



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

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**Controller's Office Releases Internal Control Report; Finds Three Material Weaknesses and Seven Significant Deficiencies**

*Philadelphia's internal control over financial reporting continues to be the worst of the top ten largest cities.*

**Philadelphia, PA** – The Office of the City Controller released the Report on Internal Control and On Compliance and Other Matters Fiscal Year 2019. While the report found the City's financial statements to be fairly presented, in all material respects, it identified three material weaknesses and seven significant deficiencies in internal controls over financial reporting.

"Over the last three years, my office has reported on significant problems in the City's internal controls over financial reporting. While the City makes nominal improvements each year to some findings, the improvement is not proportionate to the problem," said City Controller Rebecca Rhynhart. "Minimal improvement is not enough. These issues need to be addressed with the urgency and seriousness they deserve to resolve all material weaknesses and significant deficiencies."

A material weakness is a deficiency, or combination of deficiencies, in internal control resulting 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. A significant deficiency, while less severe than a material weakness, is a deficiency, or a combination of deficiencies, that warrants attention.

**FY19 Key Findings**

**Material Weakness: Inadequate staffing levels, lack of technological investment, and insufficient oversight have led to undetected material misstatements.** The audit disclosed a number of conditions that impacts Finance accountants' ability to prepare a timely, accurate, and completed CAFR without Controller's Office staff recommending significant adjustments. The

Controller's Office found \$213 million in errors, an improvement compared to the more than \$900 million in errors identified in FY17, in the CAFR submitted for audit that Finance accountants did not detect during its preparation. Auditors notified Finance accountants who subsequently corrected most, but not all, of the errors. Errors in the CAFR preparation have been a finding in the internal control report since FY07 without remediation.

**Material Weakness: Untimely 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 FY19 until March 28, 2020 – a mere three days before the Single Audit submission deadline of March 31, 2020. 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 grants terms and conditions. The City's continued failure to meet this filing requirement could affect future federal funding. Additionally, the Controller's Office was unable to follow up on a FY18 prior year finding regarding the accuracy of the SEFA due to its late submission.

**Material Weakness: Breakdowns in the functionality and application IT controls of the OnePhilly system increase the risk for material payroll errors.** While the Payroll and Time and Attendance components of the system were only in use for approximately three months of the fiscal year, the review found multiple breakdowns in the functionality and application IT controls of the OnePhilly system – breakdowns that appear to have existed from the time OnePhilly launched. As a result, there was a potential for the payroll expense and other related liability accounts to be materially misstated in the CAFR. Additionally, individual employee pay may be inaccurate and/or unauthorized.

#### Update on Prior Year Findings

- In FY17's report, the Controller's Office reported on an unknown variance of \$33 million due to the Treasurer's Office bank reconciliation processes. After contracting with an outside firm, the variance was reduced to \$529,000 in FY18's report. The Treasurer's Office could not identify the remaining \$529,000 variance in FY19. As a result, the variance was written off, or deducted, from the General Fund. Deficiencies in the Treasurer's Office bank reconciliation procedures remain a significant deficiency in FY19.
- The Revenue Department resolved a repeat prior year significant deficiency regarding the lax monitoring of tax accounts, which created the possibility of undetected irregularities or errors in taxpayer accounts. By improving its adjustment review process, Revenue was able to clear this finding after four years.

All findings are detailed in the full [report](#), as well as the administration's response and the Controller's Office comment on the administration's response.

Additionally, the Controller's Office compared Philadelphia's internal controls over financial reporting to the other ten largest cities in the country, finding that, for the third year in a row, Philadelphia had the worst controls.

"In terms of findings, the next closest city to Philadelphia is San Jose, California with one material weakness and one significant deficiency," said Controller Rhynhart. "The truth is – other cities do not have the same issues with internal controls over financial reporting that Philadelphia does. Typically, a city will work to remediate a finding throughout the next year. Our city, unfortunately, does not prioritize resolving poor financial reporting controls and as a result we have findings year after year and more of the same."

A quick guide to the report, including details on internal control over financial reporting in the top ten largest cities and length of time for each finding, is available [here](#).