



**City of Philadelphia  
Office of the City Controller**

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**Office of the City Controller Finds Serious Issues with City's Financial Management;  
Recommends Urgency in Addressing Findings**

*Controller's Office releases Report on Internal Control and On Compliance and Other Matters for Fiscal Year 2017.*

**Philadelphia, PA** – The Office of the City Controller released the Report on Internal Control and On Compliance and Other Matters Fiscal Year 2017, finding that the City had two material weaknesses and eight significant deficiencies in its internal control over financial reporting. The material weaknesses resulted in \$33 million being unaccounted for in the City's largest cash account and \$924 million in undetected material misstatements that occurred in the preparation of the City's financial reports.

"The material weaknesses and significant deficiencies in internal control over financial reporting are not isolated incidents; they are indicative of a much larger problem. Philadelphia has serious issues with its financial management. Compared to the other top ten largest cities, Philadelphia has by far the largest number of reportable internal control findings," said City Controller Rebecca Rhynhart. "If these deficiencies continue to go unaddressed, this could result in the city's financial statements being considered an inefficient tool for assessing the city's financial health. I call on Mayor Kenney to treat these issues with serious urgency and to develop a comprehensive plan with a detailed timeline to address each finding over the next year."

A material weakness is a deficiency, or combination of deficiencies, in internal control resulting in a reasonable possibility that a material misstatement of the City's financial statements may not be prevented or detected and corrected on a timely basis. For FY2017, the following material weaknesses were identified:

**Material weakness: Weaknesses in the Treasurer's Office bank reconciliation process created the potential for significant errors and irregularities**

By not properly reconciling the City largest cash account, called the consolidated cash account, from fiscal year 2015 through the first 11 months of fiscal year 2017, a variance of \$33 million (as of June 30, 2017) occurred between the account's book and the bank balance. Other accounts that are supposed to be reconciled by the Treasurer's Office have also gone unreconciled, some dating back to September 2010. These deficiencies have been cited in the internal control report as a finding repeatedly. The Controller's Office recommended a number of procedural changes.

In response to the Controller's Office report findings and recommendations, the Finance Office provided its plan for remediating the cash control weaknesses identified in the Controller's report, including hiring an outside accounting firm to reconcile the consolidated cash account, working with an outside consultant to develop additional internal controls and corrective action plans to ensure timely reconciliations in the future, and preparing weekly status reports to closely monitor the progress of reconciling all accounts. The Finance Office notes in its response that the \$33 million variance has been reduced to \$28.6 million; however, the Controller's Office has not verified this amount at this time.

**Material weakness: Inadequate staffing levels, lack of technological investment, and insufficient oversight have led to undetected material misstatements**

During the preparation of the FY2017 Comprehensive Annual Financial Report (CAFR), Finance Office staff did not detect \$924 million in errors. Auditors from the Controller's Office identified the errors during their review and notified Finance accountants who, subsequently, corrected most of the errors. Controller's Office auditors cite staff shortages and turnover, as well as the lack of a comprehensive reporting system, as the cause for this finding. The Controller's Office recommended that Finance increase its staff, provide additional training and invest in systems upgrades to improve the preparation and accuracy of the CAFR. Errors in the CAFR preparation have been a finding in the internal control report since FY2007 without remediation.

In response to the Controller's Office findings and recommendations, the Finance Office stated that it had retained of an outside firm to assist in the preparation and compilation of next fiscal year's CAFR, but Finance did not provide a detailed plan or timeline to address the underlying deficiencies in this material weakness.

"While I want to acknowledge that Finance has a plan for the bank reconciliation issues, Finance's response to nearly \$1 billion in accounting mistakes, without a timeline or action plan to address it, is woefully insufficient," said Controller Rhyhart.

A significant deficiency, while less severe than a material weakness, is a deficiency, or a combination of deficiencies, that warrants attention. For FY2017, the following significant deficiencies were identified:

- Payment vouchers approved without required management authorization;
- Allowing unauthorized individuals to approve bi-weekly payrolls increases risk for improprieties;
- Failure to segregate payroll duties could allow fraud to occur;
- Capital asset control deficiencies increase risk of reporting errors;
- Failure to timely transfer funds between city bank accounts could result in significant reporting errors;
- Lax monitoring of adjustments to tax accounts may lead to undetected errors or irregularities;
- Standard Accounting Procedures (SAPs) require updating to ensure accurate and consistent application of accounting rules and regulations; and
- General information technology controls require strengthening.

Further detail on the significant deficiencies are outlined in the full report. Read the full report [here](#). The Controller's Office will provide an update on the status of the City's response to the internal control findings in the coming months.