with a \$2.0B deficit that had to be cured in FY2009-10.

The Report recommends that the School District lobby and City and Commonwealth officials to reinstate funding for the Safe Schools Office. However, the Report fails to recognize that overall state funding for elementary and secondary education (excluding Federal Stimulus funding passed through the Commonwealth to local school districts) declined by \$247 million between FY2007-08 and FY2009-10. During this period, state funding was reduced for many School District programs, including Alternative Education, Pre-K Counts, Dual Enrollment, the Accountability Block Grant, the Education Empowerment Grant, Classrooms for the Future, and numerous other programs.

The School District regrets all of these cuts, each of which supported a worthwhile program that delivered important benefits to the children of Philadelphia. At the same time, the School District recognizes the extraordinary and unprecedented financial challenges that the General Assembly and the Governor faced during this period. The District has worked in concert with the other school districts of Pennsylvania to advocate for continued overall state support for K-12 education, even in these difficult economic times. We believe that maintaining our state's investment in K-12 education is essential to Pennsylvania's future. And given the difficult

circumstances of the past few years, we believe the General Assembly and the Governor deserve great credit for keeping cuts to K-12 programs as low as they have been, even as they made difficult choices as to what to cut, retain, or increase in the state education budget and elsewhere in the state budget.

Presently, the School District expects Fiscal Year 2011-12, commencing July 1, 2011, to present the District with significant budgetary challenges, in part because both the Commonwealth and the City of Philadelphia continue to face serious fiscal challenges of their own due to the slow pace of recovery for the local and state economies and expected resulting sluggish growth in both the state and local tax base. Under the circumstances, the School District's funding priority must necessarily be the preservation of funding for the District's core instructional programs.

The School District applauds and endorses the Auditor General's continued advocacy for safe learning environments for our students. We agree that safe learning environments are essential to academic success, and we are committed to maintaining and improving the safety of our schools, whatever level of funding we receive from our sponsoring governments.

When the office of the School Safety Advocate was funded and staffed we worked cooperatively with the Advocate to achieve our common goal of safer schools. If the Commonwealth decides that it is possible to restore funding for the office, we will work with the office again in any way we can to advance our common goals. However, even if funding for the Advocate is not restored, we believe that the School District has the tools and the determination required to maintain and improve school safety in Philadelphia's public schools. We intend to pursue this agenda with all of our energy and intelligence, without reservation.

Department of the Auditor General response:

We are encouraged that the School District of Philadelphia (District) recognizes the importance that the position of the Safe Schools Advocate (Advocate) holds in terms of achieving improved school climate within the District. We acknowledge in the audit report that the hiring and dismissal of the Advocate is currently beyond the District's authority. Nonetheless, we believe the significance of this position cannot be overstated, and, therefore, the finding stands as a reminder to the District, the Governor, and to the Pennsylvania Department of Education (PDE), that a mandatory provision of state law requires the Advocate position to be filled and thereby, be funded with state monies. We continue to urge the District to join us in advocating for the restoration of the position.

Finding No. 2: The District Continues to Lack the Documentation Necessary to Verify Its State Subsidies and Reimbursements

School District's response:

This general finding consists of a number of components. The School District's response to individual findings is as follows:

SubFinding A: The School District Should Improve its Recordkeeping at the School Level to Ensure that Source Documentation is Available for Audit

The District agrees with the recommendation and acknowledges that recordkeeping at the school level can always improve. However, the District also wishes to note that several steps have already been implemented in the current 2010-11 school year to improve the attendance data collection process, ensure that attendance gathering and reporting policies and procedures are adhered to, and ensure that source documentation is available in schools. Although the School District offered to make the details of the District's new attendance collection processes and related source documentation available to the Auditor General's staff, for the current audit the Auditor General's Office opted not to review these materials.

Responsibility for student attendance currently is the responsibility of the Deputy for Attendance and Truancy, who reports to the Associate Superintendent for Academic Support. Attendance data is collected and entered by each school into the Student Information System, which is a part of the District's School Computer Network (SCN).

Revised mandatory attendance and truancy procedures were distributed to all school personnel at the start of the 2010-2011 school year. It is the responsibility of each building's principal to ensure that teachers accurately record student attendance on the student roll sheet and that the roll sheet is placed in the student pocket at the end of each academic year. This function is monitored by the Assistant Superintendents, who supervise the District's principals and report directly to the Associate Superintendent of Schools.

Additionally, each principal has identified an "Attendance Designee" who is responsible for ensuring the attendance process is implemented with fidelity. The process includes, but is not limited to, verification of telephone numbers and addresses for students who are absent, home visits, parent conferences, and overseeing the reconciliation process. Monthly training for school staff and on-site technical assistance and support is provided by the Office of Attendance and Truancy, under the direction of the Deputy for Attendance and Truancy.

SubFinding B: The School District Should Implement and Maintain a System of Internal Controls Which Includes General Application Computer Controls, and Manual Compensating Controls, to Ensure Data Accuracy.

The School District agrees that reliable and accurate data should be available and we believe that accurate and reliable data is available presently at the school level. There is always room for

improvement and the School District has taken additional steps to improve attendance reporting, including:

- Implementation of an automated attendance tracking system for high schools and large middle schools, along with procedures that require reconciliations with manual records.
- Standardized collection, reporting and reconciliation policies and procedures, as described in the District's response above, issued by the District's Office of Attendance & Truancy.
- Periodic, on-going training for principals, assistant principals, and other administrators including secretaries and teachers, stressing the importance of attendance reporting and accuracy. Controls over attendance reporting and related training are discussed above.

SubFinding C: Steps Should be Taken to Ensure that the Database Used to Prepare the PDE-4062 Report is Sufficiently Backed Up

The District does maintain data files sufficient to support membership data submitted on PDE-4062 Reports. These data files enabled the District to provide the auditors with detailed membership data for the 2006-07 school year, as requested and noted in the Report.

SubFinding D: The School District Should Provide Competent and Reliable Data to Support Its Subsidies and Reimbursements

As described above, the School District is committed to maintaining a system of procedures and controls that provide reliable support for membership and attendance data. However, it is important to note that membership data is not a significant factor in determining subsidies. Not since 1991 has the state basic education funding formula been driven fully or primarily by the Average Daily Membership (ADM) of Pennsylvania's school districts. Instead, the amounts provided to school districts statewide are based upon the prior year's available funds, with certain supplements made available. The Commonwealth's new funding formula includes portions that are partially driven by a modified ADM; however, this number is not based on total ADM. Regarding whether or not the School District of Philadelphia received appropriate funding of \$4.2 billion from 2004-05 through 2007-08, the amount the District received from the Commonwealth that could be considered to be driven by ADM is only a very small percentage. The School District estimates that no more than 3.7% of the \$1.4 billion in total School District state subsidy the District currently receives each year is related in any way to ADM.

SubFinding D: The Department of Education Should Ensure that the School District of Philadelphia's Membership and Attendance Data Can be Supported and Verified Prior to Issuing Future Payments

While this recommendation is addressed primarily to the Department of Education, the School District has the following response:

PIMS, the Pennsylvania Information Management System, was introduced by PDE in the 2007-08 school year. The Child Accounting reports for two years of the current audit period, 2007-08 and 2008-09, were based on the PIMS data. In those two years, School District student level detail was sent to the PIMS warehouse and reports were created by PDE based on that data. In addition, for those same two school years, PDE required that the School District and all other school districts in the Commonwealth also maintain summary Child Accounting information outside of PIMS, as PIMS was in a transitional introductory phase. This second data set traditionally was the starting point for audits in the past.

The School District in those two school years provided student level detail through PIMS that required a unique student ID number, and based on those numbers that were submitted to PIMS, produced summary reports for Child Accounting. For school year 2009-10, by contrast, Child Accounting reports were submitted by the District only through PIMS. No summary reports for Average Daily Membership (ADM) and Average Daily Attendance (ADA) were created by the District. PIMS is supposed to provide the ADM and ADA information for our District and all other Pennsylvania school districts.

The District has copies of the student level PIMS data that was submitted to PDE and the summary data created in the 2007-08 and 2008-09 school years.

The District's assumption is that any future audits for Child Accounting will be of the PIMS data submitted by the District, based on the template assumptions provided by PDE in its PIMS Manual issued annually.

Department of the Auditor General response:

While the District may have implemented several new child accounting procedures for the 2010-11 school year, these new procedures did not apply to the audited membership period. In conducting our membership review, we rely on data originating from the District, PDE, and the Commonwealth's Comptroller Operations. This data is typically not available until 16 months (or more) after the close of a school year; thus, we are unable to audit current year membership data. When we began our audit, 2006-07 data was the most current available. While an additional year of data (2007-08) did become available during the course of the audit, we did not have time to review this data because the District took more than seven months to answer our initial data request.

Additionally, the District notes that "not since 1991 has the state basic education formula been driven fully or primarily by the ADM of Pennsylvania's school districts." It is imperative for us to emphasize that we have been citing the District since 1987 for inaccurate collection and reporting of child accounting data. Subsequently, if the basis is incorrect, then each following year's basis is also incorrect, along with each year's incremental supplement, creating a compounding flawed funding stream. The importance of accurate child accounting is therefore crucial. The District must have valid and reliable data to support its subsidies and reimbursements.

Finally, we note that the District's response attempts to lessen the finding's impact by stating that Average Daily Membership (ADM) is related to only an estimated 3.7 percent of its annual state subsidy. Frankly, we are alarmed that the District takes this position and question the veracity of this claim. However, assuming that the District's ADM estimated percentage influence is correct, it still equals \$51.8 million, not an insignificant amount of money. As the District correctly notes in its response, such funding is especially crucial when the Commonwealth has cut many other valuable educational programs affecting the District, such as the position of the Safe Schools Advocate (see Finding No. 1). Simply put, at a time when the Commonwealth is facing its greatest economic crisis since the Great Depression, the Commonwealth's taxpayers deserve to know that every dollar is accurately accounted for, and, to that end, no error rate is acceptable. Nevertheless, we are encouraged that the District has implemented new child accounting procedures, and we look forward to testing the effectiveness of these procedures in future audits.

Finding No. 3: The District Continued Its Improper Student Activity Fund Practices

School District's response:

The School District recognizes that the administration of Student Activity Funds ("SAF") is a particular challenge because compliance deficiencies can be particularly difficult to detect and cure due to the decentralized school-based nature of these accounts.

Recognizing these challenges, the School District has over the past two years taken several important steps to improve the administration of Student Activity Funds. The District has implemented an on-line School Funds Manual, conveyed and emphasized relevant District policies and procedures through mandatory training sessions for school-based staff, and monitored schools through our School Finance Support Specialists (formerly, "Regional Business Specialists") and our Audit Services Division to ensure compliance with the District's policies and procedures.

While the School District diligently continues to seek to detect deficiencies and improve internal controls over this function, management recognizes there is always room for improvement and will make every effort to continue and improve compliance monitoring and hold schools accountable for adherence to School District SAFE policies and procedures, which are clearly articulated and communicated.

The School District has been making improvements to SAF processes and controls over the past few years. The Audit Services Division and the Comptroller's Office's field-based staff, through periodic internal audits and compliance desk checks, have identified areas for improvement and monitored compliance at the school level. In addition to providing an on-line school funds manual, the School District has taken these additional actions to enhance controls and supervision:

- Mandatory quarterly reporting on SAF accounts by schools to the Comptroller's Office, with active follow-up by the Controller's School Financial Support Specialists who are assigned to each of the District's nine academic divisions.
- Mandatory financial transition packages are required from outgoing principals, which include detailed SAF reports.
- Annual training sessions for Principals and Assistant Principals at the annual Summer Leadership Institute on financial policies and procedures, including SAF policies and procedures.
- Periodic postings to the Principals' Bulletin Board (PIB) providing principals with SAF check lists on what to do to assure compliance and control.
- Identification of emerging or on-going issues at periodic meetings of the Controller's School Financial Support Specialists and weekly visits to schools to reinforce compliance as necessary.

The School District takes the matters discussed in this section of the Report seriously and responds to specific findings in this section as follows:

SubFinding A: Scholarship and Memorial Accounts Were Not Separated From Student Activity Funds

School District policy permits small grants (less than \$5,000) to be commingled with SAF monies as part of the same bank account. The school must notify central management of their intent to do this, and they must report in a separate ledger account for the SAF and for the grant funds. The School District believes that this policy provides proper accounting and enables acceptable tracking of the activities in these accounts. It is impractical and needlessly expensive to maintain multiple checking accounts for these funds. Moreover, the practices described above are accepted by grantor agencies that require separate accounting for their funds.

The School Funds Manual provides the following accounting guidance:

- Restricted donations of \$5,000 and under that do not involve contracted services or salaries may also be deposited into the student activity checking account. The difference is that separate ledger accounts must be set up for all restricted donations. This is so an accounting of the fund's activity is easily and readily available.
- Restricted donations must be segregated and reported separately on the quarterly student activity fund EH-204 form. Restricted donations should never be commingled with other student activity funds in the main body of the EH-204. This is because they are of a different nature than the other student activity funds.

SubFinding B: Interest Earnings Not Properly Prorated

The School District accepts the finding that schools did not prorate interest earnings to appropriate activities or to the Student Body Activity Account, as permitted. School officials will be reminded of this requirement and compliance will be monitored by the Controller’s School Finance Support Specialists.

SubFinding C: Inactive Accounts Included In the Schools’ Listing of Active Accounts

As noted in the School District’s response to a similar finding in a prior audit, it is the School District’s policy that accounts that are inactive for more than one year should be closed. However, the School District cannot unilaterally or centrally close such accounts without the students’ consent because of previous litigation that was brought against the District. Consequently, in the case of class dues the School District has implemented the use of “Class Will” forms that direct how the balance of each class’ funds should be used. This practice is outlined in the School Funds Manual. Likewise, the School Funds Manual requires a statement from each school activity regarding the disposition of funds once the activity ceases.

The School District will continue to stress the importance and need to secure Class Will consent forms and provide instruction for the disposition of funds from other activities so that inactive accounts may be properly closed where warranted.

SubFinding D: Deficit Cash Balances Noted for Various Accounts

The School District agrees that carrying deficit (cash) balances in accounts creates a situation where one activity essentially borrows funds from other activities with positive balances. It is for this reason that the School Funds Manual prohibits expenditures when an activity does not have sufficient funds available. There are, however, limited circumstances where deficit (cash) balances are planned and pre-approved by a principal, such as in cases where deposits for class functions must be made early in the school year in order to secure facilities. In such cases, the principal is responsible for monitoring progress to ensure that adequate funds are being accumulated to meet activities’ financial responsibilities and repay the intra-account borrowing.

SubFinding E: Documentation and Minutes of Student Activity Club Meetings

Despite the existence of a requirement that detailed minutes be taken for each student activity and that minutes be signed indicating the principal’s approval, this area continues to remain a challenge for the School District. The Controller’s School Finance Support Specialists will remind principals of this requirement and continue to monitor for compliance.

SubFinding F: Graduated Class Accounts Included in the Listing of Active Accounts

The School Funds Manual requires each graduating class to establish a “Class Will,” voted upon by class members, designating the use of any unexpended funds. Additionally, in the absence of a “Class Will,” the Manual declares that “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.” Principals and school operations officers will be reminded of this requirement and the Controller’s School Finance Support Specialists will monitor compliance.

Department of the Auditor General response:

With regard to Subfinding A, we note that our audit finding addresses the accounting and the reporting of Scholarship and Memorial Accounts within the Student Activity Funds, not the commingling of such monies in the same bank account. As such, the financial statements we received for the Student Activity Funds contained data for Scholarship and Memorial Accounts. Therefore, our recommendation stands as written. With regard to the other remaining Subfindings, we will follow-up on these issues in future audits at the District’s high schools.

Finding No. 4: Serious Internal Control Weakness Over Germantown High School’s Student Activity Funds Could Create Opportunities for Fraud

School District’s response:

The School District is committed to safeguarding the student activity fund assets of Germantown High School and every school in the District. The District believes that the revelation of student activity fund irregularities at Germantown High and the District’s response offer strong evidence that the District has internal controls in place that can detect and respond to fraud and abuse, and also that the District is committed to appropriate responses when fraud and abuse are detected. Because of the School District’s system of internal controls, District personnel discovered that the former school operations officer at Germantown High was engaged in fraudulent activities and the District then acted decisively when it became aware of this fact. The Report refers to a summary of prior audit findings for Germantown High School, as well as audit findings for the other schools that were visited previously by the Auditor General’s staff. The Controller’s Office will review all findings for the other schools referenced. As for the audit findings related specifically to Germantown High School, School Finance Support Specialists have reviewed the Report’s findings and have instituted required corrective actions with the principal and school operations officer. In addition, the School District’s Audit Services Office will continue its audits of student activity funds, including those of Germantown High School.

With respect to specific audit findings, the School District responds as follows:

SubFinding A: Missing Receipt and Deposit Slips

As the Report states, 17 deposits at GHS were selected for which the auditors requested detailed support. Most of the deposits selected were from activities for the Class of 2009. Because of the manner in which the class sponsor maintained receipt records, it was necessary to construct a spreadsheet listing the detail for each deposit. By doing this, Germantown’s school operations officer was able to provide support for 7 of the 17 deposits selected. Additionally, a review conducted by the Controller’s School Finance Support Specialists noted no substantial delays

from the date of receipt to date of deposit, and a match of total deposits actually exceeded the sponsor's records of dues collected. In an effort to address controls over activity receipts, the Controller's School Finance Support Specialists have furnished all activity sponsors at Germantown High School with a template for keeping running balances of deposits and receipts. These listings can then be matched against monthly recorded balances to be furnished by the school operations officer.

SubFinding B: Missing Payment Approval Vouchers and Invoices

As indicated in the Report, of five disbursements selected for review, two were lacking vouchers that show payment and account information as well as signed approvals, and one did not include an invoice. This finding was reviewed with school officials, who were reminded of the requirement for proper documentation, the need for sponsors' and principals' approvals prior to disbursement, and the importance of maintaining supporting records.

SubFinding C: Lack of Evidence Demonstrating Student Involvement in Financial Decision Making

In response to the recommendation that no disbursements should be made without the signature of an activity's student officer, the School District will adhere to the requirement as stated in its School Funds Manual. That requirement is for students to be involved in each activity's decision-making process and for minutes to be kept of each meeting showing decisions reached. School officials from Germantown High have been reminded of this requirement.

Department of the Auditor General response:

We will follow-up on Student Activity Funds at the Germantown High School in future audits.

Observation No. 1: The District Continues to Finance Some of Its Debt with Interest Rate Management ("Swap") Agreements, Which Could Jeopardize Taxpayer Funds

School District's response:

The School District in March 2010 reduced by 50% the amount of debt that was hedged with interest rate management agreements, also known as swap agreements, and converted \$300 million of its variable rate debt to fixed rate debt, with the result that less than 12% of its entire debt portfolio was synthetically fixed with swaps.

As the School District stated in its letter to the Auditor General dated April 30, 2010, "when it makes economic and financial sense to terminate the remaining swaps to reduce risk and preserve return without having to impose major costs upon the District," the School District would do so.

On December 7, 2010, the School District determined that it would make economic sense to terminate nearly all of its remaining swap agreements, in the amount of \$352.5 million. This transaction is expected to close on January 3, 2011.¹ Of the \$352.5 million, \$300 million will continue to be in variable rate mode, but unhedged, to take advantage of current low short-term interest rates. The remainder is being converted to fixed rate debt, also at very favorable rates.

At this time, the School District has no plans to enter into any new interest rate management agreements. We note, however, that the District's Debt Policy does not totally prohibit the use of swaps as a financing tool to manage interest rate costs. The School District is committed to a policy of extreme fiscal prudence in all matters dealing with public funds. The School District procures all of its financial advisory services and related legal counsel and underwriting services through open, competitive Request for Proposal processes in order to ensure that all of our debt management activities are conducted in an open and transparent manner. We are committed to meeting our financing needs at the lowest cost possible, consistent with prudent policies that do not expose the School District to undue risk.

The District's recent debt restructuring met this standard. It is projected that the December 2010 restructuring will save the School District \$52.7 million on a net present value basis over the life of the new debt issue, with approximately \$25 million of positive budgetary impact being realized just in FY11 and FY12. Termination fees are being financed over an eleven year period.

The School District undertook an analysis to determine what the financial impact would have been if the District had issued fixed rate debt instead of issuing variable rate debt with swaps with synthetically fixed rates over the past decade. That analysis indicates that the School District reduced its debt service expenses by \$28 million during the time the swaps were in existence. The analysis also looked at the difference between swap income versus swap payments over the period the swaps were in place. The data indicates that a positive \$6.6 million benefit was achieved by the School District.

The School District is committed to the prudent management and responsible stewardship of the public funds entrusted to it. Although reference is made in the Report to an adverse experience with swaps experienced by another Pennsylvania school district, the School District's experience was significantly different and far more positive.

Department of the Auditor General response:

The District's response is encouraging in some respects, but disappointing considered as a whole. We are certainly pleased that the District has heeded part of our advice and is now almost fully divested from swap agreements. We urge the District to eliminate all remaining swaps deals as soon as it is fiscally responsible to do so.

However, we are concerned with the fact the District, as of January 3, 2011, will have issued \$300 million dollars of highly volatile variable-rate debt rather than the conventional fixed-rate financing that we have consistently recommended. It is simply not possible to predict exactly

¹ One swap in the amount of \$1,270,000 will expire on September 1, 2011 and it was determined that it would not be financially advisable to terminate it before that date.

when, how fast, and by how much these variable rates will rise, and it is certainly not a virtue that these variable-rate instruments are “unhedged, to take advantage of current low short-term interest rates.” Despite the District’s rosy predictions of the financial benefits of this latest restructuring, the fact of the matter is that the taxpayers of the District are now exposed to a potentially catastrophic degree of interest rate risk.

We would be pleased to hear that the District has no current plans to enter in any new interest rate management agreements were it not for the fact that the District makes no commitment to renounce their use in the future. We are extremely disappointed with the District’s response in this regard. The claim that “[t]he School District is committed to a policy of extreme fiscal prudence in all matters dealing with public funds” rings hollow in light of its failure to permanently and unequivocally renounce the use of swaps for any purpose whatsoever.

When public funds are at stake, it is the Department’s firm position that the use of swaps is fiscally imprudent *per se*. That is the reason we have asked the General Assembly to repeal Act 23 and to outlaw the use of swaps by school districts, other local government units, and municipal authorities altogether.

We are also disappointed that the District is touting its recent restructuring as “meeting our financing needs at the lowest cost possible, consistent with prudent policies that do not expose the School District to undue risk.” Certainly, the issuance of unhedged variable rate debt is the “lowest cost” at the moment. But, as previously pointed out, no one can predict when, how fast, and by how much interest rates will rise in the future. It strains credulity to characterize the interest rate risk in this restructuring as a “prudent polic[y]” that does not “expose the School District to undue risk.”

Furthermore, we find the District’s explanation of the restructuring to be highly disingenuous for the following reasons:

- No mention is made of the fact that, as reported in the December 14, 2010, edition of Bloomberg Businessweek, the District had to make a termination payment of \$63 million to get out of this batch of soured swaps deals. The fact that this termination fee is being financed over a period of eleven years is cold comfort to the taxpayers of the District, because this merely obscures the fact that such an enormous loss was incurred as a result of entering into the swaps in the first place. An additional cost that is glossed over in the District’s explanation is that the taxpayers will also have to pay interest on the \$63 million termination payment as it is amortized over the next eleven years.
- The District makes reference in its response to a letter it wrote to the Auditor General dated April 30, 2010.
 - The gist of that letter was to suggest that, despite paying \$26.6 million to terminate an earlier batch of swaps deals, the overall experience of the District with swaps as of that date was positive, and that the use of swaps had cost the

District \$25 million *less* than if it had issued conventional fixed-rate financing. In its response above, it now suggests that the savings have grown to \$28 million.

- In light of the \$63 million the District just paid to terminate the most recent batch of swaps, to be consistent in its reporting, shouldn't the District now be conceding that the ill-conceived foray into swaps has cost the taxpayers some \$35 million *more* than if the District had merely issued conventional fixed-rate debt?

- We also find the District's claim that the debt restructuring will generate approximately \$25 million of "positive budgetary impact" in FY 11 and FY 12 to be specious. Certainly, terminating the swaps results in a modest benefit by reducing or eliminating swap interest payments to counterparties. However, the bulk of the "positive budgetary impact" results primarily from a combination of issuing of unhedged variable-rate debt and financing the termination payments over an extended period of time. Unhedged variable-rate debt has the lowest available rates, initially at least, but the low current rates come with a high degree of risk that rates will rise in the future. The other reason that the restructuring appears to have a "positive budgetary impact" is the District's refusal to immediately recognize and absorb the \$63 million of termination payments. The effect of the restructuring is to avoid the pain now and defer to the future any worries about rising interest costs and the costs of amortizing the termination payments.

- Finally, the final comment in the response to the effect that the District's experience with swaps was "significantly different and far more positive" than the experience of the Bethlehem Area School District, as reported in a special investigation report issued by our department in November 2009, is not supported by fact. We see nothing positive about an experience that necessitated a \$63 million termination payment and which ultimately cost the District \$35 million more than if it had issued conventional fixed-rate debt in the first place

Our position today is the same as it was when we issued our first report on swaps in November 2009. The fundamental guiding principle in handling public funds is that they should never be exposed to the risk of financial loss. Swaps may be perfectly acceptable in the private sector, where private citizens are free to decide how much risk they can tolerate when their own money is at stake. But they should have no role in government, where it is the taxpayers' money that is at stake. Public debt should be financed with fixed interest rates that are transparent, reliable, and easily understood by decision-makers and the public. Accordingly, we strongly urge the School District of Philadelphia to amend its Debt Policy to unequivocally and permanently renounce and forswear the use of swaps in the future.

Observation No. 2: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

School District's response:

The School District agrees with the Auditor General's recommendation. Language will be added to transportation providers' contracts that requires their employees to notify both company management and the School District if they have been charged with or convicted of serious criminal offenses.

For many years, the School District has been informed by the Philadelphia police when any of its employees have been arrested. The current process for handling such cases has been in place for 30 years and was created as the result of a federal lawsuit.

The District provides a hearing for all arrested employees, with representation when appropriate. The police report and statements, if any, by the arrested employee are reviewed. After the hearing, a decision is made whether to suspend the employee without pay until the criminal process is completed. If the charges are dropped or the employee is found not guilty, the employee can petition to return to work. If convicted, the suspension becomes a termination.

The School District will require its contractors to adopt similar procedures.

Department of the Auditor General response:

The District agrees with the observation. We will follow-up on this issue in the next audit.

Observation No. 3: The School District of Philadelphia Should Protect Its Safety Programs and Operations from Possible Future Spending Cuts

School District's response:

The School District applauds and endorses the Auditor General's continued advocacy for safe learning environments for our students. We agree that safe learning environments are essential to academic success, and we are committed to maintaining and improving the safety of our schools, whatever the level of funding we receive from our sponsoring governments. We believe that the School District has the tools and the determination required to maintain and improve school safety in Philadelphia's public schools. We intend to pursue this agenda with all of our energy and intelligence, without reservation.

At the same time, the School District believes that sound management requires constant examination of the methods and manner in which critical services are delivered, including in the areas of Climate and Safety. While the District will never take actions that would jeopardize the safety and security of our schools' staff and students, we will continue to seek ways to improve the effectiveness and efficiency of all of our programs so that we can fulfill our obligation to be

good stewards of the public funds that are entrusted to us. We know that the Auditor General has been one of the strongest voices in our state capital advocating for more efficient and less wasteful delivery of government services, and we believe our commitment to seeking increased efficiency and smarter service delivery is consistent with this view.

Department of the Auditor General response:

The financial challenges faced by the District are severe. We will continue to monitor this issue in future audits of the District.

Observation No. 4: Continued Inadequate General Computer Controls Over the Advantage 2000 System

School District's response:

The School District continues to focus on the general computer controls in the Advantage 2000 System and agrees that system controls are and should be an important focus. The School District's response to findings regarding payroll passwords and the payroll approval process are as follows:

SubObservation A: Payroll Password Controls

The School District is committed to the use of individual passwords as a part of payroll processing controls. District administrators are constantly reminded of the importance of maintaining password integrity and are instructed not to share passwords with administrative assistants. The importance of this commitment has been reinforced during training sessions conducted for principals and assistant principals during the District's annual August leadership institutes for principals, and is continuously reinforced through internal audits and payroll desk checks by the District's School Finance Support Specialists.

SubObservation B: Payroll Approval Process

It is the policy of the School District of Philadelphia to process payroll even in the event an administrator fails to approve the payroll for their assigned unit. This policy prevents the School District from creating an abundance of manually produced paychecks that would be necessary to fulfill requirements of federal and state laws which dictate the payment of wages owed to employees when due.

The School District believes that cases in which payroll is processed without administrator preapproval do not represent a systematic problem, but rather random oversights on the part of administrators, most often resulting from principals being off-site on the day when payroll must be submitted. The School District of Philadelphia's Finance Division intends to institute several monitoring protocols to determine whether there are any instances in which there appear to be systematic payroll approval problems. This will be accomplished by:

- identifying locations where there have been repeated instances of failure to approve payroll
- identifying the number of employees whose payroll were not approved
- identifying non-complying administrators

Based on the results of these periodic tests, the District will act to intervene if it identifies consistently non-complying managers. The Payroll Division will work with supervisors to correct any administrators who engage in consistent non-complying behavior and institute appropriate disciplinary proceedings if non-compliance continues.

Department of the Auditor General response:

We are pleased the District is adding improved controls. We will monitor the effectiveness of these controls in future audits.

SAFE SCHOOLS REVIEW

Finding No. 1: The School District of Philadelphia Has Failed to Ensure That Its School Police Officers Have the Level of Training Mandated By State Law

School District's response:

The Auditor General's report recommends that the School District only hire new police officers that have completed Pennsylvania Act 120 training and expand its in-service training for current officers. The School District recognizes that Act 120 training is a quality training program, particularly for sworn officers who engage in the kinds of law enforcement activities typically carried out by municipal police departments. However, the District's school safety personnel are not municipal police officers and do not undertake the same kinds of activities as those sworn officers. Act 120 training is not mandated by state law for the District's school safety personnel. (On this point, we note that the Report presents two contradictory statements. On page 49 the Report indicates that such training is required and then on page 56 acknowledges that it is not.) The District responds to the Report's specific recommendations as follows:

SubFinding A: Act 120 Training of School Police Officers

The Auditor General recommends that the School District only hire new police officers who have already completed an Act 120 training course. The Report, however, acknowledges that the District's school police lie outside the statutory definition of municipal police officers for Act 120 purposes. No court has authorized the District's school police officers to exercise the police

powers delineated under 24 P.S. § 7-778(c)(3). Accordingly, our school safety personnel do not fall under the Act 120 training requirement.

Municipal police forces receive state subsidies to cover the cost of Act 120 training. The School District is not eligible for these subsidies. The lack of these subsidies would make the cost of mandatory Act 120 training much more expensive for the District than it is presently for municipal police departments. State legislative action would be required to make Commonwealth police training funds available for the District's school police candidates.

The District also notes that imposition of a mandatory Act 120 training requirement would force the School District to compete for school police candidates in the same labor pool as local municipal police departments. This could impair the School District's ability to successfully recruit an adequate pool of qualified candidates and would also be likely to significantly raise the District's costs.

The School District will continue to evaluate the applicability of 24 P.S. § 7-778(c)(3) to its school safety professionals. We agree with the Auditor General that the school climate and safety challenges facing our schools require the best possible team of professionals. We are ready and willing to work with the Auditor General's Office and other stakeholders to pursue new initiatives and available funding opportunities to enhance our District's school climate and safety programs and the quality and effectiveness of our District's school safety professionals.

SubFinding B: Expand In-Service Training for Current Officers

The Office of School Safety understands the importance of continuing professional development for the District's school safety professionals. We agree that it is desirable to expand the in-service training offered to our officers. While we are always striving to increase and improve our in-service training program, we currently provide a wide range of training sessions throughout the year for our school police officers. In the past two years, our officers have received trainings on subjects such as: legal updates, single school culture, positive behavior support, report writing, basic investigations, customer service and special education training.

In the future, we will look to increase the amount of training opportunities we can provide for our officers by taking advantage of the designated professional development days provided by Office of Professional and Staff Development.

Department of the Auditor General response:

We disagree with the District's conclusion that its "school police officers," as it purports them to be, do not require Act 120 training. Moreover, based on the statements presented by the District in its response, we question whether the District may now be even further out of compliance with the law.

First, we acknowledge the District's officers are not sworn municipal police officers, nor do the officers currently perform the typical arrest and booking duties of sworn officers. However, the District's officers regularly perform the detainment of individuals as necessary and are permitted

to issue summary citations. Therefore, pursuant to Section 7-778(b.1) of the Public School Code of 1949 (Code), 24 P.S. § 7-778(b.1), every **new** school police officer employed by the District is required to receive training in compliance with the Municipal Police Education and Training Program, pursuant to 53 Pa.C.S. § 2161 *et seq.*, before beginning his or her duties. Moreover, Section 778(a.1) of the Code, 24 P.S. § 7-778(a.1), requires that the District annually report the date and type of training provided to each currently employed school police officer to the PDE's Office of Safe Schools.

Secondly, there is no contradictory statement regarding the Act 120 school police officer training requirements in the audit report as the District asserts in its response. The District's assertion demonstrates its continued confusion about the differences between the issue of the training required by newly appointed officers (as discussed in the earlier part of the finding) and those who are already serving (referenced at the end). Again, as stated above, while Section 778(b.1) of the Code requires all **new** officers to complete Act 120 training before his or her employment, the Code does not specifically require those officers **currently employed** to undergo Act 120 training.¹ To this point, we further note that counsel for the Pennsylvania School Boards Association has espoused a similar opinion.²

Thirdly, and perhaps most disturbing to us, the District's response raises questions as to whether it understands **any** provisions of the law regarding school police officers. For example, the District now claims that, because "no court has authorized the District's school police officers to exercise the powers delineated under 24 P.S. § 7-778(c)(3)", it is thereby exempted from the Act 120 training requirements prescribed under Section 778(b.1) of the Code. However, this is a completely flawed premise. If no court has authorized the officers,³ then the District's officers are **not** "school police officers" as the District has clearly and consistently purported them to be. Without such court authorizations, these officers would then be more accurately referred to as school security personnel and, therefore, would not have explicit power or authorities emanating from the Code. Specifically, the officers should not exercise the detainment of individuals, nor have the authority to issue summary citations, and most certainly, **not** be classified as "school police officers." Thus, we highly caution the District, that without such court authorization of

¹ As noted in the report, in the prior legislative session, the General Assembly attempted to clarify the training ambiguity for currently serving officers that presently exists in the law by introducing legislation to: (1) formally define a school police officer as a sworn police officer; (2) allow for cost reimbursements for required training; and (3) require that **all** (to include all existing and all newly hired) school police officers complete Act 120 training within 2 years of passage of the bill. We believe this is sensible legislation, and as stated in the audit report, demonstrates that a change for currently serving officers is possible, if not likely

² Knade, Esq., Stuart L., "Legal Note: Act 70-2004 Adds Training Mandate for School Police." *PA School Boards Association - School Leader News* (Sept. 25, 2004), which stated the following upon the 2004 amendments' passage, ". . . the new language provides no clue about how the new requirements may apply to persons already serving as school police officers, if at all."

³ Under Section 778(a) of the Code, 24 P.S. § 7-778(a), "Any school district may apply to any judge of the court of common pleas of the county within which the school district is situated to appoint such person or persons as the board of directors of the school district may designate to act as school police officer for said school district. The judge, upon such application, may appoint such person, or so many of them as he may deem proper, to be such school police officer and shall note the fact of such appointment to be entered upon the records of the court. **The judge may**, at the request of the school district, **grant** the school police officer the power to arrest as provided in subsection (c)(2), the authority to issue citations for summary offenses **or the authority to detain students until the arrival of local law enforcement**, or any combination thereof." [Emphasis added.]

new officer appointments and the special powers, the District will be further out of compliance with important provisions of the law.

Lastly, as to a resource issue for the District in providing Act 120 training, this is not entirely accurate. While it is true that the District would not currently be eligible for training cost reimbursements, there is no requirement for the District to pay for the training for new hires. In fact, in great contrast to the District, the Pittsburgh Public Schools, which also employs school police officers, does not routinely pay for its officers to complete Act 120 training.¹ Instead, potential applicants are required to have already completed the training, usually at their own expense. As stated in the report, we acknowledge the many difficulties presented in providing Act 120 training to all current officers. However, if the District's new school police officers have already completed the training, this actually presents an inconsequential resource issue for the District.

In conclusion, our position remains that the General Assembly intended for well-trained school police officers with the specialized knowledge, skill, and experience to allow for performance of the court-approved powers provided for in the Code, and that all new school police officers must receive Act 120 training. As such, the finding stands as presented. We believe a reasonable approach to achieving this goal is to begin hiring school police officers who have already completed Act 120 training, and perhaps dedicate these officers to patrol duties. Additionally, if it has not already done so, the District must obtain the necessary official court authorizations from the Philadelphia Court of Common Pleas. We are referring this finding to the Office of the Attorney General, the Philadelphia Office of the District Attorney, and to the President Judge of the Philadelphia Court of Common Pleas (with a copy to the Court Administrator of Pennsylvania) for their review and whatever further action they deem necessary.

Finding No. 2: The School District of Philadelphia Lacked the Documentation Necessary to Demonstrate That Certain School Police Officers Have Passed Statutorily Required Background Checks

School District's response:

The Report includes recommendations regarding missing background check records and implementation of policies and procedures for notification regarding employees charged or convicted of crimes. The School District responds as follows:

SubFinding A: Missing Background Checks

The School District agrees that Pennsylvania State Police background checks should be on file for all employees and is in the process of obtaining them for the officers in question. The District would like to note, however, that all of the file notes cited in the Report are for employees hired

¹ In addition to requiring school police officers to have already successfully completed an Act 120 training course before being hired, we further note that, in full compliance with the law, the Pittsburgh Public Schools also seek court authorization from the Allegheny Court of Common Pleas to appoint school police officers.

over fifteen years ago, which may explain the inability to locate the requested information. Also, the District would like to note that it was able to furnish the auditors with all 40 FBI background check records that were requested. In order to ensure that records are obtained and are on file for all employees, the School District has established a comprehensive Employee Records Policies and Procedures Manual which describes the documents required as a requirement for School District employment. The Manual includes a checklist to ensure that all of the required documents have been obtained. Records required as part of the Policies and Procedures include:

- Criminal Records Check
- FBI Background Check
- Child Abuse Clearance
- Code of Ethics Acknowledgement Form

To further enhance the District's employee records policies and procedures and ensure that accurate and complete files are readily available for all employees, the District's required employee records are digitally stored.

SubFinding B: Procedures for Notification of Employees Charged with Crimes

As noted under the previous finding regarding school bus drivers, the School District does have a policy regarding employees charged with crimes. For many years, the School District has been informed by the Philadelphia police when any of its employees have been arrested. The current process for handling such cases has been in place for 30 years and was created as the result of a federal lawsuit. The District provides a hearing for all arrested employees, with representation when appropriate. The police report and statements, if any, by the arrested employee are reviewed. After the hearing, a decision is made whether to suspend the employee without pay until the criminal process is completed. If the charges are dropped or the employee is found not guilty, the employee can petition to return to work. If convicted, the suspension becomes a termination. The District will research the potential to require all employees to self report criminal charges.

Department of the Auditor General response:

The District agrees with the finding. We will continue to monitor this area in future audits.

Finding No. 3: The School District of Philadelphia Should Take Steps to Address Potential School Building Safety Concerns

School District's response:

The School District agrees with the Auditor General's Office that all school buildings should be safe for our staff and students, and the District has made this one of its top priorities. We take this issue very seriously and have implemented programs in each of the areas discussed in the Report:

- Anti-bullying policy
- Emergency drills
- Web filters
- Securing exterior doors
- Conducting vulnerability assessments
- Individual school deficiencies

SubFinding A: Anti Bullying Policy

The School District, through the Office of Academic Support, has distributed to ALL school principals Policies #249 and #248 that speak directly to federal mandates for Bullying and Unlawful Harassment. These policies were updated and approved by the School Reform Commission on September 22, 2010. These policies address the following points related to Bullying and Unlawful Harassment:

- What is Bullying?
- What Should You Do When You Or Someone You Know Is Being Bullied?
- What Will Happen When An Incident OF Bullying Is Reported?
- What Happens To Students Who Bully?

In addition to receiving the policies, schools are being directed to post a Bullying and Unlawful Harassment Poster in each of their classrooms and in common areas (i.e. auditorium, cafeteria, hallways, main office). A Student On Student Harassment Complaint Report is being established in each school to document and review those cases that are reported. Each school will be provided with a comprehensive summary of the cases reported at their school, along with a follow-up of interventions and supports provided by the school and those available through various District and City offices. Schools have also provided families with letters stating the District's commitment to address bullying and harassment. Schools will also facilitate student assemblies, parent meetings, town hall meetings, grade group and small learning community meetings to discuss and inform students, parents, and staff of the District's Bullying and Unlawful Harassment policies and the required procedures for reporting incidents of bullying and unlawful harassment. To help support this effort counselors, student advisors, social services liaisons, resource specialists and other student support personnel have been deployed to work directly with individual students who have been involved in bullying and/or unlawful harassment incidents. Further, each school is implementing a bullying and violence prevention curriculum.

The *Second Step* program is being implemented in grades 1-8. *Second Step* will help students acquire language and communication skills while learning to solve problems, get along with others, and identify feelings. The program includes group discussion, role-plays, hands-on activities, songs and puppets (Pre/K), and video vignettes (grades 1-5).

School-Connect: Optimizing the High School Experience is being implemented in grades 9-12. The *School-Connect* curriculum is designed to improve high school students' social, emotional, and academic skills and strengthen relationships among students and teachers. The program consists of four modules that are based on the Social and Emotional Learning (SEL)

Competencies identified by researchers as critical to success in school, the workplace, and life in general: social awareness, self-awareness, self-management, relationship skills, and responsible decision-making.

SubFinding B: Emergency Drills

Students and other school personnel are trained annually to leave their buildings in an orderly manner and go to a place of safety on the ground outside. This “fire drill” is practiced frequently enough to ensure, in times of emergency, the highest degree of obedience, order and control in the mass evacuation of each building. In addition to fire drills, schools are also required to practice “shelter in place drills” and “lock down drills” to prepare for emergencies that do not require or permit the evacuation of the building, where the school population must be secured within the building.

Schools are required to execute at least 10 fire drills per year with two of them occurring in the first 2 weeks of school opening. The remaining drills are executed throughout the remainder of the year and also include additional drills for shelter in place and lock down. Staff from the School District’s Emergency Management unit monitor shelter in place drills and lock-down drills. Fire drills are monitored by the Philadelphia Fire Department as well as school staff. Each school is responsible for maintaining a log of their drills that includes the date, level of performance, time needed for execution and weather conditions. The results are reviewed and become the basis for future drills.

In addition to these drills, schools are made aware of evacuation locations outside of the school. These sites are used for emergencies that might require evacuation of the building, such as a shutdown of utility service to the school (because of issues with gas, water, electric, fumes, etc.). These locations include relocation sites most immediate to the school’s location, in the event that travel to another area of the city is not needed, as well as relocation sites that require relocation to another area of the city, to be used when emergency conditions affect not only the school but also a larger area that the school is located in. These locations are selected in keeping with recommendations and input from the City of Philadelphia, as the District works with the City as a cooperative participant in the maintenance of the City’s overall evacuation plans.

SubFinding C: Web Filters

Since 2001, the School District of Philadelphia has been required under the Children's Internet Protection Act (CIPA) to maintain a filtering system that reasonably prevents both students and staff from accessing inappropriate websites and Internet content. While the filtering system does proactively try to prevent access to inappropriate websites and Internet content, the District has learned that modifications and exceptions are sometimes needed and are best identified by those using the Internet in an educational setting.

For this reason, the District has developed an on-line Internet filtering exception application which provides school-based instructional and administrative staff with the ability to request modifications or exceptions to the School District of Philadelphia's Internet filtering system. These requests are reviewed by an Internet Technology Filtering Committee (ITFC). Chat

messaging services as a category are blocked. However, there is a list of exceptions for chat services that have been reviewed and approved by the ITFC. The approved chat services have been deemed appropriate for the educational environment and a valuable tool to support the District's instructional mission.

With the ever changing face of the Internet, the on-line Internet filtering exception application enables District employees to submit sites that need to be reviewed and either blocked or unblocked based on such essential criteria as the safety of students and/or staff, appropriateness in the classroom, alignment to the District's instructional mission, and the security of the District's technology environment.

SubFinding D: Securing Exterior Doors

Facilities Management Services has procedures and policies in place that instruct all staff in proper protocol for opening and closing of schools. The protocol is as follows: all exterior doors must have the slide deadbolts in the unlock position before the arrival of all other building occupants. This procedure is to take place between 6:30 a.m. and 7:00 a.m. In addition, all active locks have vertical or horizontal panic release systems, and are on all doors of egress from the building. These practices allow the district to meet the code compliance requirements of both the Licenses and Inspections Department and the Fire Department of the City of Philadelphia.

SubFinding E: Conducting Vulnerability Assessments

Facilities Management Services conducts monthly walk-throughs with school-based administrators. The purpose is to conduct inspections in three categories: health safety, life safety and building integrity.

SubFinding F: Individual School Deficiencies

Facilities Management Services has staff stationed in every building who are required to conduct daily walk-throughs to identify concerns and issues that need resolution. If there are repairs needed, a work order is created. The work order system has five (5) levels of priorities, with urgent life safety issues having the highest priority and requiring immediate action. All work orders are monitored from creation to completion. School administrators are informed of the progress of the repairs within their buildings and expected dates for the initiation and completion of projects.

Department of the Auditor General response:

The District agrees with the finding. We will monitor the changes instituted by the District in future audits.

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