

INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT (CONTINUED)

As a result of our examination, we noted many of the City of Philadelphia's (the "City") SAPs, have not been recently updated and therefore, do not accurately reflect the current Controller's Office operations, specifically in consideration to changes in technology and processes throughout the past several decades. While some of the SAPs have been updated over the past few years, including SAPs covering Petty Cash, Personal Property Inventory, and Personal Services/Payroll, the majority of the existing SAPs have not been updated for extensive periods of time. With the majority of SAPs not reflecting the current processes in place, there is an increased risk that certain activities may not be consistently performed, or performed at all, which may result in errors and/or misappropriation of assets. Consistent with Controller's Office reports on internal control issued in prior years, we recommend that the Controller's Office continue to communicate this issue with the appropriate City personnel to perform an on-going review, evaluation, and update of the SAPs. SAPs that are no longer relevant should be revised as needed to reflect current processes. Furthermore, evaluation of the relevance of the SAPs should be conducted on a regular basis.

In our opinion, the testing areas have been presented in accordance with Standard Accounting Procedures established by the City of Philadelphia, Office of Finance, in all material respects.

Management's response to the findings identified in our examination report were not subjected to the procedures applied in the examination.

This report is intended solely for the information and use of the City of Philadelphia, Office of the Controller and is not intended to be and should not be used by anyone other than the specified parties.

Mercadieu, P.C.

Certified Public Accountants

Illustrative Schedule of Findings

Finding 2017-001

Criteria – SAP 7.1.3.b (Rev 1) - Reconciliation of All Bank Accounts in All City Agencies: The responsible administrative authority should review the completed reconciliation and all supporting documentation, paying particular attention to the aging schedule of outstanding checks and any other unusual items. When the review is completed, the reconciliation form should be signed by the responsible official.

Condition – Monthly petty cash bank reconciliations have no indication that they were reviewed and approved by management. Of the twelve petty cash bank reconciliations examined for fiscal year 2017, we noted none of the bank reconciliations during this period were signed or dated indicating that they were reviewed and approved by management.

Cause - Petty cash bank reconciliations are prepared monthly by the Controller's Office and reviewed but were not signed to indicate review by the Administrative Services Director.

Effect – Failure to document the written review and approval of the monthly petty cash bank reconciliations increases the risk that errors may occur and go undetected or be unresolved in a timely manner.

Recommendation – Management should ensure that petty cash bank reconciliations are prepared monthly by staff and approved by management before being submitted to the City's Finance Office. In order to establish a continual and consistent process that enables timely preparation and review of the reconciliations, we recommend that management establishes an administrative calendar outlining the due dates for preparation, approval, and submission of bank reconciliations. To be effective, the dates should be consistent month to month. This calendar can include other administrative responsibilities of the Controller's Office in addition to the reconciliation due dates, including but not limited to, petty cash request and reimbursement deadlines.

Management's Response - We agree with the recommendation and, moving forward, all petty cash bank reconciliations will indicate approval. Please note: the Controller's Office petty cash account has a limit of \$2,000. Under the previous administration, petty cash bank reconciliations were prepared by the Administrative Assistant and reviewed, though not signed, and submitted to Finance by the Administrative Services Director. Since the finding has come to our attention, we have devised a new policy, ensuring that all petty cash bank reconciliations are prepared monthly by the Administrative Assistant, reviewed and initialed by the Administrative Services Director and signed monthly at an executive level approval by the Chief of the Staff, or the First Deputy in her absence. Additionally, beginning in FY19 an administrative calendar involving petty cash transactions (bank reconciliations, fund reconciliations, reimbursements) was created which lists due date preparations, approvals and submission dates.

Illustrative Schedule of Findings (Continued)

Finding 2017-002

Criteria – SAP 7.1.3.a (Rev 1) – Fund Reconciliation: If there is a bank account used for the fund, the bank reconciliation and the fund reconciliation should both be prepared as of the date of the bank statement ending date. Therefore, the custodian must determine in advance the date of the next bank statement and perform the procedures listed below at the end of the day on that date (or the last business day before that date).

Condition – Petty cash fund reconciliations were not performed on a consistent basis, as of month end and were not dated to indicate the dates reviewed and submitted. During fiscal year 2017, we noted only seven petty cash fund reconciliations were completed. Additionally, all petty cash fund reconciliations completed during fiscal year 2017 were not dated to indicate when they were reviewed and submitted to the City's Finance Office.

Cause – The Controller's Office account had some months of inactivity regarding petty cash, during which cash fund reconciliations were not completed. There were also some months that petty cash fund reconciliations were missed.

Effect – Failure to perform and submit petty cash fund reconciliations on a monthly basis increases the risk that errors may occur and go undetected or be unresolved in a timely manner.

Recommendation – Management should ensure that petty cash fund reconciliations are prepared on a monthly basis alongside the petty cash bank reconciliation and are reviewed before being submitted to the City's Finance Office. A schedule outlining due dates for preparation, approval, and submission of bank reconciliations should be established and adhered to.

Management's Response - We agree with the finding and will ensure that all petty cash fund reconciliations are prepared properly and completely, on a monthly basis. Since this finding has been brought to our attention, our administration has reconciled the petty cash fund monthly. As stated above, beginning in FY19 an administrative calendar involving petty cash transactions was created to ensure monthly reconciliation happens at a consistent time each month, even when there is no activity in the petty cash account.

Illustrative Schedule of Findings (Continued)

Finding 2017-003

Criteria – SAP 4.1.2 – Unclaimed Monies: All monies which remain unclaimed by the owner(s) for one year or more shall be deposited with the Revenue Department together with interest earnings thereon, if any [and] place a stop payment order with the bank(s) in preparation for transfer of items to the Unclaimed Monies Fund.

Condition – Long outstanding petty cash checks were not deposited into the city's Unclaimed Monies Fund. Checks outstanding more than one-year totaling \$277.19 were not transferred into the City of Philadelphia's Unclaimed Monies Fund as outlined in Standard Accounting Procedure (SAP) No. 4.1.2.

Cause - There were two petty cash checks not deposited in the amounts of \$13.19 and \$264.00. The \$13.19 was a reimbursement to an employee; the employee never deposited the check and subsequently, left city employment. The \$264.00 check was issued in error, as the invoice was paid through the payment voucher process.

Effect – Failure to issue stop payment orders on checks outstanding for more than one year unnecessarily complicates and misstates the bank reconciliation process.

Recommendation – We recommend that management place a stop payment order and draw a transfer check payable to the City of Philadelphia – Unclaimed Monies Fund for checks outstanding for over one year.

Management's Response - We agree with the finding and immediately placed a stop payment order on both checks and drew two new transfer checks payable to the City of Philadelphia-Unclaimed Monies fund to cover the total amount outstanding. As mentioned in our previous response, we have established a more detailed policy for reconciliation that will enable our office to be more vigilant in addressing unclaimed money as required by the SAP. The Chief of Staff, or First Deputy in her absence, will sign off on all reconciliations. Additionally, the Administrative Assistant will flag any checks outstanding after 90 days for follow up by the Administrative Services Director.

Illustrative Schedule of Findings (Continued)

Finding 2017-004

Criteria - Addendum to SAP E-72-002 – Personal Property Perpetual Inventory: Once a Purchase Order (PO) is issued, the requesting Department must send a completed Tag Request Form via email to the Procurement Department Inventory Control Unit.

Condition – Items maintained on the Controller’s Office’s inventory listing are not properly tagged. Of the eleven items that were physically inspected, we noted that two inventory items did not have physical tags. One of these items was re-tagged the day we were on-site.

Cause – One of the inventory items tested had been acquired several years ago and the tag may have fell off or was removed. The other inventory was missing the tag due to management oversight.

Effect – Failure to properly tag inventory identified on the Controller’s Office’s inventory listing increases the risk that inventory items could be misplaced or stolen and that the inventory listing is misstated.

Recommendation – Management should ensure that all inventory items are properly tagged when they are purchased and that tags are physically maintained for the duration that an item is in use.

Management’s Response - When brought to our attention, the one inventory item missing a tag was immediately tagged; the other item was properly disposed of, as it was older. Under the new administration, all new items above the \$750 threshold have been appropriately documented and tagged. We will regularly check the condition of all tags in our inventory to ensure all items are properly tagged and will follow the annual inventory update to the Class 400 physical inventory report as required by the Procurement Department Inventory Control Unit. The Administrative Services Director will provide a copy of the Class 400 physical inventory report to the Chief of Staff once complete.

Illustrative Schedule of Findings (Continued)

Finding 2017-005

Criteria – SAP E-9011 – Daily Timekeeping Source Documents and Attendance Record-Keeping: A separate, dated, daily written record of attendance must be made each working day for each employee. Such record shall be approved by a supervisor responsible for the unit performance.

Condition – Documentation supporting time employees worked were not routinely prepared. Of the eleven employees tested, one employee did not regularly submit timesheets. As a result, we were unable to test the accuracy of payroll for this employee.

Cause – During the previous administration, the policies and procedures related to employee timekeeping were not consistently followed related to this finding.

Effect – Failure of employees to submit timesheets increases the risk that employees could be receiving pay for time not worked.

Recommendation – Management should ensure that all employees track their time for each day in the pay period and that hours worked by employees reported on each employee's timesheets agree to the total hours recorded on the payroll register per employee and in the aggregate for all employees. As the payroll registers record time worked using days and sixteenths of a day, whereas employees' timesheets record time worked using hours and minutes, we also recommend that time recorded be in one consistent format across both systems; i.e. hours or minutes. As a result, the information presented between these two sources may not agree to one another, making it difficult to reconcile and ensure accuracy.

Management's Response - We agree that all employees should accurately track their time worked for each day in the pay period. Since taking office in January, we have ensured this occurs for every exempt employee on timesheets and for every employee using the time clock time keeping system. Currently, there are eight employees on timesheets, all of which submit timesheets for approval. Employees who submit timesheets must have a supervisor sign off on them prior to submission. The Administrative Services Director monitors the submission of timesheets for the eight exempt employees and confirms receipt to Chief of Staff. The employee referenced in the finding has separated from City service. While we appreciate the recommendation that time worked should be recorded in a consistent format, our office does not have authority to enact that recommendation, as the payroll system is city-wide.

Illustrative Schedule of Findings (Continued)

Finding 2017-006

Criteria – SAP E-9011 – Daily Timekeeping Source Documents and Attendance Record-Keeping: Leave Requests should cover all absences and compensatory time (except shift days off and days off in lieu of holidays) noted on the Daily Time Sheet.

Condition – Documentation supporting and authorizing employee leave time was not routinely prepared. The Controller's Office has substantial discrepancies between the amount of time incurred by employees and the amount of time approved. Of the eleven employees tested, we noted the following:

- Five employees had discrepancies between the amount of time incurred and approved;
- One employee did not have documented approvals for vacation time incurred; and
- Three employees submitted vacation requests to be approved after vacation time was incurred.

Cause - Most of the discrepancies were due to the office's use of a call-in line allowed for leave usage and approval. Many supervisors will create a call-in leave slip but there are some that accept the call and do not create the leave slip. The other cause was a delay in submitting leave requests with the leave request system.

Effect – Failure to obtain formal leave requests increases the risk of inaccurate paid leave balances for employees, including carryover balances and retirement payments. In addition, unanticipated employee absences could result in the Controller's Office tasks being left unperformed.

Recommendation – Management should ensure that all paid leave time taken is supported by the timely submission of documentation and is authorized by supervisors.

Management's Response - The previous administration allowed employees to call off through the call-in reporting line. However, once the employee called in, in the previous administration, there was an inconsistency among supervisors filing leave slips on the employee's behalf. Since being made aware of this finding, and in order to remedy it, we changed the policy to clearly indicate that if an employee uses the call-in system for leave the supervisor will be required to submit and approve a request for the leave through the leave system. Also, all employees are to submit time off approvals prior to taking the time off except for the call-in line procedures. Our office has reiterated this procedure to employees as well as those approving the leave slips and are monitoring since this finding.

APPENDIX A: SUMMARY OF FINDINGS

<u>Petty Cash</u>	<u>Office of the Controller</u>	<u>Finding Reference</u>
Inadequate approval of reconciliations	X	2017-001
Inconsistent performance of reconciliations	X	2017-002
Missing reconciliations	X	2017-002
Long outstanding checks not deposited in Unclaimed Monies Fund	X	2017-003
Personal Property and Inventory		
Missing tags on department inventory	X	2017-004
Personal Services/Payroll		
Attendance sheets not used	X	2017-005
Improper approval of paid leave	X	2017-006