

# CITY OF PHILADELPHIA PENNSYLVANIA

## OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE AND  
OTHER MATTERS

CITY OF PHILADELPHIA

FISCAL 2016

City Controller  
**Alan Butkovitz**



*Promoting honest, efficient & fully accountable government*



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
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ALAN BUTKOVITZ  
City Controller

CHRISTY BRADY  
Deputy City Controller

June 23, 2017

Honorable James F. Kenney, Mayor  
City of Philadelphia  
215 City Hall  
Philadelphia, PA 19107

Dear Mayor Kenney:

In accordance with the Philadelphia Home Rule Charter, the Office of the Controller conducted an audit of the basic financial statements of the City of Philadelphia, Pennsylvania as of and for the fiscal year ended June 30, 2016, and has issued its Independent Auditor's Report dated February 24, 2017.

In planning and performing our audit, we considered the City of Philadelphia, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over financial reporting.

Attached is our report on internal control over financial reporting and on compliance and other matters, dated February 24, 2017 and signed by my deputy who is a Certified Public Accountant. The findings and recommendations contained in the report were discussed with management at an exit conference. We included management's written response to the findings and recommendations as part of the report. We believe that, if implemented by management, the recommendations will improve the City of Philadelphia, Pennsylvania's internal control over financial reporting.

We would like to express our thanks to the management and staff of the City of Philadelphia for their courtesy and cooperation in the conduct of our audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Alan Butkovitz'.

ALAN BUTKOVITZ  
City Controller

cc: Honorable Darrell L. Clarke, President  
and Honorable Members of City Council  
Rob Dubow, Director of Finance and other  
Members of the Mayor's Cabinet



# CITY OF PHILADELPHIA

## REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

### EXECUTIVE SUMMARY

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#### **Why The Controller's Office Conducted the Examination**

Pursuant to Section 6-400 (c) of the Philadelphia Home Rule Charter we conducted an examination of the City of Philadelphia's (city) basic financial statements as of and for the fiscal year ended June 30, 2016 for the purpose of opining on their fair presentation. As part of this audit, we reviewed the city's internal control over financial reporting to help us plan and perform the examination. We also examined compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance which could have a direct and material effect on financial statement amounts.

#### **What The Controller's Office Found**

The Controller's Office found that the city's financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and issued a separate report that accompanies the city's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. The audit procedures used to arrive at our conclusion regarding these financial statements led us to identify a number of weaknesses and deficiencies in the process that city management uses to prepare the statements. These weaknesses and deficiencies contributed to errors totaling \$5.8 billion. Some of the more important matters requiring management's attention include:

- Inadequate oversight and review procedures over the city's financial reporting process, along with ongoing staffing shortages and turnover, continued to hinder the ability of city accountants to produce a timely, accurate, and complete CAFR without significant audit adjustments.
- Weaknesses in the Treasurer's Office bank reconciliation process created the potential for material reporting errors and irregularities. Differences between book and bank activity for the city's primary depository account (consolidated cash) were not being readily identified or investigated. Also, bank account reconciliations were not timely completed, with 23 percent of accounts not reconciled until more than two months after fiscal year-end. Several accounts were not reconciled at all, most notably the city's payroll and general disbursement accounts, which have not been reconciled since September 2010 and April 2012, respectively.
- Unauthorized approvals for payroll disbursements increased the risk of improper expenditures.

#### **What The Controller's Office Recommends**

The Controller's Office has developed a number of recommendations to address the above findings. These recommendations can be found in the body of the report.





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ALAN BUTKOVITZ  
City Controller

CHRISTY BRADY  
Deputy City Controller

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Honorable Members  
of the Council of the City of Philadelphia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements, and have issued our report thereon dated February 24, 2017. Our report includes a reference to other auditors. Other auditors audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

### Primary Government

Municipal Pension Fund  
Philadelphia Gas Works Retirement Reserve Fund  
Parks and Recreation Departmental and Permanent Funds  
Philadelphia Municipal Authority  
Pennsylvania Intergovernmental Cooperation Authority

### Component Units

Community College of Philadelphia  
Delaware River Waterfront Corporation  
Philadelphia Parking Authority



C I T Y O F P H I L A D E L P H I A  
O F F I C E O F T H E C O N T R O L L E R

Component Units (Continued)  
Philadelphia Redevelopment Authority  
Community Behavioral Health  
Philadelphia Authority for Industrial Development  
Philadelphia Gas Works

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Delaware River Waterfront Corporation and Philadelphia Parking Authority were not audited in accordance with *Government Auditing Standards*.

We have also audited the basic financial statements of the School District of Philadelphia, a component unit of the City of Philadelphia, in accordance with *Government Auditing Standards* and issued a separate report on the School District's internal control over financial reporting and on compliance and other matters.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Philadelphia, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying report as items 2016-001 and 2016-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2016-003 to 2016-009 to be significant deficiencies.

C I T Y O F P H I L A D E L P H I A  
O F F I C E O F T H E C O N T R O L L E R

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philadelphia, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying report as item 2016-010.

### Other Conditions

We noted certain other conditions that represent deficiencies in internal control described in the accompanying report as items 2016-011 to 2016-014. Also, during our annual examination of the financial affairs of city departments as well as an assessment of information technology general controls conducted by an independent accounting firm engaged by us, we identified other internal control and compliance deficiencies which will be communicated to management in separate reports.

### City of Philadelphia, Pennsylvania's Response to Findings

The City of Philadelphia, Pennsylvania's written responses to the findings identified in our audit are included as part of this report. The City of Philadelphia, Pennsylvania's written responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CHRISTY BRADY, CPA  
Deputy City Controller  
Philadelphia, Pennsylvania  
February 24, 2017

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## MATERIAL WEAKNESSES

### 2016-001 INADEQUATE FINANCIAL REPORTING OVERSIGHT HAS LED TO UNDETECTED MATERIAL MISSTATEMENTS

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Comprehensive Annual Financial Report (CAFR). To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system, numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.<sup>1</sup> Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of accountants to prepare a timely, accurate, and completed CAFR without significant adjustments recommended by the City Controller's audit staff. More specifically, we observed that:

- Staff reductions and turnover in the Finance Office, as well as a lack of a comprehensive financial reporting system, have compromised the accurate preparation of the CAFR;
- Inadequate management oversight by the Revenue Department resulted in misstated receivables reported in the financial statements presented for audit; and
- Late submission of financial reports for some component units hampered the timely preparation of the CAFR.

Each of these conditions is discussed in more detail below.

#### Staff Shortages and Turnover Along with Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

**Condition:** Errors totaling \$5.8 billion were not detected by Finance Office accountants during preparation of the city's fiscal year 2016 CAFR.

**Criteria:** Financial statements should be prepared to communicate relevant and reliable information. Accordingly, the statements should be free of all errors that might affect a reader's ability to make confident and informed decisions.

**Effect:** Because Finance Office accountants agreed with and corrected most of the errors we identified, the city's publicly issued fiscal year 2016 CAFR can be relied upon for informative decision making.

**Cause:** Ongoing inadequate staffing and employee turnover during the year, along with the lack of a comprehensive financial reporting system, have hindered the ability of the Finance Office to produce an accurate draft of the CAFR for audit. More specifically:

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<sup>1</sup> These quasi-government units are considered component units for purposes of the city's CAFR.



- The Finance Office has continued to operate with a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by nearly 23 percent (from 64 full-time employees in fiscal year 2000 to 49 in fiscal year 2016). While the Finance Accounting Division's overall staff size showed a slight increase during the last year, there was also staff turnover, with several new hires and various individuals promoted to supervisory and managerial positions. Inadequate staff size, combined with several employees performing new duties, made the task of completing the CAFR more difficult and compromised the ability of Finance Office management to perform adequate reviews of the financial statements and related financial disclosures. For example, \$5.4 billion of the \$5.8 billion in errors not detected by Finance Office management were mistakes in reported component unit amounts that occurred when accountants did not correctly record information from component unit financial reports. Additionally, we found undetected errors in the Finance Office's supporting schedules for the CAFR. For instance, we noted \$41 million of errors in the schedules that support grant-related amounts reported in the CAFR.
- Accountants in the Finance Office lacked a comprehensive financial reporting system to prepare the CAFR. Instead, accountants produce the CAFR using numerous Excel, Lotus 1-2-3 (a program that has been discontinued and unsupported since 2014), and Word files with various links between the files. Using multiple linked files creates a cumbersome process which can adversely affect the accuracy and completeness of the CAFR.

**Recommendations:** Without sufficient and experienced accounting staff and a comprehensive financial reporting system to prepare and review information needed for the CAFR, the risk increases that significant errors can occur and not be timely discovered and corrected. We continue to recommend that Finance Office management either hire more accountants, or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR [50107.01]. Additionally, we recommend that management provide adequate training for new hires and employees performing new duties [500116.01].

Our discussions with Finance Office management disclosed that they are planning to hire an accounting firm to assist them with the preparation and review of the fiscal year 2017 CAFR, including the completion of a compilation package with detailed documentation supporting the financial statements. We commend the Finance Office for this initiative and recommend that they implement this plan [500116.02].

### **Inadequate Management Oversight Resulted in Misstated Year-End Receivables**

**Condition:** Revenue Department management did not detect over \$220 million of errors in the department's calculations of accounts receivable and related accounts.<sup>2</sup> As in prior years, the majority of the errors (\$200 million) involved the Emergency Medical Services (EMS) receivables.<sup>3</sup>

**Criteria:** Section 6-200 of the Philadelphia Home Rule Charter specifies that the Revenue Department is responsible for the collection of all monies payable and due to the city. When revenue is collected by other city agencies with regularity and in sufficient volume, employees of those agencies are to act as agents for the

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<sup>2</sup> Related accounts included the allowance for doubtful accounts and deferred inflows of resources.

<sup>3</sup> EMS fees are charged for ambulance transport and other medical services provided to citizens and visitors of the city.

Revenue Department<sup>4</sup> to facilitate accountability. The Revenue Department is then responsible for the accurate accounting of city revenue and receivables, and estimating amounts deemed uncollectible at year-end, for inclusion in the CAFRs of the School District of Philadelphia and the city.

**Effect:** Because Finance Office accountants corrected the errors we identified in the Revenue Department's calculations, the accounts receivable and related accounts reported in the city's fiscal year 2016 CAFR were materially accurate.

**Cause:** As we have commented over the last several years, the Revenue Department still needs better oversight of the receivable reporting function. We observed (1) an inadequate managerial review, (2) insufficient communication with the Fire Department regarding the EMS receivable calculation, and (3) failure to formalize written procedures for the receivable reporting function. In particular, we noted:

- Inadequate managerial reviews occurred within the Revenue Department's Financial Reporting Unit (FRU). This unit is responsible for calculating the receivable amounts reported in the CAFR. Given the significant undetected errors in the accounts receivable calculation, the supervisory personnel did not appear to have been adequately trained to perform their duties effectively.
- FRU's failure to communicate with the Fire Department regarding the EMS receivable calculation significantly contributed to the error in that receivable. We observed that the Fire Department reported the correct EMS receivable amount to the FRU. However, in arriving at the EMS receivable amount reported to the Finance Office for inclusion in the CAFR, the FRU incorrectly deducted a \$200 million receivable write-off that had not been approved by the Accounts Review Panel.<sup>5</sup> FRU personnel should have conferred with Fire Department accountants before making such a significant adjustment to the EMS receivables.
- The procedural manual outlining functions to be performed by the FRU needs to be updated and revised, particularly with regard to procedures for reporting receivable write-offs and calculating the allowance for doubtful accounts.

**Recommendations:** If the Revenue Department's oversight of city receivables does not improve, there will continue to be an increased risk of financial statement errors. To improve oversight over city receivables, we again recommend that Revenue Department management:

- Formally approve and finalize written procedures for the FRU to provide guidance on: (1) accurately establishing year-end receivable balances; (2) performing an independent review of related activity; and (3) annually updating the basis for estimating the uncollectible accounts receivable amounts [500110.01].
- Provide adequate training to FRU employees responsible for calculating receivables and related accounts [500111.01].

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<sup>4</sup> The Philadelphia Home Rule Charter, Section 6-204.

<sup>5</sup> The Accounts Review Panel, which was established in 1966 by Bill No. 1938, is responsible for approving all write-offs of city receivables. Receivables cannot be written off without first being approved by the Accounts Review Panel.

- Work closely with the Fire Department to accurately report the year-end EMS receivables and allowance for doubtful accounts [500113.05].

### Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

**Condition:** As we have reported for the last several years, late receipt of component unit financial reports continued to delay preparation and audit of the city's CAFR. As shown in Table 1 below, seven of the city's ten component units still did not submit their final reports by the due dates requested by Finance Office accountants.

**Table 1: Late Submission of Component Unit Financial Reports**

<u>COMPONENT UNIT</u>	<u>DUE DATE</u>	<u>DATE RECEIVED</u>	<u>DAYS LATE</u>
Delaware River Waterfront Corporation	9/15/2016	12/21/2016	97
Pennsylvania Intergovernmental Cooperation Authority	9/30/2016	12/01/2016	62
Philadelphia Authority for Industrial Development	9/15/2016	11/4/2016	50
Philadelphia Gas Works	12/15/2016	12/30/2016	15
Philadelphia Municipal Authority	11/4/2016	2/08/2017	96
Philadelphia Redevelopment Authority	9/15/2016	2/17/2017	155
School District of Philadelphia	11/15/2016	2/17/2017	94

Note: Community Behavioral Health, the Community College of Philadelphia, and the Philadelphia Parking Authority submitted their financial reports timely.

Source: Prepared by the Office of the City Controller

The greatest challenge to the timely completion of the CAFR came from the School District of Philadelphia and the Philadelphia Redevelopment Authority. Because both of these agencies submitted their reports on February 17, 2017 – one week before the final CAFR issuance date – there was very little time for the Finance Office and the Controller's Office auditors to ensure that they were accurately included into the city's CAFR.<sup>6</sup>

**Criteria:** An essential element of financial reporting is that it promotes management accountability and communicates information early enough to allow users of the financial statements to make timely, informed decisions.

**Effect:** Failure to receive component unit financial statements on time increases the chances for errors or omissions, as Finance Office accountants become limited in the amount of time available to adequately review the reports. The risk of error also increases as accountants must make significant changes to the financial statements and footnote disclosures each time a component unit's financial information is added to the report. Additionally, each series of changes requires considerable audit time to ensure that accountants

<sup>6</sup> While the Philadelphia Municipal Authority (PMA) also submitted its audit report in February 2017, it did not present as significant a reporting problem because PMA had submitted a draft report to the city in October 2016, early enough to be included in the first draft of the CAFR.



have correctly changed previous amounts and footnotes presented for audit. During the current year audit, we identified and Finance corrected misclassification errors relating to the component units totaling \$5.4 billion.

**Cause:** There is no incentive for component units to submit their final financial statements timely to the city and no consequences for those who do not meet the required deadline.

**Recommendation:** We again recommend that, early in the CAFR preparation process, Finance Office accountants solicit the assistance of the mayor and/or other administrative officials to secure the cooperation of all component units' management in the timely submission of their respective final financial reports to the city's Finance Office [50102.01].

## **2016-002 WEAKNESSES IN TREASURER'S CASH CONTROLS CREATE POTENTIAL FOR MATERIAL REPORTING ERRORS AND IRREGULARITIES**

Section 6-300 of the Philadelphia Home Rule Charter designates the City Treasurer as the official custodian of all city funds, and thereby charges the Office of the City Treasurer (Treasurer) with the responsibility for establishing controls to safeguard these assets and ensure the accuracy of reported cash balances. Our audit disclosed deficiencies in the Treasurer's bank reconciliation procedures, most notably for the city's primary depository account (i.e. consolidated cash account), where differences between book and bank activity were not being readily identified or investigated. Also, we again noted that the Treasurer did not prepare bank reconciliations on a timely basis for a significant portion of its accounts, and that several accounts were not reconciled at all. These deficiencies in the Treasurer's controls over its cash accounts, which collectively we consider to be a material weakness, increased the risk for undetected material errors in reported cash and revenue amounts and potentially invites fraud to occur without discovery. Each of these conditions is discussed in more detail below.

### **Deficiencies in Treasurer's Reconciliation Procedures Could Result in Material Errors or Improprieties**

**Condition:** According to its accounting records, the city collected nearly \$9.7 billion in cash receipts during fiscal year 2016. With collections of such significant value, conducting a proper reconciliation of accounting records to bank statements which identifies discrepancies for subsequent investigation is essential to safeguard cash and detect errors and irregularities in the daily recording of receipts. However, our testing noted the following deficiencies in the procedures used by the Treasurer for reconciling its cash accounts:

- The Treasurer's reconciliation of the consolidated cash account was incomplete. Specifically, the reconciliation did not include a comprehensive list that readily identified each of the reconciling items making up the difference between the book and bank balance, which would assist the Treasurer and Finance Office in determining whether all receipts were deposited and all transactions recorded. Instead, Treasurer accountants only prepared a summary schedule that compared book and bank totals for each receipt and disbursement type (i.e. cash, checks, wire transfers, etc.) and presented the differences without further explanation or investigation.

- The consolidated cash account reconciliation also contained a large and complex series of spreadsheets that attempted to compare the account's monthly receipt and disbursement transactions per the city's accounting system (FAMIS)<sup>7</sup> to bank activity. However, this effort was inconsistently applied from month to month, and fell short in accounting for all transactions.
- Also, as noted in last year's report, the Treasurer's bank reconciliation process included neither (1) a comparison of all reported receipt amounts on the Revenue Department's daily report of city collections, also known as the Consolidated Summary of Deposits (CSD), to amounts deposited in the consolidated cash account nor (2) a subsequent investigation of differences between reported collections and bank deposits. This deficiency was evidenced by the results of our comparison of the CSD to city bank account statements for 22 selected dates where we found \$633,102 in reported collections for which Treasurer accountants could not provide a record of the monies ever being deposited.

**Criteria:** Standard Accounting Procedure (SAP) No. 7.1.3.b requires that monthly reconciliations of city bank accounts readily identify all of the specific transactions comprising the difference between the book and bank balance to allow city agencies to investigate these reconciling items and determine whether they represent errors or irregularities. To ensure the accuracy of the city's reported revenue receipts and cash balances and reduce the risk of fraud, it is essential that the Treasurer reconcile all daily collections reported on the CSD to amounts deposited into the city's bank accounts and timely investigate any differences noted.

**Effect:** Our extended tests of cash account and receipt activity disclosed no material errors. However, if this condition is allowed to continue, there is an increased potential for undetected material misstatements in the cash and/or revenue amounts reported in the city's CAFR. The city's cash accounts are also at an increased risk for undetected errors and fraud. The previously noted \$633,102 in reported collections that could not be matched to bank statements represented an error rate of .044 percent of the sample collections we tested. If this rate was consistent throughout the population of total reported fiscal year 2016 collections, the amount of reported cash receipts that could not be accounted for could be as high as \$4.3 million.

**Cause:** Treasurer management had not made it a priority to ensure that (1) the staff responsible for reconciling the consolidated cash account received adequate training in how to prepare bank reconciliations in accordance with SAP 7.1.3.b and (2) accountants compared all daily collections reported on the CSD to bank deposit amounts and timely investigated differences. Also, there was still an apparent lack of communication and coordination between the Treasurer and Revenue Department to ensure that Treasurer's accounting staff had an adequate understanding of the reported collection amounts on the CSD, their related responsibilities when performing the comparisons, and the necessary steps to resolve any identified differences.

**Recommendations:** To improve its reconciliation process for its cash accounts, we recommend Treasurer management:

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<sup>7</sup> Financial Accounting and Management Information System

- Either provide its accounting staff with the necessary training or hire an outside consultant to perform a proper and complete reconciliation of the consolidated cash account that would include the preparation of a comprehensive list of the specific reconciling items making up the difference between the book and bank balance. Once the list of reconciling items is established, the Treasurer should work with the Finance Office in investigating reconciling items to determine whether they represent errors in reported cash and/or revenue. Any errors identified should be corrected accordingly [500116.03].
- Revise its bank reconciliation procedures to include a comparison of all reported collection amounts on the CSD to amounts deposited in the city's bank accounts. Treasurer's Office accountants must document this comparison and investigate all identified discrepancies between reported collections and bank deposits. The comparison should be reviewed by supervisory personnel, who should evidence their review by initialing and dating the comparison. Also, management should formalize this reconciliation procedure in writing to ensure that it is consistently performed and documented [500115.05].
- Work more closely with Revenue Department management so that Treasurer's accounting personnel gain an adequate understanding of reported collection amounts presented on the CSD, their related responsibilities when performing the comparisons, and the necessary steps to resolve any identified differences [500115.06].

### **Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Increase the Risk for Irregularities**

**Condition:** The Treasurer again did not timely reconcile its bank accounts, which held over \$1.9 billion at June 30, 2016. For 17 of its 75 accounts (23 percent), the Treasurer did not compare the city's accounting records against the bank's records to ensure their accuracy, until more than two months after June 30<sup>th</sup>. For four accounts, this process did not occur until more than six months after fiscal year-end and for seven accounts, not at all through the year. While the current year's observations represent an improvement from the previous year, when we reported that 87 percent of the Treasurer's bank accounts were untimely reconciled, a significant number of Treasurer bank reconciliations were still not being timely completed or were not prepared at all. Table 2 below summarizes our findings with respect to the Treasurer's untimely bank reconciliations.

**Criteria:** Best practice, as well as the city's SAP No. 7.1.3.b, require that book balances for city cash accounts be reconciled to the bank balances on a monthly basis.

**Effect:** The city is at an increased risk for undetected errors in reported cash balances and/or irregularities in account activity.

**Cause:** This continuing condition suggests that Treasurer management has not made the completion of the required bank reconciliation process a priority or allocated the necessary resources to perform this function effectively.



**Recommendation:** We continue to recommend that Treasurer management devote the necessary time and resources to ensure that all required bank reconciliations are timely prepared on a monthly basis. Bank reconciliations for any unreconciled accounts must be brought up-to-date. Management should consider hiring an outside accounting firm to assist in this effort [500114.06].

**Table 2: Summary of Treasurer's Untimely Bank Reconciliations**

Month June 30, 2016 Reconciliation Was Prepared	# of Accounts	June 30, 2016 Bank Account Balance
<b><u>Prepared Less Than Two Months After June 30<sup>th</sup></u></b>		
July 2016	48	1,365,726,363
August 2016	<u>3</u>	<u>346,946</u>
<b>Subtotals – Prepared Less Than Two Months After June 30<sup>th</sup></b>	<b><u>51</u></b>	<b><u>1,366,073,309</u></b>
<b><u>Prepared More Than Two Months After June 30<sup>th</sup></u></b>		
September 2016	6	273,733,351
October 2016	3	185,258,994
November 2016	-	-
December 2016	4	15,470,763
After December 2016	<u>4</u>	<u>74,796,856</u>
<b>Subtotals – Prepared More Than Two Months After June 30<sup>th</sup></b>	<b><u>17</u></b>	<b><u>549,259,964</u></b>
<b>No Reconciliation Prepared<sup>†</sup></b>	7	68,090
<b>Totals for All Accounts</b>	<b><u>75</u></b>	<b><u>\$ 1,915,401,363</u></b>

<sup>†</sup>Two of the seven accounts were the city's payroll and general disbursement accounts, which have not been reconciled since September 2010 and April 2012, respectively.

Source: Prepared by the Office of the Controller from review of June 30, 2016 bank reconciliations provided by the Treasurer's Office

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**SIGNIFICANT DEFICIENCIES**

## **2016-003 ALLOWING UNAUTHORIZED INDIVIDUALS TO APPROVE BI-WEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES**

**Condition:** As reported over the last several years, we again noted instances where unauthorized employees approved the city's bi-weekly payrolls during fiscal year 2016. The official payroll signature files maintained by the Finance Office were not always consistent with the approval privileges assigned within the city's on-line payroll system. The city's on-line payroll process consists of the following three steps: data entry of payroll transactions, supervisory review, and executive approval. Our comparison of the payroll signature files for 56 city agencies to individuals authorized in the on-line payroll system to perform the executive-level approvals revealed:

- Twelve agencies (21 percent) had employees designated in the payroll system as authorized executive-level approvers who were not listed as such on the official payroll signature cards. For 3 of these 12 agencies, we noted a total of 56 pay periods in fiscal year 2016 where the executive-level approval was performed by an employee not listed on the agency's approved signature card. Two agencies, the Atwater Kent Museum and the Historical Commission, accounted for 52 of the 56 pay periods where payroll was approved by an unauthorized employee. While Finance Office management provided a signature card for the Atwater Kent Museum which listed the employees in question, the card did not contain the required approvals of the agency head, the Finance Office, and the City Controller's Office.
- Forty-one agencies (73 percent) had employees who were authorized as executive-level approvers, but not designated as such in the payroll system. Eighty-nine of these individuals did not have access to the system, but many of them were agency heads and deputies who usually delegated this responsibility to other agency officials in financial or personnel management positions.

We also observed four instances where employees with only supervisory-level approval privileges performed the executive-level approvals for their agencies' payroll. Finance Office management asserted that, in an emergency situation where the usual executive-level approver is unavailable, a department may request temporary executive-level approval privileges for a designated individual. However, management was unable to provide documentation to support temporary authorizations for the four instances we found.

To their credit, the Finance Office's Central Payroll Unit has taken measures to improve controls in this area. Starting in fiscal year 2015, the unit instituted a procedure to check whether authorized employees are approving payroll. Specifically, for each payroll period, the unit compares a report listing agency managers who perform the executive-level approvals in the on-line payroll system to the official agency signature card files and investigates any discrepancies. Also, in April 2016, the Central Payroll Unit established a policy requiring that, when an agency needs a temporary delegation of executive-level approval privileges, an agency official of sufficient authority<sup>8</sup> must submit an e-mail request to the payroll director, and the Central Payroll Unit will retain those requests to document the granting of the temporary authorizations. While this policy was implemented after the occurrence of the four undocumented temporary authorizations discussed above, we believe that the new requirement should prevent any such instances in the future.

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<sup>8</sup> The e-mail requesting temporary delegation of executive-level approval privileges must be sent by either a commissioner/agency head, deputy commissioner/director, administrative services director, human resources manager, budget officer, or fiscal officer.

**Criteria:** To reduce the risk of irregularities, effective internal control procedures dictate that only individuals who are properly authorized should approve the bi-weekly payrolls. Additionally, signature authorization records should be appropriately updated as required by the city's SAP No. E-0911 titled *Signature Authorization Cards*. This SAP requires the Finance Office to maintain a current signature file of employees authorized to enter executive-level approvals for their respective agency's payroll. The SAP also permits an agency head or deputy to temporarily delegate the executive-level approval to another administrative staff official when necessary due to the absence of the usual executive-level approver. The SAP requires that this delegation be documented on a temporary signature authorization card.

**Effect:** For six of 56 city agencies, unauthorized employees approved approximately \$8.5 million in payroll costs during fiscal year 2016. Although we found no improprieties, the city has exposed itself to a higher level of risk for such occurrences.

**Cause:** Despite the improvements noted above, the Finance Office's control procedures did not always timely identify instances of discrepancies between the signature authorization cards and executive-level approval privileges assigned within the on-line payroll system. With regard to the four undocumented temporary authorizations of executive-level approval, these instances occurred before Finance Office management formalized documentation requirements for this process in April 2016. However, management has not yet updated SAP No. E-0911 to reflect the current practice for the temporary delegation of executive-level approval.

**Recommendations:** We recommend Finance Office management:

- Continue to compare the list of executive-level approvers in the on-line payroll system to the signature authorization cards to ensure that all individuals are properly authorized and have appropriate on-line access to the system. [500113.13].
- Revise SAP No. E-0911 accordingly to reflect current documentation requirements for temporary authorizations of executive-level privileges [500115.01].

## **2016-004 FAILURE TO SEGREGATE PAYROLL DUTIES COULD ALLOW FRAUD TO OCCUR**

**Condition:** During fiscal year 2016, the duties concerning the data entry, review, and approval of bi-weekly payroll transactions were again not adequately segregated. Our testing of 56 city agencies for 26 pay periods revealed 374 occasions (26 percent), in which the same individual posted and approved the on-line payroll time records, applied both the supervisory and executive-level approvals, or performed all three duties. Employees in 31 agencies performed duplicate functions for more than two pay periods, with the Mayor's Office, the Department of Human Services (DHS), the Finance Office, and the Free Library being the most recurrent among the larger departments. A comparison of the current year's observations with the previous year's findings<sup>9</sup> indicated that there was no improvement in this condition.

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<sup>9</sup> The prior audit's testing disclosed 366 occasions during fiscal year 2015 (26 percent) in which these payroll functions were not separated. Also, we noted that, for 31 of 55 departments, employees performed duplicate functions for more than two pay periods.

**Criteria:** Effective control procedures require that payroll data entry, supervisory review, and executive-level approvals be performed by separate, authorized employees.

**Effect:** Failure to segregate duties and the combination of multilevel reviews increase the risk of undetected errors. Also, this situation provides opportunities for a person to perpetrate and conceal irregularities during the bi-weekly payroll preparation process, which may result in fraudulent payroll payments.

**Cause:** The city's current automated payroll system allows individuals with supervisory and executive-level approval authority to perform the work at their level, as well as the levels below them. Finance Office management asserted this system feature was intentional to ensure that payroll is processed in emergency situations that may occur when authorized individuals at all levels are not available to sign off on payroll.

**Recommendation:** We continue to recommend that the city's Finance Office remind city agencies of the importance of maintaining adequate segregation of duties for completing data entry, reviewing, and approving payroll each pay period. Since the city is in the process of modernizing its payroll system, we suggest the Finance Office ensure that the new system is designed to prevent one individual from performing two or more conflicting duties [500111.08].

## **2016-005 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS**

As previously reported during the last several audits, controls over capital assets are deficient because (1) the city does not have a comprehensive capital asset system to facilitate accounting and reporting of these assets and (2) periodic physical inventories of the assets are not performed. Each of these conditions is discussed in more detail below.

### **Lack of a Comprehensive Capital Asset System Hampered Reporting Process**

**Condition:** The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Lotus 1-2-3 and Excel files, that together with FAMIS, constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation expense and accumulated depreciation reported in the city's CAFR. Real property addresses are only available in FAMIS by user code, which is identified in an Excel file called the "Proof".

**Criteria:** Philadelphia's Home Rule Charter<sup>10</sup> requires management to maintain current and comprehensive records of all real property belonging to the city.

**Effect:** The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the CAFR and causes extensive audit effort. For example, we continued to find discrepancies between the "Proof" file and FAMIS – a \$1.0 million difference between vehicle categories and a \$7.4 million discrepancy in the accumulated depreciation balance for buildings.

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<sup>10</sup> The Philadelphia Home Rule Charter, Section 6-501

Also, we noted a \$3 million variance between equipment amounts on the “Proof” summary report and supporting “Proof” detail files.

**Cause:** While Finance Office management agrees that it would be beneficial to have a comprehensive capital asset system, resources have not been identified to initially fund and continually maintain it.

**Recommendation:** To improve the accounting and reporting of the city’s capital assets, we continue to recommend that Finance Office management secure the necessary resources to design or purchase a computerized capital asset management system that will provide accurate and useful information such as the book value and related depreciation for each city owned asset [50104.01].

### **Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records**

**Condition:** Except for the Philadelphia Water Department (PWD) and the Division of Aviation (DOA), which both periodically check the physical existence and condition of their real property assets, this year’s audit again disclosed no evidence that the city’s other real property assets had been recently inventoried. Also, while we previously recommended that the Finance Office compare the Philadelphia City Planning Commission’s master database of city-owned facilities to the city’s fixed asset ledger to identify any discrepancies, the Finance Office had not yet performed this comparison.

**Criteria:** SAP No. E-7201 specifies that the Procurement Department shall physically inspect all city-owned real property on a cyclical basis and check against the inventory listing to determine actual existence, condition and propriety of use. Additionally, the Government Finance Officers Association (GFOA) recommends that governments periodically inventory tangible capital assets, so that all assets are accounted for, at least on a test basis, no less often than once every five years. It also recommends governments periodically inventory the physical condition of all existing capital assets so that the listing of all assets and their condition is kept current. Furthermore, the GFOA recommends that a “plain language” report on the condition of the government’s capital assets be prepared, and that this report be made available to elected officials and the general public at least every one to three years.

**Effect:** Continued failure to perform a physical inventory increases the risk that the city’s recorded real property assets could be inaccurate and/or incomplete.

**Cause:** This issue has not been a priority for city management. The Finance Office, Procurement Department, and Department of Public Property (Public Property) – the agency responsible for acquiring and maintaining the city’s real property assets – have not developed a coordinated process for physically inventorying all city-owned real property.

**Recommendations:** We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort [50106.04].



- Develop and provide a plain language report on the condition of capital assets for the use of elected officials at least every one to three years. This report should also be made available to the general public [500109.02].
- Obtain the master list of city-owned facilities and compare it to Finance's records to identify any discrepancies and ensure the completion and accuracy of Finance's records [500113.14].

#### 2016-006 LAX MONITORING OF ADJUSTMENTS TO TAX ACCOUNTS MAY LEAD TO UNDETECTED ERRORS OR IRREGULARITIES

**Condition:** As previously reported, Revenue Department accountants again did not perform timely reviews of adjustments made to taxpayer accounts, which on any given day can involve millions of dollars. Revenue Department accountants did not perform a review of fiscal year 2016 adjustments until January 2017, seven months after the fiscal year had ended. Also, this review was very limited in scope. Out of approximately 65,000 adjustment transactions made to taxpayer accounts in fiscal year 2016, accountants examined only 153 adjustments (0.24 percent). Our discussions with Revenue Department management indicated that, as of February 2017, there had been no reviews of fiscal year 2017 adjustments although management planned to reinstitute an adjustment review on a monthly basis by the beginning of fiscal year 2018.

Numerous Revenue Department employees have the ability to post payment and receivable adjustments directly to taxpayer accounts on Revenue's Taxpayer Inquiry and Payment System (TIPS). TIPS is the department's computerized accounting system, which is the source for taxes receivable reported in the CAFR. Examples of payment adjustments include transferring payments within a taxpayer's account (i.e. between tax years and/or tax types), transferring payments from one taxpayer account to another, changing the dollar amount of a payment, and creating a new payment on the system. Receivable adjustments involve increasing, decreasing, or entirely deleting a taxpayer's liability. While employees only had the ability to perform adjustments up to an authorized dollar limit and supervisory approval was required for adjustments exceeding the established limits, the effectiveness of these system security controls was lessened by the fact that employees could have very high dollar limits. For example, we observed dollar limits as high as \$10 million for non-supervisory personnel and \$100 million for supervisory personnel.

**Criteria:** To ensure that adjustments made to taxpayer accounts are accurate and proper, there should be a regular review of daily payment and receivable adjustment activity in TIPS by an independent supervisor.

**Effect:** Although our tests of selected TIPS adjustments disclosed no instances of inaccurate or improper activity, taxpayer accounts are at a higher risk for undetected errors and irregularities. Consequently, there is an increased risk for lost revenue and misstatement of the taxes receivable reported in the city's CAFR.

**Cause:** During fiscal year 2015, the accounting supervisor responsible for reviewing the daily adjustment reports was transferred from the unit responsible for monitoring adjustments (the Accounting Control Unit) to another Revenue Department unit. When the supervisor was transferred, Revenue Department management failed to reassign this duty and, since that time, have yet to reinstitute the practice of timely reviews of TIPS adjustment activity.

**Recommendation:** We continue to recommend that Revenue Department management reinstitute the practice of regularly monitoring daily payment and receivable adjustment activity in TIPS. Supervisory personnel independent of the adjustment process should review the daily adjustment reports for patterns of irregular activity and test a sample of adjustments for accuracy and propriety. To evidence that these checks are performed, the supervisor should sign and date the adjustment reports upon completion of the reviews [500115.07].

## **2016-007 BETTER TRAINING AND OVERSIGHT ARE STILL NECESSARY TO ENSURE ACCURATE GRANT REPORTING**

**Condition:** For the past several years, the Grants Accounting and Administrative Unit (GAAU) of the Finance Office, working in conjunction with city agencies responsible for grants, has provided an inaccurate Schedule of Expenditures of Federal Awards (SEFA) for audit.

In response to our previous year comment, we observed that GAAU and the city agencies ensured that:

- Funding for the Child Welfare Demonstration Project – Title IV-E Program at DHS, which was reported under an incorrect Catalog of Federal Domestic Assistance (CFDA) number in the fiscal year 2015 SEFA, was reported under the correct CFDA number in the preliminary fiscal year 2016 SEFA.
- DHS’ Adoption Assistance – Title IV-E Program, which had misreported expenditures in the fiscal year 2014 SEFA and had misapplied expenditures against the department’s Foster Care – Title IV-E Program in the fiscal year 2015 SEFA, properly applied the Adoption Assistance Program expenditures in the preliminary fiscal year 2016 SEFA.
- The Airport Improvement Program at DOA, which since fiscal year 2013 recorded some expenditures relevant to the program under an incorrect CFDA number in the SEFA, recorded its expenditures under the correct CFDA number in the preliminary fiscal year 2016 SEFA.
- The Airport Checked Baggage Screening Program at DOA, which was not included in the SEFA submitted for audit in fiscal year 2015, was properly included in the preliminary fiscal year 2016 SEFA.

Despite the above improvements, we observed the following errors made by GAAU and city agencies in the preliminary fiscal year 2016 SEFA submitted for audit:

- Continuum of Care (CoC) Homeless Assistance Program at Office of Homeless Services (OHS)<sup>11</sup> – As reported in the prior year, beginning in fiscal year 2013, the federal government combined three previous programs — Supportive Housing Program, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy — into the CoC Program. All new funding should have been reported under the CoC’s new CFDA number. However, our review of the preliminary SEFA has

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<sup>11</sup> In July 2016, the city’s Office of Supportive Housing changed its name to Office of Homeless Services.

determined that grant expenditures continue to be reported under the old, incorrect CFDA program numbers.

- Homeless Assistance Program at OHS – GAAU over reported \$1.7 million in grant expenditures on the federally funded portion for this program. Our review disclosed that these expenditures did not exist in the city's books and records.
- Children and Youth Programs at DHS – The Temporary Assistance for Needy Families – Title IV, Part A program reported expenditures for the fiscal year 2015 award which exceeded the award amount.
- Incorrect reporting of federal expenditures – GAAU personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule. Our analysis of the federal expenditures provided by GAAU during the initial stages of the audit indicated that a material amount of expenditures from numerous grants were entered under the wrong CFDA numbers. GAAU personnel failed to detect these errors, due to the lack of reconciliations between the expenditures entered on the fund schedule and the city's accounting system. However, GAAU corrected these errors on the preliminary version of the SEFA, after they were brought to GAAU's attention by the auditors.

**Criteria:** The United States Office of Management and Budget (OMB) Uniform Guidance (formerly Circular A-133) sets forth the city's grant responsibilities, which include maintaining an accurate record of all federal awards received, expended, and identified by the federal program under which grant amounts were received.

**Effect:** Failure to accurately account and report on grant activity could result in sanctions against the city and possibly the withholding of future grant dollars.

**Cause:** Our observations suggest two major reasons why inaccuracies are occurring in the preparation of the city's SEFA. These include:

1. Staffs of the grantee departments are not adequately trained in the requirements of OMB Uniform Guidance.
2. The GAAU, because of insufficient staff, is unable to proactively enforce existing grant-related policies and procedures. This is especially so for policies and procedures involving the correct identification of grant CFDA numbers and the process for reconciling grant activity reflected in the accounting records to the city's SEFA.

**Recommendations:** As in our fiscal year 2015 report, we again recommend that Finance Office management:

- Establish and maintain an aggressive continuing education program for all grant managers in city agencies [500114.11].

- Proactively enforce existing grant-related policies and procedures [500114.12].

## **2016-008 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS**

**Condition:** The city's SAPs, which serve as the basis for the city's system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over two hundred (200) SAPs to provide city departments and agencies with guidance on how to handle various accounting related activities, including proper procedures for ensuring the accuracy of transactions and the safeguarding of assets. Over the years, as new technologies were adopted and daily practices were enhanced, the existing SAPs have not been updated accordingly. While the Finance Office has updated seven SAPs over the last two fiscal years – the most recent being the SAP pertaining to personal property inventory in June 2016 – over 50 percent of the existing SAPs are more than half a century old.

**Criteria:** In accordance with Philadelphia's Home Rule Charter, the city's Finance Office is required to establish, maintain and supervise an adequate and modern accounting system to safeguard city finances.<sup>12</sup> Also, in its best practices publication, the GFOA recommends that governments perform an on-going review, evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

**Effect:** With the majority of SAPs not reflecting the automated processes and practices currently in use, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting errors and/or misappropriation of assets.

**Cause:** Over the years, the Finance Office experienced staff reductions that have compromised its ability to conduct periodic reviews and updates to the SAPs.

**Recommendation:** Finance Office management should commit the resources necessary to perform a thorough review of its SAPs. SAPs no longer pertinent should be rescinded, and those that are out-of-date should be revised to reflect the automated processes and practices in use today. Once this initial update is completed, the Finance Office should develop a schedule for periodically updating SAPs on a regular basis in the future [50102.16].

## **2016-009 GENERAL INFORMATION TECHNOLOGY CONTROLS REQUIRE STRENGTHENING**

**Condition:** We conducted, with the assistance of a consultant, a review of the Office of Innovation and Technology's (OIT's) general information technology (IT) controls over key financial-related applications.<sup>13</sup> This review noted the following significant weaknesses in OIT's general IT controls:<sup>14</sup>

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<sup>12</sup>The Philadelphia Home Rule Charter, Section 6-101.

<sup>13</sup> The key financial-related applications included in the review were FAMIS, Advanced Purchasing Inventory Control System (ADPICS), Payroll, Pension Payroll, Health and Welfare, TIPS, and BASIS2.

<sup>14</sup> We also issued a separate report to the OIT communicating these significant findings as well as other observations with lesser impact.

- OIT's established change management procedures were not consistently followed. Requests for changes to the city's IT systems were not routinely supported by documented end-user testing or management approval, including evidence of review and approval by the Change Advisory Board. Also, the change management policy did not clearly identify the level of approvals required for the different types of changes migrated to production.
- OIT did not properly segregate duties in the following cases:
  1. Two programmers with access rights to the Payroll system had the ability to add, delete, or modify payroll transaction data.
  2. Two employees had development and systems administrator access rights to three applications (Pension Payroll, Health and Welfare, and TIPS), potentially allowing them to develop code, change application configurations, and process transactions within the systems.
  3. A manager had database administrator and systems administrator access to BASIS2. Therefore, the manager had the capability to (a) create or modify user rights to perform transactions or change system configurations and (b) make direct data changes to the database tables. When we brought this matter to OIT's attention, the manager's systems administrator access to BASIS2 was removed on January 30, 2017.
- For our entire sample of twenty newly hired employees granted access to the network or city IT systems, there was no evidence available to document that the granting of the new user access rights was properly authorized.

**Criteria:** Modifications to city IT systems should be supported by documented user testing and management approval of changes, and change control procedures should clearly identify the required approvals for the various types of system modifications. Also, proper segregation of duties requires that someone who can make application changes should not also have the ability to add, delete, or modify system data. Lastly, access controls require that the approval of new user access be formally documented to ensure that it was appropriately authorized.

**Effect:** All of the above described weaknesses result in an increased risk that unauthorized and improper changes to the applications and their data could occur without detection.

**Cause:** OIT management has not performed sufficient oversight of the change management function to ensure that established procedures are routinely followed and the policy clearly identifies the required approvals for all change types. Also, it appears that management did not periodically review the access rights assigned to its employees to ensure that duties were properly segregated or, if segregation was not feasible, that appropriate monitoring controls were in place. With regard to the granting of access to new users, OIT had not formally established documentation requirements for new user access requests.

**Recommendations:** To improve general IT controls over financially significant systems, we recommend that OIT management:

- Review change control procedures and implement measures to ensure that required steps for application changes are performed and documented in accordance with the policy. Also, OIT should

update its change management policy to include more detail related to required approvals for all change types [300413.05].

- Revise the two programmers' access rights to the Payroll system so they do not have the ability to add, delete, or modify payroll transaction data. If that option is not feasible, OIT should implement a monitoring procedure to confirm that the programmers' activities are authorized and appropriate [500115.11].
- For the two employees with development and systems administrator access rights to three applications, either (a) remove the two employees from the development or systems administrator environments or (b) create an oversight procedure for their activities [300416.02].
- Review the new hire setup process and develop a procedure to document new user access requests and approvals so they can be easily retrieved for later review and audit [300416.06].



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## REPORTABLE INSTANCE OF NONCOMPLIANCE

## 2016-010 NONCOMPLIANCE WITH ACT 148 GRANT REPORTING DEADLINES DELAYED RECEIPT OF FUNDS

**Condition:** As previously reported, the city's DHS again failed to comply with reporting requirements related to the Act 148 grant, which represents the state share of the County Children and Youth Social Service Program. During fiscal year 2016, DHS was consistently late in submitting the Act 148 required quarterly reports, as summarized in the Table 3 below:

**Table 3: Untimely Submission of Act 148 Quarterly Reports**

<u>Quarter Ending</u>	<u>Report Due Date</u>	<u>Report Submission Date</u>	<u># of Days Late</u>
September 30, 2015	November 14, 2015	December 7, 2015	23
December 31, 2015	February 14, 2016	August 10, 2016	178
March 31, 2016	May 15, 2016	November 22, 2016	191
June 30, 2016	August 14, 2016	February 10, 2017	180

Source: Prepared by the Office of the Controller from review of fiscal year 2016 Act 148 quarterly reports provided by DHS

**Criteria:** Pennsylvania Code Title 55, Chapter 3140, § 3140.31 requires counties to submit quarterly reports of Act 148 grant expenditures within 45 days of the end of each quarter. Certain advance payments and reimbursements of net billable expenditures to counties are dependent upon the state's receipt and approval of these quarterly reports.

**Effect:** DHS' untimely submission of the Act 148 quarterly reports resulted in delays in receiving grant funding. For example, the state's payment of the fourth quarter advance and second quarter reimbursement was due to the city upon the state's approval of DHS' report for the period ending December 31, 2015. Since DHS submitted that report 178 days late on August 10, 2016, a \$41 million payment to the city was unnecessarily delayed until November 14, 2016. Additionally, habitual delays in submitting reports could result in sanctions by the state, such as a restriction of funds or a reduction of future grant awards.

**Cause:** DHS management informed us that the Act 148 reporting delays were caused by ongoing staff shortages in DHS' finance division. While prior year reporting delays were also attributed to difficulties with the data warehouse used for reports, our discussions with DHS management indicated that the issues with the data warehouse had been resolved and were not a factor in the fiscal year 2016 reporting delays [500115.09].

**Recommendations:** In order to comply with Act 148 reporting requirements and to accelerate the reimbursement process, we continue to recommend that DHS management:

- Address the staff shortage issue so that there is a sufficient number of adequately trained staff to assist in report preparation [500115.08].
- Obtain a waiver or extension from the state on the 45-day reporting requirement when timely report submission is not possible [500115.10].

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**OTHER CONDITIONS**

## 2016-011 UNAUTHORIZED EXPENDITURE SIGN-OFFS COULD LEAD TO IRREGULARITIES

**Condition:** In response to a previous recommendation we made regarding unauthorized individuals having expenditure approval capability, in October 2016 the Finance Office sent a notice to city agencies reminding them that only employees listed on the signature authorization cards should have expenditure approval authority. The signature cards represent the official record of employees designated to approve the purchase of goods and services on the city's behalf. This notice also instructed agencies to inform the Finance Office when an employee transfers to another agency. The OIT sends a bi-weekly list of separated employees for the removal of terminated employee access to the city's computerized accounting systems to the Finance Office for FAMIS and to the Procurement Department for ADPICS [500114.05].

While there was a significant decrease in the number of unauthorized expenditure sign-offs compared to the prior year,<sup>15</sup> we still found instances where unauthorized employees approved expenditures. Specifically, our testing of expenditure approvals in ADPICS revealed 106 payment vouchers totaling \$193,000 that were electronically approved by two Sheriff's Office employees who were not listed on the agency's signature authorization card.

Additionally, we continued to note the following other related matters:

- For certain city agencies whose payment processing function is overseen by the Finance Office's Administrative Services Center (ASC),<sup>16</sup> payment vouchers were approved in FAMIS and ADPICS by first level reviewers who were not listed on the agency's signature card with final authorization then given by an ASC manager who did appear on the signature card. Finance Office management indicated that they only require the final approver for vouchers processed through the ASC to be listed on the signature card. However, neither the use of the ASC nor this specific requirement is discussed in the city's SAP No. E-0911, *Signature Authorization Cards*.
- Voucher approval records in the city's accounting system still had not been properly updated to reflect changes in the active status of certain city agencies. For example, capital improvement expenditures were approved by a Public Property deputy commissioner for transactions coded as initiated and approved by the Capital Programs Office (CPO). The CPO's functions and employees merged with Public Property several years ago.

**Criteria:** To reduce the risk of irregularities, effective internal control procedures dictate that only individuals who are properly authorized should approve payment vouchers. Additionally, records – both the signature authorization cards and the employee approval privileges in the city's accounting systems – should be appropriately updated each time personnel and/or organizational changes occur. The need for keeping signature files up-to-date is formally addressed in the current version of the city's SAP No. E-0911.

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<sup>15</sup> In the prior year, we noted 256 payment vouchers totaling \$2.5 million that were approved by unauthorized individuals.

<sup>16</sup> ASC oversees payment processing and other administrative functions for six city agencies: OIT, Procurement Department, Finance Office, Treasurer's Office, Civil Service Commission, and Office of Human Resources.

**Effect:** While our sample testing of fiscal year 2016 expenditures did not reveal any irregularities, having unauthorized employees approve purchases could result in a misappropriation of funds.

**Cause:** The two Sheriff's Office employees never appeared on the agency's signature card but were granted voucher approval privileges in ADPICS. Additionally, the use of the signature authorization cards has evolved over the years from its primary purpose to verify the authenticity of hand-written signatures on payment certifications to the Director of Finance and the City Controller, to its current function of providing an up-to-date record of all individuals authorized to electronically approve payments in the city's accounting systems. Consequently, the need to timely update these cards as situations require and revise SAP No. E-0911 to reflect current practices may not be afforded the same urgency as in the past. Also, voucher approval codes in FAMIS were not updated to reflect the transition of personnel from the now defunct CPO to Public Property.

**Recommendations:** To ensure that unauthorized individuals do not have access or approval capability within the city's accounting systems, we recommend that Finance Office management:

- Work with the Procurement Department to perform a comparison of the signature card files to the list of employees authorized to approve vouchers in the city's computerized accounting systems. Identify discrepancies and update the signature cards and/or system approval privileges accordingly. Also, consider designing and implementing a practice that would require such a comparison to be performed on a periodic basis [500115.02].
- Formalize current signature authorization card requirements and revise SAP No. E-0911 accordingly [500115.03].
- Update FAMIS voucher approval codes to eliminate those relating to the CPO [500115.04].

## **2016-012 WATER DEPARTMENT'S FINANCIAL STATEMENT REVIEW PROCEDURES IMPROVED BUT FURTHER ENHANCEMENTS NEEDED**

**Condition:** In response to previous recommendations we made regarding the PWD's review procedures for the Water Fund financial statements, the PWD made improvements to its review process. Specifically, we noted that

- On November 1, 2016, the PWD submitted a preliminary review checklist signed by its deputy commissioner of finance, for the draft Water Fund financial statements sent to the Finance Office, affirming that the draft statements and preliminary supporting compilation were reviewed and approved. When the Water Fund financial statements were finalized, a second checklist was provided that was signed by both the PWD's commissioner and deputy commissioner of finance, indicating their review and approval of the final statements [50105.01 and 500111.02].
- As evidenced by e-mail correspondence provided, PWD management reviewed the Water Fund financial statements incorporated into the city's CAFR for accuracy [500113.07].

We commend the PWD for the above noted efforts. However, management still needs to make certain enhancements to its review process to improve its timeliness and documentation. While the majority of the PWD's preliminary checklist was signed off by a reviewer, several areas on the checklist showed no evidence of review and were marked as open. On December 19, 2016, the PWD provided updates to the initial compilation; however, these updates were not accompanied by a signed checklist indicating that the areas were reviewed. The second checklist that was submitted with the final statements and compilation was complete with all areas evidencing review, but it was not sent until February 23, 2017, one day prior to the issuance of the final CAFR and our audit opinion. In comparison, the DOA submitted its finalized review checklist on December 28, 2016. Lastly, while there was evidence indicating that PWD officials reviewed the Water Fund statements included in the CAFR, this review was not included as a formal procedure on the checklist.

**Criteria:** PWD management should design and have in place appropriate procedures to timely perform and document its quality control review over the compilation of the Water Fund financial statements, including the incorporation of those statements into the city's CAFR.

**Effect:** With no evidence of timely management review, there is an increased risk for undetected errors in amounts reported in the Water Fund. If the review of the Water Fund financial statements included in the CAFR is not formalized as a procedure on the checklist, there is a risk that the review will not be performed.

**Cause:** PWD management informed us that they delayed submitting the completed review checklist until all required documentation was received from other city agencies and the compilation could be finalized. The PWD had instituted a review of the Water Fund statements incorporated into the CAFR in response to our prior year recommendation and had not formally revised its checklist to include that procedure.

**Recommendations:** To improve the timeliness of review procedures for the Water Fund financial statements, we continue to recommend that PWD and Finance Office management work together to establish an earlier deadline for the completion of the Water Fund compilation and checklist, as well as the submission of those items to the Finance Office. As part of this effort, PWD and Finance Office management should coordinate with other applicable city agencies to develop target dates for these agencies to provide the information that PWD needs [500114.01]. Also, if it is again necessary to submit a preliminary review checklist with the initial set of financial statements that is incomplete due to open items, we recommend that, along with any subsequent revision to the Water Fund financial statements, PWD management provide an updated review checklist [500116.04].

As a further enhancement to the documentation for the PWD's review process, we recommend that PWD management add the review of the Water Fund financial statements incorporated into the CAFR as a procedure on the checklist [500116.05].

### **2016-013 FAMIS NOT UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES**

**Condition:** Accountants in the Finance Office, the PWD, and the DOA are not utilizing the full accrual Water and Aviation Funds established in the city's accounting system (FAMIS) to post year-end journal



entries to prepare the financial statements. While the full accrual Water Fund has never been used, accountants have not updated the full accrual Aviation Fund since fiscal year 2014.

**Criteria:** The Finance Office, PWD, and DOA should be using the full accrual Water and Aviation Funds in FAMIS to post adjusting entries so as to provide a clear trail of adjustments between the modified and full accrual statements and decrease the risk of errors in the CAFR.

**Effect:** Although we did not note any material errors, there is an increased risk of error in compiling the city's CAFR. For example, because the full accrual fund in FAMIS reflected fiscal year 2014 amounts, DOA accountants had to prepare additional journal entries to record the correct beginning balances in compiling the Aviation Fund financial statements.

**Cause:** Finance Office accountants indicated that the staff shortages and turnover they experienced during the year, as well as other more urgent priorities, precluded them from working with the PWD and DOA to utilize the full accrual Water and Aviation Funds in FAMIS.

**Recommendations:** In order to decrease the risk of financial statement error, we recommend that Finance Office management:

- Require that PWD accountants utilize the FAMIS full accrual Water Fund to post its year-end accrual adjustments [500114.02].
- Work with the DOA to ensure that the FAMIS full accrual Aviation Fund is brought up to date [500116.06].

#### **2016-014 CONTROLS OVER AIRPORT'S COMPUTERIZED BILLING SYSTEM STILL NEED STRENGTHENING TO MINIMIZE ITS VULNERABILITIES**

As part of the current audit, we reviewed the DOA's remediation efforts to address deficiencies identified during our prior review of general IT controls over PROPworks, the DOA's computerized billing system. The DOA made certain remediation efforts, but had not completed corrective action for three prior findings involving (1) no formal documentation of IT control policies and procedures, (2) failure to periodically review user access rights for appropriateness, and (3) inadequate segregation of duties and system audit trails. Details regarding the three prior noted conditions and their current remediation status are presented in the table in Appendix I.

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**CORRECTIVE ACTIONS TAKEN BY MANAGEMENT**

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## **CORRECTIVE ACTIONS TAKEN BY MANAGEMENT**

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As part of our current audit, we followed up on the conditions brought to management's attention during our last review. We routinely monitor uncorrected conditions and report on them until management takes corrective action or until changes occur that resolve our recommendations.

Our follow-up has disclosed that the city made progress addressing several prior issues. We blended the status of some resolved prior-noted conditions<sup>17</sup> with new observations and reported upon these matters in other sections of this report. Other resolved prior year issues are discussed below. We commend city management on its efforts.

### **Staffing for Revenue Department's Collections Division Has Increased**

For the last several audits, we recommended that adequate funding be provided to city agencies currently experiencing difficulty in accumulating and providing timely, accurate, and complete financial data to the Finance Office for inclusion in the CAFR. Specifically, we noted ongoing accounting staff shortages in the Revenue Department's Collections Division, responsible for processing revenue receipts and preparing financial reports on all revenue and receivable activity. Since fiscal year 2008, the Collections Division had lost 32 percent of its accounting positions.

Our current review noted that the number of accounting positions in the Collections Division increased from 13 in fiscal year 2015 to 16 in fiscal year 2016. As of December 2016, the Collections Division had 17 accounting positions, and its preliminary fiscal year 2018 budget indicated 18 budgeted accounting positions. Since the Collections Division's accounting staff size is approaching the fiscal year 2008 level (19 positions), we believe there has been sufficient improvement to consider this condition resolved [500113.01].

### **Treasurer's Oversight of Collateral Improved**

In prior audits, we reported that the Treasurer did not adequately monitor its banks to ensure that collateral to secure city deposits was in compliance with legal requirements. There were no written procedures to instruct staff on how and when to monitor the collateralization of city deposits. Although management asserted that they compared bank collateral reports to deposits at the end of each month, no support was provided to substantiate these reviews.

During the current audit, we noted that the Treasurer established a written policy that instructed staff on collateral monitoring procedures. We also observed the Excel spreadsheet used by Treasurer's staff to monitor collateralization of deposits. While we noted that city deposits at two banks were under-collateralized by a total of \$66.8 million for five months during fiscal year 2016, that amount represented a significant decrease from the previous year's under-collateralized deposit total of \$225.9 million. Furthermore, we noted that, for the instances where deposits were under-collateralized during fiscal year 2016, the bank provided additional collateral the next business day to cover city deposits. Based on the improvement noted, we consider this condition resolved [500114.08 and 500113.15].

### **WRB's Review of Account Adjustments Now Documented**

During the prior audit, we noted that the Water Revenue Bureau (WRB) was unable to demonstrate that its accountants performed regular reviews of adjustments made to customer accounts. Because the enhancement

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<sup>17</sup> The resolved prior-noted conditions involved the resolution of problems with DHS' data warehouse used for Act 148 reporting (page 19), the Finance Office's reminder to city agencies regarding requirements for expenditure approval privileges (page 20), and the PWD's enhancements to its financial statement review process (page 21).

of the WRB's quarterly review process occurred in May 2015, only the fourth-quarter adjustment worksheet demonstrated evidence of a comprehensive review. Our observations of daily-adjustment worksheets revealed that accountants did not consistently document their review.

The current audit noted significant improvement in this condition. Our testing of selected fiscal year 2016 adjustment transactions disclosed that WRB accountants were now consistently documenting their reviews by initialing and dating the adjustment worksheets and placing a notation in BASIS2<sup>18</sup> for each adjustment reviewed. Based upon our observations, we consider this finding resolved [50008.01].

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<sup>18</sup> BASIS2 is the WRB's computerized billing system.

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## APPENDIX

## APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR AIRPORT'S PROPworks SYSTEM

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><b><u>ORGANIZATIONAL AND MANAGEMENT CONTROLS</u></b></p> <p>1. <b><u>IT Policies and Procedures:</u></b>  The DOA had not formally documented its policies and procedures governing critical IT control activities, such as:</p> <ul style="list-style-type: none"> <li>• Review and approval procedures for granting access to new users and changing or removing access rights.</li> <li>• Management of passwords, such as assigning, changing, resetting passwords, and handling lost or compromised passwords.</li> <li>• Process for testing and installation of software upgrades or changes from the vendor.<sup>19</sup></li> <li>• Procedures for backing up of data files, including storage locations, retention period, and periodic testing of backups.</li> <li>• Planning for contingencies to mitigate the impact of unplanned interruptions.</li> <li>• Risk assessment of security threats.</li> </ul>	<p>There is an increased risk that critical control procedures may be inconsistently applied or not performed at all. Formal policies and procedures help prevent errors by ensuring uniformity in routine processes.</p>	<p>Develop and document formal written policies and procedures that address specific storage locations for data file backups; periodic testing of backups; specific identification of alternative processing facilities; detailed instructions of actions to be taken under varying types of contingencies; periodic testing of the contingency plan; and assessing and monitoring security threats [500114.16].</p>	<p><b>Incomplete:</b>  DOA management provided us with written control procedures for (a) granting, changing, and removing user access, (b) password management, and (c) the process for testing and installation of software upgrades or changes. While the written procedures also mentioned the backing up of data files and contingency planning, the following elements were not addressed:</p> <ul style="list-style-type: none"> <li>• Specific storage locations for data file backups.</li> <li>• Periodic testing of backups.</li> <li>• Specific identification of alternative processing facilities in the event DOA facilities are significantly damaged or cannot be accessed.</li> <li>• Detailed instructions of actions to be taken under varying types of contingencies.</li> <li>• Periodic testing of contingency plan.</li> </ul> <p>Additionally, the DOA's written control policy did not include procedures for assessing and monitoring security threats.</p>

<sup>19</sup> AirIT was the vendor that created the PROPworks software. In April 2017, AirIT became Amadeus Airport IT.



**APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR AIRPORT'S PROPworks SYSTEM**

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<b><u>APPLICATION ADMINISTRATION</u></b>			
<p>2. <b><u>Periodic Access Rights Review:</u></b> The DOA had not implemented a process to review active PROPworks accounts and related access permissions periodically.</p>	<p>Unauthorized access to data increases the risk that data could be compromised without management detection.</p>	<p>Implement a procedure to periodically review the active users and their associated access rights for appropriateness. The performance of this review should be documented in writing [500114.18].</p>	<p><b>Incomplete:</b> The DOA's written control policy stated that the PROPworks database administrator was responsible for periodic review of user access rights. However, the policy did not address the frequency of this review or the specific steps to be performed. Also, the DOA did not provide any documentation to evidence that a periodic access rights review had been performed.</p>
<p>3. <b><u>Database Administrator's Access Rights and System Audit Trails:</u></b> The DOA did not adequately segregate the duties of a consultant who served as the PROPworks database administrator. The consultant, who was responsible for maintaining PROPworks, installing application changes from the vendor, and backing up system data, also granted and removed user access and had the ability to add, change, or delete transaction data and clear system audit trails.</p> <p>Also, there was no periodic independent review of the system audit trails for unusual activity. Furthermore, DOA management indicated that the current system audit trails lacked details on the specific data modified by users.</p> <p>DOA management indicated that segregating the duties of the database</p>	<p>The combination of duties performed by the database administrator in conjunction with the system audit trails not being sufficiently detailed or monitored increases the risk of intentional manipulation of billing data without management detection.</p>	<p>Contact the vendor to request that the software be modified to (a) permit an individual other than the database administrator to perform the duties of controlling user access permissions and the audit trails and (b) establish system audit trails that would detail the specific information changed by users [500114.19].</p> <p>To address the continuing risk of the database administrator's incompatible duties, establish an independent monitoring procedure to confirm that the database administrator's activities are authorized and appropriate. Someone with no ability to change the PROPworks system or its data, such as an independent</p>	<p><b>Incomplete:</b> DOA management has decided that the database administrator will continue handling the same duties. Management indicated the vendor's recommended protocol is for the database administrator to control user access permissions and asserted that, in the airport's technological environment, it makes more sense for the database administrator to continue performing these duties. As for establishing more detailed system audit trails, DOA management stated they discussed this matter with the vendor, who declined to change its software by establishing more detailed system audit trails. In light of the above factors, we will no longer continue to recommend that the DOA ask the vendor to modify the PROPworks software for these matters [500114.19]. However, in future audits, we will continue to monitor this</p>

**APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR AIRPORT'S PROPworks SYSTEM**

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
administrator and adding more detail to the audit trails would require software modifications from the vendor.		security officer, should perform this review. However, the reviewer should directly access PROPworks instead of relying on reports from the database administrator [500114.20].	<p>situation in the event that the vendor decides to make these software modifications.</p> <p>To review for unusual activity, management indicated that the assigned security officer requested a series of monitoring controls for PROPworks, including account auditing of users, Microsoft auditing of the operating and file systems, and host intrusion protection and detection. However, we observed the security officer did not have access to PROPworks. Instead, the database administrator provides any PROPworks reports needed by the security officer, a situation which we believe lessens the effectiveness of the security officer's review.</p>

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## RESPONSES TO AUDITOR'S REPORT



**CITY OF PHILADELPHIA**

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ROB DUBOW  
DIRECTOR OF FINANCE

June 23, 2017

The Honorable Alan Butkovitz  
City Controller  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679

Re: Report on Internal Control and on Compliance and Other Matters – Fiscal 2016

Dear Mr. Butkovitz:

Thank you for the opportunity to discuss the contents of your draft report at the exit conference held on Tuesday, May 16, 2017. Before responding to the findings and recommendations, I would like to thank you for noting the resolution of prior year findings, including: increased staff in the Revenue Department's Collection Division to ensure accurate and timely financial reporting; improved collateral oversight by City Treasurer's Office; and improved documentation of account adjustments in the Water Revenue Bureau.

We offer the following responses to the findings and recommendations found in the Controller's Office audit for fiscal year 2016:

Staff Shortages and Turnover Along with Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

**Finding & Recommendation:** You have repeated your finding that continuing to operate with a reduced staff size relative to fiscal year 2000 and having no comprehensive financial reporting system have contributed to errors in financial statements presented for audit. However, you do note that errors were corrected prior to finalizing the Comprehensive Annual Financial Report (CAFR) and that the CAFR is a reliable document for informative decision making. You also noted that the overall staffing levels increased slightly this past year. You continue to recommend that Finance either hire more accountants or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR. Further, you recommended that management provide adequate training for new hires and employees performing new duties.

**Response:** The Accounting Bureau (Accounting) is committed to producing an accurate and well-prepared CAFR. We believe that the loss of institutional knowledge over time has presented a challenge, as opposed to the reduction in the quantity of staff. Accounting is actively working with the Office of Human Resources on strategies aimed at retention of staff to reduce turnover and maintain the knowledge base. We have also increased our training efforts, with all senior management accountants now attending the National Government Finance Officers Association (GFOA) conference, and taking advantage of the City sponsored quarterly CPE classes. We will continue to look for additional effective training opportunities for our staff.

Accounting is pursuing several other paths that will assist in more reliable CAFR preparation. First, we plan to engage an outside accounting firm to assist in the CAFR compilation efforts. This firm will replicate for Accounting the efforts currently undertaken by both the Aviation and Water Departments. Second, we plan to initiate efforts in FY2018 to acquire and implement a comprehensive financial reporting system. We believe that these efforts will substantially improve the process.

Finally, as always, we will continue to critique the errors and adjustments resulting from the FY2016 CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward.

Inadequate Management Oversight Resulted in Misstated Year-End Receivables

**Finding & Recommendation:** Your report found a need for the Revenue Department to better oversee city receivables due to errors in accounts receivable balances, as well as in the estimated uncollectible portion of receivables. You noted that Revenue did not sufficiently communicate with departments, particularly with the Fire Department, regarding billing and receivable duties or writing off uncollectible amounts. Additionally, you noted that Revenue does not have updated, management-approved written procedures for establishing year-end receivables and estimating uncollectible amounts. You recommend that the Revenue Department develop detailed written procedures to guide their accountants in these areas, train staff who are performing these duties, and work more closely with Fire and other agencies to accurately report year-end receivables and allowances for doubtful accounts.

**Response:** Revenue is committed to working closely with departments that manage agency receivables to provide better guidance and to ensure uncollectible receivables are calculated accurately. Specifically regarding the Fire Department, Revenue has met multiple times with the Fire Department's accounting group for the sole purpose of creating procedures to compute the write off amount. They have developed procedures and have discussed the proper way that the uncollectable and charge-off amounts should be calculated. Over the coming weeks, Revenue will meet with Accounting and Fire EMS to finalize these procedures. Revenue will then communicate the required procedures to Fire and other departments, train staff in the procedures, and conduct ongoing reviews to ensure accurate reporting.

Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

**Finding & Recommendation:** Your report states that late submission of financial data by some of the City's component units continues to result in delays to the financial reporting and auditing process, increasing the risk of errors or omissions. You recommend that Accounting request the assistance of the Finance Director or Mayor early in the CAFR preparation process to secure the cooperation of component unit management in the timely submission of their financial data.

**Response:** We agree that the timely submission of all component unit reports is critical to the timely issuance and accuracy of the City's CAFR. Despite meetings with management and auditors of various



component units concerning timely audit submission, as well as additional meetings to provide guidance and assist with problems in units experiencing issues that were delaying the preparation of their financial reports, we still had some trouble with timely receipt of final audit reports. Accounting will continue to communicate with the component units and emphasize the importance of timely submissions. As appropriate, we will continue to reach out to key administrative officials to secure the cooperation of all component unit management in the timely submission of their respective financial reports to our office.

Deficiencies in the Treasurer's Reconciliation Procedures Could Result in Material Errors or Improprieties

**Finding & Recommendation:** Your report indicated that the Treasurer's reconciliation of the City's consolidated cash account (ConCash) and other bank accounts was incomplete. You found that prepared summaries noted book and bank total differences, but without any explanation or investigation. Additionally, the effort to compare monthly receipts and disbursements was applied inconsistently from month to month. You recommend that the City Treasurer's Office (CTO) perform a comparison of Revenue's daily report of collections (the Consolidated Summary of Deposits) to amounts deposited in the city's bank accounts. You recommend that the comparison be documented, all discrepancies be investigated, and that supervisors review the comparison and evidence their review by initialing and dating the comparison. Further, you recommend that procedures be put in writing to ensure they are consistently performed and documented. Finally, you recommend that CTO work more closely with Revenue to resolve identified differences and that CTO either hire an outside consultant to assist with this effort, or provide additional training to CTO staff in performing proper reconciliations.

**Response:** CTO acknowledges the importance of timely and accurate reconciliation and is dedicated to improving the process. The City's Consolidated Cash account is the City's main collection account for revenues and is the account used to fund the expenses for all departments. As such, the sheer volume of transactions presents a more cumbersome reconciliation process.

During FY17, CTO staff worked closely with the Revenue Department to gain a fuller understanding of the accounting of revenue on the Consolidated Summary of Deposits and implemented a new process for how departments document revenue. Departments that recognize revenue must now provide the bank documents supporting the deposit of funds. This allows CTO accounting staff to efficiently identify and clear reconciling items and prepare completed account reconciliations in a timelier manner.

Additionally, CTO has retained an outside accounting professional to assist with reconciliations and review of the Consolidated Cash process. Based on this review, CTO will be proposing revised procedures to accomplish more timely and accurate cash reconciliations. More efficient procedures should allow for timelier completion of reconciliations and provide CTO staff with more time to assist departments in reconciling their outstanding revenue items.

Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Increase the Risk for Irregularities

**Finding & Recommendation:** Your report indicated that the Treasurer's Office did not complete June 30, 2016 bank reconciliations for 23 percent of the bank accounts until more than two months after the end of the fiscal year. You acknowledged this represents an improvement from prior year findings, but you continue to recommend that CTO devote the time and resources necessary to ensure that all required bank reconciliations are performed monthly and that reconciliations for all accounts be brought up to date. You also recommend that CTO consider hiring an outside accounting firm to assist in this effort.

**Response:** CTO acknowledges the importance of up-to-date bank account reconciliations and has made considerable efforts to improve in this area. As you noted, your testing last year indicated that 87 percent of accounts had not been reconciled until more than two months after the fiscal year end (June, 2015). Your testing this year indicated that had decreased from 87 percent to only 23 percent within two months of fiscal year end (June, 2016). During FY16, there was an increased emphasis on improving the quality of cash reconciliations, initialing delaying the number completed. Now with those improvements in place and much of the prior year catch-up work completed, staff can quickly identify and clear most new reconciling items and provide for timelier submission of completed reconciliations. Going forward, CTO anticipates completing reconciliations on a timely basis.

As mentioned in your report, there are several accounts still not reconciled through June 30, 2016. In addition to the outside accountant mentioned in the previous response, in March, 2017, CTO hired an additional staff accountant, who is dedicated to the reconciliation and cleanup of the payroll disbursement accounts, general disbursement account, and miscellaneous pension cash accounts. It is expected that the fiscal year 2017 payroll accounts will be fully reconciled by early December 2017. Additionally, CTO has started to clear outstanding checks from the general disbursement account. Due to the volume and importance of the work, it will take time to work through the reconciliations that have not been completed for several years.

Allowing Unauthorized Individuals to Approve Bi-Weekly Payrolls Increases Risk for Improprieties

**Finding & Recommendation:** Although you found no improprieties, your audit noted that discrepancies between the Finance official signature files and the approval privileges assigned within the on-line payroll system expose the City to risk. You recommend that Finance continue to review the executive-level approvers in the online payroll system to ensure that all individuals are properly authorized and have appropriate access to the system, that we formalize document requirements for temporary authorizations and update the standard accounting procedure (SAP) related to Signature Authorization Cards (#E-0911).

**Response:** While identifying this as a risk, we are pleased that you found no improprieties in your review. As noted in your report, the Payroll division has already implemented procedures to regularly compare officials who approve the on-line payroll to the signature card files and is following a process they developed to establish temporary signature authority when the executive level approver is unavailable. This was implemented late in fiscal year 2016, so it is possible that your audit covering all of fiscal year 2016 found some discrepancies. Your final recommendation that Accounting update the SAP will be considered as part of the process to update all SAPs (as described below in your finding related to SAP updates).

Failure to Segregate Payroll Duties Could Allow Fraud to Occur

**Finding & Recommendation:** Your audit found that departments were allowing the same individual to both post and approve the on-line payroll time records or to approve at both the supervisory and executive levels. You recommend that Finance remind city agencies of the importance of maintaining adequate segregation of duties regarding payroll. Additionally, you recommend that Finance work to ensure the new system being designed to modernize payroll prevent one individual from performing two or more conflicting duties.

**Response:** We will continue to remind operating departments that the same employee should not be signing off on more than one level of payroll. However, to ensure that employees will be paid on time, there will be instances where one individual signs off at more than one level when all employees at all

levels are unable to do so. The City's OnePhilly initiative to replace the Payroll and Human Resources systems is underway, and these type of control features are being considered.

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

**Finding & Recommendation:** Your report states that Finance employs a burdensome and onerous process comprised of Lotus files, Excel files and FAMIS to account for the City's real property capital assets. You recommend that the City design or purchase a comprehensive capital asset management system.

**Response:** We agree it would be beneficial for the City to have capital asset system. Unfortunately, resources have not been identified to fund either the system or the ongoing operating costs for staff that may be required to maintain the system, including maintaining accurate cost history records, accurate depreciation history, and providing a detailed inventory of the major systems in all buildings that the City owns. In the meantime, the current process will continue to be used. It should be noted the current methodology used by Accounting provides financial information that is accurate and auditable, even though it does not provide the level of detail that a capital asset system might provide. Your finding cited variances totaling \$11.4 million against total capital assets of \$2.3 billion, not a material variance.

Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records

**Finding & Recommendation:** You indicate that the City's real property assets have not been inventoried recently and that there is no type of "plain language" report on the condition of the City's capital assets. You recommend periodic physical inventories of all real property assets, timely updating of related property records, as well as the development of a plain language report on the condition of the City's capital assets. You also recommend comparing the list of capital assets created by the City Planning Commission (for the Mayor's Task Force on City-owned Facilities) to Finance's records to identify any discrepancies.

**Response:** We agree that there is no formal written process to document that a physical inventory is occurring and no one system/report where all data on property conditions is stored. However, departments do inspect their properties regularly, and develop their capital and maintenance budget requests based on the conditions they identify.

OIT, City Planning, Public Property and others are working to develop an asset management tool (IWAMS) that will aid the respective departments in monitoring the costs associated with the facilities that they manage (Water and Aviation have such systems already). It is our hope that this database will assist in assessing the condition of the assets included in the database, along with helping to ensure our list of assets is complete and accurate. While this will aid in ensuring the list is complete and accurate, it will not assist in calculating depreciation and book value of City-owned capital assets. We will continue to explore with OIT whether there is a depreciation module that could be implemented as part of this system, but we are not optimistic at this point. In the longer term, we hope to acquire a capital asset system with a depreciation module when the FAMIS accounting system is replaced several years from now.

Lax Monitoring of Adjustments to Tax Accounts May Lead to Undetected Errors or Irregularities

**Finding & Recommendation:** You found that the Revenue Department was not performing timely reviews/monitoring of daily payment and receivable adjustment activity in TIPS, and the reviews that were performed were very limited, compared to the number of adjustments that occurred. You



recommend that Revenue reinstitute the regular monitoring process and that supervisory personnel independent of the adjustment process should review the daily adjustment reports for patterns of irregular activity and test a sample of adjustments for accuracy and propriety. To evidence that these checks are performed, the supervisor should sign and date the adjustment reports upon completion of the reviews.

**Response:** Again, we are pleased that your testing found no instances of inaccurate or improper activity. We agree that adjustment reviews are appropriate to protect against errors or irregularities. As of January, 2017, the Revenue Department reinstituted the adjustment review processes and will continue it on a timely, ongoing basis. The Revenue Department agrees that account adjustments should be reviewed when there is a net impact on the taxpayer account. However, they do not agree it is necessary to review adjustments with no net impact -- such as splitting a \$100 payment applied to 2017 Real Estate Tax to apply \$50 to 2015 Real Estate Tax and \$50 to 2016 Real Estate Tax for a single property. Prioritizing the review of adjustments that have a net impact on a particular account will allow a higher percentage of transactions with more risk of inappropriate adjustments to be reviewed.

#### Better Training and Oversight Are Still Necessary to Ensure Accurate Grant Reporting

**Finding & Recommendation:** Your report noted that the Grants Accounting and Administrative Unit (GAAU) and the staff of city agencies responsible for grants have not identified all federal financial assistance received and misidentified federal awards by incorrectly recording the federal programs' Catalogue of Federal Domestic Assistance (CFDA) numbers. You cited specific instances where you thought these issues had occurred. You recommend that Finance establish and maintain a continuing education program for all City grant managers and enforce existing grant-related policies and procedures.

**Response:** We agree it is important that departments are aware of recording/reporting requirements and the need to keep GAAU informed on all grant activity. GAAU will enforce its existing policies in compiling the grant profiles submitted by the departments to ensure that complete and accurate grant profiles are being established, including proper identification of CFDA numbers and the reconciliation of grant accounting records to grant reimbursement requests. The unit has staffed up again after losing two employees with significant institutional knowledge over the past two years. With proper staffing, GAAU expects to be more diligent in their review process to ensure proper expenditure recording.

In fiscal year 2018, GAAU is planning to provide in-house grant training to operating departments. Agencies will be encouraged during training sessions to establish internal grant oversight committees as recommended by the GFOA in a best practice advisory issued in January 2015. Further, GAAU will encourage agencies to seek grant-related training opportunities that may be available and offered on websites such as [www.grants.gov](http://www.grants.gov).

The individual CFDA misidentification issues you noted were corrected and both the CFDA and misapplied expenditures were reported properly on the FY2016 Schedule of Expenditures of Federal Awards (SEFA).

#### SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations

**Finding & Recommendation:** You have repeated your finding that the City's Standard Accounting Procedures (SAPs) have not been revised to reflect automated processing applications and practices currently in use. You recommend that Finance conduct a thorough review of its SAPs, rescind or revise those that are out of date, and develop a schedule for periodic updates.

**Response:** Accounting is committed to continually review and update the SAPs. On a limited basis, and to ensure that we comply with any changes in accounting regulations or governmental regulations, these procedures are updated, especially in areas that have been cited in audit reports. You acknowledged in your findings that Finance updated seven SAPs over the last two fiscal years. As previously mentioned, it is our intention to retain an accounting consultant to assist in performing a more comprehensive review and update all SAPs.

General Information Technology Controls Require Strengthening

Your report included findings related to the Office of Information Technology's (OIT) controls over financial-related applications. We have forwarded those findings to OIT for their review and understand that they will be responding in a separate response.

Non-Compliance with Act 148 Grant Reporting Deadlines Delayed Receipt of Funds

**Finding & Recommendation:** Your review determined that the Department of Human Services (DHS) was late in submitting the Act 148 quarterly reports required for reimbursement of City DHS expenses, thereby resulting in delays in receipt of grant funding to the City. You recommend that DHS address staffing shortages and request extensions from the State when they are unable to meet the 45-day reporting requirement.

**Response:** During fiscal year 2017, DHS made considerable efforts to address the staffing shortage in its finance division. Recruitment is underway for additional managerial and staff resources, which is being paired with more staff training. In addition, the department is working to automate the most time-intensive portions of Act 148 reporting to better comply with the 45-day reporting requirement. DHS will strive to submit invoices on time and will continue informal communications with the State when timely submission is not possible. However, as late invoices and reports do not result in sanctions from the state, DHS prefers not to spend their time or the State's time seeking formal waivers or extensions when timely submission is not possible.

Unauthorized Expenditure Sign-offs Could Lead to Irregularities

**Finding & Recommendation:** Although you found no irregularities or misappropriation of funds resulting from this condition, your report did state that payment vouchers were approved electronically in ADPICS by employees not formally authorized on agency signature cards to perform this function. In addition, you indicated that various records have not been updated reflecting the merger of Public Property and the Capital Program Office. You recommend that Finance work with the Procurement Department to implement a practice requiring a comparison of the signature card files to the list of employees authorized to approve vouchers in the city's accounting system on a periodic basis; that we formalize current signature card requirements in a revised SAP No. E-0911; and update FAMIS voucher approval codes related to the Capital Program Office, which is now part of the Department of Public Property.

**Response:** Finance keeps an electronic log of signers authorized to approve vouchers that mirrors the names on the required signature cards. We will continue to review the electronic log and reject those vouchers submitted without an authorized signer. As an additional control, Finance will continue the practice of reviewing the bi-weekly inactive employee report from OIT and revoking FAMIS permissions of any inactive employee. We will discuss this process with Procurement to determine if tighter controls on ADPICS approvals may be implemented.

You note specifically that vouchers processed by Finance's Administrative Service Center (ASC) were "approved" by a first level reviewer not on the agency signature card. However, each of these vouchers received final approval from an employee who is listed on the agency signature cards as authorized signers. We are comfortable if the initiators/reviewers are not on the agency signature card because the Finance employees who provide final approval are listed on the department's signature cards.

Additionally, we will work with OIT and Public Property to correct the coding related to the Capital Program Office. And, as part of the process to review all SAPs, we will review SAP E-0911 to ensure it is updated to reflect appropriate current practices and to reinforce the requirement to submit new signature authorization cards immediately when authorized employees separate or change job responsibilities.

Water Department's Financial Statement Review Procedures Improved but Further Enhancements Needed

**Finding & Recommendation:** Your report commended PWD for improvements in developing a detailed compilation checklist that included most of the support for the Water Fund statements and that was submitted to Accounting before completion of the CAFR. However, you note that the procedures checklist documenting PWD management review of the Water Fund statements was not submitted to Accounting until one day before issuance of the CAFR. You recommend that PWD submit the checklist and supporting documentation for the financial statements to Finance by the established deadlines, and that PWD add a procedure to the checklist to reflect the review of the Water Fund financial statements that will be incorporated into the CAFR.

**Response:** PWD appreciates the acknowledgement regarding the improved efforts made to document the preparation and review of the Water Fund financial statements and related supporting compilation. In accordance with the Controller's Office recommendation, PWD will implement further changes to the checklist and compilation binder to formalize the review of Water Fund financial statements that are incorporated into the CAFR. Specifically, PWD will amend its current checklist to include a "date" field to memorialize the dates documents were received from other City agencies and the dates prepared and/or reviewed by PWD. The PWD will also work with other City agencies to establish reasonable target due dates on required information. Additionally, PWD will establish two check-lists -- one titled "preliminary" that will be provided with the required October submission, and a second titled "final" to be provided once the trial balance is in its final form. An updated checklist will be submitted with each subsequent revision to the Water Fund Statements and/or updates to the compilation binder. Finally, PWD will include a new section in the compilation/checklist to reflect the review for accuracy and completeness of the Water Fund financial statements incorporated in the CAFR.

FAMIS Not Utilized for Posting Enterprise Funds' Year-End Journal Entries

**Finding & Recommendation:** You report that Finance, PWD and Division of Aviation (DOA) are not utilizing the full accrual Water and Aviation Funds in FAMIS to post year-end entries. You recommend that PWD begin using the full accrual Water Fund in FAMIS to post adjusting entries, and that DOA bring the information up to date, as they have not updated the full accrual fund since 2014.

**Response:** Both PWD and DOA have indicated that they will coordinate with the Finance Office to utilize the FAMIS full accrual Water & Aviation funds to post year-end adjustments.



Controls Over Airport's Computerized Billing System Still Need Strengthening to Minimize Its Vulnerabilities

**Finding & Recommendation:** Your report finds that the Division of Aviation (DOA) made certain improvements to address deficiencies cited in your prior audit, but that they had not completed corrective action on three items: 1) no formal documentation of IT control policies and procedures, 2) failure to periodically review user access rights for appropriateness, and 3) inadequate segregation of duties and system audit trails. A more detailed description of your findings is included in Appendix I to your report.

**Response:** Attached is a response that the Airport provided addressing the specific findings in your Appendix I.

Thank you for the observations provided in your report and for the opportunity to respond. We look forward to continued cooperation with your office.

Sincerely,



Rob Dubow  
Director of Finance

Enclosure

cc: Josefina Arevalo, Accounting Director, Finance Department  
Tracey Borda, Chief Financial Officer, Division of Aviation  
Frank Breslin, Revenue Commissioner & Chief Collections Officer  
Kathleen Duggan, Audit Director, City Controller's Office  
Jacqueline Dunn, Chief of Staff, Finance Department  
Rasheia Johnson, City Treasurer  
Ellen Kaplan, Chief Integrity Officer  
Melissa LaBuda, Deputy Commissioner, Water Department  
Christopher Simi, Deputy Commissioner, Department of Human Services  
Christy Brady, Post-Audit Deputy Controller, City Controller's Office  
Catherine Paster, First Deputy Director of Finance  
Bill Rubin, First Deputy Controller, City Controller's Office

Responses to Controller's Findings regarding the Airport's PROPworks System

**PROPworks**

**Backups**

1. Written Control Procedures
  - a. Lack of specific location that anyone could follow in an emergency  
**Response:** The backup location has changed to secure facility located several miles from the Philadelphia International Airport campus. The Airport is in the process of documenting the retrieval procedures in writing.
  - b. Tests performed, i.e. restoring the system from the backups  
**Response:** The Airport is developing procedures to shift the PROD/TEST environments between the primary and secondary data centers every six months. The shift procedure will include the restoration of the PROD database from tape. This will be ready to test live in a few months.
  - c. Detailed instructions  
**Response:** The Airport will develop detailed written procedures.
  - d. Periodic tests of contingency plans  
**Response:** See response to 1b.
2. Lacking procedures for assessing and monitoring security threats.  
**Response:** Currently, PROPworks does not record users' names, time and date signed-in, files accessed, and whether or not information had been added to, deleted or altered. The Airport has requested revisions be made by the manufacturer to address this concern. The manufacturer stated they will be modifying their software in the future, however, no dates were provided. Modifications may include audit trails that will record which user or administrator made changes to a record, what was the value before a change and other system audit trails.

**Periodic Review of Access Rights**

3. Policy does not address the timing or frequency or evidence that a review of access rights has been performed  
**Response:** The Airport has a small workgroup that utilizes this software. Each time a new user is added/deleted a review of access rights is done. The Airport will strive to keep better documentation of this review.

**Database Administrator's Access Rights and Systems Audit Trails**

4. The database administrator has incompatible duties

**Response:** The software application has limitations inherent in its design, however, if the manufacturer implements future design changes, such as the additional function of an audit trail mentioned in answer #2 above, this change should be a mitigating factor.

5. The security officer does not have access to PROPworks

**Response:** The Airport will provide the security officer privileges to run the audit trail reports directly.



**CITY OF  
PHILADELPHIA**  
*Office of Innovation &  
Technology*

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June 15, 2017

Alan Butkovitz  
City Controller  
Office of the Controller  
1230 Municipal Services Building  
1401 John F Kennedy Boulevard  
Philadelphia, PA 19102-1679

RE: Assessment and Evaluation of the City of Philadelphia's Internal Controls Audit – Fiscal Year 2016

OIT has reviewed the Internal Control Audit for Fiscal Year 2016.

The report highlighted under section "2016-009 - General Information Technology Controls require strengthening" which identified three material weaknesses generally related to the following:

1. Change control – lack of complete documentation in a number of sampled cases
2. Proper segregation of duties of existing support staff having multiple access levels
3. Proper final approval authorization documentation of new user access requests

OIT has performed a detailed review of these and concurs with the recommendations of the Audit team. These were also identified within the Technology Controls Audit Report and OIT has developed and provided a remediation plan which was submitted under separate cover in response to the Technology Controls Audit Report.

I would like to take this opportunity to thank the Audit staff who worked closely with OIT in reviewing and identifying areas of concern. These audits provide OIT with valuable information that aids us in our own internal maturity initiatives which involves enhancing our documentation of processes and procedures.

OIT is pleased to report that significant progress has been made since the last audit performed in 2014 and will continue to provide focus on the remaining items highlighted in this year's audit.

Sincerely,

*James White / Deputy CIO-CCO for*

Charles J. Brennan  
OIT, Chief Information Officer

cc: Jim White,  
Ronald Stewart  
Kathleen Duggan

## Responses to OIT Section Internal Control Audit Fiscal Year 2016

### Audit Finding Responses:

#### Configuration Management

##### 3. Application Change Management

OIT has moved to a new Support Software Ticket Management System (SysAid). Functionality within this system allows for the automated workflow of Information Technology Infrastructure Library (ITIL) related processes of which Change Management is part. OIT has developed an automated Change Management Workflow and have been piloting this over the past year. OIT is in the process of refining and tuning this process with the intention that all requests, approvals, implementation and completion documentation will be encompassed within the ticket including end user testing plans and results. This will be a continued focus in the next reporting period and is anticipated to be completed by December 31, 2017.

##### 4. Developer Access Rights

OIT has completed the segregation of these duties. Developers have been isolated from Systems Administrator functions.

#### Segregation of Duties

##### 5. Database Administrator and Systems Administrator Access

OIT has completed the segregation of these duties. The OIT Manager Systems Administrator access rights have been removed. Charles Mouteng has sent confirmation under separate cover.

##### 6. Developer Access to Production

OIT concurs that developers should not have access to add/change/modify or delete production payroll information. OIT has removed this access.

#### Access Controls and System Files

##### 11. User Administration – New Hires

OIT has moved to a new Support Software Ticket Management System (SysAid). Functionality within this system allows for the automated workflow of various processes designed to streamline and self-document the process. On-Boarding of employees was an initial workflow developed.



**Responses to OIT Section Internal Control Audit Fiscal Year 2016**

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OIT recognized after initial testing and piloting that additional refinements and tuning were needed to complete the process and have been actively working to this end and will ensure that the self-documenting controls are added to comply with audit recommendations and has scheduled this for completion by December 31, 2017