

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE AND
OTHER MATTERS

CITY OF PHILADELPHIA

FISCAL 2015

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

GERALD V. MICCIULLA
Deputy City Controller

June 14, 2016

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, 2015, and has issued its Independent Auditor's Report dated February 24, 2016.

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, 2016 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

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, 2015 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, 2015. 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 exceeding \$1 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, continued to hinder the ability of city accountants to produce a timely, accurate, and complete CAFR without significant audit adjustments.
- Unauthorized approvals for payroll and other types of disbursements increased the risk of improper expenditures.
- Bank account reconciliations were not timely completed. Over 85 percent of accounts had not been reconciled until more than two months after fiscal year-end. In one instance, the last reconciliation on file for the city's payroll disbursement account was September 2010. Late preparation of reconciliations can prevent the timely detection of errors, or worse, irregularities.
- City agencies frequently failed to report new grant awards, correctly identify awards, and/or properly record expenditures in grant accounting records. These conditions have hindered the ability of the city's grants accounting unit to accurately and timely report grant activity to the federal government.

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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GERALD V. MICCIULLA
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, 2015, 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, 2016. Our report includes an emphasis of matter paragraph related to the adoption of a new accounting principle and 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 a material weakness 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 combination of deficiencies described in the accompanying report as items 2015-001 to 2015-004 to be a material weakness.

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

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OFFICE OF THE CONTROLLER

consider the deficiencies described in the accompanying report as items 2015-005 to 2015-016 to be significant deficiencies.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Conditions

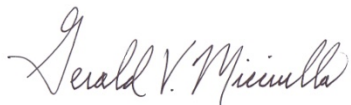
We noted certain other conditions that represent deficiencies in internal control and an instance of noncompliance described in the accompanying report as items 2015-017 to 2015-020. We also identified other internal control and compliance deficiencies during our annual examination of the financial affairs of city agencies, which will be communicated to management in a separate report.

City of Philadelphia, Pennsylvania's Response to Findings

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

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.



GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 24, 2016

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MATERIAL WEAKNESS

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. Our current audit again disclosed a number of conditions involving inadequate financial reporting oversight (findings 2015-001 to 2015-004 below), which collectively we consider to be a material weakness.

2015-001 MONITORING

Inadequate Staffing and Lack of Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Condition: Errors exceeding \$1.0 billion were not detected by accountants in the Office of the Director of Finance (Finance Office) during preparation of the city's fiscal year 2015 Comprehensive Annual Financial Report (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 publically issued fiscal year 2015 CAFR can be relied upon for informative decision making.

Cause: Ongoing inadequate staffing, 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:

- Finance and other city agencies, such as the Department of Revenue (Revenue Department), have continued to be operating with a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by nearly 28 percent (from 64 full-time employees in fiscal year 2000 to 46 in fiscal year 2015). Likewise, since fiscal year 2008, the Collections Division of the Revenue Department, responsible for processing revenue receipts and preparing financial reports on all revenue and receivable activity, lost 32 percent of its accounting positions.
- 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, 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 report.

Recommendations: Without sufficient 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. Therefore, we again 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].

- Provide adequate funding to all city agencies currently experiencing difficulty in accumulating and providing timely, accurate, and complete financial data to the Finance Office for inclusion in the CAFR [500113.01].

2015-002 MONITORING

Inadequate Management Oversight Resulted in Misstated Year-End Receivables

Condition: Revenue Department management did not detect over \$250 million of errors in the department's calculations of accounts receivable and related accounts.¹ As in prior years, the majority of the errors (\$198 million) involved the Emergency Medical Services (EMS) receivables.²

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 Revenue Department³ 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 most of the errors we identified in the Revenue Department's calculations, the accounts receivable and related accounts reported in the city's fiscal year 2015 CAFR were materially accurate.

Cause: As we have commented for the last several audits, 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 because of a turnover in supervisory personnel 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 new 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 \$198 million receivable write-off that had not been approved by the Accounts Review

¹ Related accounts included the allowance for doubtful accounts, deferred inflows of resources, and overpayment of taxes.

² EMS fees are charged for ambulance transport and other medical services provided to citizens and visitors of the city.

³ The Philadelphia Home Rule Charter, Section 6-204.

Panel.⁴ 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 was still considered a draft and had not been formally approved and finalized by management.

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 estimated basis for determining uncollectible accounts receivable amounts [500110.01].
- Provide adequate training to employees performing new duties [500111.01].
- Work closely with the Fire Department to accurately report the year-end EMS receivables and allowance for doubtful accounts [500113.05].

2015-003 CONTROL ACTIVITIES

Untimely Review Procedures in the Philadelphia Water Department Increase Risk of Financial Statement Errors

Condition: Previously, we recommended the Philadelphia Water Department (PWD) provide the Finance Office with detailed and organized support for the Water Fund financial statements. In response, on October 19, 2015, the PWD submitted a draft compilation package which supported the preliminary Water Fund financial statements but was incomplete due to certain information not yet being available. On January 27, 2016, approximately one month before the city's CAFR was issued, PWD presented an updated compilation which contained most of the support for the Water Fund statements. We believe that sufficient improvement was made to consider this condition resolved [500113.06].

Despite the above noted improvement, the completed checklist documenting PWD management's review of the Water Fund financial statements was not submitted to the Finance Office until March 2, 2016, six days after the CAFR was finalized and we issued our opinion. In comparison, the Division of Aviation (DOA) presented its completed management review checklist to the Finance Office on January 19, 2016. Additionally, in a related matter, we again observed that the Finance Office and PWD were not utilizing the full accrual Water Fund established in the city's accounting system (FAMIS⁵) to post year-end journal entries to prepare the financial statements.

⁴ The Accounts Review Panel, which was established in 1966 by Bill No. 1938, is responsible for approving all write-offs of city receivables. No receivables are to be written off without first being approved by the Accounts Review Panel.

⁵ **F**inancial **A**ccounting and **M**anagement **I**nformation **S**ystem.

Criteria: PWD management should design and have in place appropriate procedures to *timely* review and document its quality control over the compilation of the Water Fund financial statements. PWD should also be using the full accrual Water Fund 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: With no evidence of timely management review, there is an increased risk for undetected errors in reported Water Fund amounts.

Cause: PWD management informed us that they delayed submitting the review checklist until all required documentation was received from other city agencies and the compilation could be finalized. Such delays precluded PWD accountants from using the FAMIS full accrual Water Fund to post year-end entries.

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].

Additionally, management and accountants of PWD must ensure that the following actions are completed by the established deadline:

- Perform the procedures, now detailed in the compilation checklist, to ensure the accuracy and completeness of the Water Fund financial statements. The checklist should be submitted to the Finance Office along with the Water Fund financial statements. It should include an assertion by management that the statements have been reviewed and approved, and that to the best of management's knowledge, are complete and free from material misstatement [50105.01].
- Review and approve the Water Fund financial statements for accuracy and completeness [500111.02].

Once the Finance Office has incorporated the Water Fund financial statements into the CAFR, a responsible PWD official should review the CAFR for accurate inclusion of the statements [500113.07].

Lastly, 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].

2015-004 INFORMATION AND COMMUNICATION

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. Table 1 below shows that seven of the city's ten component units still did not submit their audited financial reports when due as 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	9/30/2015	12/07/2015	68
Pennsylvania Intergovernmental Cooperation Authority	9/30/2015	12/11/2015	72
Philadelphia Authority for Industrial Development	9/30/2015	11/06/2015	37
Philadelphia Gas Works	11/30/2015	1/28/2016	59
Philadelphia Municipal Authority	9/30/2015	2/05/2016	128
Philadelphia Redevelopment Authority	11/30/2015	2/13/2016	75
School District of Philadelphia	11/30/2015	2/19/2016	81

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 Controller

While the Philadelphia Municipal Authority's (PMA's) final report was submitted the latest at 128 days past the requested due date, it did not present as significant a reporting problem as some of the other late component units. This was because PMA had submitted a draft report to the city in October 2015, early enough to be included in the first draft of the CAFR.

The greater challenge to the timely completion of the CAFR came from the School District of Philadelphia and the Philadelphia Redevelopment Authority. Both these agencies submitted their reports very late (February 19, 2016 and February 13, 2016, respectively), leaving the Finance Office and the Controller's Office auditors little time to ensure they were accurately included in the city's CAFR.

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

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 \$456 million.

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 unit management in the timely submission of their respective final financial reports to the city's Finance Office [50102.01].

SIGNIFICANT DEFICIENCIES

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. Our current audit disclosed conditions which we consider to be significant deficiencies in the following areas: payroll and other expenditures, capital assets, cash, receivables, grant reporting, and accounting procedures (findings 2015-005 to 2015-016 below).

2015-005 PAYROLL CONTROL ACTIVITIES

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

Condition: To its credit, starting in fiscal year 2015, the Finance Office's central payroll unit instituted a procedure to check whether authorized employees are approving payroll. Specifically, for each payroll period, the unit compared a report listing city agency officials who performed the executive-level approvals in the on-line payroll system to the official signature card files and addressed any discrepancies. However, as we have noted during the last several audits, unauthorized employees continued to approve the city's bi-weekly payrolls. The official payroll signature files maintained by the Finance Office were inconsistent 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 55 city agencies to individuals authorized in the on-line payroll system to perform executive-level approvals revealed:

- Thirteen agencies (24 percent) had employees designated in the payroll system as authorized executive-level approvers who were not listed as such on the official payroll signature files.
- Forty-two agencies (76 percent) had employees who were authorized as executive-level approvers, but not designated as such in the payroll system. Ninety of these individuals did not have access to the system.

We also observed three instances where an employee with only supervisory-level approval privileges performed the executive-level approval and another case where an individual who normally only posted payroll transactions applied the executive-level approval. 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.

Criteria: To prevent irregularities, good internal control procedures dictate that only individuals who are properly authorized should be approving the bi-weekly payrolls. Additionally, signature authorization records should be appropriately updated as required by the city's Standard Accounting Procedure (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. This delegation should be documented on a temporary signature authorization card.

Effect: For seven of 55 city agencies, unauthorized employees approved approximately \$1.5 million in payroll costs during fiscal year 2015. Although we found no improprieties, the city has exposed itself to a higher level of risk for such occurrences.

Cause: The city's central payroll unit in the Finance Office has not made it a priority to ensure consistency between all individuals with executive-level approval privileges in the payroll system and the city's official signature card files. Regarding the temporary delegation of executive-level approval, Finance Office management had neither formalized current documentation requirements for this process nor appropriately updated SAP No. E-0911. The payroll unit's director informed us that use of the temporary signature authorization card was not practical due to time constraints in processing payroll. Instead, the payroll unit required that an agency official send an e-mail to the payroll unit requesting the temporary authorization; however, payroll unit personnel did not retain these e-mails.

Recommendations: We recommend Finance Office management:

- Compare the complete 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. Consider designing and implementing a practice that would require such a comparison to be performed on a periodic basis [500113.13].
- Formalize current documentation requirements for temporary authorizations of executive-level approval privileges and revise SAP No. E-0911 accordingly [500115.01].

2015-006 PAYROLL CONTROL ACTIVITIES

Failure to Segregate Payroll Duties Could Allow Fraud to Occur

Condition: During fiscal year 2015, duties concerning the data entry, review, and approval of bi-weekly payroll transactions were again not adequately segregated. Of 55 city agencies for 26 pay periods, we observed 366 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 thirty-one of the agencies performed duplicate functions for more than two pay periods, with the City Commissioners Office, Department of Human Services, and Office of Property Assessment being the most recurrent among the larger departments. While there had been a slight improvement in this condition when compared to the previous year's findings,⁶ a significant number of city agencies were still not adequately segregating payroll duties.

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

⁶ The prior audit's testing disclosed 422 occasions during fiscal year 2014 (30 percent) in which these payroll functions were not separated. Also, we noted that for 35 of 55 departments, employees performed duplicate functions for more than two pay periods.

Effect: Failure to segregate duties and the combination of multilevel reviews increase the risk of undetected errors and provide opportunities for a person to perpetrate and conceal irregularities during the process for preparing bi-weekly payroll. This situation may result in fraudulent payroll payments.

Cause: The city's current automated payroll system allows individuals with supervisory and executive-level approval capability 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].

2015-007 EXPENDITURE CONTROL ACTIVITIES

Unauthorized Expenditure Sign-offs Could Lead to Irregularities

Condition: Our testing of expenditure approvals in the city's computerized accounting systems (i.e. FAMIS and ADPICS⁷) revealed 256 payment vouchers, totaling \$2.5 million that were electronically approved by individuals who were not formally authorized to perform this function. Specifically, individuals in the PWD and the Sheriff's Office were not listed on their agencies' signature authorization cards, which represent the official record of employees designated to approve the purchase of goods and services on the city's behalf.

Additionally, for the Office of Innovation and Technology (OIT) and Procurement Department, two of the city agencies whose payment processing function is overseen by the Finance Office's Administrative Services Center (ASC),⁸ we found 1,110 vouchers totaling \$25.5 million, each of which was approved by a first level reviewer who was not listed on the agency's signature card⁹ with final authorization then given by an ASC manager who did appear on the signature card. Our discussions with 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*.

In another related matter, voucher approval records in the city's accounting system had not been properly updated to reflect changes in the active status of certain city agencies. For example, \$22 million of capital improvement expenditures were approved by a Department of Public Property (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.

⁷ **A**dvanced **P**urchasing **I**nventory **C**ontrol **S**ystem

⁸ 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.

⁹ For the OIT vouchers, various OIT managers performed the first level review. For the Procurement Department vouchers, the first level reviewer was an ASC administrative technician.

Criteria: To prevent irregularities, good internal control procedures dictate that only individuals who are properly authorized should be approving payment vouchers. Moreover, 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 change occurs. The need for keeping signature files up-to-date is formally addressed in the current version of the city’s SAP No. E- 0911.

Effect: While our sample testing of fiscal year 2015 expenditures did not reveal any irregularities, having unauthorized employees approve purchases could result in a misappropriation of funds.

Cause: In the case of the unauthorized PWD employee, the individual was removed from the agency’s signature authorization card in February 2015. However, her approval privileges were not timely revoked, and she continued to approve vouchers. The Sheriff’s Office employee never appeared on the agency’s signature card but was 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.

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

- Compare the signature card files to the list of employees authorized to approve vouchers in the city’s accounting systems, identify discrepancies, and update the signature cards and/or approval privileges accordingly. Consider designing and implementing a practice that would require such a comparison to be performed on a periodic basis. [500115.02].
- Reinforce to all city agencies the requirement to prepare and submit new signature authorization cards to the Finance Office immediately upon authorized employees separating, transferring to another city agency, or changing job responsibilities. Upon receipt of a new signature card, responsible personnel in the Finance Office and Procurement Department should compare the new card to the previous one and promptly remove the on-line approval privileges of employees no longer listed on the card [500114.05].
- 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].

2015-008 CAPITAL ASSET CONTROL ACTIVITIES

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 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 Charter¹⁰ 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 for vehicle balances and a \$6.4 million discrepancy in the accumulated depreciation balance for buildings. Also, we noted a \$3.0 million variance between amounts on the "Proof" summary report and supporting "Proof" detail files. Lastly, \$800,000 of computer equipment transferred from Governmental Activities to the Water Fund during fiscal year 2015 was not removed from the Finance Office's inventory file, resulting in an overstatement of the Governmental Activities' equipment balance.

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].

2015-009 CAPITAL ASSET CONTROL ACTIVITIES

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

Condition: Except for the PWD and the 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.

¹⁰ The Philadelphia Home Rule Charter, Section 6-501

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 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 Public Property – the agency responsible for acquiring and maintaining the city’s real property assets – have not coordinated with one another to develop a process for a periodic physical inventory of 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 every 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 completion and accuracy [500113.14].

2015-010 CASH CONTROL ACTIVITIES

Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Allow for Irregularities

Condition: The Treasurer’s Office again did not timely reconcile its bank accounts, which held over \$1.9 billion at June 30, 2015. For 69 of its 79 accounts (87 percent), the Treasurer’s Office did not compare the city’s accounting records against the bank’s records to ensure that both sets of records were correct until more than two months after June 30th. In a number of instances, this process did not occur until more than six months after fiscal year-end and for some, not at all through the year. The current year’s observations represent an even further deterioration from the previous year, when we reported that 67 percent of the Treasurer’s bank accounts were not timely reconciled. Table 2 below summarizes our findings with respect to the Treasurer’s untimely bank reconciliations.

Table 2: Summary of Treasurer's Untimely Bank Reconciliations

Month June 30, 2015 Reconciliation Was Prepared	# of Accounts	June 30, 2015 Bank Account Balance
<u>Prepared Less Than Two Months After June 30th</u>		
August 2015	2	\$ 214,918
<u>Prepared More Than Two Months After June 30th</u>		
September 2015	41	885,819,423
October 2015	14	1,020,505,518
November 2015	-	-
December 2015	8	1,471,346
After December 2015	<u>6</u>	<u>11,106,215</u>
Subtotals – Prepared More Than Two Months After June 30th	<u>69</u>	<u>1,918,902,502</u>
No Reconciliation Prepared[†]	8	927,897
Totals for All Accounts	<u>79</u>	<u>\$ 1,920,045,317</u>

[†]Two of the eight 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, 2015 bank reconciliations provided by the Treasurer's Office

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: Given the worsening of this condition since the prior audit, it appears Treasurer's Office 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's Office 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].

2015-011 CASH CONTROL ACTIVITIES

Treasurer's Reconciliation Process Failed to Detect Shortages in City's Consolidated Cash Account

Condition: The Treasurer's bank reconciliation process failed to detect shortages in the city's consolidated cash account. Comparison of the Revenue Department's daily report of city collections, known as the

Consolidated Summary of Deposits, to city bank account statements for twelve selected dates in fiscal year 2015 disclosed:

- Seven instances totaling \$55,751 where the Consolidated Summary of Deposits reported a wire transfer from a city vendor's lockbox account¹¹ into the city's consolidated cash account for which there was no record of the monies ever being transferred.
- A case where the Consolidated Summary of Deposits reported an \$18,063 transfer from the city's pension payroll deduction adjustment account to the consolidated cash account in December 2014. However, the actual transfer did not occur until October 2015, when Treasurer's accountants eventually detected the missing transfer.

Criteria: To ensure the accuracy of the city's reported revenue receipts and cash balances, it is essential that the Treasurer's Office reconcile all daily collections reported on the Consolidated Summary of Deposits to amounts deposited into the city's bank accounts.

Effect: The city's cash accounts are at an increased risk for undetected errors and fraud. In the case of the seven reported wire transfers for which there was no record to show that they ever occurred, the city's consolidated cash account was short by \$55,751. Treasurer's personnel believed these monies still remained in the vendor's lockbox account; however, as of the end of our fieldwork, we were not provided with documentation to support that assertion.

Cause: The Treasurer's bank reconciliation process was deficient because it did not include a comparison of all reported collection amounts on the daily Consolidated Summary of Deposits to amounts deposited in the city's bank accounts. There was also a lack of communication and coordination between the Treasurer's Office and Revenue Department to ensure that Treasurer's accounting staff had an adequate understanding of the reported collection amounts on the Consolidated Summary of Deposits and their related responsibilities. Treasurer accounting personnel were responsible for directing the bank to transfer monies from the vendor's lockbox account to the consolidated cash account. However, in the case of the missing wire transfers noted by our testing, the Treasurer's accounting manager asserted that he was not aware of these wire transfers because they appeared on the Consolidated Summary of Deposits under a code that differed from the usual code the Revenue Department used to identify required wire transfers from the vendor's lockbox account.

Recommendations: We recommend management of the Treasurer's Office:

- Revise its bank reconciliation procedures to include a comparison of all reported collection amounts on the Consolidated Summary of Deposits 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 is consistently performed and documented [500115.05].

¹¹ In certain cases where the city uses a vendor to collect revenues on its behalf, the monies are first deposited into a vendor's lockbox account before being transferred into the city's consolidated cash account.

- Work more closely with Revenue Department management so that Treasurer's accounting personnel gain an adequate understanding of reported collection amounts presented on the Consolidated Summary of Deposits and their related responsibilities [500115.06].

2015-012 CASH CONTROL ACTIVITIES

Inadequate Oversight of Collateral Could Leave City Vulnerable to Losses

Condition: The Treasurer's Office again did not adequately monitor its banks to ensure that collateral to secure city deposits was in compliance with legal requirements. City deposits at two of the banks were under-collateralized for seven months during fiscal year 2015.¹² In total for these seven months, deposits exceeded collateral for the two banks by \$225.9 million, with the most significant occurrence in February 2015 when deposits were under-collateralized by \$79.8 million. Table 3 below summarizes the months in which deposits were under-collateralized.

Table 3: Summary of Under-Collateralized Deposits				
<u>Column A</u> Month	<u>Column B</u> Deposits Less FDIC Coverage*	<u>Column C</u> Pledged Collateral	<u>Column D</u> Amount Under- Collateralized (Col. B – C)	<u>Column E</u> Percentage Under- Collateralized (Col. D/B)
(Amounts in Millions of USD)				
July 2014	\$ 125.9	\$ 110.4	\$ 15.5	12.3%
August 2014	407.3	352.4	54.9	13.5%
October 2014	435.2	402.7	32.5	7.5%
December 2014	247.8	239.4	8.4	3.4%
February 2015	347.4	267.6	79.8	23.0%
March 2015	326.4	321.9	4.5	1.4%
June 2015	367.9	337.6	30.3	8.2%
Totals	\$2,257.9	\$2,032.0	\$225.9	10.0%

*Federal Deposit Insurance Corporation (FDIC) coverage limit of \$250,000 per deposit type

Source: Prepared by the Office of the Controller from review of monthly collateral reports provided by the Treasurer's Office

Criteria: Philadelphia Code §19-201(4)(a) requires that banks or other financial institutions designated as city depositories must provide pledged collateral at amounts equal to or in excess of the deposited amounts. The pledged collateral must be held by the Federal Reserve Bank or the trust department of a commercial bank.

Effect: Inadequate collateralization of city deposits could leave the city vulnerable to loss during market recession or other unfavorable economic conditions.

Cause: Treasurer's Office management had not established 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

¹² At one bank, deposits were under-collateralized for two months. At the second bank, deposits were under-collateralized for six months.

reviews. In fact, when we requested the fiscal 2015 monthly bank collateral reports, it took approximately four months from the date of our initial request for the Treasurer's Office to supply all of the reports.

Recommendations: To ensure that city deposits are adequately protected, we continue to recommend that the Treasurer's Office:

- Develop and institute written procedures to instruct staff on how and when to perform collateral monitoring procedures [500114.08].
- Review monthly collateralization reports on a timely basis and submit those reports to the Finance Office where they should then be promptly reviewed to identify any collateral shortages [500113.15].

2015-013 RECEIVABLE CONTROL ACTIVITIES

WRB Account Adjustment Procedures Improved But Further Enhancements Necessary to Improve Accountability

Condition: In response to previous recommendations we made regarding adjustments to water customer accounts in BASIS2, during the later part of fiscal year 2015 the Water Revenue Bureau (WRB) redesigned its review procedures. More specifically, we observed that it:

- Incorporated into its quarterly review process significant adjustment types, such as bill reversals, rebills, as well as balance and payment transfers [500114.09].
- Required that individuals performing quarterly reviews pay particular attention to large dollar adjustments and instances of when WRB accountants perform multiple adjustments on the same customer account [500114.10].

Despite the above improvements, for most of fiscal year 2015, WRB was again unable to demonstrate that its accountants performed regular reviews of adjustments made to customer accounts. These adjustments reduced customer receivable balances for the year by a total of \$44.5 million. During fiscal year 2015, the WRB produced daily-adjustment worksheets and quarterly-adjustment reports to reflect adjustment activity posted to BASIS2. Our inspection of the quarterly-adjustment reports showed that only the fourth-quarter report demonstrated evidence of a comprehensive review. Since the enhancement of the quarterly review process only began on May 1, 2015, the other three quarterly reports displayed little evidence they had been examined. Also, our observations of selected fiscal year 2015 daily-adjustment worksheets revealed that accountants did not consistently document their review, often failing to initial and date the worksheets. WRB management asserted that improvements to the daily review process have been implemented in fiscal year 2016.

Criteria: WRB policies for reviewing the daily-adjustment worksheets and the quarterly-adjustment reports direct accountants in the WRB's Audit Unit to select adjustment transactions based on pre-established criteria, to timely review the adjustments, and to document that review by initialing and dating the transactions. The WRB expanded these procedures during the fourth quarter of fiscal year 2015 to require their accountants to make a notation in BASIS2 for each adjustment reviewed. Required information for this

notation includes the purpose for reviewing the adjustment transaction, a description of the work performed during the review, the accountant's initials, and the review date. The accountant is also supposed to write the identifying number for the BASIS2 notation (referred to as the call number) next to the corresponding adjustment on the daily worksheets and quarterly reports.

Effect: Although our tests of selected BASIS2 adjustments disclosed no instances of inaccurate or improper activity, undetected errors or irregularities in water customer account balances might have a higher chance of occurring without regular application of the designed reviews.

Cause: WRB management did not consistently stress the importance of performing and properly documenting the independent review of adjustments.

Recommendation: To improve controls over adjustments made to water customer accounts in the BASIS2 billing system, we recommend that WRB management proactively stress to their accountants the importance of timely completing the daily and quarterly reviews of adjustments. Moreover, management needs to consistently reinforce the importance of accountability, reminding their accountants to initial and date the daily-adjustment worksheets and quarterly- adjustment reports, to make the required notations in BASIS2, and to place the related call numbers on the daily worksheets and quarterly reports [50008.01].

2015-014 RECEIVABLE CONTROL ACTIVITIES

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

Condition: Revenue Department accountants stopped performing daily reviews of adjustments made to taxpayer accounts, which on any given day can involve millions of dollars. 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 instance, 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 misstatement of the taxes receivable reported in the city's CAFR.

Cause: In the middle of 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 management failed to reassign this duty to another employee.

Recommendation: Revenue Department management should 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].

2015-015 INFORMATION AND COMMUNICATION

Better Training and Oversight Are Necessary to Ensure Accurate Grant Reporting

Condition: For the past several years, the Grants Accounting and Administrative Unit (GAAU) of the Finance Office has provided an inaccurate Schedule of Financial Assistance (SFA) for audit. In particular, we observed that city agencies responsible for grants:

- *Misidentified federal awards by incorrectly recording the federal programs' Catalogue of Federal Domestic Assistance (CFDA) numbers, which the federal government uses to identify programs and the related compliance requirements.* Three examples follow:
 1. Airport Improvement Program at DOA – This grant had been selected for audit in fiscal year 2013. However, some expenditures relevant to the program had been recorded under an incorrect CFDA number. Despite acknowledging the error during the fiscal year 2013 audit, DOA grant personnel repeatedly made the same mistake for the fiscal years 2014 and 2015.
 2. Continuum of Care (CoC) Homeless Assistance Program at Office of Supportive Housing (OSH) – 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 SFA has determined that many grants are being reported under the old incorrect CFDA program numbers.
 3. Child Welfare Demonstration Project – Title IV-E Program at Philadelphia Department of Human Services (DHS) – Funding for this program was also being reported under an incorrect CFDA number. The reporting of this incorrect CFDA number occurred because (1) DHS failed to provide the GAAU staff with the required grant profile showing the CFDA number, and (2) the GAAU staff, although having been provided a copy of the award letter with the appropriate CFDA number, failed to identify and

properly report the program in the SFA.

- *Misidentified federal program expenditures in the city's books and records.* We observed that fiscal year 2015 expenditures reported in the SFA for DHS' Adoption Assistance Program had significantly declined from prior years. Upon closer inspection, we discovered that the expenditures had been misapplied against the department's Foster Care Program. Moreover, our inquiries of responsible DHS personnel revealed the department had misreported expenditure activity associated with the Adoption Assistance Program in fiscal year 2014 as well.
- *Failed to identify all federal financial assistance received.* The Airport Checked Baggage Screening Program was not included in the SFA submitted for audit. We discovered the unreported program upon observing an amount due for the program on DOA's grant receivable report. Further inquiries revealed the DOA did not identify and report the grant activity to the GAAU.

Criteria: The United States Office of Management and Budget (OMB) 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 for why inaccuracies are occurring in the preparation of the city's SFA. These include:

1. Staffs of the grantee departments are not adequately trained in the requirements of OMB Circular A-133.
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 SFA.

Recommendations: As in our fiscal year 2014 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].

2015-016 INFORMATION AND COMMUNICATION

SAPs Require Updating to Ensure Consistent Application of Accounting Rules and Regulations Among City Agencies

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, in August 2015, the Finance Office revised six SAPs pertaining to the maintenance of cash accounts, 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.¹³ Also, in its best practices, 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].

¹³The Philadelphia Home Rule Charter, Section 6-101.

OTHER CONDITIONS

2015-017 INFORMATION AND COMMUNICATION

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

Condition: The city's DHS did not 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 2015, DHS was consistently late in submitting the Act 148 required quarterly reports, as summarized in the Table 4 below:

Table 4: 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, 2014	November 14, 2014	December 15, 2014	31
December 31, 2014	February 14, 2015	June 10, 2015	116
March 31, 2015	May 15, 2015	August 3, 2015	80
June 30, 2015	August 14, 2015	August 15, 2015	1

Source: Prepared by the Office of the Controller from review of fiscal year 2015 Act 148 quarterly reports provided by DHS

Criteria: The state¹⁴ 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, 2014. Since DHS submitted that report 116 days late on June 10, 2015, a \$55 million payment to the city was unnecessarily delayed until July 10, 2015. 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 two primary factors:

- Employee turnover during fiscal year 2015 which resulted in a lack of experienced staff to assist with report preparation.
- Difficulties with the data warehouse DHS uses to gather and consolidate financial and statistical information for the quarterly reports. The data warehouse was inoperable from December 2014 through the end of the fiscal year.

¹⁴ Specifically, the Pennsylvania Department of Human Services (formerly the Department of Public Welfare).

Recommendation: To comply with Act 148 reporting requirements and to accelerate the reimbursement process, we 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].
- Resolve the operational problems with the data warehouse [500115.09].
- Obtain a waiver or extension from the state on the 45-day reporting requirement when timely report submission is not possible [500115.10].

2015-018 INFORMATION TECHNOLOGY CONTROL ACTIVITIES

General Information Technology Controls Continue to Require Strengthening

As part of the current audit, we reviewed the OIT's remediation efforts to address the control deficiencies identified during a prior year evaluation of general information technology (IT) controls over key financial-related applications.¹⁵ Out of twelve prior noted conditions, we observed that one deficiency regarding the mainframe disaster recovery plan had been resolved. For the remaining eleven findings, OIT made certain remediation efforts but had not completed corrective action. Our findings involved the following ten areas: (1) risk assessment, (2) vendor management, (3) IT policies and procedures, (4) domain administrators, (5) application change management, (6) BASIS2 System backup media, (7) periodic access rights review, (8) vendor support access, (9) password configurations, and (10) business continuity planning. Details regarding the twelve prior noted conditions and their current remediation status are presented in the table in Appendix I.

2015-019 INFORMATION TECHNOLOGY CONTROL ACTIVITIES

Access and Change Management Controls Over Taxes Receivable System Still Require Improvement To Minimize Various Risks

As part of the current audit, we reviewed the Revenue Department's remediation efforts to address weaknesses identified during last year's review of selected IT controls over the TIPS application. This application is the accounting system for the city's real estate and self-assessed taxes. It is the source for taxes receivable reported in the city's CAFR. The three prior noted conditions involved inappropriate access rights for programming consultants, failure to timely revoke access for separated employees, and lack of formal written change management procedures. We observed that all three findings remained unresolved. Details regarding the three prior noted conditions and their current remediation status are presented in the table in Appendix II.

¹⁵ During the fiscal year 2013 audit, we conducted, with the assistance of a consultant, an evaluation of OIT's general IT controls over FAMIS, Payroll, Pension Payroll, TIPS, Health and Welfare, and BASIS2.

2015-020 INFORMATION TECHNOLOGY CONTROL ACTIVITIES

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. Out of four previously noted conditions, one finding regarding the DOA's failure to assign an IT security officer was corrected. 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 four prior noted conditions and their current remediation status are presented in the table in Appendix III.

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

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 conditions¹⁶ 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.

Replacement of IT Manager Now Addressed by Revenue Department and OIT

Previously, we commented that the Revenue Department and OIT did not have a succession plan to replace an OIT technical program manager, who performed key duties such as maintaining TIPS and producing daily revenue/receivable reports used by the department. The manager planned to retire in April 2014, and his replacement was hired only two months before his planned departure. While the manager deferred his retirement until July 2014, his replacement left ten days later, leaving the manager position vacant.

Our current review noted that in December 2014 the Revenue Department and OIT hired a mainframe developer to assume certain duties previously performed by the retired manager. Additionally, management redistributed some of the former manager's other functions to existing Revenue IT group staff. We believe sufficient corrective action has been taken to consider this finding resolved [500113.02].

Fire Department's Accounting for EMS Receivables Improved

In prior audits, we noted evidence of inadequate oversight with the Fire Department's accounting for EMS receivables. The Fire Department accountant wrote-off \$275 million of EMS receivables without obtaining the Accounts Review Panel's approval. Additionally, after the Fire Department's accountant retired in November 2014, our discussions with the new accountant clearly suggested a lack of adequate succession training in the area of EMS fees and related receivables.

During the current audit, we observed that the Fire Department's accounting for EMS receivables had improved. Our recalculation of the year-end EMS receivables agreed with the amount reported by the Fire Department's accountant, demonstrating he now had a better understanding of how to calculate the EMS receivables. Based on the improvement noted, we consider this condition resolved [500112.01, 500113.03, and 500113.04].

Year-End Procedures for Water Fund Accounts Receivable Improved

In our prior year report, we commented that the WRB and the PWD did not accurately calculate their revenues, the year-end Water Fund accounts receivable balance, or the related allowance for doubtful accounts, associated with water services to their customers. These accounts were incorrectly reported in the

¹⁶ The resolved prior-noted conditions involved the PWD's provision of support for the Water Fund financial statements to the Finance Office (Finding 2015-003), the WRB's enhancement of its adjustment review procedure (Finding 2015-013), and the remediation of certain IT control deficiencies concerning OIT operations (Appendix I) and the Airport's PROworks application (Appendix III).

draft financial statements, primarily due to WRB accountants failing to reconcile their statement of activity in accounts receivable (SAAR¹⁷) to the total receivable amount in the city's water billing system, BASIS2. A lack of communication between the WRB and the PWD also contributed to the misstatements. Consequently, amounts reported for revenues and accounts receivable in the draft financial statements were overstated by \$7.1 million and \$1.4 million, respectively, while the allowance for doubtful accounts was understated by \$5.7 million.

During our current review, we observed that the WRB performed a timely reconciliation of the SAAR to BASIS2 that was detailed, accurate and complete. The year-end receivable balance was timely communicated to the PWD, which assisted in the PWD's efforts to post adjusting entries into the city's accounting system and finalize the Water Fund financial statements for the city's CAFR. Therefore, we consider this finding resolved [500113.08, 500113.12, and 500114.03].

Separated Employees' Access to City Accounting Systems Now Timely Revoked

During last year's audit, our testing of expenditure approvals in the city's accounting systems (FAMIS and ADPICS) revealed numerous instances of when the electronic authorization codes of retired employees were used to approve payment vouchers for several weeks after their retirement. To address the problem of system access rights for terminated employees not being timely revoked, OIT instituted a procedure whereby it produces a bi-weekly list of employees who have separated or changed city agencies. OIT sends this list to the Finance Office and Procurement Department personnel responsible for granting and removing user access in the FAMIS and ADPICS applications.¹⁸ We recommended that responsible personnel use OIT's list to ensure that access for terminated employees was timely revoked.

During the current audit, we compared the active users lists for FAMIS and ADPICS to the Payroll system's records of current city employees. Out of 2,788 total active users for FAMIS and ADPICS, we observed that only three users were no longer city employees. Based upon the results of this testing, we believe that sufficient improvement has been made to consider this finding resolved [500114.04].

Treasurer Bank Reconciliations Now Show Evidence of Review

In the previous audit, we noted several instances where the Treasurer's Office bank reconciliations contained no evidence of independent supervisory review. SAP No. 7.1.3.b requires that a responsible supervisor review bank reconciliations to ensure their accuracy and sign and date the reconciliations to evidence this review. During our current year audit, we observed evidence of supervisory review on all of the Treasurer's fiscal year-end bank reconciliations. Based upon our observations, we consider this finding resolved [500114.07].

¹⁷ The SAAR is a monthly report which summarizes the beginning receivable balance, activity such as billings, payment postings, and billing adjustments, and the resulting ending balance.

¹⁸ Finance Office management handles granting and removing user access to FAMIS while Procurement Department personnel are responsible for performing that function for ADPICS.

APPENDICES

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL CONTROLS REVIEW OF OIT

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>ORGANIZATIONAL AND MANAGEMENT CONTROLS</u>			
<p>1. <u>IT Risk Assessment:</u> A comprehensive IT risk assessment had not been performed. While the OIT had a process to monitor technical risks through vulnerability scanning, a formal plan to identify and address additional IT operational, business and compliance risks did not exist.</p>	Without a current and comprehensive risk assessment, IT resources may be used ineffectively in addressing risk affecting OIT.	Develop formal procedures to perform periodic risk assessments and monitor gaps identified. This should be a component of an enterprise wide risk management program [300413.01].	<p>Incomplete: Previously, OIT provided a two page “Vulnerability Management Strategy” document, which presented a general overview of methods OIT uses to identify and address potential security risks. However, as of November 6, 2015, OIT management stated they had not yet developed more detailed risk assessment procedures.</p>
<p>2. <u>Vendor Management:</u> Reports on the internal control environments at third-party service providers were not consistently obtained and reviewed. OIT had not obtained and reviewed a Statement on Standards for Attestation Engagements (SSAE) 16 Report for Official Payments, the city’s vendor for credit card payment processing. Obtaining a SSAE 16 report would allow the city to monitor the effectiveness of the control environment in situations where financial transactions are processed on behalf of the city.</p>	A lack of documented due diligence procedures by the city over the reliance on service providers could lead to critical risk being inadvertently inherited by the city.	Develop a process to periodically assess the internal control environments at third-party service providers. Also, coordinate with vendors, such as Official Payments, to obtain more structured and detailed internal control reports [300413.02].	<p>Incomplete: In the prior year, OIT furnished a one page document which briefly discussed certain key indicators that OIT asserted it reviews in evaluating vendors’ internal control environments, such as obtaining audit reports of vendors’ controls. However, as of November 6, 2015, OIT management stated that more detailed process documentation was not available. Additionally, when we requested copies of any available SSAE 16 reports for OIT’s third-party service providers, OIT did not provide any such reports.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL CONTROLS REVIEW OF OIT

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>3. <u>IT Policies and Procedures:</u> OIT did not consistently document the review and approval of governing IT policies and procedures.</p>	Lack of clarity for OIT personnel on operating policies and procedures increases the risk that policies and procedures do not reflect current operating procedures.	Develop processes to periodically review, update, and approve operating policies and procedures and document these reviews [300413.03].	<p>Incomplete: During the prior audit, OIT provided a draft policy setting forth a standard process for the development, review, and approval of its operating policies and procedures. However, as of November 6, 2015, the policy was still awaiting final approval from executive management.</p>
<u>TECHNICAL INFRASTRUCTURE</u>			
<p>4. <u>Domain Administrators:</u> An excessive number of accounts were included in the membership of the domain administrators group within the Active Directory.</p> <p>Our current observations of the active domain administrators list as of November 4, 2015 revealed twenty-seven service accounts with generic user names. User names should identify specific individuals to ensure accountability.</p>	Having excessive domain administrators increases the risk that unauthorized or undetected changes to settings or data will occur.	Review the current listing of domain administrators and restrict access where appropriate. Additionally, develop procedures to periodically review administrator access for appropriateness [300413.04].	<p>Incomplete: The prior report noted that OIT developed a draft procedure for granting domain administrator access, which included a requirement to annually review the domain administrators list for appropriateness. However, as of November 6, 2015, the procedure had not yet been formally approved by executive management.</p>
<u>SOFTWARE ADMINISTRATION</u>			
<p>5. <u>Application Change Management:</u> While OIT had developed a change management procedure, the procedure was inconsistently applied when performing change requests for applications. Change requests were not consistently supported by documented end-user testing or management approval, including evidence of review and approval by the Change Advisory Board (CAB). Our testing of ten fiscal year 2015 change requests found no improvement in this condition.</p>	Inadequate compliance with established procedures to perform end-user testing and management approval increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment.	Review change management procedures and implement measures to ensure that required documentation and steps are performed and documented [300413.05].	<p>Incomplete: The current audit found there were no revisions to OIT's change management procedures. As noted last year, while these procedures stated how the change requestor's supervisor should document his/her approval, there were no specific requirements addressing how end-user testing or the CAB's review and approval should be documented.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL CONTROLS REVIEW OF OIT

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>DATA ADMINISTRATION</u>			
<p>6. <u>BASIS2 Backup Media:</u> Media used to store backups of the BASIS2 application were not stored off-site.</p>	In the event of a disaster, backup media may not be available.	Evaluate separate locations to store rotated backup media [300413.06].	<p>Incomplete: OIT management informed us that they had ordered the equipment needed to add Basis2 to the backup tape library process, and the equipment was due for installation and testing by January 2016.</p>
<u>APPLICATION ADMINISTRATION</u>			
<p>7. <u>Periodic Access Rights Review:</u> A process had not been implemented to periodically review active application user accounts, associated access rights, and group membership.</p> <p>Our current year review of the active users listing for the city's Payroll system revealed that four OIT programmers have the ability to add, delete, or modify payroll transaction data. Only users – not programmers – should be responsible for transaction origination and correction.</p>	<p>While OIT had implemented processes to perform and approve granting of user access, changes to user access, and removal of access rights, there is a risk that over time access rights will not be updated due to oversights.</p> <p>There is increased potential for data to be erroneously added or modified and not be detected by management.</p>	<p>Work with impacted departments to develop a procedure to periodically review the active users and their associated access rights for appropriateness [300413.07].</p> <p>Revise the programmers' access rights to the Payroll system so that they do not have the ability to add, delete, or modify payroll transaction data [500115.11].</p>	<p>Incomplete: On October 22, 2015, OIT provided a draft of a procedure directing department personnel responsible for the city's Payroll, FAMIS, and ADPICS applications to at least annually review user access for appropriateness. Since the procedure was formally approved by the chief information officer on April 7, 2016, we deem this condition resolved [300413.07]. However, the remediation status is considered incomplete because of the current year observation regarding the programmers' inappropriate access rights to the Payroll system.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL CONTROLS REVIEW OF OIT

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>8. <u>Vendor Support Access:</u> Vendor support accounts were provided full access to BASIS2 and were active.</p>	<p>There is an increased risk that unauthorized transactions or activities will be performed without the city's knowledge.</p>	<p>Ensure that vendor support accounts only be granted the access they need to provide ongoing support, and implement a process to activate vendor accounts only when the vendor is providing support [300413.08].</p>	<p>Incomplete: OIT management asserted that virtual private access is limited for vendors, and city agencies control the vendors' accounts and are empowered to enable or disable them as they need. OIT provided no documentation to evidence that they have implemented a process to monitor access granted to vendor support accounts.</p>
<p>9. <u>Password Configurations:</u> While passwords were required for access to the network, applications, and supporting technologies, configurations could be enhanced to strengthen authentication mechanics. Password configurations were inconsistently implemented and did not always comply with established policies at the network, application, and database levels.</p>	<p>Inadequate password configurations increase the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.</p>	<p>Review the available configurations of each authentication point and evaluate strengthening the configuration [300413.09].</p>	<p>Incomplete: In the prior audit, management indicated OIT's security group would perform a review of the financial systems' configurations to evaluate compliance with the established password policy. OIT had not yet provided a copy of that review.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL CONTROLS REVIEW OF OIT

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>BUSINESS CONTINUITY</u>			
10. <u>Business Continuity Plan:</u> A business continuity plan had not been developed for the applications reviewed (FAMIS, Payroll, Pension Payroll, TIPS, Health and Welfare, and BASIS2).	In the event of a disruption of service, city departments may not be able to provide required services or continue limited operations until service is restored.	Communicate with potentially impacted departments to convey the importance of establishing a business continuity plan. Also, provide guidance and assistance in helping the impacted departments when establishing plans [300413.13].	Incomplete: OIT management informed us that the city embarked on a Continuity of Operating Program (COOP), and all city agencies, including OIT, submitted COOP plans to the Office of Emergency Management in January 2015. As of November 6, 2015, management indicated that departmental plans were still under review.
11. <u>BASIS2 Disaster Recovery:</u> Testing of the disaster recovery plan for BASIS2 had not been performed.	The disaster recovery plan may not work as anticipated when faced with an unplanned outage.	Periodically test the BASIS2 disaster recovery plan and document the tests and their results in writing [300413.14].	Incomplete: OIT did not provide any documentation to evidence periodic testing of the plan.
12. <u>Disaster Recovery Plan:</u> The disaster recovery plan established for the mainframe applications did not include all pertinent information needed to perform the restoration activities, specifically the locations where the back-up media were stored.	Lack of such plans could potentially reduce OIT's ability to restore services in a timely fashion.	Revise the disaster recovery plan to include the noted missing items [300413.15].	Complete: During the current audit, we observed documentation of the specific locations where the back-up media were stored.

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR REVENUE DEPARTMENT'S TIPS SYSTEM

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>IT OPERATIONS AND SUPPORT</u>			
<p>1. <u>Programmer Access Rights:</u> Several consultants from a firm that provided programming services also had the ability to add, modify, and delete TIPS transaction data. Only users – not programmers – should be responsible for transaction origination and correction.</p>	<p>When duties are not adequately segregated, there is increased potential for data to be erroneously added or modified and not be detected by management.</p>	<p>Segregate duties and responsibilities for system programmers. Specifically, the ability to add, change, or remove data should be delegated to individuals who are not responsible for programming activities [500114.13].</p>	<p>Incomplete: The current audit found no change in this condition. The programming consultants still had the ability to add, modify, and delete TIPS transaction data. On February 11, 2016, the Revenue Department's IT Director informed us that action had been initiated to remove the programming consultants' access to transaction data.</p>
<p>2. <u>Termination of TIPS User IDs:</u> Access of separated employees to the TIPS application was not always disabled and removed in a timely manner.</p>	<p>Unauthorized access to data not only increases the risk that data could be compromised but also presents opportunities for the possible abuse of confidential taxpayer information.</p>	<p>Establish and implement a procedure to ensure mandatory and timely notification to responsible IT personnel of employee separations and inactive contractors. Responsible IT personnel should disable and remove accounts for separated employees and inactive contractors in a timely manner. Also, institute a procedure to periodically review access authorizations for continued appropriateness [500114.14].</p>	<p>Incomplete: We haphazardly selected a sample of thirty individuals from the TIPS active users list as of November 16, 2015 and found nine invalid accounts consisting of the following:</p> <ul style="list-style-type: none"> • Four contractors no longer performing work for the city. • Three separated city employees. While two of the employees separated between August and September of 2015, the third employee left city service in August 2014. • Two generic accounts for the First Judicial District.

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR REVENUE DEPARTMENT'S TIPS SYSTEM

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>SOFTWARE ADMINISTRATION</u> 3. <u>Application Change Management:</u> There were no formal written procedures documenting the process for making system modifications to the TIPS application.	Failure to develop formal change management procedures increases the risk that employees may not be aware of the proper steps to perform during the process of making programming changes to TIPS.	Develop formal written policies and procedures for the TIPS change management process [500114.15].	Incomplete: The Revenue Department's IT Director provided a one page change control/management policy dated November 10, 2015. However, this policy lacked sufficient details on certain steps in the change management process, such as standard criteria for user testing of application changes and documentation requirements for the user's approval of the change.

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

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><u>ORGANIZATIONAL AND MANAGEMENT CONTROLS</u></p> <p>1. <u>IT Policies and Procedures:</u> The DOA had not formally documented its policies and procedures governing critical IT control activities, such as:</p> <ul style="list-style-type: none"> • Review and approval procedures for granting access to new users and changing or removing access rights. • Management of passwords, such as assigning, changing, resetting passwords, and handling lost or compromised passwords. • Process for testing and installation of software upgrades/changes from AirIT.¹⁹ • Procedures for backing up of data files, including storage locations, retention period, and periodic testing of backups. • Planning for contingencies to mitigate the impact of unplanned interruptions. • Risk assessment of security threats. 	<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 for controls over granting, changing, and removing user access; managing passwords; testing and installing software upgrades/changes from AirIT; backing up of data files; planning for contingencies; and assessing and monitoring security threats [500114.16].</p>	<p>Incomplete: While DOA management provided us with written procedures for granting access to new PROPworks users, the other IT control activities cited in last year's report were still not formally documented in writing.</p>
			<p>Complete: In November 2015, the DOA's IT director assigned the role of security officer to a senior systems engineer who works for a consulting firm that provides IT services to the DOA.</p>

¹⁹ AirIT is the vendor that created the PROPworks software.

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

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>APPLICATION ADMINISTRATION</u>			
<p>3. <u>Periodic Access Rights Review:</u> The DOA had not implemented a process to review active PROPworks accounts and related access permissions periodically.</p>	Unauthorized access to data increases the risk that data could be compromised without management detection.	Implement a procedure to periodically review the active users and their associated access rights for appropriateness [500114.18].	<p>Incomplete: While we were informed that the DOA's accounting manager has committed to periodically reviewing the list of active users, this procedure has not been formally documented in writing.</p>
<p>4. <u>Database Administrator's Access Rights and System Audit Trails:</u> 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 AirIT, 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 administrator and adding more detail to the audit trails would require software modifications from AirIT.</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>Contact AirIT to request 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>Require a periodic independent review of the audit trails to identify unusual activity. Someone with no ability to change the PROPworks system or its data, such as an independent security officer, should perform this review [500114.20].</p>	<p>Incomplete: DOA management has decided that the database administrator will continue handling the same duties. Management indicated AirIT'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.</p> <p>As for establishing more detailed system audit trails, DOA management stated they discussed this matter with AirIT and decided the cost would far outweigh the benefits. To review for unusual activity, management indicated that the newly 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</p>

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

Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
			administrator provides any PROPworks reports needed by the security officer, a situation which we believe lessens the effectiveness of the security officer's review.

RESPONSE TO AUDITOR'S REPORT



CITY OF PHILADELPHIA

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ROB DUBOW
DIRECTOR OF FINANCE

June 14, 2016

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 2015

Dear Mr. Butkovitz:

Thank you for the opportunity to discuss the contents of your draft report at the exit conference held on Wednesday, May 18, 2016. Before responding to the findings and recommendations, I would like to thank you for noting progress made in regards to prior year findings, including: replacing the IT manager in Revenue, improved accounting for EMS receivables by the Fire Department, improved communications and year-end procedures by Water and Water Revenue Bureau for recording Water Fund accounts receivables, improvement in the supporting documents for the Water Fund statements submitted by Water to Accounting in preparing for the CAFR, improved and timely revocation of separated Employees' access to the City's Accounting system, and independent supervisory review of Treasurer's Bank Reconciliations.

We offer the following responses to the findings and recommendations found in the Controller's Office audit for Fiscal 2015.

Inadequate Staffing and Lack of Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Finding & Recommendation: You have repeated your finding that staff reductions in Finance as well as in other City agencies contribute to errors in the financial statements presented for audit. However, you do note that errors were corrected prior to finalizing the CAFR, had no net effect on the final financial statements, and that the CAFR is a reliable document for informative decision making. You continue to recommend that Finance consider hiring more accountants or invest in new information technology to assist with the labor-intensive procedures needed to prepare the city's financial reports and provide adequate funding to departments experiencing difficulty in providing accurate financial data for inclusion in the CAFR.

Response: The Accounting Bureau (Accounting) is committed to producing an accurate and well-prepared CAFR. You noted in your report that staff reductions have made the task of completing the CAFR more difficult. We believe the loss of institutional knowledge has presented a challenge, as opposed to any reduction in the quantity of staff. Despite the loss of experience, Finance believes we have a core of dedicated individuals presently in place to accomplish our mission, and we have made progress in our

The Honorable Alan Butkovitz

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succession planning efforts. Additionally, we will continue to work with other departments within the Finance group on succession planning efforts.

As noted in last year's response, Accounting re-organized to address succession planning and to improve and balance the responsibilities among its various units. This realignment results in cross training of key staff and enables Accounting to better manage the workload with existing resources. Further, to address management challenges resulting from employee retirements, Accounting is currently documenting staff functions and duties to assist managers in supervising staff accountants. This should strengthen internal controls and ensure duties are being completed in a timely fashion. By thoroughly understanding all of the functions and duties to be performed, Accounting managers and supervisors will be able to assign more tasks to the appropriate staff accountants, ultimately including them more in the year end process and facilitating better CAFR production. We will continue to critique the errors and adjustments resulting from the FY2015 CAFR audit with the entire accounting staff and fully expect to produce improved financial statements in the upcoming fiscal year.

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 misstatements and discrepancies 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 calculating uncollectible amounts. Additionally, you noted that Revenue's written procedures to account for estimated uncollectible amounts was still in draft form and not yet approved or finalized by management. You recommend that the Revenue Department develop detailed written procedures to guide their accountants in these areas, train staff who are performing new duties, and provide better guidance to accountants in other agencies that collect revenues and report on 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. They will continue working to finalize written procedures regarding the recording of year-end receivables, performing independent reviews and updating the estimated basis for determining uncollectible accounts receivable amounts. Additionally, they will make every attempt to communicate the required procedures to other departments and work closely with them to ensure accurate reporting. As necessary to achieve these goals, Revenue will use additional staff and ensure they are adequately trained.

Untimely Review Procedures in the Philadelphia Water Department (PWD) Increase Risk of Financial Statement Errors

Finding & Recommendation: Your report commended PWD for improvements in developing a detailed compilation package that included most of the support for the Water Fund statements and was submitted to Accounting before completion of the CAFR. You advised that you consider this previous finding resolved. However, you note that the procedures checklist documenting PWD management review of the Water Fund statements was not submitted to Accounting until after completion of the CAFR. Also, you report that Finance and PWD were not utilizing the City accounting system's (FAMIS) full accrual Water Fund to post year-end entries. You recommend that PWD perform procedures to ensure the accuracy and completeness of the Water Fund financial statements and submit the checklist and supporting documentation for the financial statements to Finance by the established deadlines. You also recommend that PWD use the full accrual Water Fund in FAMIS to post adjusting entries.

Response: We appreciate the acknowledgment indicating resolution of the audit finding regarding the preparation and timely submission of a compilation package with detailed documentation that supports the Water Fund financial statements.

The Honorable Alan Butkovitz

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In accordance with the Controller's recommendation to improve the accuracy and completeness of the compilation package, PWD will:

- Improve its efforts to timely document the review of the compilation package by submitting a preliminary checklist along with the preliminary Water Fund financial statements to the Finance Office. This checklist will document PWD's review of the supporting documentation and will be submitted along with the compilation package at the time of the financial statement submission; and
- Review its current procedures and consult with key personnel in other City agencies to find ways to improve the timeliness of receipt of the supporting documentation for the preparation of the Water Fund statements.

PWD will work with the Finance Office to ensure there is review after the incorporation of the Water Fund schedules and exhibits into the City's CAFR. PWD will also coordinate with the Finance Office to receive guidance on utilizing the FAMIS full accrual Water Fund to post its year-end accrual adjustments.

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, we still experienced difficulty with timely receipt of final audit reports. Contributing to the delay this year was the implementation of GASB 68, requiring additional procedures to be performed by the City's actuary that were completed later than expected. Accounting did hold additional meetings with units that experienced difficulties to provide guidance and assist with problems (including GASB 68 issues) that were delaying the preparation of their financial reports. Accounting will continue to communicate with the component units and emphasize the importance of timely submissions. As appropriate, we will 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.

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 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 SAP related to Signature Authorization Cards (#E-0911).

Response: As noted in your report, Payroll, in conjunction with OIT, created a report that is automatically generated after each payroll cycle to check whether authorized employees are approving payroll. They use the report to compare officials who approved the on-line payroll to the signature card files and address any discrepancies in a timely manner. Due to the frequency of intra-departmental transfers and employees separating or retiring, there may be a slight lapse in time from when the signature card is signed and a User ID

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assigned, possibly resulting in the need for overlapping executive level signers or an authorized employee on a card not yet having system access. In these instances, a supervisory level employee not on the authorized signature card may have to sign off at executive level. Payroll typically asks for an e-mail to make this temporary change, which our Signature Authorization Card SAP permits. Unfortunately, during the migration of Outlook many of the archived e-mails were lost and could not be produced at the time of your audit.

Failure to Segregate Payroll Duties Could Allow Fraud to Occur

Finding & Recommendations: 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 City departments enforce the separation of duties and also that any new administrative system implemented prevent one individual from performing two or more conflicting duties.

Response: Finance will continue to remind operating departments that the same employee should not be signing off on more than one level of payroll. However, as previously stated, in order to ensure that employees are paid on time, there will be instances where one person signs off at more than one level when all employees at all levels are not available to sign off. The City's OnePhilly initiative to replace the HR and Payroll systems is underway, and these types of control features are being reviewed for implementation as part of that project.

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 stated that payment vouchers were approved electronically by employees not formally authorized on agency signature cards to perform this function. Your report also noted that for OIT and Procurement, the first level approvers were not on their respective signature cards, although the final approvers were. 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 consider implementing a practice that would require 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 reinforce requirements for departments to prepare and submit new signature authorization cards immediately as employees separate from employment or change job responsibilities; that we revise SAP No. E-0911 regarding signature card requirements and update FAMIS voucher approval codes related to the Capital Program Office, which is now part of the Department of Public Property.

Response: To reinforce the process previously implemented, we will again instruct responsible personnel who monitor FAMIS and ADPICS access and approval authority to utilize OIT's bi-weekly list of terminated employees to revoke access codes in a timely manner for individuals separated from the city. In addition, in an effort to be more efficient, Finance will prepare an electronic log of employees authorized to approve vouchers (mirroring the signature cards) so that it is not necessary to repeatedly locate the paper signature cards to verify authorized signers.

You note specifically for the Office of Innovation and Technology (OIT) and Procurement that vouchers were "approved" by a first level reviewer not on the agency signature card. However, each of these vouchers received final approval from an employee in Finance's Administrative Services Center (ASC), which is responsible for processing/approving vouchers for a numbers of departments and are listed on the agency signature cards as authorized signers. Although the initiators/reviewers are in the voucher approval path, we do not believe they are required to be on the signature card as there are final approval levels above them that are required to indicate agency authorization. In compliance with SAP E-9011, the Finance employees who approve the vouchers are listed on the department's signature cards.

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Additionally, we will work with Public Property to correct the coding related to the Capital Program Office, and we will reissue SAP E-0911 to reinforce to all city agencies the requirement to prepare and submit new signature authorization cards to Finance immediately when authorized employees separate or change job responsibilities.

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Finding & Recommendation: Your report states that Finance employs a burdensome, onerous and inefficient process 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 a 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 of the buildings that the City owns. In the meantime, the current system 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. The auditor's finding cited variances totaling \$11.2 million against total capital assets of \$2.2 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, along with 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 in order 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 of the data on property conditions is stored. However, we believe that a physical inventory of assets is being conducted as a matter of course by the departments and that information is the basis for their capital and maintenance budget requests. We will follow the Controller's recommendation and obtain City Planning's master list of city-owned facilities and compare to Finance's records to reveal any discrepancies. Additionally, 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. It is our hope that this database will assist us 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 the city owned capital assets. We will explore with OIT whether there is a depreciation module that could be implemented as part of that system.

Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Allow for Irregularities

Finding & Recommendation: Your report indicates that the Treasurer's Office did not complete June 30, 2015 bank reconciliations for 87 percent of the bank accounts until more than two months after the end of the fiscal year. You also found that the Treasurer's Office had not prepared bank reconciliations for the city's payroll and general disbursement accounts since September 2010 and April 2012, respectively. You recommend that the Treasurer's Office devote the time and resources necessary to ensure that all required

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bank reconciliations are prepared timely and that reconciliations of all accounts are brought up to date. Additionally, you recommend that CTO consider hiring an outside accounting firm to assist in this effort.

Response: The City Treasurer's Office (CTO) acknowledges the City Controller's findings regarding bank account reconciliations. Since your review, CTO has addressed staffing shortages and improved the processes that have contributed to this delay.

Through much of FY2015, the CTO was still working through staffing issues arising from the retirement of the department's accounting manager and a long serving accountant. There was also turnover of two other experienced accountants from the group (one of which was being trained to replace the accounting manager who retired). Since hiring a new accounting manager in January 2015 and addressing the turnover of accountants in the department, CTO has focused on completing the reconciliations in a timelier manner. During FY2016, there has been increased emphasis on improved quality of cash reconciliations, as well as more communication around deadlines to address the delay in reconciliations. CTO has found that prior year reconciliations had many outstanding items that required attention/resolution. The identification of, and need to balance/explain, these reconciling items resulted in overall delays in completing both prior and current reconciliations.

A significant effort will be required to address the delay in the payroll and general disbursement account reconciliations given the nature of these accounts, the period of time since they've been reconciled, and the number of transactions that occur in each. CTO has started preliminary work on the general disbursement account and is expecting a more focused and robust work effort to restart the account reconciliation process. CTO is anticipating that it will take more than a year to catch up on the balancing of these accounts and that additional time will be needed to rectify any open reconciling items that are identified during the account balancing process. Aside from this catch-up process, CTO anticipates that the majority of reconciliations will be completed and reviewed in a timely manner.

In recognition of the volume and importance of this work, CTO's fiscal year 2017 budget provides for an additional accountant. In addition, CTO is currently exploring the possibility of retaining a contract accountant to assist in bringing the reconciliations up to date.

Treasurer's Reconciliation Process Failed to Detect Shortages in City's Consolidated Cash Account

Finding & Recommendation: Your report indicated that the Treasurer's bank reconciliation process failed to detect shortages in the City's consolidated cash account (ConCash). You recommend that 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. Further, you recommend that the comparison be documented, all discrepancies be investigated, supervisors review the comparison and evidence their review by initialing and dating the comparison. And finally, you recommend that the procedure be put in writing to ensure that it is consistently performed and documented.

Response: CTO agrees that these type of discrepancies require immediate attention. However, due to the volume of transactions that make up the activity in the ConCash account, it is possible that smaller transactions may remain on the outstanding reconciling items listing for longer than we might prefer.

At this point, the process has been reassigned to a dedicated accountant on the CTO team. Additionally, for at least the last six months, CTO has been working closely with Finance's Assistant Director of Accounting to reengineer the reconciliation process for the ConCash account. The result is that the assigned accountant will match all accounting entries for the 1CC08 TAG in FAMIS to the bank on at least a weekly basis. This will allow for identification and resolution of outstanding reconciling items sooner, such as those cited in your report where revenue was recognized ahead of the transfer/deposit into the Con Cash account.

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During FY2017, CTO will work with the Revenue Department to gain a fuller understanding of their processes and accounting for revenues. CTO will also discuss automating cash transfers from the lockbox accounts to the ConCash account so that future revenues are moved in a timely manner and to ensure that revenue recognition follows the City's cash transfers, instead of the cash transfer following the revenue recognition.

Inadequate Oversight of Collateral Could Leave City Vulnerable to Losses

Finding & Recommendation: The audit found that the Treasurer's Office did not adequately monitor its banks to ensure these institutions were in compliance with Philadelphia Code requirements regarding collateral amounts, nor were there written procedures in place to instruct staff on how and when to perform monitoring procedures. You recommend that the Treasurer's Office prepare timely monthly collateralization reports, submit reports to Finance for prompt review to identify any collateral shortages, and develop written procedures for the performance of collateral monitoring processes.

Response: We agree that it is important to review and monitor bank collateral reports on a timely basis. The City Treasurer's Office (CTO) believes the discrepancies cited in your report were related to timing issues. Collateral levels change daily based on the account balances. Collateral reports are compared to deposits at the end of each month. On certain days, matching of the deposit to collateral may be distorted as larger wires or deposits may come in later in the work day. In these cases, banks do not always have sufficient time to cover these deposits as financial markets where they purchase securities to collateralize deposits close before the banking day closes. These balances are corrected on the next business day following the close of the month.

As previously stated, CTO hired several new employees to backfill vacant positions, including those that have responsibility for the collateralization reporting/review. Also to better manage the process, CTO has requested OIT approval to implement a Treasury Management System, which would assist in building a portfolio of the collateral-backing deposits that can be market valued on demand, as well as display current bank account balances for the City's accounts to ensure the accounts are adequately collateralized at any point during a given period.

As recommended, CTO will develop a written Standard Operating Procedure prior to the close of FY2016 to document the collateral monitoring process. CTO will provide the Controller's Office with the document upon finalization.

WRB Account Adjustment Procedures Improved; But Further Enhancements Necessary to Improve Accountability

Finding & Recommendation: As you noted, the WRB redesigned and improved its review procedures to incorporate additional adjustments into its quarterly review process, as well as to require that reviewers pay particular attention to large dollar adjustments and multiple adjustments on the same customer account. While your report noted that no instances of inaccurate or improper activity were found, you indicated that WRB could not demonstrate that the regular reviews were being performed and accountants did not consistently document their review by initialing and dating the adjustment worksheets. You recommend that WRB management proactively stress to their accountants the importance of timely completing the daily and quarterly reviews and remind their accountants to initial and date the daily and quarterly adjustment worksheets/reports, make the required notations in BASIS2, and place the related call numbers on the daily worksheets and quarterly reports.

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Response: WRB continues to work diligently to identify and correct weaknesses in the BASIS2 system and improve controls over customer account adjustments. As you are aware, the enhanced review process recommended in the FY14 Controller's Report did not include changes to the daily worksheets. However, after successfully implementing the more comprehensive review of the quarterly reports in the 4th quarter of FY15, WRB believed it prudent and proactive to expand the review process of the daily worksheets, make required notations in BASIS2, and place the related call numbers on the daily worksheets. This effort was begun in earnest in September 2015. As such, it is not surprising you did not see evidence/documentation of the process for the period of your audit ending in June, 2015. We believe the daily and quarterly review process that is now in place establishes ample controls and provides additional approval protocols for adjustments while not impeding the production of timely and accurate bills.

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

Finding & Recommendation: You found that the Revenue Department had discontinued, but should 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.

Response: Again, we are pleased that your testing found no instances of inaccurate or improper activity. However, to protect against errors or irregularities, the Revenue Department will reinstitute the practice of regularly monitoring adjustment activity in TIPS by sampling adjustments from the daily adjustment report, checking for accuracy and propriety, and looking for patterns of irregular activity. The adjustment report will then be signed and dated and completed at the Supervisory level as recommended.

Better Training and Oversight Are 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, misidentified federal awards by incorrectly recording the federal programs' Catalogue of Federal Domestic Assistance (CFDA) numbers, and misidentified federal program expenditures in the City's books and records. 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. GAUU will be more diligent in their review process to ensure proper expenditure recording.

GAAU is planning to provide in-house grant training to operating departments. Additionally, GAAU will look into grant-related training opportunities that may be available, and will encourage city agencies to seek grant training offered by grantors or websites such as www.grants.gov.

The individual CFDA misidentification issues you noted were corrected and both the CFDA and misapplied expenditures will be properly reported on the FY2016 Schedule of Expenditures of Federal Awards (SEFA). More specifically, the misapplied expenditures in the Foster Care Program were brought to the attention of

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DHS, and the Airport is undertaking a review to confirm that all existing grants and CFDA's are correct and has committed to review FAMIS quarterly to confirm that all proper CFDA numbers are applied.

SAPs Require Updating to Ensure Consistent Application of Accounting Rules and Regulations Among City Agencies

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 those that are no longer relevant, 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 are in compliance with any changes in accounting regulations or governmental regulations, these procedures are updated, especially in areas that have been cited in audit reports. In addition to those limited updates, we advised last year in our response that we were working on updates to a number of SAPs related to Cash Accounts, which are important for proper internal controls. Since that report, we are pleased to report that we have completed updates to the SAPs for: Petty Cash (4.1.1.d), Imprest Funds (4.1.1.e), Establishment of Agency Bank Accounts (Outside of the City Treasury) (4.1.1.g), Fund Reconciliation for Petty Cash and Imprest (7.1.3.a), Reconciliation of all Bank Accounts in all City Agencies (7.1.3.b), and Unclaimed Money (4.1.2.). We also expect to update the SAP related to Personal Property (E-72-002) effective July 1, 2016. Beginning in FY2017, it is our intention to retain an Accounting consultant to assist in performing a more comprehensive review and update of all of the SAPs.

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

Finding & Recommendation: Your review determined that DHS was late in submitting the Act 148 required 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 resolve operational problems with the data warehouse that contribute to this delay. You also recommend that DHS request extensions from the State when they are unable to meet the 45 day reporting requirement.

Response: As discussed with you during your audit review, these delays were due to the lack of adequate staff in the Department's Budget Unit that currently has three vacancies. DHS hopes to fill these vacancies in July 2016.

Also, in an attempt to reduce the amount of time it takes to crosswalk the City's financial coding to the State's coding system, DHS is working with Public Financial Management (PFM) to automate some areas of the State Act 148 invoicing process. This is the most time-consuming part of preparing the quarterly report. DHS expects that this automation will be completed by the first quarter of Fiscal Year 2017.

While your report indicates that all of the invoices for quarters ending in Fiscal Year 2015 were submitted late, DHS did submit its 4th quarter Act 148 invoice by August 15, 2015, which is only one date late. DHS will strive to submit the final invoice by August 15th of each year. However, if not able to meet the deadline, DHS will submit a waiver request for an extension of the 45 day requirement from the PA Department of Human Services.

General Information Technology Controls Continue to Require Strengthening

Your report included your findings, as well as a progress update, from a previous audit of the Office of Innovation and Technology (OIT). We have forwarded those findings to OIT for their review.

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Access and Change Management Controls over Taxes Receivable System Still Requires Improvement To Minimize Various Risks

Finding & Recommendation: Your report notes that programmers of the Taxpayers Information Processing System (TIPS) were able to modify data, in addition to their programming rights; that user access rights were not timely revoked for separated employees; and that there is no formal procedure to document changes/modifications to the system. You recommend that Revenue segregate duties and responsibilities for system programmers from that of users (500114.13), disable accounts for separated employees and contractors in a timely manner (500114.14), and develop formal written policies and procedures for the TIPS change management process (500114.15).

Response:

Programmer Access Rights (500114.13). As of early this year, Revenue has restricted all contractor accounts to read only access, removed administrator's rights from the Lead Contractor, and placed Administrator Rights with our Revenue IT Security Analyst (A City Employee).

Termination of TIPS User IDs (500114.14): Two years ago the Revenue IT Department put an initiative in place to clean-up system access accounts, as well as establish ongoing access review procedures. The Revenue procedure is as follows:

- Examined TIPS accounts in the system and eliminated thousands of unused accounts reducing the active accounts total in TIPS to less than 850.
- Implemented controls to automatically deactivate accounts that have not had activity within the last 30 days. This process was formerly 90 days.
- Receive and review a daily HR report of separated employees and adjust user accounts accordingly.
- Require that temporary contractors give a time period in which they would need system access and deactivate their accounts as soon as that time period has been reached.
- Actively monitor all accounts for activity and inactivity and alert managers of any questions/issues regarding their staffs account activity.

Application Change Management (500114.15). Revenue, in conjunction with OIT, follows a structured change management and production move-up process that includes a number of approvals. To initiate a change, the programmer must make a request to have the change migrated to production. Then a Revenue IT staff person submits that request to the Revenue IT Director, who reviews and approves the request and sends it to OIT. OIT then moves the change to production.

In addition, we have automated the front end of this process by implementing a Software System (SysAid) that documents the request made by the user in detail in order to initiate the change process.

The final part of this process that needs to be completed is the ability for users to verify the changes are as they requested and sign off on the change. By the end of the first quarter of FY2017, the Ticket Tracker system will be modified to include the necessary approval fields for customers to verify that the work has been completed.

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

Finding & Recommendation: Your report finds that control activities for the Division of Aviation's (DOA) computerized billing system, PROPworks, are not formally documented. Also, you note that the duties of the database administrator responsible for maintaining the system, installing application changes and backing ups

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system data also had the ability to grant and remove access, revise transaction data and clear system audit trails. You recommend that the DOA develop and document formal written policies and procedures for controls over user access, managing passwords, testing and installing software upgrades from the AirIT vendor, backup of data files, planning for contingencies, and assessing and monitoring security threats. You also recommend that DOA implement and document a procedure to periodically review the active users and their access rights for appropriateness; that they modify the software to permit an individual other than the database administrator to control user access permissions and audit trails; and that they establish system audit trails that would detail the specific information changed by users.

Response: The Airport has developed written procedures for all IT control activities noted. Please see attached documenting the procedures. In addition, the security officer will be granted access to PROPworks when monitoring controls, instead of requesting information from the database administrator.

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: Josefine 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
Gerald Micciulla, Post-Audit Deputy Controller, City Controller's Office
Catherine Paster, First Deputy Director of Finance
Bill Rubin, First Deputy Controller, City Controller's Office

City of Philadelphia
Philadelphia International Airport
May 24, 2016

Propworks Financial System Policies and Procedures

- 1) IT Policies and Procedures
 - a. User Access (Add / Change / Delete)
 - i. Add
 1. Upon request from the Airport's Enterprise Fund Manager, the Propworks Administrator will grant access to Propworks by creating a user account.
 - ii. Change
 1. Upon request of the Airport's Enterprise Fund Manager or Director of IT, the Propworks Administrator will modify the Propworks user's access.
 - iii. Delete
 1. Upon request of the Airport's Enterprise Fund Manager or Director of IT, the Propworks Administrator will remove a user's access to Propworks.
 - b. Passwords
 - i. Users are requested to keep their in sync with their Network passwords.
 - ii. Passwords are requested to be changed every 90 days.
 - iii. If a user forgets their password, they must contact the Propworks Administrator to reset their password.
 - c. Software upgrades / updates & patching
 - i. Software upgrades, updates, patches, hot fixes will be done when recommended by the manufacturer or necessary to stay compliant for maintenance support or to resolve a known security issue.
 - ii. Software changes will be applied to the TEST system and validated by the Propworks Administrator and Airport's Enterprise Fund Manager or designee.
 - iii. Software changes that have been validated will be applied to the PRODUCTION system following these steps:
 1. Users will be locked out of the PRODUCTION SYSTEM.
 2. PRODUCTION will be backed up.
 3. Software changes will be applied.
 4. Upgraded PRODUCTION system will be validated.
 5. User's access will be re-enabled for the PRODUCTION system.
 - d. Backup & Disaster Recovery
 - i. Backup
 1. Weekly FULL backup of PRODUCTION system is run on Sunday AM
 2. Daily INCREMENTAL backup of PRODUCTION system is run Monday – Saturday in the AM.

3. Backup files are placed on backup server disk system and then written to tape.
 4. Weekly tapes of FULL backups are stored in a remote location and replaced with the next week's backup tapes. FULL backup tape sets are held for one year before going back into the tape pool.
 - ii. Disaster Recovery
 1. PRODUCTION and BACKUP servers are in physically separate data centers.
 2. If PRODUCTION server(s) fails and cannot be restored in 24-48 hours, the last backup, then the BACKUP servers will become the PRODUCTION servers.
 3. The last full backup of the PRODUCTION system is loaded onto the BACKUP system and any INCREMENTAL backups are restored to the new PRODUCTION system
 - e. Security
 - i. Airport Security Officer periodically reviews log files from Propworks and Oracle database and at the request of the Director of IT or Airport's Enterprise Fund Manager.
 - ii. Propworks Administrator is responsible for user and role security of the Propworks system.
 - iii. Oracle Database Administrator is responsible for user and role security of the database.
 - iv. Remote Access to Propworks is initiated by the Propworks Administrator.
- 2) Access Rights Review
- a. Propworks
 - i. Propworks Administrator is responsible for user and role security and periodically reviews access rights of users and roles.
 - ii. Propworks Administrator has authority to disable user access based on user behavior or direction from the Airport's Enterprise Fund Manager or Director of IT.
 - iii. Propworks Administrator modifies user privileges or roles by direction of the Airport's Enterprise Fund Manager.
 - iv. Oracle Database Administrator is responsible for user and role security.
 - v. Oracle Database Administrator has authority to disable user access based on user behavior or direction from the Airport's Enterprise Fund Manager or Director of IT.
 - vi. Oracle Database Administrator modifies user privileges or roles by direction of the Airport's Enterprise Fund Manager or Director of IT.

