Report On Internal Control and On Compliance and Other Matters
City of Philadelphia
Fiscal Year 2018

City Controller
Rebecca Rhynhart

CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

June 26, 2019

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

Dear Mayor Kenney,

Attached is the Office of the City Controller's annual report on internal control and on compliance and other matters for fiscal year 2018.

While our office found that the city's fiscal year 2018 financial statements released February 25, 2019 were presented fairly, in all material respects, in accordance with generally accepted accounting principles, the audit procedures used to arrive at this conclusion identified two material weaknesses and seven significant deficiencies in the city's internal control over financial reporting. Overall, this report marks a slight improvement over last year's findings, however, much work remains to improve the city's internal controls over financial reporting.

Specifically, inadequate financial reporting oversight and continued staff shortages led to $236 million in material misstatements not detected by Finance Office accountants in the CAFR. To be clear, these aren't errors in a draft – these are errors in the financial statements presented for audit. While Finance Office accountants agreed with the errors identified and corrected most, but not all of them, the amount of errors remain unacceptably high. We'd like to acknowledge the addition of a new director of compliance position and we hope that Finance will add additional positions to strengthen the accounting and oversight functions. Issues with the Treasurer's Office's reconciliations have also improved somewhat, but a variance still remains. A variance that could still fluctuate, up or down by Finance's own acknowledgement. Additionally, the Treasurer's Office did not provide our office with sufficient, documented evidence that bank reconciliations for all unreconciled months were performed for the Payroll, Supplemental Payroll, General Disbursement and Levy accounts.

Our office recommends several changes to the processes in place to improve the internal control over financial reporting. The findings and recommendations contained in the report were discussed with management at an exit conference, and we included management's written response to the findings and recommendations as part of the report, as well as our comments on management's response. We would like to express our thanks to the management and staff of the City of Philadelphia for their courtesy and cooperation as we conducted our audit.

Mayor Kenney – I request that you prioritize improving internal control and financial management with urgency. The taxpayers of this city deserve no less.

In service,

Rebecca Rhynhart
City Controller

CC: Honorable Darrell L. Clarke, City Council President
Honorable members of City Council
Rob Dubow, Finance Director
James Engler, Chief of Staff, Office of the Mayor
Members of the Mayor's Cabinet

CITY OF PHILADELPHIA
FISCAL YEAR 2018
REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS
EXECUTIVE SUMMARY

Why The Controller's Office Conducted the Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller audited the City of Philadelphia's (city) basic financial statements as of and for the fiscal year ended June 30, 2018, issued as part of the city's Comprehensive Annual Financial Report (CAFR). To help plan and perform the audit, which occurs annually, the Controller's Office reviews the city's internal control over financial reporting and examines the city's compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance that could have a direct and material effect on financial statement amounts.

The Controller's Office reports upon any identified significant deficiencies and material weaknesses in the city's internal controls. Significant deficiencies are less severe than material weaknesses, yet important enough to merit attention by those charged with governance. Material weaknesses identified in financial reporting result in a reasonable possibility that a material misstatement of the city's financial statements may not be prevented or detected and corrected on a timely basis. If a material misstatement on the city's financial statements occurred, the statements would be an ineffective tool for assessing the city's financial health.

FY18 Report Findings

While the Controller's Office found that the city's financial statements were presented fairly, in all material respects, our review identified two material weaknesses and seven significant deficiencies in the city's internal controls over financial reporting. Two of the findings are new, whereas the remaining findings have been unremedied or only partially addressed for years. Only one of the 10 material weakness and significant deficiency findings from fiscal year 2017's report were fully resolved within fiscal year 2018.

The fiscal year 2018 report on internal control and on compliance and other matters discusses the material weaknesses and significant deficiencies in depth. Key findings include:

- **Material Weakness: Inadequate staffing levels, lack of technological investment, and insufficient oversight have led to undetected material misstatements.** Our audit disclosed a number of conditions, which collectively are a material weakness, that impede the ability of the Finance Office accountants to prepare a timely, accurate, and completed CAFR without significant adjustments recommended by the City Controller's audit staff. The Controller's Office identified accounting errors totaling $236 million not detected by Finance Office accountants during preparation of the fiscal year 2018 CAFR. Significantly, the untimely and inadequate review of Aviation Fund financial statements by Division of Aviation and Finance Office accountants resulted in $122.4 million in material misstatements in the Fund's financial statements. These errors are part of the $236 million in errors. A 28 percent decrease in staff since fiscal year 2000, including a decrease of one full-time employee from fiscal year 2017 totals, and the lack of a comprehensive financial reporting system for preparing the CAFR, have compromised the ability of Finance management to perform adequate reviews of the city's financial statements. The Controller's Office proposed adjustments to correct the $236 million in errors, and the Finance Office booked most, but not all, of the adjustments. Additionally, the continued late receipt of component unit financial reports delayed the preparation and audit of the CAFR and increased the risk of errors.

(Continued on next page)

- **Material Weakness: Untimely and inaccurate preparation of the Schedule of Expenditures of Federal Awards (SEFA) resulted in the late submission of the single audit reporting package to the Federal Audit Clearinghouse.** The Finance Office's Grants Accounting and Administrative Unit (GAAU), which is responsible for preparing the SEFA, did not prepare and provide for audit a preliminary SEFA for the fiscal year ending June 30, 2018 until March 18, 2019, which was 13 days before the single audit submission deadline of March 31, 2019. In addition to the late receipt of the SEFA, the Controller's Office found that the preliminary SEFA that was submitted on March 18th was inaccurate. Inaccuracies in the SEFA have been reported by the Controller's Office for several years. The preliminary SEFA also lacked subrecipient information, making it impossible for the Controller's Office to follow up on another prior year finding regarding inaccurate subrecipient expenditure amounts reported on the SEFA.

- **Significant Deficiency: While improved, remaining deficiencies in Treasurer's bank reconciliation procedures still create potential for undetected errors and irregularities.** Last year's finding regarding deficiencies in the Treasurer's bank reconciliation procedures showed that these deficiencies resulted in a $33.3 million variance (as of June 30, 2017) between the city's consolidated cash account book and bank balance. The Treasurer's Office took steps to address the shortcomings over the last year, including fiscal year 2018 bank reconciliations for the consolidated cash account being prepared and reviewed in a timely manner. However, reconciliation issues continue, including the remainder of the unreconciled variance, $529,000, not being identified and an additional $13.5 million in bank receipts remaining unmatched. Additionally, reconciliation procedures have not been formalized, variances remain in the revenue activity in the Department of Public Health, and prior year activity for certain long unreconciled accounts were not properly reviewed. In regard to failing to review prior year activity for certain accounts, the Treasurer's Office stated reconciliations could not be completed because supporting documentation was not available, whether from the city records or from the bank. Without documented evidence that the activity was reviewed, there remains a risk that errors and/or irregularities went undetected.

What The Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the findings in this report. Some of the more significant recommendations to the above findings are noted below.

To improve controls over the preparation and review of the city's CAFR, the Finance Office should follow through with its plan to use an accounting firm to assist with the preparation of the CAFR as a short-term solution to the finding. However, Finance Office management should either hire more accountants, or invest in a new financial reporting system that will reduce the labor-intensive procedures needed to prepare the city's CAFR as a long-term resolution.

To improve the timeliness of the SEFA, the Finance Office's GAAU should allocate adequate resources to ensure the timely preparation and submission of the SEFA for audit purposes. GAAU should also proactively enforce the existing policies and procedures requiring departments to complete expenditure reconciliations by the due date.

To further improve the reconciliation process for the consolidated cash account, the Treasurer's Office should formalize the reconciliation procedures in writing, as well as continue investigating the remaining unknown variance, including setting a timeline for completing the investigation. For the four long unreconciled checking accounts, we recommend that Treasurer management request the assistance of the bank and Finance Office management to retrieve the bank and city supporting records needed to complete the reconciliations.

Additional recommendations developed by the Controller's Office can be found in the body of this report.

AUDITOR'S REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

CITY OF PHILADELPHIA

FISCAL 2018

CITY OF PHILADELPHIA

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City Controller

CHRISTY BRADY
Deputy City Controller

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2018, 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, 2019. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Notes I.14. and III.14.A. to the basic financial statements. Our report also includes a reference to other auditors. Other auditors audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

<u>Primary Government</u>
Municipal Pension Fund
Philadelphia Gas Works Retirement Reserve Fund
Parks and Recreation Departmental and Permanent Funds
Philadelphia Municipal Authority
Pennsylvania Intergovernmental Cooperation Authority

<u>Component Units</u>
Community College of Philadelphia
Philadelphia Parking Authority
Philadelphia Redevelopment Authority
Community Behavioral Health
Philadelphia Authority for Industrial Development
Philadelphia Gas Works
Philadelphia Housing Authority

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 Philadelphia Parking Authority were not audited in accordance with *Government Auditing Standards*. Also, the reported amounts for the Philadelphia Housing Authority (PHA) include PHA's discretely presented component units whose financial statements (except for St. Ignatius Senior Housing I, L.P., St. Ignatius Senior Housing II, L.P., St. Francis Villa Senior Housing, L.P., 1952 Allegheny Associates, L.P., Spring Garden Development Associates, L.P., Uni-Penn Housing Partnership II, and Mantua Phase II, L.P.) 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 have not been identified. However, as described in the accompanying report, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying report as items 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2018-003 to 2018-009 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 described in the accompanying report as items 2018-010 to 2018-014. Also, during our annual examination of the financial affairs of city departments, we identified other internal control and compliance deficiencies which were 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. We have also included our comments to the City of Philadelphia, Pennsylvania's responses that we believe do not adequately address our findings and recommendations.

Purpose of this Report

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

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 24, 2019

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MATERIAL WEAKNESSES

2018-001 INADEQUATE STAFFING LEVELS, LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT LED TO UNDETECTED MATERIAL MISSTATEMENTS

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city's) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Comprehensive Annual Financial Report (CAFR). To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system (FAMIS[1]), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.[2] Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of accountants to prepare a timely, accurate, and completed CAFR without significant adjustments recommended by the City Controller's audit staff. More specifically, we observed that:

- Staff reductions in the Finance Office, as well as a lack of a comprehensive financial reporting system, have compromised the timely and accurate preparation of the CAFR;
- Untimely and inadequate review of Aviation Fund financial statements resulted in undetected material financial statement errors; and
- Late submission of financial reports for some component units hampered preparation of the CAFR.

Each of these conditions is discussed in more detail below.

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

Condition: Errors totaling $236 million were not detected by Finance Office accountants during preparation of the city's fiscal year 2018 CAFR.[3]

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

Effect: Because Finance Office accountants agreed with and corrected most of the errors we identified, the city's publicly issued fiscal year 2018 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 a timely and accurate draft of the CAFR for audit. More specifically:

[1] **F**inancial **A**ccounting and **M**anagement **I**nformation **S**ystem
[2] These quasi-government units are considered component units for purposes of the city's CAFR.
[3] The $236 million total includes the $122.4 million of errors in the Aviation Fund financial statements discussed in more detail on page 3 of the report.

- The Finance Office has continued to operate with a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by over 28 percent (from 64 full-time employees in fiscal year 2000 to 46 in fiscal year 2018). Inadequate staff size has resulted in significant and complex parts of the CAFR, such as the preparation of the full accrual government-wide financial statements, being performed by Finance Office accounting management. These factors have made the task of completing the CAFR more difficult and compromised the ability of Finance Office management to perform adequate reviews of the financial statements and related financial disclosures.

- Accountants in the Finance Office lacked a comprehensive financial reporting system to prepare the CAFR. Instead, accountants produce the CAFR using numerous Excel, Lotus 1-2-3 (a program that has been discontinued and unsupported since 2014), and Word files with various links between the files. Using multiple linked files creates a cumbersome process which can adversely affect the accuracy and completeness of the CAFR.

During the current audit, we observed that the Finance Office had taken steps to strengthen controls by hiring an accounting firm to help with the preparation and review of the fiscal year 2018 CAFR. Although the initial plan (as it had also been for the fiscal year 2017 CAFR) was for the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the financial statements, the Finance Office was again unable to implement that plan for the fiscal year 2018 CAFR. However, the accounting firm did assist the Finance Office with CAFR preparation and review by performing such tasks as tying FAMIS balances to CAFR exhibits and schedules, performing analytical comparisons between fiscal year 2017 and 2018 CAFR amounts, and researching the accounting treatment for a new lease agreement to determine the appropriate capital lease journal entries and footnote disclosures.

Despite the improvement noted, we still found that the Finance Office failed to detect significant errors in the CAFR submitted for audit and did not provide several significant footnotes until very late in the audit process. Examples of undetected errors included (1) a $55.6 million understatement of General Fund cash held by fiscal agents resulting from the failure to record cash balances from the issuance of new conduit debt and (2) a $21.5 million understatement of receivables and revenues in the Health Choices Behavioral Health Fund because of an error in the revenue accrual. Our testing also noted $122.4 million of undetected errors in the Aviation Fund financial statements, which is discussed in more detail below. Examples of untimely provided footnotes included the disclosures for capital asset activity, lease commitments and leased assets, interfund receivables and payables, and prior period adjustments, all for which we did not receive a completed version for audit until February 11, 2019, just two weeks before we issued the audit opinion.

Recommendations: Without sufficient accounting staff and a comprehensive financial reporting system to prepare and review information needed for the CAFR, the risk increases that significant errors can occur and not be timely discovered and corrected. We continue to recommend that Finance Office management either hire more accountants, or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR [50107.01]. Additionally, we recommend that, for the fiscal year 2019 CAFR, management follow through with its plan to use the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the CAFR [500118.01]. However, while we support the Finance Office's hiring of the accounting firm as a short-term remedy to improve the CAFR preparation and review process, we believe the appropriate long-term solution is to either hire more accountants or invest in a new comprehensive financial reporting system, as recommended above.

Untimely and Inadequate Review Procedures for Aviation Fund Statements Resulted in Undetected Material Errors

Condition: The Division of Aviation's (DOA's) accounting management failed to detect material errors totaling $122.4 million in the Aviation Fund financial statements submitted to the Finance Office for inclusion in the city's fiscal year 2018 CAFR.

Criteria: The DOA's accounting management is responsible for the preparation of the Aviation Fund financial statements and the submission of those statements to the Finance Office for inclusion in the city's CAFR. The DOA uses a consultant to assist in preparing the Aviation Fund financial statements along with a compilation package containing detailed support for the statements. The DOA's accounting management must ensure the accuracy of the Aviation Fund financial statements by performing a detailed review of the supporting compilation, and this review should be formally documented.

Effect: The Aviation Fund financial statements provided for audit were materially misstated, containing $122.4 million of errors. The most significant misstatements involved:

- Calculation errors in the Statement of Cash Flows which caused a $66.1 million overstatement of cash flows from operating activities and a corresponding $66.1 million understatement of cash flows from capital and related financing activities.

- Several erroneous accounting entries which incorrectly recorded a total of $44.2 million as adjustments of current year revenues and expenses instead of reporting them as prior period adjustments to beginning net position.

- Errors in the computation of accrued interest payable which understated the reported accrued expenses liability by $9.8 million.

We proposed adjustments to correct these errors, and the Finance Office booked most of them. We, therefore, were able to issue an unmodified audit opinion on the Aviation Fund financial statements.

Cause: We observed a checklist for the review of the compilation, signed off by a DOA accounting manager. However, this review did not appear to have been adequately performed given the material amount of undetected errors noted by our audit testing. Also, the DOA provided no documentation to indicate that the compilation was subjected to any additional levels of management review beyond that of the accounting manager. Furthermore, the checklist did not contain an assertion by management that the statements had been reviewed and approved, and that, to the best of management's knowledge, they were complete and accurate. We have observed that the Philadelphia Water Department's (PWD's) financial statement review checklist includes such an assertion. Lastly, we observed that the checklist did not contain any procedures for the review of the Statement of Cash Flows, where our testing noted material errors as discussed above.

Additionally, the compilation and the review checklist were completed very late, with the DOA not submitting them to the Finance Office until December 26, 2018. An earlier deadline for completion of the compilation and checklist may have allowed DOA management time to more thoroughly review the compilation and detect the errors.

Recommendations: To improve the accuracy of the Aviation Fund financial statements, we recommend that DOA management:

- Improve its financial statement review process by requiring that, in addition to the accounting manager's review, a higher-level management official review the compilation [500118.02].

- Revise the review checklist to include documentation of the additional management review and an assertion by management that the statements have been reviewed and approved, and that, to the best of management's knowledge, they are complete and accurate. Also, procedures to determine the accuracy of the Statement of Cash Flows should be added to the checklist [500118.03].

- Work with the Finance Office to establish an earlier deadline for the completion of the compilation and review checklist [500118.04].

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

Condition: Previously, we recommended that the Finance Office strive to more timely complete its evaluation of potential component units (PCUs) and its requests for financial statements for those entities determined to be component units. The current audit noted that Finance Office accountants performed the PCU evaluation process in a timelier manner, sending out PCU questionnaires by July 12, 2018 and receiving all completed questionnaires by August 31, 2018. In the prior year, the Finance Office did not timely determine that the Philadelphia Housing Authority (PHA) was a component unit and consequently requested its financial statements very late. For the current year, Finance Office accountants sent the request for PHA's statements much earlier (March 28, 2018) so that PHA, whose fiscal year-end is March 31st, had adequate notice of the city's reporting requirements. The Finance Office requested all other component units' financial reports by September 7, 2018. Based on the improvement noted, we consider this condition resolved [500117.01].

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

The greatest challenge to the timely completion of the CAFR came from the Philadelphia Redevelopment Authority (PRA), the School District of Philadelphia, and Philadelphia Municipal Authority (PMA). These three agencies submitted their reports very late (February 12, 2019 for PRA and the School District and February 13, 2019 for PMA), leaving the Finance Office accountants and the Controller's Office auditors little time to ensure that they were accurately included in the city's CAFR before it was issued on February 25, 2019.

Table 1: Late Submission of Component Unit Financial Reports

Component Unit	Due Date	Date Received	Days Late
Philadelphia Authority for Industrial Development	10/1/2018	11/13/2018	43
Philadelphia Gas Works	12/31/2018	1/7/2019	7
Philadelphia Municipal Authority	10/1/2018	2/13/2019	135
Philadelphia Parking Authority	10/1/2018	11/27/2018	57
Philadelphia Redevelopment Authority	10/1/2018	2/12/2019	134
School District of Philadelphia	11/1/2018	2/12/2019	103

Note: Community Behavioral Health, Community College of Philadelphia, Philadelphia Housing Authority, and Pennsylvania Intergovernmental Cooperation Authority submitted their financial reports timely.
Source: Prepared by the Office of the City Controller

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 the Finance Office corrected, a misclassification error relating to the component units totaling $147.4 million.[4]

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].

[4] This $147.4 million error was a misclassification between liability categories and had no effect on net position. It was not included in the $236 million error total discussed on page 1 of the report.

2018-002 UNTIMELY AND INACCURATE PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RESULTED IN LATE SUBMISSION OF THE SINGLE AUDIT REPORTING PACKAGE TO THE FEDERAL AUDIT CLEARINGHOUSE

Condition: Because the city expends more than $750,000 of federal awards, Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant activities to be performed each year. The Finance Office's Grants Accounting and Administrative Unit (GAAU) is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA). GAAU personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule, which is adjusted based on mandatory grant reconciliations provided by the city departments responsible for grants (departments). For fiscal year ending June 30, 2018, a preliminary SEFA was not prepared and provided for audit until March 18th of the following calendar year, which was 13 days prior to the required deadline of March 31st, to submit the reporting package.

Also, for the past several years, we have reported that GAAU has provided an inaccurate SEFA for audit. In the preliminary fiscal year 2018 SEFA submitted for audit, we again observed the following errors made by GAAU and the Philadelphia Department of Human Services (DHS) concerning the Children and Youth Program:

- Total expenditures for Stephanie Tubbs Jones Child Welfare Services Program, Catalog of Federal Domestic Assistance (CFDA) #93.645 - Title IV-B were not reported. This error was discovered during the auditor's review of the grant reconciliations and the Act 148 invoice, which were prepared by DHS.

- As reported in the prior year, the Temporary Assistance for Needy Families (TANF), CFDA #93.558 – Title IV, Part A program reported expenditures for the fiscal year 2017 award which, when totaled from prior year SEFAs through the current year, exceeded the award amount.

However, the total expenditures for TANF, CFDA #93.558 – Title IV, Part A program which were significantly understated in fiscal year 2017 were materially correct for fiscal year 2018.

Additionally, the preliminary SEFA did not include the required amount provided to subrecipients from each federal program. Since the preliminary SEFA had no subrecipient information, we were not able to follow up on the prior year finding *#2017-012 Weaknesses in Controls Led to Inaccurate Subrecipient Expenditure Amounts Reported on the Schedule of Expenditures of Federal Awards* included in Section II of the Schedule of Findings and Questioned Costs reported in the fiscal year 2017 Schedule of Financial Assistance.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

OMB Uniform Guidance 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.

In addition, OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph .510(b)(4) requires the total amount provided to subrecipients from each federal program to be included in the SEFA.

Effect: GAAU's untimely and inaccurate preparation and submission of the SEFA, as well as the missing subrecipient information, caused delays in planning the audit and subsequent testing of the SEFA and major programs. As a result, the city did not submit a Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grant terms and conditions. The city's continued failure to meet this filing requirement could affect future federal funding.

Cause: GAAU uses reconciliations of expenditures recorded in the city's FAMIS accounting system and amounts reported to grantor agencies, prepared by various departments, to verify the accuracy of the SEFA and make necessary adjustments. For fiscal year 2018, GAAU sent requests for these reconciliations in November 2018 – two months earlier than the prior year. However, a second request was not sent to departments who failed to submit those reconciliations by the due date of December 14, 2018, until February 28th of the following year.

With regards to the errors noted on the preliminary SEFA submitted for audit, our observations suggest that GAAU failed to include total expenditures for the Title IV-B program in the draft SEFA due to DHS not providing complete and accurate grant reconciliations in a timely manner. The Title IV-B reconciliation was not prepared. In addition, the state reconciliation which included federal amounts due to comingled expenditures did not agree to the Act 148 invoice or contain a reconciling line for Title IV-B expenditures.

Recommendations: We recommend that GAAU allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes [500118.05]. We also recommend the proactive enforcement of the existing policies and procedures requiring departments to complete the FAMIS expenditure reconciliations by the due date, including a more timely follow up request for unsubmitted reconciliations [500114.12].

SIGNIFICANT DEFICIENCIES

2018-003 WHILE IMPROVED, REMAINING DEFICIENCIES IN TREASURER'S BANK RECONCILIATION PROCEDURES STILL CREATE POTENTIAL FOR UNDETECTED ERRORS AND IRREGULARITIES

Section 6-300 of the Philadelphia Home Rule Charter designates the City Treasurer as the official custodian of all city funds, and thereby charges the Office of the City Treasurer (Treasurer) with the responsibility for establishing controls to safeguard these assets and ensure the accuracy of reported cash balances. Previously, we reported that the Treasurer did not properly reconcile the city's primary depository account (i.e. consolidated cash account) during fiscal years 2015 through 2017, and the Treasurer had not reconciled six of its accounts for several years. Our current year review found that, while the Treasurer's efforts to correct these conditions resulted in considerable improvement, some deficiencies still remained in the Treasurer's bank reconciliation process. Specifically, with regard to the reconciliation of the consolidated cash account, there remained an unreconciled difference for fiscal years 2015 through 2017 as well as the need to formalize reconciliation procedures. Additionally, while the Treasurer asserted that the six unreconciled accounts were now fully reconciled, for four of the six accounts, the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period. These remaining deficiencies, which collectively we consider to be a significant deficiency, still created the potential for undetected errors and irregularities. Each of these conditions is discussed in more detail below.

While Reconciliation of Consolidated Cash Account Has Improved, There Remains a $529,000 Unreconciled Variance and Need for Formal Reconciliation Procedures

Condition: In the last three reports, we noted that the Treasurer had not properly reconciled the consolidated cash account during fiscal years 2015 through 2017, with differences between book and bank activity not readily identified or investigated and no comparison of reported revenue collections to bank deposits. The prior audit disclosed that, starting with the June 2017 activity, the Treasurer began reconciling book and bank activity, comparing reported collections to bank deposits, preparing a detailed list of reconciling items, and sending this list to city departments for investigation. However, for activity prior to June 2017, there was an unknown variance of $33.3 million, where book activity exceeded bank activity.

Our current audit found that the Treasurer made considerable efforts to correct this condition. In January 2018, the Treasurer hired an accounting supervisor whose main responsibility was reconciling the consolidated cash account. We observed that all fiscal year 2018 reconciliations for the consolidated cash account were prepared and reviewed in a timely manner, with the June 2018 reconciliation completed and reviewed by early August 2018. Also, we noted that the reconciliations included a detailed list of the items making up the difference between the book and bank balance, and the Treasurer continued its practice of sending the monthly list of reconciling items to city departments for their assistance with investigating the items. Based upon the improvement noted, we consider these conditions resolved [500116.03, 500117.02]. However, the current review noted that the Treasurer had not yet formalized in writing its reconciliation procedures for the consolidated cash account.

As for the $33.3 million unknown variance, the Treasurer hired an accounting firm to assist with this issue. The accounting firm performed a reconciliation of consolidated cash account activity for fiscal years 2015 through 2017, performing a match of bank deposits and disbursements to the book activity per the city's

FAMIS accounting system. When the firm completed its review and issued its report in January 2019, most of the $33.3 million difference had been identified, with the unknown variance down to $529,000, where book activity still exceeded bank activity. While the firm noted no remaining unmatched disbursements, there were still some bank receipt transactions that could not be matched to FAMIS – seven deposits totaling $2.2 million and 15 wire transfers from other city bank accounts totaling $11.3 million, which the Treasurer asserted were valid transactions due to their internal nature. The Treasurer noted that, as it investigates these unmatched receipt transactions, the amount of the variance will continue to fluctuate.

In a related matter, we followed up on the status of the ongoing problems with reconciling revenue activity for the Department of Public Health (DPH), as last year's report noted there were variances between the DPH's recorded collections and the amounts transferred daily to the consolidated cash account from the DPH's separate bank account. The June 2018 consolidated cash bank reconciliation showed a $435,000 variance between DPH's recorded collections and actual transfers from DPH's bank account. The Treasurer informed us that they began working with the DPH to develop a revised process for handling the DPH's revenue receipts and plan to finalize and implement the revised process by the end of fiscal year 2019.

Criteria: Standard Accounting Procedure (SAP) No. 7.1.3.b, *Reconciliation of All Bank Accounts in All City Agencies*, requires that monthly reconciliations of city bank accounts readily identify all of the specific transactions comprising the difference between the book and bank balance to allow city agencies to investigate these reconciling items and determine whether they represent errors or irregularities.

Effect: With a remaining unknown variance of $529,000 which could fluctuate as the remaining unmatched transactions are investigated, there is still the possibility that errors and irregularities may have gone undetected. Failure to develop formal written policies and procedures increases the risk that critical control activities may be inconsistently applied or not applied at all and thus creates the potential for errors.

Cause: Treasurer management indicated that a formal reconciliation procedure for the consolidated cash account was not developed because of accounting personnel turnover, with a deputy treasurer leaving in May 2018. With regard to developing a revised process for DPH revenue receipts, Treasurer management indicated that the process was not finalized because of the focus on cleaning up the unreconciled accounts.

Recommendations: To further improve the reconciliation process for the consolidated cash account, we recommend Treasurer management:

- Formalize the reconciliation procedures for the consolidated cash account in writing to ensure that they are consistently performed and documented. Management should formally establish a timeline for the completion of these procedures [500117.03].

- Move forward with investigating the remaining $529,000 unknown variance and unmatched receipt transactions related to consolidated cash account activity for fiscal year 2017 and prior. Any errors or improprieties discovered by this investigation should be addressed accordingly. Management should formally establish a time frame for the investigation's completion [500117.04].

- Continue with the plan to develop a revised process for handling DPH revenue receipts in order to eliminate the problems with reconciling the DPH's recorded collections to bank transfers [500115.06].

Failure to Review Prior Year Activity for Certain Long Unreconciled Accounts Could Allow Errors or Irregularities to Remain Undetected

Condition: In the prior audit, we reported that the Treasurer had not reconciled six city checking accounts for several years. The current audit noted that the Treasurer made considerable efforts to bring these accounts' reconciliations up to date. However, while the Treasurer asserted that all six accounts were now fully reconciled, for four of the six accounts[5] the Treasurer was unable to provide bank reconciliations for all of the unreconciled months, as detailed in Table 2 below. Therefore, for the months where bank reconciliations were not provided, there was no documented evidence that a detailed review of account activity for those months was performed to identify errors or unusual transactions that required further investigation. We did note that, for the Payroll and General Disbursement Accounts, the bank generated a report listing unpaid checks, the dates for which ranged back to the periods with no available reconciliations. While the bank's unpaid checks report allowed the Treasurer to identify and transfer unclaimed payroll checks to the city's Unclaimed Monies Fund (as discussed below), the report did not represent a complete review of transactions for the unreconciled months.

Table 2: Unavailable Reconciliations for Long Unreconciled Accounts

Name of Bank Account	Month Last Reconciled Per Prior Report	Months for Which Bank Reconciliations Were Provided (through June 2018)	Months for Which Bank Reconciliations Were Not Provided (through June 2018)
Payroll Account (at Wells Fargo Bank) †	September 2010	July 2016 through June 2017 May 2018 *	October 2010 through June 2016 July 2017 through April 2018 *
Supplemental Payroll Account (at Wells Fargo Bank) †	September 2010	July 2014 through March 2018 **	October 2010 through June 2014
General Disbursement Account	January 2012	January 2013 through June 2018	February 2012 through December 2012
Levy Account	June 2014	July 2016 through June 2018	July 2014 through June 2016

† The city discontinued using these accounts for the city's payroll disbursements at the end of fiscal year 2017 and opened new accounts at Citizens Bank for fiscal year 2018.
* Treasurer management informed us that, since the Payroll Account at Wells Fargo Bank was not used after June 2017, they did not prepare monthly reconciliations for the period of July 2017 through April 2018. Upon the account's closure, the Treasurer prepared a final reconciliation for May 2018.
** The Supplemental Payroll Account at Wells Fargo Bank closed in March 2018.

Source: Prepared by the Office of the Controller based upon reconciliation information provided by the Treasurer's Office

[5] For the other two unreconciled accounts (the Bank of America Pension Payroll Account and Pension Payroll Deduction Account), the Treasurer provided bank reconciliations that covered the unreconciled period.

A resulting condition from the Treasurer's failure to reconcile these accounts for several years was noncompliance with Pennsylvania's Disposition of Abandoned and Unclaimed Property Act (escheat act). In February 2019, the Treasurer transferred $894,612 of unclaimed payroll checks from the closed Wells Fargo Payroll Account into the city's Unclaimed Monies Fund. $825,638 of the amount transferred related to unclaimed payroll checks from calendar years 2010 through 2016 that should already have been escheated to the state, and the other $68,974 pertained to outstanding payroll checks from calendar year 2017. With regard to the General Disbursement Account, the January 2019 unpaid checks report from the bank showed $6.7 million of outstanding vendor checks for calendar years 1999 through 2015 – years for which the unclaimed funds should have been escheated to the state. However, we observed that the bank's unpaid checks report erroneously included a $2.4 million vendor check from 2005, which the city's FAMIS accounting system listed as voided.

As of March 2019, none of the unclaimed payroll or vendor checks had been escheated to the state. According to our inquiry of the Finance Office accounting supervisor who oversees the city's Unclaimed Monies Fund, the unclaimed payroll checks will most likely be escheated to the state by April 2019.

Criteria: Effective internal control, 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. SAP No. 4.1.2, titled *Unclaimed Monies*, instructs city departments to remit all checks outstanding for over one year to the city's Unclaimed Monies Fund, which is administered by the Finance Office who is then responsible for remitting amounts to the state in accordance with the escheat act. The Pennsylvania escheat act requires that property which remains unclaimed by the owner for a specified dormancy period (depending on property type) be remitted to the Pennsylvania Treasury. The dormancy period is two years for unclaimed wages/payroll and three years for all other unclaimed property types.

Effect: With no documented evidence that the activity for all prior year unreconciled months has been subjected to a detailed review, a risk still exists that errors and/or irregularities occurred in the four unreconciled checking accounts and remain undetected. Also, noncompliance with the Pennsylvania escheat act may subject the city to penalties.

Cause: Treasurer personnel informed us that they were unable to prepare the four accounts' bank reconciliations for the months listed in Table 2 above because either the bank and/or the supporting city records for those months were not available to enable preparation of the reconciliations.

Recommendations: For the four unreconciled checking accounts, we recommend that Treasurer management request the assistance of the bank and Finance Office management to retrieve the bank and city supporting records needed to complete the reconciliations. When the missing records are located, Treasurer personnel should prepare the remaining reconciliations, and review account activity for errors and unusual activity [500114.06].

In addition, Treasurer and Finance Office management should work together to ensure that all escheatable amounts are sent to the Pennsylvania Treasury. When determining the escheatable amount from the General Disbursement Account, the Treasurer should perform a detailed review of the bank's unpaid checks report to identify erroneous checks that should be excluded. In the future, the Treasurer should comply with SAP No.

4.1.2 in remitting all checks outstanding over one year to the city's Unclaimed Monies Fund, and the Finance Office should send all unclaimed monies due to the Pennsylvania Treasury in accordance with the state escheat act [500117.05].

2018-004 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

Condition: The Finance Office along with the Department of Behavioral Health and Intellectual Disability Services (DBHIDS) failed to timely identify and close out remaining account balances for completed DBHIDS grants. Specifically, per our review of the city's FAMIS accounting system records for the Grants Revenue Fund as of June 30, 2018, the city's books still showed $31 million of cash balances related to completed DBHIDS grants for prior fiscal years ranging from 2005 to 2015.

Criteria: The city's SAP No. G 1-1, titled *Grant Closeouts*, provides a uniform procedure for city departments and the Finance Office's GAAU to follow for the purpose of closing the books and records on grants that have been completed or discontinued. SAP No. G 1-1 instructs city departments to notify GAAU when a grant is completed and send the final reimbursement request and/or closeout report to GAAU. SAP No. G 1-1 also requires GAAU to monitor grant expenditure activity in FAMIS at least twice a year to identify inactive grants for closeout.

Effect: Failure to timely close out remaining account balances for completed grants increases the risk of reporting errors in the city's CAFR. The $31 million of remaining cash balances for completed DBHIDS grants was part of the reported Equity in Treasurer's Account balance for the Grants Revenue Fund in the city's fiscal year 2018 CAFR. These remaining cash balances resulted because DBHIDS grant expenditures were charged to the city's General Fund, but the General Fund was not reimbursed by the Grants Revenue Fund, which was the fund where the grant monies were deposited. To determine the amount payable to the General Fund, the $31 million of DBHIDS cash balances was reduced by $25.7 million of other city departments' grant receivable write-offs, which would be charged against the General Fund. The net interfund payable due from the Grants Revenue Fund to the General Fund was $5.3 million. As a result, the Grants Revenue Fund's fund balance was overstated by $5.3 million, and the General Fund's fund balance was understated by $5.3 million. We proposed an adjustment to correct the city's CAFR for these errors, but the Finance Office elected not to book our adjustment. However, we combined this $5.3 million proposed adjustment with other uncorrected CAFR errors and determined that the resulting total was immaterial to the city's fiscal year 2018 financial statements.

Cause: Neither the GAAU nor the DBHIDS followed the requirements of SAP No. G 1-1, both failing to adequately monitor grant activity in FAMIS and coordinate with one another to timely identify and close out cash balances for completed grants.

Recommendations: To ensure the accuracy of the city's accounting records and reduce the risk of reporting errors, we recommend that Finance Office management:

- Instruct Finance Office accountants to complete the necessary adjustments to close out the remaining DBHIDS cash balances in the Grants Revenue Fund and transfer the amount payable from the Grants Revenue Fund to the General Fund [500118.06].

- Reinforce SAP No. G 1-1 requirements with both city departments and GAAU. Management should remind city departments of the requirement to notify GAAU of completed grants and submit the grants' final reports to GAAU. GAAU should monitor grant activity in FAMIS to identify and close out inactive grants in accordance with SAP No. G 1-1 requirements [500118.07].

2018-005 FAILURE TO SEGREGATE PAYROLL DUTIES COULD ALLOW FRAUD TO OCCUR

Condition: During fiscal year 2018, the duties concerning the data entry, review, and approval of bi-weekly payroll transactions were again not adequately segregated. Our testing of 55 city departments for 26 pay periods revealed 257 occasions (18 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 23 departments performed duplicate functions for more than two pay periods, with the Mayor's Office, the Police Department, the Fire Department, and the Board of Pensions and Retirement being the most recurrent among the larger departments. While there had been 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 internal control procedures require that payroll data entry, supervisory review, and executive-level approvals be performed by separate, authorized employees.

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

Cause: The city's automated payroll system that was in place during fiscal year 2018, allowed individuals with supervisory and executive-level approval authority to perform the work at their level, as well as the levels below them. Finance Office management asserted this system feature was intentional to ensure that payroll is processed in emergency situations that may occur when authorized individuals at all levels are not available to sign off on payroll. While the Finance Office sends annual reminders to city departments instructing them to segregate these payroll functions, many city departments do not always follow this directive. Also, the director of payroll previously informed us that, for several departments where employees performed duplicate functions, there was no individual assigned payroll data entry and/or supervisory level review privileges in the city's on-line payroll system.

Recommendation: In March 2019, the city implemented the new OnePhilly payroll system. We recommend that Finance Office management ensure that the new OnePhilly payroll system includes controls to adequately segregate incompatible duties, particularly the functions of entering, reviewing, and approving payroll transactions [500111.08].

[6] The prior year's testing disclosed 342 occasions during fiscal year 2017 (23 percent) in which these payroll functions were not separated. Also, we noted that, for 28 of 57 departments, employees performed duplicate functions for more than two pay periods.

2018-006 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

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

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

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

Criteria: Philadelphia's Home Rule Charter[7] 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 – an $8.3 million discrepancy in the accumulated depreciation balance for buildings, a $1.5 million difference in the accumulated depreciation balance for other improvements, and a $1.0 million variance between vehicle categories.

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

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

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

Condition: Except for the 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, we previously recommended that the Finance Office compare the Philadelphia City Planning Commission's (PCPC's) master database of city-owned facilities to the city's fixed asset ledger to identify any discrepancies. In its response to last year's report, management stated that, during fiscal year 2018, the Department of Public Property (Public Property) implemented the

[7] The Philadelphia Home Rule Charter, Section 6-501

Integrated Workplace Asset Management System (IWAMS), which contains various data on the city's real estate assets, including maintenance and improvement costs, and uses as its "backbone" the PCPC's master facilities database. In its prior year response, management indicated that it would explore whether the assets in the IWAMS database could be compared to the city's fixed asset ledger. During the current audit, Finance Office management informed us that they met with the Office of Innovation and Technology (OIT) in September 2018 to discuss obtaining a database of city-owned property to enable such a comparison; however, as of March 26, 2019, no further action has been taken.

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

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

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

Recommendations: We continue to recommend that Finance Office management:

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

- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the general public [500109.02].

- Obtain the most current database of city-owned facilities and compare it to Finance's records to identify any discrepancies and ensure the completion and accuracy of Finance's records [500113.14].

2018-007 FAILURE TO TIMELY TRANSFER FUNDS BETWEEN CITY BANK ACCOUNTS COULD RESULT IN SIGNIFICANT REPORTING ERRORS

Condition: Reported cash and investment amounts in the city's CAFR – specifically those reported under the account entitled Equity in Treasurer's Account – continued to be at an increased risk for significant misstatement because the Finance Office's accountants still did not always timely transfer monies between city bank accounts to match activity recorded on the city's accounting system (FAMIS), which is the source of CAFR amounts.

All cash and investments in the bank accounts under the control of the Treasurer are reported under the Equity in Treasurer's Account, which represents each fund's share in the Treasurer's group of bank accounts. While many funds are members of the consolidated cash bank account, which pools monies to maximize the city's investment earnings, the city must also maintain separate bank accounts for certain funds, such as the Water and Aviation Funds, to comply with legal requirements (e.g. bond covenants and ordinances). Therefore, when there is activity in FAMIS that necessitates moving funds between city bank accounts, such as the transfer of expenditures from consolidated cash member funds to the Water or Aviation Funds, Finance Office accountants must prepare a cash transfer authorization (CTA) to authorize the Treasurer to move the funds.

Our current testing noted the following instances when Finance Office accountants did not timely prepare and submit CTAs to the Treasurer:

- For $6.6 million of pending transfers due from the Water and Aviation Operating Fund bank accounts to the consolidated cash account – which related to interfund expenditure transfers processed in June 2018 – Finance Office accountants did not prepare the CTA to authorize the transfers until February 2019, at the request of the Controller's Office. The Treasurer transferred the monies in February 2019. We noted a similar instance in the prior audit.

- A CTA prepared in late June 2018 to transfer $4 million from the Aviation Operating Fund and consolidated cash bank accounts to the Aviation Capital Fund account was not approved by Finance Office management until September 2018. Finance Office management asserted that this CTA was delayed because it required additional review by them. The Treasurer made the corresponding transfer in September 2018.

- In September 2018, Finance Office accountants posted an entry in FAMIS to record a $1.6 million transfer from the Water Revenue Bond Sinking Fund Reserve to the General Fund (a member fund of the consolidated cash account). However, it was not until November 2018, approximately two months later, that the Finance Office prepared the CTA and the Treasurer processed the bank transfer.

Criteria: The city's SAP No. I-4295 requires that general ledger records are maintained setting forth the details of the daily transactions pertaining to the consolidated cash account and the member or non-member funds to which they apply. These records should reflect, on a daily basis, each member fund's equity balance of the consolidated cash account total and the amounts due from, or to, non-member funds. In addition, SAP No. 7.1.3.b requires that Finance Office accountants reconcile the funds' Equity in Treasurer's Account balances per FAMIS to Treasurer account book balances. Effective internal control demands that such a reconciliation be performed at least monthly. As part of this reconciliation, Finance Office accountants should determine if transfers between bank accounts are necessary and then prepare CTAs accordingly. For reported Equity in Treasurer's Account balances to be accurate, the FAMIS transactions comprising these account balances must be supported by actual bank activity.

Effect: As a result of this condition, there is an increased risk for significant undetected errors in the Equity in Treasurer's Account amounts reported in the city's CAFR. Also, if required transfers are not performed timely for funds that are legally mandated to maintain separate bank accounts, the city is at a greater risk for noncompliance with the applicable legal requirements.

Cause: Finance Office management had not developed procedures to ensure that the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances and the preparation of necessary CTAs were timely performed. Finance Office accountants were behind in reconciling the consolidated cash member funds' equity amounts to Treasurer account balances, failing to perform this function for six months during fiscal year 2018 and only providing the June 30, 2018 reconciliation to us on January 7, 2019.

Recommendation: To minimize the risk of undetected errors in reported Equity in Treasurer's Account balances, we continue to recommend that the Finance Office management develop procedures designed to ensure that the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances is performed monthly and required CTAs are promptly prepared and submitted to the Treasurer. The Treasurer should immediately perform the requested transfers [500117.08].

2018-008 LAX MONITORING OF ADJUSTMENTS TO TAX ACCOUNTS MAY LEAD TO UNDETECTED ERRORS OR IRREGULARITIES

Condition: Previously, we reported that Revenue Department accountants did not perform timely reviews of adjustments made to taxpayer accounts, which on any given day can involve millions of dollars. Accountants only performed a very limited review of fiscal year 2016 adjustments in January 2017 while there was no review of fiscal year 2017 adjustments. Our current audit found that accountants had not performed any reviews of adjustment transactions for the majority of fiscal year 2018 – July 2017 through mid-April 2018 – until the responsibility was assigned to the newly hired Financial Reporting Unit (FRU) accounting manager. For adjustment activity posted since mid-April 2018, the FRU accounting manager selected a small sample of adjustments for review each week from the daily adjustment listings. The adjustment review process consisted of the following steps: requesting support from the employee who posted the sampled adjustment, reviewing the support to ensure the adjustment was valid, and retaining each sampled adjustment's documentation to evidence this review. However, Revenue Department management informed us that, as of January 2019, a formal written policy for the adjustment review process had not yet been established.

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 $1 million for non-supervisory personnel and $25 million for supervisory personnel.

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

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

Cause: During fiscal year 2017, the employees assigned the duty of reviewing TIPS adjustments were transferred from the unit responsible for monitoring adjustments (FRU) to another Revenue Department unit. Revenue Department management informed us that, when these employees were transferred, the adjustment review was not reassigned to other employees because of staff shortages and other department priorities. In February 2018, Revenue Department management hired the new FRU accounting manager and eventually assigned the responsibility of reviewing TIPS adjustments to that manager as discussed above.

Recommendation: We recommend that Revenue Department management continue the practice of having supervisory personnel, independent of the adjustment process, regularly monitor daily payment and receivable adjustment activity in TIPS. Management should formalize the procedures of the adjustment review process in writing to ensure that they are consistently performed and documented. Formalized procedures should require that the supervisor test a sample of adjustments for accuracy and propriety, review daily adjustment reports for patterns of irregular activity, and evidence that these checks are performed by signing and dating the adjustment reports upon completion of the reviews [500115.07].

2018-009 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Condition: The city's SAPs, which serve as the basis for the city's system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over two hundred 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, with over 50 percent of them still being more than half a century old.

Since September 2015, the Finance Office has updated 11 SAPs, with the most recent being the following two SAPs issued on April 10, 2019 in conjunction with the implementation of the new OnePhilly payroll system:

- SAP No. E-9011, *Daily Timekeeping Source Documents and Attendance Record-Keeping* – This SAP discusses the forms and methods that departments are to use in preparing daily records of employee attendance.

- SAP No. E-0911, *Signature Authorization Form* – This SAP – which, in the last three reports, we had specifically recommended that the Finance Office update – establishes requirements regarding the signature authorization forms used to verify the propriety of departmental approvals for bi-weekly payrolls and payment vouchers [500115.01, 500115.03].

Also, during fiscal year 2018, the Finance Office hired a consultant to assist in reviewing and updating the SAPs. In addition to assisting with the update of the two most recently revised SAPs, the consultant has prepared a draft version of a manual which will serve as the single document warehousing all SAPs and generated an archived listing of the old SAPs that will be incorporated into the manual and used as a crosswalk to the updated SAPs. The consultant is also working with the Finance Office to revise the SAP numbering format. Per discussion with Finance Office management, their goal for calendar year 2019 is completing the update of the SAPs for the payroll and grant areas.

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.[8] Also, in its best practices publication, the GFOA recommends that governments perform an on-going review, evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

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

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

Recommendation: We recommend that the Finance Office continue to work with the consultant to complete the review and update of the SAPs. Procedures 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].

[8]The Philadelphia Home Rule Charter, Section 6-101.

OTHER CONDITIONS

2018-010 PAYMENT VOUCHERS APPROVED WITHOUT REQUIRED MANAGEMENT AUTHORIZATION

Condition: Previously, we reported that the Finance Office approved payment vouchers without the required management level of authorization, noting numerous instances when vouchers exceeding $500,000 were not approved by the department heads or their properly authorized deputies. In response, Finance Office management indicated that approval requirements were reviewed and reinforced with Financial Verification Unit staff. Also, effective January 1, 2018, the Financial Verification Unit implemented a process of generating a report identifying all vouchers exceeding $500,000 for review and appropriate approval verification.

Our review of all fiscal year 2018 payment vouchers exceeding $500,000 disclosed that this condition continued during the first half of fiscal year 2018, but there was significant improvement for vouchers approved from January 1, 2018 forward. For the first half of fiscal year 2018, there were 64 vouchers totaling $105.6 million that were not authorized by the department heads or their properly authorized deputies. However, for the last six months of fiscal year 2018, we found only two vouchers totaling $1.8 million approved by the Finance Office in June 2018 without the required management authorization. Table 3 below provides a breakdown of these vouchers by department.

Table 3: Payment Vouchers Approved Without Required Management Authorization

	From July 1, 2017 through December 31, 2017		From January 1, 2018 through June 30, 2018		Totals from July 1, 2017 through June 30, 2018	
Department	**# of Vouchers**	**Dollar Amount**	**# of Vouchers**	**Dollar Amount**	**# of Vouchers**	**Dollar Amount**
Department of Public Health	4	$37,774,674	0	$0	4	$37,774,674
Philadelphia Prison System	8	$13,085,255	0	$0	8	$13,085,255
Division of Aviation	52	$54,746,403	2	$1,838,786	54	$56,585,189
Totals for All Departments	**64**	**$105,606,332**	**2**	**$1,838,786**	**66**	**$107,445,118**

Source: Prepared by the Office of the Controller from review of fiscal year 2018 payment voucher information extracted from the city's FAMIS and ADPICS systems

Criteria: The city's SAP No. E-0911, *Signature Authorization Form*, requires that a payment voucher exceeding $500,000 be approved by the department's commissioner, director, board chairman, or their properly authorized deputy.

Effect: While our sample testing of fiscal year 2018 expenditures did not reveal any irregularities, failure to verify the proper management authorization prior to approving payment vouchers increases the risk that unauthorized expenditures may be approved and not be detected in a timely manner.

Cause: The Finance Office's Financial Verification Unit, which has responsibility for approving payment vouchers, did not always ensure that, prior to approving payment vouchers exceeding $500,000, the vouchers had the required level of departmental approval.

Recommendation: We commend Finance Office management for their efforts to improve controls over the expenditure approval process. To ensure that all payment vouchers above the $500,000 limit are approved only when there is proper departmental approval, we recommend that Finance Office management continue to (1) periodically reinforce approval requirements with Financial Verification Unit staff and (2) generate the report of all vouchers exceeding $500,000 for review and verification of the appropriate authorization [500117.06].

2018-011 WATER DEPARTMENT MANAGEMENT FAILED TO DETECT ERRORS IN THE WATER FUND'S DEPRECIATION CALCULATION

Condition: PWD management failed to detect $6.9 million of errors in the calculation of accumulated depreciation for Water Fund capital assets. While PWD management utilized consultants[9] to make various upgrades to the Excel file which calculated depreciation, management was unaware, until we brought it to their attention, that there were mistakes in the consultants' new file formulas which misstated depreciation.

Criteria: PWD management is responsible for ensuring the accuracy of Water Fund amounts provided to the Finance Office for inclusion in the city's CAFR. When there are changes made to the computer files used to calculate financial statement amounts, it is especially important for management to perform a detailed review of the revisions to ensure the accuracy of reported amounts.

Effect: When we brought the formula errors to the PWD management's attention, the consultants corrected the formula errors and recalculated the depreciation. Due to the formula errors, the following misstatements occurred in Water Fund amounts reported in the city's CAFR: (1) a $6.9 million understatement of accumulated depreciation, (2) a $3.2 million understatement of depreciation expense, and (3) a $3.7 million overstatement of beginning net position. We proposed an adjustment to correct the CAFR for these errors, but PWD management elected not to book our adjustment.[10]

Cause: PWD management did not perform adequate oversight of the consultants' changes to the depreciation file, which included the addition of several complex formulas. PWD management also failed to ensure that sufficient testing of these revisions was performed to confirm the accuracy of the depreciation calculation.

Recommendation: Because uncorrected errors of the current year can have a cumulative effect with errors in subsequent years, we recommend that PWD management make the necessary adjustments to ensure that the Water Fund amounts included in the fiscal year 2019 CAFR reflect the correction of the financial statement errors noted in this year's audit. Also, management should ensure that all future changes to the depreciation file are sufficiently tested to verify their accuracy [500118.08].

[9] For the changes to the depreciation file, the PWD used the outside accounting firm who assists the PWD in preparing its financial statement compilation and the firm's subcontractor.
[10] As part of our audit procedures, we combined this proposed adjustment with other uncorrected CAFR errors and determined that the resulting total was immaterial to the city's fiscal year 2018 financial statements.

2018-012 FAMIS NOT UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES

Condition: As previously reported, accountants in the Finance Office, the PWD, and the DOA were still not utilizing the full accrual Water and Aviation Funds established in FAMIS to post year-end adjusting journal entries to prepare the financial statements. In the prior audit, we noted that, while the full accrual Water Fund had never been used, accountants had not updated the full accrual Aviation Fund since fiscal year 2014. The current audit disclosed that the Finance Office prepared entries in FAMIS to record the fiscal year 2018 beginning balances for the full accrual Water and Aviation Funds. However, there were no other journal entries posted to reflect the fiscal year 2018 activity and resulting ending balances.

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

Effect: There is an increased risk of error in compiling the city's CAFR.

Cause: Finance Office accountants have indicated that more urgent priorities precluded them from working with the PWD and DOA to utilize the full accrual Water and Aviation Funds in FAMIS.

Recommendation: In order to decrease the risk of financial statement error, we continue to recommend that Finance Office management require that PWD and DOA accountants utilize the FAMIS full accrual Water and Aviation Funds to post their year-end accrual adjustments [500114.02].

2018-013 GENERAL INFORMATION TECHNOLOGY CONTROLS STILL NEED 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.[11] For twelve prior noted conditions, we observed that OIT made certain remediation efforts but had not completed corrective action. Our findings involved the following nine areas: (1) risk assessment, (2) IT security policies and procedures, (3) application change management, (4) developer access to production, (5) authorization of database administrator access, (6) periodic access rights review, (7) setup process for new hires, (8) notification of terminated and inactive users, and (9) contingency planning. Details regarding the twelve prior noted conditions and their current remediation status are presented in the table in Appendix I.

[11] During the fiscal year 2016 audit, we conducted, with the assistance of a consultant, an evaluation of OIT's general IT controls over FAMIS, Advanced Purchasing Inventory Control System (ADPICS), Payroll, Pension Payroll, Health and Welfare, TIPS, and BASIS2.

2018-014 CONTROLS OVER AIRPORT'S COMPUTERIZED BILLING SYSTEM IMPROVED BUT SOME ENHANCEMENTS STILL NEEDED

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. Of the three prior noted conditions, we observed that the deficiency regarding periodic review of user access rights had been resolved. The DOA made significant remediation efforts but had not completed corrective action for the other two prior findings involving (1) no formal documentation of IT control policies and procedures and (2) inadequate segregation of duties and system audit trails. Details regarding the three prior noted conditions and their current remediation status are presented in the table in Appendix II.

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 conditions[12] with new observations and reported upon these matters in other sections of this report. Other resolved prior year issues are discussed below.

Compliance with Act 148 Grant Reporting Deadlines Improved

Previously, we reported that the city's DHS failed to comply with reporting requirements related to the Act 148 grant, which represents the state share of the County Children and Youth Social Service Program. During fiscal year 2017, DHS was consistently late in submitting the Act 148 required quarterly reports, which resulted in delays in receiving grant funding.

During fiscal year 2018, DHS significantly improved the timeliness of the Act 148 report submission, which management attributed to the automation of the invoicing process. While the fiscal year 2018 first quarter report was submitted 77 days late, the second quarter report was only one day late, and the third and fourth quarter reports were submitted on time. Based on the improvement made, we consider this condition resolved [500115.08, 500115.10, and 500117.09].

Prior Reported Condition Regarding Unauthorized Payroll Approvals Improved

For the last several years, we reported that there were instances where unauthorized employees approved the city's bi-weekly payrolls. Specifically, we found that employees designated in the city's on-line payroll system as authorized executive-level approvers were not always listed as such on the official payroll signature cards maintained by the Finance Office. During fiscal year 2017, unauthorized employees approved approximately $6.3 million in payroll costs.

Our review of the individuals who performed the executive-level payroll approvals during fiscal year 2018 found no instances of inappropriate approvals, except for one isolated case where a DPH employee, who was not listed on the DBHIDS signature card, performed the executive-level approval for the DBHIDS for one pay period. We believe that sufficient improvement has been made to consider this condition resolved [500113.13, 500117.07].

Previously Reported Deficiency Concerning Unauthorized Expenditure Approvals Improved

In prior audits, we found instances where unauthorized employees approved expenditures. Specifically, our review of expenditure approvals in ADPICS revealed that payment vouchers were approved by individuals who were not listed on the departments' signature authorization cards, which represent the official record of

[12] The resolved prior-noted conditions involved a timelier evaluation of potential component units (page 4), improvements in the reconciliation of the consolidated cash account (page 8), the updating of a SAP (page 19), and the development of written procedures and documentation for the periodic review of user access rights in PROPworks (page 34).

employees designated to approve the purchase of goods and services on the city's behalf. Also, in a related matter, voucher approval records in the city's accounting system had not been updated to reflect changes in the active status of certain city departments. For example, we continued to note that capital improvement expenditures were approved by Public Property deputy commissioners for transactions coded as initiated and approved by the Capital Programs Office (CPO), whose functions and employees merged with Public Property several years ago.

Our current year expenditure testing found no instances where a payment voucher was approved by an individual not listed on the signature authorization card. We also reviewed the expenditure approvals for the two departments noted in the prior audit as having the most instances of vouchers approved by unauthorized individuals – the Streets Department and Sheriff's Office. Our review of current year expenditure approvals for these two departments found that all vouchers were approved by individuals listed on the signature authorization cards. Based on the improvement noted, we consider this condition resolved [500115.02].

With regard to the FAMIS voucher approval codes that still relate to the CPO, Finance Office management has indicated to us that revising these voucher approval codes would be labor intensive and not warranted from a cost-benefit perspective, so they have decided to keep the existing approval codes. Our review of FAMIS expenditure records revealed that, although there were transactions coded as initiated and approved by the CPO, none of the expenditures were charged to the CPO. In light of these factors, we will no longer report on this finding [500115.04].

APPENDICES

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
SECURITY MANAGEMENT 1. **IT Risk Assessment:** OIT had not yet performed a comprehensive IT risk assessment. 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.	Without a current and comprehensive risk assessment, IT resources may be used ineffectively in addressing risk affecting OIT.	Follow through with the upcoming reviews of Health Insurance Portability and Accountability Act (HIPAA) compliance and enterprise operations and formally document the IT risk assessment plan [300413.01].	**Incomplete:** OIT management stated they are in the process of working on the completion of an IT risk assessment plan. For the first phase of this process, in the fall of calendar year 2018, OIT conducted a cyber security audit to identify weaknesses within the network perimeter and OIT data center operations. According to our review of a summary of the cyber security audit's results, there was no indication of a significant impact on the city's major financial applications. According to OIT management, the next planned phases involve (1) a city-wide risk assessment of compliance with the HIPAA and (2) a risk and gap assessment of enterprise operations at OIT's main location.
2. **IT Security Policies and Procedures:** The Revenue IT group did not provide a documented security policy that governs the BASIS2 application.	Failure to formally develop and document security policies and procedures increases the risk that critical control activities for monitoring security threats may be inconsistently applied. As a result, the BASIS2 application is at an increased risk for data leak and/or loss.	Ensure that the Revenue IT group utilizes a formal security policy for the BASIS2 application. Once the policy is established, the Revenue IT group should periodically review it to determine if it requires updating [300416.01].	**Incomplete:** OIT management stated that currently there was no security policy specifically addressing the BASIS2 application but instead general security policies applicable to all city systems supported by OIT. OIT management indicated they will work on establishing a security policy for BASIS2.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
CONFIGURATION MANAGEMENT 3. **Application Change Management:** OIT's established change management procedures were still not consistently followed. Our prior year testing of selected change requests found that requests were not always supported by documented end-user testing or back-out plans, and some requests had no clear evidence of management approval. Also, the change management policy did not specifically address how end-user testing should be documented.	There was an increased risk that unauthorized or inadequately reviewed changes will be implemented in the production environment.	Review change control procedures and implement measures to ensure that the required steps for application changes are performed and documented in accordance with the policy. In the cases where a testing or back-out plan is deemed unnecessary or OIT has a standard plan in place for a certain change type, OIT should require that this information be noted in the change request record. Also, OIT should update its change management policy to include more detail related to documentation requirements for end-user testing and the Change Advisory Board approval process [300413.05].	**Incomplete:** Our current year testing of selected change requests found that all requests showed evidence of management approval. However, we continued to note that the change request records did not always contain information on end-user testing or back-out plans. For cases where the change request record had no documented end-user testing or back-out plan, OIT either subsequently provided the plan, described what the plan was, or explained why a plan was not included in the record. In the instances where no testing or back-out plan was included in the record, OIT management explained that it was due to either a plan not being necessary because of the nature of the change, or OIT having a standard plan in place for certain types of changes. The current change management policy provided by OIT management still did not specifically address how end-user testing should be documented. Also, we found that the current policy did not contain the detail on the Change Advisory Board approval process that our prior review noted as having been added to the policy. As of April 18, 2019, OIT management indicated that they are working on an updated change management policy, which will address the elements we noted as missing.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
SEGREGATION OF DUTIES			
4. **Developer Access to Production:** Three OIT programmers with access rights to the Payroll system had the ability to enter payroll transactions and approve departments' bi-weekly payrolls. Only users – not programmers – should be responsible for transaction origination and approval.	This access creates a segregation of duties risk in that these developers could create and migrate code to production as well as make direct payroll data changes within the database. Consequently, there is increased potential for data to be erroneously added or modified and not be detected by management.	Not Applicable – This finding will no longer be reported. Refer to the Remediation Status column for more detail.	**Incomplete:** The current audit continued to note that the three OIT programmers had the ability to enter payroll transactions and approve departments' bi-weekly payrolls. We also found that, in early December 2018, one of the programmers had been given the user access normally reserved for Finance Office payroll division personnel that allows someone to make changes to a department's bi-weekly payroll data after the department's executive level approval has been performed. According to e-mail correspondence provided by OIT, the programmer was granted this access to fix a record that was causing a problem with the payroll run. However, due to an oversight, this access was not revoked until March 2019 when all three programmers' access rights were reset to inquiry only. While OIT had developed a procedure to monitor the programmers' activities, it was a draft policy that had not yet been formally approved by OIT executive management. In March 2019, the city implemented the new OnePhilly payroll system. Since the system in which the programmers had the inappropriate access has been replaced, we will no longer report on this finding [500115.11]. As part of the fiscal year 2019 audit, we will review controls in the new OnePhilly system, which will include determining if programmers have the ability to modify and/or approve payroll data.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
ACCESS CONTROLS AND SYSTEM FILES 5. **Authorization – Database Administrator Access:** The OIT was unable to provide evidence documenting the authorization of database access for four IT consultants functioning as database administrators.	Unauthorized access to the database could lead to unapproved or inappropriate database activities and/or direct data table changes.	Maintain evidence for all users granted access to the databases. When granting access to a consultant, obtain and review the consultant's contract and confirm with the supervising manager that the consultant's access is appropriate. Periodically, database access should be monitored to confirm that all accounts are appropriate, authorized, and supported by a new hire form or active vendor contract [300416.04].	**Incomplete:** In the prior audit, OIT provided a draft policy setting forth a process for the granting of database system access to IT consultants. During the current audit, OIT management informed us that they are developing a form for the request and approval of BASIS2 access. However, as of April 18, 2019, neither the draft policy nor the form has been finalized and formally approved by OIT executive management.
6. **Periodic Access Rights Review:** A process had not been implemented to periodically review active application user accounts, associated access rights, and group membership.	There is a risk that over time access rights will not be updated due to oversights.	Finalize and approve the draft policy regarding review of user access rights, and work with the impacted departments to complete the required reviews of the active users and their associated access rights for appropriateness [300416.05].	**Incomplete:** Our current review found OIT was still unable to provide any evidence that there were periodic reviews of active users' access rights for appropriateness. While the prior audit noted that OIT had prepared a draft policy regarding review of user access rights, as of April 18, 2019, the draft policy has not been finalized and formally approved by OIT executive management.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
7. **<u>User Administration – New Hires:</u>** OIT's setup process for new hires did not include a procedure to formally document new user access requests and approvals.	Without evidence of the authorization of new users' access to the network and applications, unauthorized users could be granted access or users could be granted more access than necessary, potentially resulting in unauthorized and improper transactions being processed.	Review the new hire setup process and develop a procedure to document new user access requests and approvals so they can be easily retrieved for later review and audit [300416.06].	**Incomplete:** The current audit continued to note that there is no formal written procedure for new user access requests processed through OIT's help desk system (SysAid). According to our discussion with OIT management on April 18, 2019, OIT will create a procedure to address this issue.
8. **<u>User Administration – Terminated Users:</u>** The fiscal year 2016 audit's testing of a sample of terminated employees noted many instances where OIT was unable to provide evidence documenting the notifications to management or OIT requesting removal of access rights to the network and in-scope applications.[13] In the fiscal year 2017 audit, management provided us with a draft policy that addressed this condition as well as finding #9 below, but the draft policy had not yet been formally approved by executive management.	Without evidence of notification of termination to management and owners of applications, users may retain access beyond their termination date resulting in the possible unauthorized use of these accounts.	Institute a policy establishing formal documentation requirements for notifications to remove employee access, including retention of those notifications so they are available for later review and audit [300416.07].	**Incomplete:** With regard to the draft policy provided in the prior audit which addressed both findings # 8 and 9, the current review found that the draft policy had not been finalized or implemented. According to our discussion with OIT management on April 18, 2019, OIT will work on completing a procedure that addresses the prior noted conditions.

[13] The applications included in our review were FAMIS, ADPICS, Payroll, Pension Payroll, Health and Welfare, TIPS, and BASIS2.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
9. **<u>User Administration – Notification of Terminated and Inactive Users:</u>** No evidence was provided to document that notifications were being sent to the Payroll, Pension Payroll, and Health and Welfare application groups to inform them of employee terminations and inactive users (i.e. those users who have not signed in to the application for a specified time period).	If notification of employee terminations and inactive users is not being sent to management and application owners, the terminated employees and inactive users may retain access, resulting in an increased risk for the unauthorized and inappropriate use of these accounts.	Institute a procedure requiring that automated notifications of terminated employees and inactive users be sent to the Payroll, Pension Payroll, and Health and Welfare application groups and these notifications be retained so they are available for later review and audit [300416.08].	**Incomplete:** See comments under finding # 8.
<u>CONTINGENCY PLANNING</u> 10. **<u>Business Continuity Plan:</u>** A business continuity plan had not yet been developed for the in-scope applications.	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.	Request the assistance of the Office of Emergency Management (OEM) in obtaining the remaining departments' Continuity of Operating Program (COOP) plans. Also, provide guidance and assistance in helping the impacted departments when establishing the plans [300413.13].	**Incomplete:** During the current audit, we examined the COOP plans on file at OIT. OIT management stated that its COOP plan needed updating as it contained the names of former employees. Also, our review noted that OIT's files only contained the plans for nine other city departments, as follows: Office of Fleet Management, Office of the Mayor, OEM, Office of Homeless Services, Office of Human Resources, Department of Records, Department of Streets, PWD, and Police Department. OIT management acknowledged that it would be beneficial to obtain all departments' COOP plans so OIT could advise them on the adequacy of the plan's IT component. However, OIT management stated that the OEM was responsible for coordinating the COOP program and obtaining the departments' plans.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
11. **BASIS2 Disaster Recovery:** Testing of the BASIS2 disaster recovery plan had still not been performed.	If a disaster recovery plan is not formally documented and tested to ensure it works, it could adversely affect the ability to restore BASIS2 operations in a timely manner.	Establish a formal written disaster recovery plan that specifically addresses BASIS2. Once established, periodically test the BASIS2 disaster recovery plan and document the tests and their results in writing [300413.14].	**Incomplete:** OIT management informed us they were currently working on a formal BASIS2 disaster recovery plan from an enterprise perspective. However, management asserted there were disaster recovery procedures in place for BASIS2 with the BASIS2 database automatically copied to a tape unit on a weekly basis and the backup's integrity automatically tested for validity by the Commvault backup system. OIT did not provide any documentation to support their assertions.
12. **Disaster Recovery Plan and Testing:** Our prior review noted a lack of involvement of city departments in the disaster recovery testing. OIT did not have a process in place to ensure that city departments are sufficiently testing their applications during the recovery process. Out of the five departments notified by OIT to test their applications, only three departments participated in testing, and only two departments completed the feedback form.	In the event of an unforeseen and damaging event, there is a risk that OIT's ability to timely restore services may be negatively impacted.	Move forward with the plans to develop a formal disaster recovery plan for enterprise IT operations. Also, request the assistance of city department heads in requiring department personnel to participate in disaster recovery testing [300416.10].	**Incomplete:** OIT management stated they were currently working on the development of a formal disaster recovery plan for enterprise IT operations. To assist in developing this plan, management indicated they are in the process of procuring professional consultants to prepare a security controls gap analysis for enterprise IT operations and a table-top exercise for departmental leadership on operational continuity in the event of a cyber-related disaster. Our current review did note that disaster recovery procedures were performed. We observed OIT's disaster recovery guide for the periodic performance of mainframe disaster recovery drills. OIT provided us with the report for the latest mainframe disaster recovery drill conducted in May 2018. This report still noted problems with the city departments' participation in disaster recovery testing.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>ORGANIZATIONAL AND MANAGEMENT CONTROLS</u>			
1. **<u>IT Policies and Procedures:</u>** While the DOA had provided written policies for certain critical IT control activities, the procedures still lacked the following elements: • Specific storage locations for data file backups. • Specific identification of alternative processing facilities in the event DOA facilities are significantly damaged or cannot be accessed. • Detailed instructions of actions to be taken under varying types of contingencies. • Periodic testing of the contingency plan. • Risk assessment and monitoring of security threats. Also, the written procedures provided were not formally approved by DOA management.	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.	Develop and document formal written policies and procedures that address risk assessment and monitoring of security threats [500114.16].	**Incomplete:** The DOA's IT management provided us with written control procedures that addressed the following: • Specific storage locations for data file backups. • Specific identification of alternative processing facilities in the event DOA facilities are significantly damaged or cannot be accessed. • Detailed instructions of actions to be taken under varying types of contingencies. • Periodic testing of the contingency plan. Also, the written procedures provided were approved by the DOA's chief information officer (CIO). The only critical IT control activity for which the DOA had not yet formally documented its policies and procedures was the risk assessment and monitoring of security threats. The DOA's IT management indicated that an IT risk assessment would be performed within the next year.

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
APPLICATION ADMINISTRATION 2. **Periodic Access Rights Review:** The DOA's written control policy stated that the PROPworks database administrator was responsible for periodic review of user access rights. However, the policy did not address the frequency of this review or the specific steps to be performed. Also, the DOA did not provide any documentation to evidence that a periodic access rights review had been performed.	Unauthorized access to data increases the risk that data could be compromised without management detection.	Not Applicable – Remediation status is complete.	**Complete:** The DOA's IT management provided us with the following: • A written procedure for the periodic review of the PROPworks application users' access which addressed the frequency of the review, the specific steps to be performed, and required documentation for the review. • Documentation of the latest access rights review performed in November 2018. Based upon the improvements made by the DOA, we consider this condition resolved [500114.18].
3. **Database Administrator's Access Rights and System Audit Trails:** The DOA did not adequately segregate the duties of a consultant who served as the PROPworks database administrator. The consultant, who was responsible for maintaining PROPworks, installing application changes from the vendor, and backing up system data, also granted and removed user access and had the ability to add, change, or delete transaction data and clear system audit trails. Also, there was no documented, periodic independent review of the system audit trails for unusual activity.	Failure to adequately segregate IT functions and monitor audit trails increases the risk of intentional manipulation of billing data without management detection.	Revise the procedure addressing the security officer's monitoring of the PROPworks audit trails to specify the required frequency and documentation of the reviews [500114.20].	**Incomplete:** Per discussion with the DOA's IT management, various PROPworks duties have been reallocated. The DOA's Accounting Manager, who performs no technical duties with respect to PROPworks, is responsible for reviewing application users' access and requesting the addition of new users and removal of access. The DOA's Oracle database administrator performs the granting and removal of user access. The DOA's IT management indicated that the PROPworks database does have detailed audit trails that log all activity

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
Although DOA management asserted that the security officer reviewed the system log files for unusual activity, the DOA provided no evidence of these reviews. Furthermore, DOA management indicated that the current system audit trails lacked details on the specific data modified by users and adding more detail would require software modifications from the vendor.			and provided an example of the PROPworks audit trails. Also, IT management stated that the security officer reviews the audit trails for unusual activity and provided us with a written procedure discussing the security officer's responsibilities for monitoring the audit trails. However, this procedure did not specify the frequency of this monitoring or how the reviews would be documented. IT management did not provide any documentation to evidence that these reviews had been performed.

RESPONSE TO AUDITOR'S REPORT

CITY OF PHILADELPHIA

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ROB DUBOW
DIRECTOR OF FINANCE

May 31, 2019

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

Re: Auditor's Report on Internal Control and on Compliance and Other Matters – Fiscal 2018

Dear Ms. Rhynhart:

Thank you for the opportunity to discuss the contents of your draft report at the exit conference held on May 15, 2019. Before responding to the findings and recommendations, I would like to thank you for noting the resolutions and improvements made to prior year findings, including: the strengthening of controls around the preparation and review of the CAFR, the significantly improved timeline for potential component unit (PCU) evaluation, the timelier requests for Component Unit (CU) financial statements, the notable enhancements to the payment voucher approval process, and the elimination of unauthorized executive level payroll approvals. I also appreciate your mention of the considerable improvements in the Treasury department controls, including the establishment of reconciliation procedures. Additionally, thanks for outlining the significant improvements in the timeliness of the submission of Act 148 reports by DHS.

We offer the following responses to the findings and recommendations found in the Controller's Office audit for fiscal year 2018:

2018-001 Staff Shortages and Turnover Along with Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

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

Further, you recommended that management create a compilation package with detail documentation supporting the CAFR.

Response: The Accounting Bureau (Accounting) is committed to continuing to produce an accurate and well-prepared CAFR and to continuously improving the City's financial reporting. As previously communicated, we believe that the loss of institutional knowledge over time had presented a challenge, as opposed to the reduction in the quantity of staff. Notwithstanding, we have actively worked with the Office of Human Resources and implemented staff retention and training strategies. Since FY15, we have worked to increase the Accounting office workforce. We added 4 employees in 2016 and we have already started the process of adding employees to the Finance Office for FY20. We have also hired a Director of Compliance and Internal Controls, who will review the city's draft CAFR, and assess compliance with GASB to ensure financial statements are accurate and reliable. She will work with the Office of the Controller to address city-wide compliance matters. Where necessary, she will review city-wide policies, procedures and practices, identify areas of weakness, develop new procedures, and ensure all departments adhere to established policies and internal control measures.

Additionally, increased focus has been placed on training, with an emphasis on the CAFR preparation process. We continue to encourage all senior management accountants to attend the national Government Finance Officers Association (GFOA) conference so that management stays informed of current industry trends, regulatory updates, and best practices in government financial management. This year, we have added slots for 4 non-supervisory employees to attend the GFOA's Accounting Academy. Moving forward, we plan to rotate the involvement of non-supervisory staff in this academy. We will continue to look for additional effective training opportunities for our staff.

Thank you for acknowledging the improvements in our CAFR preparation and review due to the retention of an external accounting firm. We will maintain the services of an outside accounting firm to continue to assist in the CAFR compilation efforts. A new comprehensive financial reporting system would improve the CAFR preparation process, but we will need to evaluate the timing of implementation as we move forward with our planning efforts to replace FAMIS.

Accounting has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for 37 consecutive years and has successfully addressed all GFOA recommendations presented in that process. As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent (FY2018) CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward.

2018-001 Untimely and Inadequate Review Procedures for Aviation Fund Statements Resulted in Undetected Material Errors

Finding & Recommendation: The Division of Aviation's (DOA's) accounting management failed to detect material errors totaling $122.4 million in the Aviation Fund financial statements submitted to the Finance Office for inclusion in the city's fiscal year 2018 CAFR. You highlight that these errors could have been detected if the compilation and review process were completed earlier. You previously recommended adjustments to be made for all errors. You also recommend additional review of the financial statements be performed by higher-level management and the checklist be revised to include sign-off by management asserting the accuracy of the financial statements. You also recommend additional lines be added to the review checklist to determine the accuracy of the statement of cashflows, and you request that an earlier deadline be established for completion of the compilation and review checklist.

Response: Thank you for noting the correction of all errors, and our receipt of an unqualified opinion, which demonstrates no material errors existed in our final reports. We agree with your recommendations for enhancements to the compilation and review process and will incorporate the recommended levels and scope of review as set forth above. The Division of Aviation will also work with the Finance Office to accelerate the deadline for completion of the compilation and review process so that an earlier timeline is in effect for Fiscal year 2019.

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2018-001 Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

Finding & Recommendation: Your previous report recommended the Finance Department complete a more timely evaluation of potential component units (PCUs) and submit more timely requests for the financial statements of component units. In your current audit you noted that the Finance Department not only completed timely PCU evaluations, but also sent and received questionnaires and sent requests for the financial statements of component units in a timelier fashion. Despite the improved efforts of the Finance Department, you found that late submission of financial reports by component units continues to be an issue and may increase the risk of errors and 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: Thank you for acknowledging the improvements in the evaluation of potential component units, the timely issuance and receipt of all PCU questionnaires, and the timely submission of requests for Financial Statements and other data. We are happy you noted this condition as resolved. We agree that the timely submission of all component unit reports is critical to the timely issuance and accuracy of the City's CAFR. We will continue to meet with management and auditors of various component units concerning timely submission of financial reports, as well as have additional meetings to provide guidance and assist with problems in component units that experience issues that delay the preparation of their financial reports. Accounting has initiated a process for fiscal year 2019 that will entail sending initial requests for component unit financial statements and data in as early as May for all entities with March 31 FYE, with required responses no later than June 30. Requests for all other Component Units will be sent out by end of June, with responses required by August 31. Follow-up requests will be sent out to component units, with an emphasis on the importance of timely submission of financial data highlighted in all communications. As appropriate, Accounting will continue to reach out to key Administration officials to secure the cooperation of component unit management on this matter.

2018-002 Untimely and Inaccurate Preparation of Schedule of Expenditures of Federal Awards Resulted in Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Finding & Recommendation: Your report states that the SEFA was not provided to the audit team until 13 days prior to the required deadline for submission of the Single Audit reporting package to the Federal Audit Clearinghouse, which caused delays in the planning of the audit, and the subsequent testing of the SEFA and major programs. You also state that we did not provide you with subrecipient expenditure amounts in the preliminary SEFA report. You note the dependency of Finance on City departments (who are responsible for grants) to provide mandatory grant reconciliations to be included in the fund schedule. At the same time, you maintain that the SEFAs provided for audit during the current year and in prior years were inaccurate and further, you highlight that DHS failed to provide complete and accurate grant reconciliations in a timely manner. You recommend that Finance allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes. You also recommend enforcing the requirement for departments to submit FAMIS expenditure reconciliations by the due date and you asked that we more timely follow up with requests for unsubmitted reconciliations.

Response: Finance recognizes the importance of submitting a timely and accurate federal awards and major programs schedule (SEFA) to our auditors. More importantly, there is a crucial need for the timely completion of our audits, and the timely submission of an accurate Single Audit Reporting pack to the Federal Audit Clearing House to prevent a violation of federal grant terms and conditions and to prevent the elimination of federal funding for the City's grants and programs.

Several factors contributed to the delay in preparation of the FY 2018 SEFA. The most notable factor was the delay in the completion of the FY2017 Single Audit report. GAAU staff were engaged in evidence gathering activities to close out the FY 2017 Single Audit up until January 2019, which meant that there was limited ability to devote all resources toward the completion of the 2018 SEFA.

The GAAU staff undergo a meticulous process involving numerous departments and requiring multiple follow-ups to produce a complete and accurate SEFA. Our department has taken steps and continues to explore additional ways to provide a completed SEFA to our auditors in a timelier fashion. You are aware of our communications sent to departments during February 2019, emphasizing the need for departments to provide complete and accurate subrecipient data. We have also strengthened our controls around the accuracy of the preliminary SEFA and implemented new reconciliation procedures, including the receipt of a confirmation from the Commonwealth of Pennsylvania on pass-through grant funding to reconcile against the preliminary SEFA data. To accelerate the department's responses, we created a new schedule, detailing department spending balances in our accounting records, and requiring prompt responses to identify variances. We will continue to communicate the importance of providing complete and accurate information to the departments and we will emphasize the need to provide timely data. GAAU has emphasized the need for timely review and follow up with departments internally.

Another step to accelerate audit completion, if accepted by the Controller's Office, would involve providing a SEFA Version A in the SEFA format to our audit team in early November. This will contain preliminary subrecipient spending data. This subrecipient data will be expected to change for certain key departments and other one-off departments, including DHS, when revisions are made. The audit team would rely on this schedule to perform most of their testing, with the expectation that follow-up testing would be required for some selections. Finance will continue to work with DHS and all departments so that we obtain accurate and timely FAMIS reconciliations and subrecipient expenditure data, so that the audit can be completed ahead of schedule. We met with the HHS Cabinet members on May 30, 2019, including representatives from DHS, DBHIDs, Health, OSH, and HHS Contracts Audit staff, and discussed possible solutions and collaboration to obtain timely audit reports from subrecipients and to accelerate submission of FAMIS reconciliations.

In exploring other ways to accelerate our audits, we discussed with the auditors of major cities, (including Los Angeles and Chicago,) best practices for a smooth and timely audit. Some recommended practices that would be extremely helpful to the process would include 1) The provision of a "provided by client list" with a schedule of all required support for the audit with target due dates and dates of receipt from Finance for tracking purposes 2) The establishment of multiple planning meetings, to iron out expectations for all parties 3) Weekly audit status update meetings to identify any constraints and to monitor audit progress 4) The completion of audit testing for the CAFR and Single Audit at the same time and 5) The acceleration of the audit testing timeline, including cross-cutting procedures, where applicable, to ensure that the audits are completed in an accelerated timeline and reporting packages are submitted ahead of time.

2018-003 While Improved, Remaining Deficiencies in Treasurer's Bank Reconciliation Procedures Still Create Potential for Undetected Errors and Irregularities

Finding & Recommendation: You previously reported that the Treasurer did not properly reconcile the city's primary depository account (i.e. consolidated cash account) during fiscal years 2015 through 2017, and the Treasurer had not reconciled six of its accounts for several years. You acknowledge that considerable improvements have been made, but note that additional reconciliation is needed for fiscal years 2015 through 2017.

Response: The City Treasurer Office ("CTO") is pleased to note that there are no noted bank reconciliation deficiencies for the audit period FY 2018, which this report covers. For the FY 2015-2017 reconciliations, CTO met with members of the Controller's audit team on multiple occasions to discuss CTO's approach, and to gain the audit team's insight on reconciling the prior years' unreconciled accounts. During these meetings, CTO explained our process for reconciliation in detail, answered all questions and provided the audit team with copies of all our documentation. In addition, the CTO Staff Accountant responsible for reconciling these accounts sat with an audit staff member from the Controller's Office and walked him through the reconciliation process. CTO finalized its approach after obtaining feedback from the Controller's audit team. As such, CTO considers the aforementioned accounts to be reconciled. See below for further details on process used to reconcile accounts in questions (Levy account, etc.)

<u>**2018-003** While Reconciliation of Consolidated Cash Account Has Improved, There Remains a $529,000 Unreconciled Variance and Need for Formal Reconciliation Procedures</u>

Finding & Recommendation: You previously reported an unknown variance/ reconciling exception of 33.3 million, where book activity exceeded bank activity. You acknowledge the significant reduction of this variance and that considerable improvements have been made but note that additional reconciliation of the $529,000 unknown variance is needed for fiscal years 2015 through 2017. You recommend the development of formalized cash reconciliation procedures for the consolidated cash account and the establishment of target deadlines for the completion of above items. You request that we create a revised process for handling DPH revenue receipts.

Response: Thank you for acknowledging the timely reconciliation of the consolidated cash account for fiscal year 2018, and the implementation of a standard practice of sending a monthly list of reconciling items to city departments for investigation. Thank you for confirming this finding as resolved for the current year.

The amount of the consolidated cash variance will fluctuate up and down as the identification of bank deposits that have been deposited in the bank and not yet validated in FAMIS, as well as, transactions validated in FAMIS and not yet deposited into the bank continues. As CTO continues to work on reconciling these items it is anticipated that the resulting treatment of any remaining variance will be determined by the City.

The CTO agrees that it is essential to have a formal policies and procedures manual to both (a) ensure uniformity in procedures department-wide, and (b) ensure continuity and smooth transition of duties and responsibilities across multiple administrations and when there is employee turnover. CTO will have a formal policies and procedures manual implemented by July 2019, including standardizing the bank reconciliation. CTO has already begun to cross-train employees for the various accounting responsibilities to ensure that vacation or other leave, or job vacancies, do not result in a delay or stoppage in work product.

We began the process of working with the Department of Health (DPH) to develop a revised process for handling DPH's revenue receipts. However, the process is not finalized because of the CTO's focus on cleaning up the unreconciled accounts. CTO plans to re-engage DPH to finalize the process that will allow the CTO to reconcile and report DPH revenues with full transparency and allow easy identification of reconciling issues in the consolidated cash account. We plan to have this process fully implemented by the end of the fiscal year.

<u>**2018-003** Failure to Review Prior Year Activity for Certain Long Unreconciled Accounts Could Allow Errors or Irregularities to Remain Undetected</u>

Finding & Recommendation: You previously reported that the Treasurer did not reconcile six city checking accounts for several years. You note that during the current year, the CTO failed to provide bank reconciliations for all unreconciled months for 4 of these 6 accounts. You note that the delay in reconciliation caused, among other things, a delay in the escheatment of unpaid checks to the State for calendar years 2010-2016. You recommend that Treasurer management request the assistance of the bank and Finance Office management to retrieve the bank and city supporting records needed to complete the reconciliations. You also recommend that the CTO work with the Finance Office to ensure all escheatable amounts are sent to the Pennsylvania Treasury.

Response: The City Treasurer Office ("CTO") acknowledges the successful reconciliation of two of the city bank accounts referenced above. For the remaining 4 accounts, the CTO communicated that there was little to no electronic and hard copy records. For these accounts, aggregate reconciliations were performed, and the procedures utilized were documented and conveyed to the auditors. The following three accounts were successfully reconciled using established procedures:

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Payroll and Supplemental Payroll (Sept 2010 – June 2014) – In July of 2017, Payroll and Supplemental Payroll were moved from Wells Fargo Bank to Citizens Bank. By March 2018, all unreconciled items in the Wells Fargo Account were researched and reconciled collectively so the account could be closed. While there are no individual monthly bank reconciliations for fiscal years 2011, 2012, 2013 & 2014, the Supplemental Payroll and the Payroll accounts are fully reconciled. This information was sent to the Controller's Office.

General Disbursement (Jan--Dec 2012) – When the current treasury accounting team was asked to reconcile activity for these previous years, they discovered that there were no records available prior to January 2013 in the CTO archives (electronic or hard copy). After extensive conversations with Wells Fargo Bank, they confirmed that they are unable to assist as 2012 bank statements were no longer available. Since the General Disbursement Account is funded by the Wells Fargo Funding Account, the accounting team used the Wells Fargo Funding Account (1608) and reconciled each individual funding transaction from the Funding Account to the General Disbursement Account to obtain a valid starting balance. With a valid January 2013 starting balance and an Outstanding Check List from the bank, the treasury accounting team was able to reconcile 2013 to present, cleaning up any variances in calendar year 2012.

Levy (July 2014 - June 2016) – There were no Levy Account records available for fiscal years 2015 and 2016. Therefore, the treasury accounting team started with the last completed reconciliation for the Levy Account (June 2014). Then, working with PNC Bank to obtain prior year bank statements and searching transactions in FAMIS; the treasury accounting team was able to reconcile this account "en-masse" closing out variances during this time period while doing the monthly reconciliations beginning July 2016. Although there are no individual monthly bank reconciliations for fiscal years 2015 and 2016 the Levy account activity is fully reconciled.

Finance has entered into a Voluntary Disclosure Agreement with Pennsylvania Treasury to escheat all outstanding unclaimed funds in 2019. Revenue and CTO have also developed annual review and notification procedures to stay in compliance with City's Standard Accounting Procedures for Uncashed/Unclaimed funds going forward.

2018-004 Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors

Finding & Recommendation: This is a repeated finding that the city's Grants Revenue Fund shows $31 million of cash balances related to completed DBHIDS grants for prior fiscal years 2005 to 2015. You requested that Finance Office accountants complete the necessary adjustments to close out the remaining DBHIDS cash balances in the Grants Revenue Fund and transfer the amount payable from the Grants Revenue Fund to the General Fund. You asked that management Reinforce SAP No. G 1-1 requirements with both city departments and GAAU and remind city departments of the requirement to notify GAAU of completed grants and submit the grants' final reports to GAAU.

Response: We agree with your recommendation to perform grant closeouts and the Finance accountants are working on all relevant proposed adjustments to transfer grant revenue fund cash balances related to general fund spending from FY 2005 – FY 2015.

A training was held by the GAAU during FY 2019 which included the topic *SAP No. G 1-1; Grant Close-out*. This topic was also discussed in the Grants Process training held in FY 2018. It was emphasized in the training that the Grantee department has the fiduciary responsibility to administer, manage and close-out their grants in accordance with the Grantor's requirements and procedures. The GAAU reviews the Grant Fund's fund schedules for expired and inactive grants, and on an annual basis, sends a memo to City departments to review the grant's balances and determine whether to return to the grantor (credit balance) or have the balances written-off to the general fund (debit balances). Going forward, GAAU will also run a report of grants that shows expired expenditure activity which will enforce the grant close-out procedures as established in the SAP.

2018-005 Failure to Segregate Payroll Duties Could Allow Fraud to Occur

Finding & Recommendation: You repeated your audit finding that on multiple occasions, the same individual posted and approved on-line payroll time records and approved at both the supervisory and executive levels. You recommend that payroll data entry, supervisory review, and executive-level approvals be performed by separate, authorized employees and that we incorporate this requirement as the new OnePhilly payroll system is onboarded.

Response: Thank you for acknowledging the decline in the number of occurrences where there is a lack of segregation of payroll duties. We continue to circulate a letter annually and in conjunction with major system updates, reminding operating departments that multiple sign-offs at different levels by the same person should be avoided where possible. As we have consistently stated, to ensure that employees will be paid on time, there will be instances where one individual sign-offs at more than one level when all employees at all levels are unable to do so. Our SAPs clearly state the ability for authorized signers to transfer "Temporary signature authorizations" where necessary. This delegation can occur electronically via an email authorization.

2018-006 Lack of a Comprehensive Capital Asset System Hampered Reporting Process

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

Response: We agree it would be beneficial for the City to have 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. In the meantime, we will continue to use the current mix of applications and methodology used by Accounting for capital asset management, as these provide financial information that is accurate and auditable, despite not providing the level of detail that a capital asset system might provide. We are working with OIT to develop a process in which we can reconcile the city's fixed asset ledger with the IWAMs system as well as collect inventory counts from each department, at least annually. As we examine comprehensive financial reporting system options for the replacement of FAMIS, we will ensure that our selected software enables us to accurately capture our complete population of capital assets, and allow us to fulfill our maintenance and reporting needs.

2018-006 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, apart from assets for PWD and the DOA, which are inventoried periodically. You recommend working with the Procurement Department and Public Property to develop a periodic physical inventory process to ensure property records are updated in a timely fashion. You also recommend we develop a "plain language" report on the condition of the City's capital assets and obtain the most current database of city-owned facilities for comparison with Finance's records.

Response: Thanks for noting our efforts to collaborate with the Office of Innovation and Technology (OIT) to obtain a database of city-owned property for comparison with the city's fixed asset ledger. We continue to work with OIT to develop a process that allows us to perform fixed asset reconciliations to the IWAMS system, and thus, enables us to periodically validate the completeness and accuracy of the city's fixed asset inventory. To enhance the current manual process utilized by Finance, we have decommissioned the use of Lotus, thereby reducing the cumbersome nature of our current process and reducing the risk of inaccurate accounting records. We agree that the need exists for a more efficient process and we will review our process of obtaining confirmation of assets from the departments and research best practices to develop a periodic physical inventory process.

2018-007 Failure to Timely Transfer Funds Between City Bank Accounts Could Result in Significant Reporting Errors

Finding & Recommendation: You reported that Finance Office accountants did not timely prepare cash transfer authorizations (CTAs) on 3 occasions. To minimize the risk of undetected errors in reported Equity in Treasurer's Account balances, you recommend that the Finance Office develop procedures that will ensure that the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances is performed monthly and required CTAs are promptly prepared and submitted to the Treasurer.

Response: The Finance office continues to examine the CTA process to identify opportunities for enhancement, and to enable timely reconciliation and preparation of CTAs. We will work to minimize the time span for the creation and review of CTAs involving complex and unusual activity and we will continue to follow-up with CTO to ensure the requested CTAs are completed timely.

2018-008 Lax Monitoring of Adjustments to Tax Accounts May Lead to Undetected Errors or Irregularities

Finding & Recommendation: You again indicated that Revenue Department accountants performed little or did not perform any timely reviews of adjustments transactions for fiscal years 2016 and 2017. You also noted that for the current audit period, no timely reviews of adjustments made to taxpayer accounts were performed. Additionally, you indicate that non-supervisory personnel had very high approval limits and were able to post payment and receivable adjustments with large dollar values. You recommend that the Revenue Department continues to have supervisory personnel independent of the adjustment process regularly monitor daily payment and receivable adjustment activity in TIPS. You also recommend the creation of a documented and formalized adjustment review process to ensure that procedures are consistently performed and documented.

Response: We are pleased that your review of selected TIPS adjustments disclosed no instances of inaccurate or improper activity. We routinely monitor TIPS user access and authority levels and are continuously working to improve our policies and procedures for monitoring TIPS account adjustments. Thank you for acknowledging our efforts to enhance our adjustment review process during FYE 2018 through the hiring of a Financial Reporting Unit accounting manager, independent of the adjustment process, to perform adjustment reviews. We have continued these enhancement efforts, and earlier this year, we formed an adjustment review team to periodically assess our current procedures and make recommendations. As a result, two additional accountants in the Financial Reporting Unit, were trained to perform post adjustment reviews. The Accounting Manager is responsible for reviewing their adjustments to ensure selection procedures are being followed, and proper documentation is retained. We have also engaged an independent trainer and technical writer to help ensure we have documented clear and comprehensive policies & procedures for those performing the post adjustment reviews by target date July 2019.

2018-009 SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations

Finding & Recommendation: You have repeated your finding that the City's Standard Accounting Procedures (SAPs) have not been revised to reflect automated processing applications and practices currently in use. You recommend that Finance continue to work with the hired consultant to perform a thorough review of all SAPs and produce an SAP manual that shows all new and superseded SAPs.

Response: Accounting is committed to continually review and update the SAPs. On a limited basis, and to ensure that we comply with any changes in accounting regulations, governmental regulations, and software implementations these procedures have been updated, hence the 11 updated SAPs noted in your internal control narrative. Further, as you noted in your report, Finance contracted with an outside accounting firm which has begun a comprehensive update of our SAPs. The consultant will continue to development an SAP manual, which will include updated SAPs with a new numbering system and a consistent format. SAPs that are no longer relevant will be eliminated. Our newly appointed Director of Compliance and Internal Controls will review all changes and make additional recommendations for improvements in both the department processes followed and the SAP manual. She will establish a routine timeline for updating SAPs at the completion of this project in 2019.

2018-010 Payment Vouchers Approved Without Required Management Approval

Finding & Recommendation: You previously reported that during 2017, there were 64 vouchers exceeding $500,000 approved without a department head or authorized deputy's signature. In this report, you also note that from January1, 2018 through June 30, 2018, there were only 2 outstanding vouchers approved by the Finance Office that did not have the required management authorization. During 2017, you recommended that Finance verify proper department signatures are in place before approving any vouchers exceeding $500,000.

Response: Thank you for acknowledging the significant improvement in the voucher verification process. We accepted your recommendation, and in January 2018, we successfully implemented a new voucher verification process that includes the generation of a daily impromptu report and a review of authorizations. Meetings were held with the departments to relay all requirements for voucher approvals. Requirements were also reinforced with all Accounting Financial Verification staff. As a result, where necessary, departments restructured to ensure authorizers obtained the required management level. Additionally, if deputies or other designated authorizers are out of office, the voucher authorization will be delayed until someone becomes available. The improved results highlighted earlier are a direct reflection of the changes made.

2018-011 Water Department Management Failed to Detect Errors in the Water Fund's Depreciation Calculation

Finding & Recommendation: In the calculation of accumulated depreciation a $6.9 million error occurred and was undetected by PWD management. You recommend that PWD Management make the necessary adjustments to ensure that the Water Fund amounts included in the fiscal year 2019 CAFR reflect the correction of the financial statement errors noted in the FYE 2018 audit. You also request that management test all future changes to the depreciation file for accuracy.

Response: The Water Department acknowledges that there was an error in a formula. The Excel file calculating the depreciation was enhanced for fiscal year ending June 30, 2018. It should be noted that there were extensive reviews of the capital assets Excel file conducted by both the consultant and department management including reviews of the formulas and the depreciation methodology. The file contains many complex nested formulas, and the error was a direct result of the complexity of the formulas within the file.

Please note that Depreciable Capital Assets at June 30, 2018 were $4.3 billion, and the current year depreciation expense was $102 million. The $6.9 million understatement of accumulated depreciation represented less than 0.3% of the accumulated depreciation through June 30, 2018. As such the Department elected not to make an adjustment for the error.

The capital assets Excel file will be reviewed in depth in future periods by the consultant and Department management by adding additional layers of review to test for anticipated outcomes.

2018-012 FAMIS Not Utilized for Posting Enterprise Funds' Year-End Journal Entries

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

Response: Finance Accounting continues to work with both PWD and DOA to prepare entries in FAMIS to record all FYE 2018 beginning and ending balances and all related 2018 activity for the full accrual Water and Aviation Funds. The target completion date for this work is June 30, 2019. This will enable a clear trail of adjustments between modified and full accrual statements per your request. Notwithstanding, we are pleased that in compiling the CAFR,

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we have consistently reported full accrual data for these funds (provided by PWD and DOA in excel spreadsheet format) accurately. We will collaborate with PWD and DOA to use the full accrual Water and Aviation funds in the new accounting system for all activity and reporting upon transition.

2018-013 General Information Technology Controls Still Need Strengthening

Finding & Recommendation: You previously identified 12 findings across nine areas: (1) risk assessment, (2) IT security policies and procedures, (3) application change management, (4) developer access to production, (5) authorization of database administrator access, (6) periodic access rights review, (7) setup process for new hires, (8) notification of terminated and inactive users, and (9) contingency planning. You note the status of each finding and make recommendations on how to address outstanding items.

Response: Thank you for acknowledging our remediation efforts that address your findings. In the below table, we address responses to each item identified in Appendix I.

Finding and Recommendation	Response
SECURITY MANAGEMENT 1. **IT Risk Assessment:** You repeat your prior finding that OIT has not performed a comprehensive IT risk assessment, and that the need exists to develop a formal plan to identify and address additional IT operational, business and compliance risks. You recommend that OIT follow through with its upcoming reviews of Health Insurance Portability and Accountability Act (HIPAA) compliance and enterprise operations and then formally document the IT risk assessment plan.	Thank you for acknowledging that we have already begun our remediation efforts to address this finding. As already explained, a comprehensive IT risk assessment to identify operational, business and compliance risks requires a multi-phased and multifaceted approach to address the unique risks and compliance requirements inherent in different systems. We will continue with our next planned phases: (1) A city-wide risk assessment of compliance with the HIPAA and (2) A risk and gap assessment of enterprise operations at OIT's main location
2. **IT Security Policies and Procedures:** This repeated finding emphasizes the need for the Revenue IT group to create a documented security policy that governs the BASIS2 application and ensures consistent application of critical control activities used to monitor security threats. You recommend that a formal policy be developed, and periodic review carried out to determine where updates are needed.	While there is no security policy specifically addressing the BASIS2 application, there are security policies in place that provide coverage not only for the BASIS2 application, but across all city applications. As recommended, OIT will work to establish a security policy specific to the BASIS2 application, to supplement the existing general security policies, and will work to ensure that the policy is periodically reviewed and updated as necessary.

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CONFIGURATION MANAGEMENT 3. **Application Change Management:** Once again you state that OIT's established change management procedures were not consistently followed. In the prior year audit, you found that requests were not always supported by documented end-user testing or back-out plans, and some requests had no clear evidence of management approval. Also, in the prior year, you stated that the change management policy did not specifically address how end-user testing should be documented. You recommend that OIT review its change control procedures and implement measures to ensure that the required steps for application changes are performed and documented in accordance with the policy. If testing or back-out plan is unnecessary, you recommend that OIT require the change request record note this information. You also request that OIT update its change management policy to include more detail related to documentation requirements for end-user testing and the Change Advisory Board approval process.	We are happy that your current year testing evidences management approval for all selected change requests. Where a change request record did not include end-user testing or back-out plan details, OIT either subsequently provided the plan, described what the plan was, or explained why a plan was not included in the record. In the instances where no testing or back-out plan was included in the record, OIT management explained that it was due to either a plan not being necessary because of the nature of the change, or OIT having a standard plan in place for certain types of changes. OIT management continues to work on an updated change management policy, which will address how end-user testing should be documented and, provide details on the Change Advisory Board approval process.
SEGREGATION OF DUTIES 4. **Developer Access to Production:** Three OIT programmers with access rights to the Payroll system had the ability to enter payroll transactions and approve departments' bi-weekly payrolls. Only users – not programmers – should be responsible for transaction origination and approval.	We are happy that this finding will no longer be reported. During December 2018, we provided a programmer access that was reserved for Finance office Payroll Division personnel, so that he could fix a record that was creating issues with the payroll run. This access was revoked in March 2019. The other programmers were given increased levels of access to correct records and troubleshoot issues. Access for these programmers was also reset in March 2019 to inquiry only. The old system in which programmers briefly had inappropriate access has currently been replaced by the new One Philly payroll system.

ACCESS CONTROLS AND SYSTEM FILES	
5. **Authorization – Database Administrator Access:** In the prior year, OIT was unable to provide evidence documenting the authorization of database access for four IT consultants functioning as database administrators. You recommend that OIT maintain evidence for all users granted access to the databases. You also recommend that when granting access to a consultant, OIT obtain and review the consultant's contract and confirm with the supervising manager that the consultant's access is appropriate. You ask that OIT periodically monitor database access to confirm that all accounts are appropriate, authorized, and supported by a new hire form or active vendor contract	In the prior audit, OIT provided a draft policy setting forth a process for the granting of database system access to IT consultants. OIT will continue to update its database system access process and continue to work on finalizing and formally approving its policy. We are also working on finalizing the approval request form for BASIS2 access.
6. **Periodic Access Rights Review:** You repeat your finding that a process has not been implemented to periodically review active application user accounts, associated access rights, and group membership. You ask that OIT finalize and approve our draft policy regarding review of user access rights, and work with impacted departments so that they complete reviews of the active users and assess the appropriateness of their access rights.	OIT management is still working on finalizing and approving the policy for review of user access rights.
7. **User Administration – New Hires:** You again state that OIT's setup process for new hires did not include a procedure to formally document new user access requests and approvals. You recommend that OIT review the new hire setup process and develop a procedure to document new user access requests and approvals, so they can be easily retrieved for later review and audit.	OIT management is still in the process of creating a procedure that will address new user access.
8. **User Administration – Terminated Users:** In the prior year testing of terminated employees, you noted that OIT was unable to provide evidence documenting the notifications to management or OIT requesting removal of access rights to the network and in-scope applications. You recommend that OIT establish a policy to formally document requirements for notifications to remove employee access, including retention of those notifications so they are available for later review and audit.	In the prior year, OIT presented a draft policy to address findings #8 and #9. OIT will continue work to finalize the formal policy for removing user access for separated employees and will work on completing a procedure to complement that policy.

9. **User Administration – Notification of Terminated and Inactive Users:** You have again stated that no evidence was provided to document that notifications were being sent to the Payroll, Pension Payroll, and Health and Welfare application groups to inform them of employee terminations and inactive users (i.e. those users who have not signed in to the application for a specified time period). You recommend that a procedure requiring automated notifications of terminated employees and inactive users be sent to the Payroll, Pension Payroll, and Health and Welfare application groups. You also recommend that these notifications be retained so they are available for later review and audit.	See response to #8
10. **Business Continuity Plan:** You note that a business continuity plan has not yet been developed for all in-scope applications. You recommend that OIT request the assistance of the Office of Emergency Management (OEM) and obtain the remaining departments' Continuity of Operating Program (COOP) plans. You also recommend that OIT provide guidance and assistance by helping the impacted departments when establishing the plans.	As previously noted, OIT's COOP plan currently contains the plans for nine other city departments. OIT will continue to work to obtain copies of all departmental COOPs from OEM and advise as necessary and where appropriate on any IT components within those COOPs.
11. **BASIS2 Disaster Recovery:** You highlight that testing of the BASIS2 disaster recovery plan has not been performed. You recommend the establishment of a formal written disaster recovery plan that specifically addresses BASIS2. Once established, you recommend that OIT periodically test the BASIS2 disaster recovery plan and document the tests and the results in writing.	As previously communicated, OIT has disaster recovery procedures in place for BASIS2. These procedures involve automatically copying the BASIS2 database to a tape unit on a weekly basis and automatically testing the backup's integrity for validity using the Commvault backup system. OIT will work to establish a formal written disaster recovery plan for BASIS2 that reflects the current DR backup process.
12. **Disaster Recovery Plan and Testing:** You previously noted that OIT did not have a process in place to ensure that city departments are sufficiently testing their applications during the recovery process. You note the unresponsiveness of two out of 5 departments tested. Further, you recommend that OIT move forward with the plans to develop a formal disaster recovery plan for enterprise IT operations. You also ask that OIT request the assistance of city department heads in requiring department personnel to participate in disaster recovery testing	Thank you for acknowledging that OIT completed disaster recovery procedures in the current year. Your observations of OIT's disaster recovery guide found that OIT performed periodic mainframe disaster recovery drills. We provided you with the report for the latest mainframe disaster recovery drill conducted in May 2018. OIT will continue to work on improving its disaster recovery plan and testing and it will also work on improving the responsiveness of departments.

2018-014 Controls Over Airport's Computerized Billing System Still Need Strengthening to Minimize Its Vulnerabilities

Finding & Recommendation: Your report finds that the Division of Aviation (DOA) has resolved the prior year condition regarding periodic review of user access rights. You state that the DOA is still pending corrective action on the following two items: 1) no formal documentation of IT control policies and procedures, 2) inadequate segregation of duties and system audit trails. Below is a more detailed description of your findings as well as our response:

Finding and Recommendation	Response
ORGANIZATIONAL AND MANAGEMENT CONTROLS 1. **IT Policies and Procedures:** You previously noted that the DOA written policies lacked the following elements: • Specific storage locations for data file backups. • Specific identification of alternative processing facilities in the event DOA facilities are significantly damaged or cannot be accessed. • Detailed instructions of actions to be taken under varying types of contingencies. • Periodic testing of the contingency plan. • Risk assessment and monitoring of security threats. You also stated that the written procedures provided to you were not approved by DOA management. You requested that the DOA Develop and document formal written policies and procedures that address risk assessment and monitoring of security threats	The DOA's IT management provided you with written control procedures that addressed all except one element identified as missing in your previous report. Also, the written procedures provided were approved by the DOA's chief information officer (CIO). The only critical IT control activity for which the DOA had not yet formally documented its policies and procedures was the risk assessment and monitoring of security threats. The DOA's IT management is working on developing the IT risk assessment within the next year.
2. **Database Administrator's Access Rights and System Audit Trails:** You reported that the DOA did not adequately segregate the duties of a consultant who served as the PROPworks database administrator. You state that the consultant was not only responsible for maintaining PROPworks, but he was also tasked with installing application changes from the vendor, backing up system data, and granting and removing user access, and also, had the ability to add, change, or	We are pleased that you noted that DOA's IT management has re-allocated various PROPworks duties, including assigning the DOA's Accounting Manager with the responsibility of reviewing application users' access and requesting the addition of new users and removal of access. You are also aware that the DOA's Oracle database administrator will be the only one granting and removing user access. Additionally, in the current year, we provided you with an example of the detailed audit trails logged within the PROPworks database. Please note that management has

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delete transaction data and clear system audit trails. You also state that there was no documented, periodic independent review of the system audit trails for unusual activity. You recommend that the DOA revise the procedure addressing the security officer's monitoring of the PROPworks audit trails to specify the required frequency and documentation of the reviews.	decided to conduct quarterly reviews of PROPworks audit trails. The Division of Aviation Finance Audit Unit will be accountable for completing the review quarterly. The Division of Aviation IT Security Officer will be responsible for generating the report and delivering it to Finance. Attestation to the completion of the review, including a report summarizing the procedure and any findings, weaknesses, or concerns, will be made by the Division of Aviation Controller and Deputy Chief Financial Officer. The Finance Audit Unit will retain the report and the attestation according to City of Philadelphia's retention policy.

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

Enclosures

cc: James Engler, Mayor's Chief of Staff
Josefine Arevalo, Accounting Director, Finance Department
Tracey Borda, Chief Financial Officer, Division of Aviation
Frank Breslin, Revenue Commissioner & Chief Collections Officer
Christine Derenick-Lopez, Chief Administrative Officer
Kathleen Duggan, Audit Director, City Controller's Office
Jacqueline Dunn, Chief of Staff, Finance Department
Rasheia Johnson, City Treasurer
Ellen Kaplan, Chief Integrity Officer
Melissa LaBuda, Deputy Commissioner, Water Department
Christopher Simi, Deputy Commissioner, Department of Human Services
Christy Brady, Post-Audit Deputy Controller, City Controller's Office
Catherine Lamb, First Deputy Director of Finance
Kellan White, First Deputy Controller, City Controller's Office
Mark Wheeler, Chief Information Officer
Mervisa Johnson, Director of Compliance and Internal Controls

AUDITOR'S COMMENTS ON AGENCY RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendations. We believe this to be the case with certain statements made in the City of Philadelphia, Pennsylvania's (city's) response regarding the following:

- Changes in the staff size of the Finance Office's accounting division.
- Financial statements sent to the Controller's Office for audit.
- Correction of errors noted in the Aviation Fund financial statements.
- Untimely and inaccurate preparation of Schedule of Expenditures of Federal Awards (SEFA) for audit
- Treasurer's failure to review prior year activity for certain long unreconciled accounts.
- Remaining differences between consolidated cash bank and book activity to be investigated.

Changes in the Staff Size of the Finance Office's Accounting Division

In its response on page 37, management states, "Since FY15, we have worked to increase the Accounting office workforce. We added 4 employees in 2016 and we have already started the process of adding employees to the Finance Office for FY20." Management's statement does not address the decrease in the total staff size of the Finance Office's accounting division from fiscal year 2016 to fiscal year 2018. As noted in our last three reports, the total staff size in the accounting division was 49 in fiscal year 2016, 47 in fiscal year 2017, and 46 in fiscal year 2018.

Financial Statements Sent to the Controller's Office for Audit

In its response on page 37, management states, "As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent (FY2018) CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward." We disagree with management's use of the term "drafts" when describing the financial statements submitted to us for audit. Effective internal control requires that, before the Finance Office submits the CAFR to us for audit, accounting management should perform a review of those financial statements for accuracy and completeness. The $236 million of CAFR errors cited on page 1 of the report occurred because the city's controls over the financial reporting process failed to prevent or detect and timely correct the misstatements. In fact, we found most of the $236 million of CAFR errors very late in the audit process, proposing the majority of our audit adjustments within the one-month period prior to the issuance of the audit opinion.

Correction of Errors Noted in the Aviation Fund Financial Statements

With regard to the errors that we found in the Aviation Fund financial statements submitted for inclusion in the city's fiscal year 2018 CAFR, management asserts in its response on page 37, "Thank you for noting the correction of all errors, and our receipt of an unqualified opinion, which demonstrates no material errors existed in our final reports." Management is inaccurate in its assertion that all errors found in the Aviation Fund financial statements were corrected. As stated on page 3 of the report, we proposed adjustments to correct the errors noted by us, and the Finance Office booked most of them. In fact, the Finance Office booked adjustments for $120.1 million of the $122.4 million in errors found by us.

Untimely and Inaccurate Preparation of SEFA for Audit

In its response on page 39, management suggests, "Another step to accelerate audit completion, if accepted by the Controller's Office, would involve providing a SEFA Version A in the SEFA format to our audit team in early November. This will contain preliminary subrecipient spending data. This subrecipient data will be expected to change for certain key departments and other one-off departments, including DHS, when revisions are made. The audit team would rely on this schedule to perform most of their testing, with the expectation that follow-up testing would be required for some selections."

For Single Audit purposes, the SEFA serves as the primary basis for the auditor's major program determination. If the SEFA includes errors or is subject to change, it could result in inefficiencies, duplicate audit effort, the potential for audit reinstatement, and/or additional audit costs.

Rather than request the auditor to accept a preliminary document for audit that is subject to change, Finance should focus on our recommendations to allocate adequate resources to ensure timely preparation and submission of an accurate SEFA. This includes proactively enforcing their existing policies and procedures requiring departments to complete the FAMIS expenditure reconciliations by the due date and reinforce with departments the need to provide complete, accurate and timely subrecipient information.

Treasurer's Failure to Review Prior Year Activity for Certain Long Unreconciled Accounts

In its response on page 39, management asserts, "For the FY 2015-2017 reconciliations, CTO (City Treasurer's Office) met with members of the Controller's audit team on multiple occasions to discuss CTO's approach, and to gain the audit team's insight on reconciling the prior years' unreconciled accounts. During these meetings, CTO explained our process for reconciliation in detail, answered all questions and provided the audit team with copies of all our documentation. In addition, the CTO Staff Accountant responsible for reconciling these accounts sat with an audit staff member from the Controller's Office and walked him through the reconciliation process. CTO finalized its approach after obtaining feedback from the Controller's audit team. As such, CTO considers the aforementioned accounts to be reconciled."

At no time in our interactions with the CTO staff during the audit did we offer insight or feedback on the procedures the Treasurer should employ in reconciling the six long unreconciled accounts. In December

2018, on the city's Reconciliation Task Force[14] website, there was a statement that all but one of the Treasurer's 77 bank accounts were now fully reconciled. On January 25, 2019, the CTO provided an update for the six long unreconciled accounts and stated that all of those accounts were now fully reconciled, except for the General Disbursement Account, the reconciliations for which were expected to be completed shortly thereafter. Therefore, on February 7, 2019, for each of those six accounts, we then requested from the CTO all bank reconciliations covering the time period from June 2017 back to the earliest outstanding month for each account. From that initial request date of February 7, 2019 until April 5, 2019, we sent several follow-up requests and met with CTO staff at various times for the sole purpose of determining and obtaining all available documentation to support the CTO's assertion that the six long unreconciled accounts were now fully reconciled.

For the Payroll, Supplemental Payroll, General Disbursement, and Levy Accounts, the CTO did not provide us with sufficient, documented evidence that they had performed bank reconciliations for all of the unreconciled months, as shown in Table 2 on page 10 of the report. Therefore, we disagree with management's assertion that these four accounts have been fully reconciled.

With regard to management's statements on the documentation provided by the CTO for these four accounts, we have the following comments:

Payroll and Supplemental Payroll Accounts (Well Fargo Bank)

In its response on page 41, management states, "By March 2018, all unreconciled items in the Wells Fargo Account were researched and reconciled collectively so the account could be closed. While there are no individual monthly bank reconciliations for fiscal years 2011, 2012, 2013, & 2014, the Supplemental Payroll and the Payroll accounts are fully reconciled. This information was sent to the Controller's Office."

For the Payroll Account, management's statement regarding the fiscal years for which there were no monthly bank reconciliations was inaccurate. As noted on page 10 of the report, for the Payroll Account, which was last reconciled in September 2010, the CTO was unable to provide monthly bank reconciliations for fiscal years 2011 (from October 2010 forward), 2012, 2013, 2014, 2015, and 2016. CTO management indicated to us that the bank and/or supporting city records were not available for those fiscal years to enable preparation of the monthly reconciliations. The only monthly bank reconciliations provided to us covered fiscal year 2017 and May 2018. CTO management informed us that monthly reconciliations were not performed for July 2017 through April 2018 since the account was no longer used after June 2017.

As stated on page 10 of the report, we did observe that the bank generated a report for the Payroll Account that listed unpaid checks, the dates for which ranged back to the periods with no available reconciliations. While the bank's unpaid checks report allowed the CTO to identify and transfer unclaimed payroll checks to the city's Unclaimed Monies Fund, the report did not enable a complete

[14] The city's Reconciliation Task Force was established in June 2018 to oversee the reconciliation of city cash accounts.

review of the transactions posted to the Payroll Account for the unreconciled months in order to ascertain whether there were any errors or irregularities in account activity.

As noted on page 10 of the report, with regard to the Supplemental Payroll Account, which was last reconciled in September 2010, the Treasurer only provided monthly reconciliations for the period of July 2014 through March 2018 when the account closed. On April 3, 2019, we did meet with CTO management and the staff accountant who prepared the account's reconciliations to obtain any available documentation for reconciliation of the account prior to July 2014. The only documentation that the CTO provided to us for months prior to July 2014 was an Excel file, which the staff accountant indicated was inherited from a previous CTO employee. While this Excel file contained a schedule of outstanding checks dated prior to July 2014, the schedule only listed outstanding check information for 15 of the 45 months in the period from October 2010 through June 2014. The CTO provided no other documentation to show us that there was a detailed review of account activity for the period of October 2010 through June 2014.

<u>General Disbursement Account</u>

In its response on page 41, management states, "When the current treasury accounting team was asked to reconcile activity for these previous years, they discovered that there were no records available prior to January 2013 in the CTO archives (electronic or hard copy). After extensive conversations with Wells Fargo Bank, they confirmed that they are unable to assist as 2012 bank statements were no longer available. Since the General Disbursement Account is funded by the Wells Fargo Funding Account, the accounting team used the Wells Fargo Funding Account (1608) and reconciled each individual funding transaction from the Funding Account to the General Disbursement Account to obtain a valid starting balance. With a valid January 2013 starting balance and an Outstanding Check List from the bank, the treasury accounting team was able to reconcile 2013 to present, cleaning up any variances in calendar year 2012."

As stated on page 10 of the report, for the General Disbursement Account, which was last reconciled in January 2012, the CTO did not provide bank reconciliations for the months of February 2012 through December 2012. In early April 2019, we requested and obtained the CTO's analysis of funding transactions from the Funding Account to the General Disbursement Account. Per the documentation provided to us by CTO, this analysis was performed only for the months of November and December 2012 and represented only a reconciliation of the transfers of funds between the two accounts and the General Disbursement Account's resulting share of the Funding Account's balance. The funding transactions analysis was not a detailed review of all activity in the General Disbursement Account for the months of February 2012 through December 2012. While, as noted on page 10 of the report, the bank generated a report of unpaid checks, the dates for which ranged back to calendar 2012, this report did not enable a complete review of the transactions posted to the General Disbursement Account for the unreconciled months in order to ascertain whether there were any errors or irregularities in account activity.

Levy Account

In its response on page 41, management states the following: "There were no Levy Account records available for fiscal years 2015 and 2016. Therefore, the treasury accounting team started with the last completed reconciliation for the Levy Account (June 2014). Then, working with PNC Bank to obtain prior year bank statements and searching transactions in FAMIS; the treasury accounting team was able to reconcile this account "en-masse" closing out variances during this time period while doing the monthly reconciliations beginning July 2016. Although there are no individual monthly bank reconciliations for fiscal years 2015 and 2016 the Levy account activity is fully reconciled."

In response to our follow-up request for the fiscal year 2015 and 2016 Levy Account reconciliations, CTO management asserted to us in a March 27, 2019 e-mail that there was an "en-masse" reconciliation for the Levy Account covering that time period. On March 28, 2019, we requested this "en-masse" reconciliation from the CTO. Later that same day, CTO management responded back by sending us the June 2014, July 2016, and August 2016 bank reconciliations for the Levy Account and instructing us to note the decrease in outstanding reconciling items when comparing the June 2014 reconciliation to the July and August 2016 reconciliations. Such a comparison does not document the reconciliation of Levy Account activity for fiscal years 2015 and 2016. Also, we noted that the July 2016 bank reconciliation had a reconciling item labeled as "outstanding checks before FY 17 – previous years". However, the CTO staff was unable to supply supporting documentation for this reconciling item.

Remaining Differences Between Consolidated Cash Bank and Book Activity to Be Investigated

In its response on page 40, management states the following: "The amount of the consolidated cash variance will fluctuate up and down as the identification of bank deposits that have been deposited in the bank and not yet validated in FAMIS, as well as, transactions validated in FAMIS and not yet deposited into the bank continues. As CTO continues to work on reconciling these items it is anticipated that the resulting treatment of any remaining variance will be determined by the city."

In the report on pages 8 and 9, we discussed the results of the outside accounting firm's review of the unreconciled consolidated cash account variance and noted that there was still $13.5 million of bank receipt transactions that could not be matched to the city's FAMIS accounting system (seven deposits totaling $2.2 million and 15 wire transfers from other city bank accounts totaling $11.3 million). At the May 15, 2019 exit conference, we inquired about the status of the CTO's investigation of the $13.5 million of unmatched bank receipt transactions. CTO management asserted to us that they had now matched and closed out the $13.5 million of receipt transactions, and there was no resulting effect on the consolidated cash account variance, which remained at $529,000. As part of the audit of the city's fiscal year 2019 financial statements, we will follow up on this matter and request supporting documentation to verify the CTO's assertion.