



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

For immediate release: Tuesday, March 3, 2020

Contact: [Jolene Nieves Byzon](mailto:Jolene.Nieves.Byzon@phila.gov), 215-300-1071

Controller's Office Gives City's Financial Statements a Clean Opinion

Philadelphia, PA – The Office of the City Controller audited the City of Philadelphia's basic financial statements as of and for the fiscal year ended June 30, 2019, and determined that they were presented fairly, in all material respects, issuing an unmodified, or clean, opinion. The opinion was included as part of the City's Fiscal Year 2019 (FY19) Comprehensive Annual Financial Report (CAFR), which was published by the City of Philadelphia on February 25, 2020, as required to fulfill its continuing disclosure requirements.

In planning and performing the audit of the City's basic financial statements, 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 results of that review are detailed in the Report On Internal Control and On Compliance and Other Matters, which is prepared annually as part of the CAFR audit. FY19's report will be released in June 2020.

The Controller's Office highlighted several notable items in the FY19 CAFR audit:

- **Philadelphia Beverage Tax Revenue recategorized as Assigned Fund Balance** – According to GASB guidelines, Assigned Fund Balances are constrained by a government's intent to use them for a specific purpose, as expressed by the Budget Director or other authorized designee. Since the Philadelphia Beverage Tax was proposed, the Kenney administration has stated that the tax's revenue would be used to fund the expansion of Pre-K programming, Community Schools, and to fund the debt service on Rebuild bonds. Despite the specific purpose for the tax revenue, it was categorized by Finance as Unassigned Fund Balance since FY17. After Controller's Office auditors raised concerns that the Philadelphia Beverage Tax met the GASB guidelines for Assigned Fund Balance, the City recategorized Philadelphia Beverage Tax revenue as Assigned Fund Balance in FY19. In total, \$120.9 million of Philadelphia Beverage Tax revenue was moved to the Assigned Fund Balance category;
- **City of Philadelphia resolved remaining FY17 variance as a loss** – In the FY17 CAFR, the City of Philadelphia identified a multi-million variance in the City's largest cash account, called the Consolidated Cash Account. The variance occurred as a result of the Office of the City Treasurer's failure to reconcile the Consolidated Cash Account from FY15 through the first 11 months of FY17. The Controller's Office identified weaknesses in the Treasurer's Office's reconciliation processes as a material weakness over financial reporting in its FY17 Report on Internal Control and On Compliance and Other Matters and as a significant deficiency in the FY18 report. After contracting with an outside agency, the Treasurer's Office reduced the variance from \$33 million to \$528,607. The remaining \$528,607 could not be accounted for and was therefore written off by Finance, in conjunction with the Treasurer's Office, as a

loss to the City. The Controller's Office will report on the \$528,607 as part of its Report On Internal Control and On Compliance and Other Matters in June; and

- **City's untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA) continued to put state and federal grant dollars at risk** – As of today, the Finance Office's Grants Accounting and Administrative Unit, which is responsible for preparing the SEFA, has still not provided the FY19 SEFA to the Controller's Office for audit. Since the Single Audit reporting package is due to the Federal Audit Clearinghouse by March 31, 2020, the City will once again fail to meet the Single Audit reporting deadline. The late submission of this information could negatively impact the City's receipt of state and federal grants. The untimely and inaccurate preparation of the SEFA was a material weakness in FY18's Report On Internal Control, and will be reviewed again as part of the FY19 review.

The Comprehensive Annual Financial Report is available [here](#). Previous Reports on Internal Control are available at controller.phila.gov.