CITY OF PHILADELPHIA

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REBECCA RHYNHART
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, 2019, 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 25, 2020. 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 Schedule of Findings and Questioned Costs, 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 Schedule of Findings and Questioned Costs as items 2019-001, 2019-002, and 2019-003 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 Schedule of Findings and Questioned Costs as items 2019-004 to 2019-010 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 matter that is required to be reported under *Government Auditing Standards.*

City of Philadelphia, Pennsylvania's Response to Findings

The City of Philadelphia, Pennsylvania's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's 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 25, 2020

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City Controller

CHRISTY BRADY
Deputy City Controller

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND THE PENNSYLVANIA DEPARTMENT OF HUMAN SERVICES SINGLE AUDIT SUPPLEMENT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Philadelphia, Pennsylvania's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Pennsylvania Department of Human Services (DHS) Single Audit Supplement* that could have a direct and material effect on each of the City of Philadelphia, Pennsylvania's major federal and DHS programs for the year ended June 30, 2019. The City of Philadelphia, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Philadelphia, Pennsylvania's basic financial statements include the operations of the School District of Philadelphia, Community College of Philadelphia, Philadelphia Redevelopment Authority, Philadelphia Authority for Industrial Development, and Philadelphia Housing Authority, which expended a total of $876,983,526 in federal awards which is not included in the City of Philadelphia, Pennsylvania's Schedule of Expenditures of Federal Awards for the year ended June 30, 2019. Our audit, described below, did not include the operations of these component units because they had separate audits performed in accordance with the *Uniform Guidance*.

Management's Responsibility

Management is responsible for compliance with federal and DHS statutes, regulations, and the terms and conditions of its federal and DHS awards applicable to its federal and DHS programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Philadelphia, Pennsylvania's major federal and DHS programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the DHS Single Audit Supplement. Those standards, the Uniform Guidance, and the DHS Single Audit Supplement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or DHS program occurred. An audit includes examining, on a test basis, evidence about the City of Philadelphia, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for major federal and DHS programs. However, our audit does not provide a legal determination of the City of Philadelphia, Pennsylvania's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Philadelphia, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and DHS programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and the DHS Single Audit Supplement and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-011, 2019-012, 2019-013, and 2019-014. Our opinion on each major federal and DHS program is not modified with respect to these matters.

The City of Philadelphia, Pennsylvania's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Philadelphia, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Philadelphia, Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and DHS program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and DHS program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the DHS Single Audit Supplement, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or DHS program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or DHS program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or DHS program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-011, that we consider to be a significant deficiency.

The City of Philadelphia, Pennsylvania's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the DHS Single Audit Supplement. Accordingly, this report is not suitable for any other purpose.

C I T Y O F P H I L A D E L P H I A
O F F I C E O F T H E C O N T R O L L E R

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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, 2019, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. We issued our report thereon dated February 25, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
December 23, 2020

Section I – Summary of Auditor's Results:

Financial Statements:
Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? __X__ yes ____ no
Significant deficiency(ies) identified? __X__ yes ___ none reported

Noncompliance material to financial statements noted? ____ yes __X__ no

Federal Awards:
Internal control over major programs:

Material weakness(es) identified? ____yes __X___ no
Significant deficiency(ies) identified?_X____ yes ____ none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) __X__ yes ___ no

Identification of major federal programs:

Name of Federal Program or Cluster	CFDA Number(s)
Crime Victim Assistance	16.575
Airport Improvement Program	20.106
Highway Planning and Construction	20.205
Special Education-Grants for Infants and Families	84.181
Guardianship Assistance	93.090
Temporary Assistance for Needy Families	93.558
Foster Care Title IV-E	93.658
Adoption Assistance	93.659
Medical Assistance Program	93.778
Block Grants for Community Mental Health Services	93.958

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? ___ yes __X_ no

Finding No.		Page	Questioned Cost
Section II - Financial Audit Material Weaknesses:			
2019-001	Inadequate Staffing Levels, Lack of Technological Investment and Insufficient Oversight Led to Undetected Material Misstatements	36-43	
2019-002	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	43-46	
2019-003	Breakdowns in the Functionality and Application IT Controls of the OnePhilly System Increase the Risk for Material Payroll Errors	46-51	
Section III - Financial Audit Significant Deficiencies			
2019-004	Deficiencies in OnePhilly System's IT General Controls Require Improvement to Minimize Vulnerabilities	53-57	
2019-005	OIT's IT General Controls Require Strengthening	57-59	
2019-006	Treasurer's Bank Reconciliation Procedures Still Require Improvement.	59-63	
2019-007	Failure of Departments to Properly Approve Biweekly Payrolls Increases Risk for Improprieties	63-65	
2019-008	Accounts Payable Reporting Needs Improvement	65-68	
2019-009	Capital Asset Control Deficiencies Increase Risk of Reporting Errors	68-70	
2019-010	SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations	70-71	
Section IV – Federal and PA. Department of Human Services Findings and Questioned Costs			
2019-011	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Special Education – Grants for Infants and Families (EI) – CFDA #84.181 Temporary Assistance for Needy Families (TANF) – CFDA #93.558 Medical Assistance Program – (MH/ID/EI) CFDA 93.778 Block Grants for Community Mental Health Services (MH) – CFDA #93.958	73-74	
2019-012	Special Tests - Compliance Finding	75	$366,449

Finding No.		Page	Questioned Cost
2019-12 continued	Guardianship Assistance (SPLC) – CFDA #93.090 Stephanie Tubbs Jones Child Welfare Services Program – CFDA#93.645 Foster Care Title IV-E – CFDA #93.658 Adoption Assistance – CFDA #93.659 Medical Assistance Program – CFDA #93.778 Act 148 Pennsylvania Department of Human Services		
2019-013	Reporting - Compliance Finding	76	$2,602,006
2019-014	Reporting - Compliance Finding Act 148 Pennsylvania Department of Human Services	77	$1,201,065

2019-001 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 Finance Office 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;

- While the accuracy of the Aviation Fund financial statements was improved, the Division of Aviation's (DOA's) late submission of its financial statements and compilation delayed preparation and audit of the CAFR; and

- Late receipt of component unit financial reports hampered CAFR preparation.

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 $213 million were not detected by Finance Office accountants during preparation of the city's fiscal year 2019 CAFR.

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

Effect: Because Finance Office accountants corrected the most significant of the errors we identified, the city's publicly issued fiscal year 2019 CAFR can be relied upon for informative decision making.

[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.

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 CAFR for audit. More specifically:

- 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 23 percent (from 64 full-time employees in fiscal year 2000 to 49 in fiscal year 2019). While the number of accountants increased by three in comparison to the fiscal year 2018 amount, the current staff size is still not the level of hiring needed to address this problem. 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. While several Lotus 1-2-3 files previously used for CAFR preparation were converted to Excel for the fiscal 2019 CAFR, the Finance Office still used Lotus 1-2-3 to produce certain capital asset amounts.

During the current audit, we observed that the Finance Office continued to work with the accounting firm they hired in the prior year to help with the preparation and review of the CAFR. Although the initial plan (as it had also been for the fiscal year 2017 and 2018 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 2019 CAFR. However, the accounting firm assisted the Finance Office with the preparation of a new CAFR review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of the fund financial statements. We noted the checklist did not yet include guidelines for review of the full accrual government-wide financial statements. Also, the accounting firm researched the potential impact recent Government Accounting Standards Board (GASB) Statements would have on the city's CAFR.

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 finalized footnotes until very late in the audit process. Examples of undetected errors included:

- The General Fund's unassigned fund balance was overstated by $120.9 million because the Finance Office misclassified the unobligated Philadelphia Beverage Tax (PBT) monies, for which the city administration has clearly expressed intent that those funds be used for the expansion of Pre-K programming, Community Schools, and debt service on Rebuild bonds. According to GASB guidelines, funds constrained by a government's intent to use them for a specific purpose should be classified as assigned fund balance. After we raised concerns that the unobligated PBT monies met the GASB guidelines for assigned fund balance, Finance Office accountants reclassified the $120.9 million of unobligated PBT monies as assigned fund balance.

- Our audit testing found a total of $30.2 million of unrecorded accounts payable for the General Fund, HealthChoices Behavioral Health Fund, Grants Revenue Fund, and Water Fund, which was not detected because of weaknesses in the payables identification and recording process, discussed in more detail below in finding 2019-008 of this report.

An example of an untimely provided footnote was the disclosure for enterprise funds capital asset activity, for which we did not receive a substantially completed version for audit until February 6, 2020, less than three 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]. The Finance Office, in conjunction with the Office of the Chief Administrative Officer and Office of Innovation and Technology (OIT), have begun a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS. As part of the OPAL ERP project, Finance Office management should include a comprehensive financial reporting system for CAFR preparation.

In the meantime, we recommend that, for the fiscal year 2020 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]. Additionally, Finance Office accountants should utilize the accounting firm to assist with developing a CAFR review checklist for the full accrual government-wide financial statements [500119.01]. 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 comprehensive financial reporting system, as recommended above.

Views of the Responsible Officials: 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 has presented a greater challenge than 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 during FY2019, we hired a Director of Compliance and Internal Controls, who will continue to work with the Office of the City Controller to address 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. Moreover, we have already started the process of adding employees to the Finance Office for FY20.

We continue to focus on training, with an emphasis on the CAFR preparation process. Our senior management accountants continue 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. For FY20, we hope to source virtual trainings for our non-supervisory staff within budget constraints. 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 and the strides made towards developing a comprehensive checklist for accountants. We will maintain the services of the outside accounting firm to continue to assist in the CAFR compilation efforts. Finance continues to focus on enhancing our reporting processes and we continue to increase efficiencies. Nonetheless, we would like to point out that your statement that the "General Fund's unassigned balance was overstated" is misleading, because there is no financial impact to the General Fund. The use of the "assigned" classification does not represent a notable constraint as in the case of the "committed" or "restricted" classifications, and therefore including this item as a material weakness consideration is unreasonable. Further, the treatment of the audited unobligated Philadelphia Beverage Tax (PBT) monies in prior years underscores the immateriality of the assignment of these funds for FY2019.

We acknowledge that a new comprehensive financial reporting system will improve the CAFR preparation process, and we have begun planning for the implementation of such system through our OPAL project. We continue 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 39 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 (FY2019) CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward.

Auditor's Comments on Agency's Response: In above response, management states "General Fund's unassigned balance was overstated" is misleading, because there is no financial impact to the General Fund. The use of the "assigned" classification does not represent a notable constraint as in the case of the "committed" or "restricted" classifications, and therefore including this item as a material weakness consideration is unreasonable. Further, the treatment of the audited unobligated Philadelphia Beverage Tax (PBT) monies in prior years underscores the immateriality of the assignment of these funds for FY2019.

We disagree with management's above statements. According to GASB standards, unassigned fund balance should represent fund balance not restricted, committed, or assigned to specific purposes. The unobligated PBT monies, which totaled $120.9 million at June 30, 2019, meet the GASB guidelines for assigned fund balance (i.e. funds constrained by a government's intent to use them for a specific purpose) since the city administration has clearly expressed intent that the PBT monies be used for the expansion of Pre-K programming, Community Schools, and debt service on the Rebuild bonds. In fact, when we asked the GASB for its feedback on this issue, the assigned GASB senior research manager agreed with our assessment. Therefore, in the CAFR presented for audit, the General Fund's unassigned fund balance (which totaled $246.7 million) was overstated by $120.9 million because it included the unobligated PBT monies, which comprised nearly half of the reported unassigned fund balance.

Management also 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 (FY2019) 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 $213 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 $213 million of CAFR errors very late in the audit process, proposing most of our audit adjustments within the one-month period prior to the issuance of the audit opinion, when the Finance Office should have already completed its financial statement review procedures and finalized the statements.

In above response, management also states, "Since FY15, we have worked to increase the Accounting office workforce. We added 4 employees in 2016 and during FY2019, we hired a Director of Compliance and Internal Controls…Moreover, 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 previous 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. Also, as we stated in the cause of finding 2019-001 above of the report, while the number of accountants increased by three in fiscal year 2019 (bringing the staff size back up to the fiscal year 2016 level), the current staff size is still not the level of hiring needed to address the ongoing staff shortages that have hindered the ability of the Finance Office to produce a timely and accurate CAFR for audit.

While Improvement Was Noted, Late Submission of Aviation Fund Financial Statements Delayed Preparation and Audit of CAFR

Condition: In the prior audit, we reported that the DOA's management did not perform an adequate review of the Aviation Fund financial statements before submitting them to the Finance Office for inclusion in the city's CAFR. Consequently, management failed to detect material errors totaling $122.4 million in the Aviation Fund financial statements, $66.1 million of which involved calculation errors on the Statement of Cash Flows. During the current audit, we found significant improvement in this condition as a result of the DOA's corrective actions. DOA management hired a new consultant to assist with preparation of the financial statements and supporting compilation package. The new consultant was an accounting firm with experience in preparing the Water Fund financial statements. We observed that the compilation package provided detailed support for the statements and included a financial statement review checklist that documented the procedures performed and contained evidence of review by the DOA's deputy chief financial officer (CFO). While the review checklist did not include procedures for the Statement of Cash Flows, we noted that the compilation contained a more detailed supporting calculation for this statement. The compilation also included a certification signed by the deputy CFO, who affirmed that she had reviewed the financial statements and was satisfied that they met acceptable standards of presentation and disclosure. Our testing of the fiscal year 2019 Aviation Fund financial statements found no material misstatements. Therefore, we believe that sufficient improvement has been made to consider this condition resolved [500118.02, 500118.03].

Despite this improvement, the Aviation Fund financial statements and supporting compilation were again completed very late. Although the DOA provided us with various revenue, accounts payable, and capital asset data during November and December 2019 so audit testing could proceed, the DOA did not submit its completed financial statements and compilation to the Finance Office until January 6, 2020, which was 11 days later than the previous year. While the DOA submitted a draft version of the financial statements to the Finance Office on October 17, 2019, those statements were very preliminary with various open items. The DOA made significant financial statement changes between the October 17, 2019 and January 6, 2020 versions.

Criteria: In preparing the city's CAFR, Finance Office accountants must collect, analyze, and summarize financial information from numerous sources, including the DOA. It is essential that the DOA complete and submit the Aviation Fund financial statements and compilation to the Finance Office at an earlier date, so they have adequate time to review and incorporate those statements into the CAFR.

Effect: The DOA's failure to provide the Aviation Fund financial statements and compilation on time can result in delays in timely completing the financial reporting and auditing processes for the city's CAFR. It also increases the risk for CAFR errors, as Finance Office accountants have less time to adequately review the statements.

Cause: The delay in the DOA's submission of the Aviation Fund financial statements and compilation, according to DOA management, was the result of turnover in their accounting personnel as well as the hiring of a new consultant to assist with preparation of the statements and compilation.

Recommendation: To improve the timeliness of its financial reporting, we continue to recommend that DOA management work with the Finance Office to facilitate an earlier deadline for the completion of the Aviation Fund financial statements and compilation, which includes the review checklist [500118.04].

Views of the Responsible Officials: Thank you for acknowledging that your testing of the fiscal year 2019 Aviation Fund financial statements found no material errors. Thank you for also highlighting our enhanced financial statement preparation with supporting compilation package that included detailed support and a review checklist. Thank you also for acknowledging that we provided key financial statement data during November and December 2019 to enable audit testing to timely proceed. While the turnover of key finance members in addition to having a new consultant contributed to the delay in issuing the FY 19 financial reports, we are pleased that that we made tremendous improvements and our prior year finding has been resolved. We would also like to note that during FY2020 there has been no additional personnel turnover and we have retained our consultant. This provides continuity and familiarity with preparing the reports along with the reporting process. Though it is recommended that DOA work with the Finance Office to facilitate an earlier deadline, with the continuity mentioned above, it is anticipated that DOA will meet all required deadlines.

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

Condition: As we have reported for the last several years, late receipt of component unit financial reports continued to delay preparation and audit of the city's CAFR. 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 Municipal Authority, the Philadelphia Redevelopment Authority, and the School District of Philadelphia. These three agencies submitted their reports very late (January 27, 2020, January 29, 2020, and February 7, 2020, respectively), leaving the Finance Office accountants and the Controller's Office auditors very little time to ensure that they were accurately included in the city's CAFR before it was issued on February 25, 2020.

Table 1: Late Submission of Component Unit Financial Reports

Component Unit	Due Date	Date Received	Days Late
Philadelphia Gas Works	12/2/2019	1/6/2020	35
Philadelphia Housing Authority	7/31/2019	10/29/2019	90
Philadelphia Municipal Authority	12/31/2019	1/27/2020	27
Philadelphia Parking Authority	7/31/2019	1/6/2020	159
Philadelphia Redevelopment Authority	12/31/2019	1/29/2020	29
School District of Philadelphia	11/1/2019	2/7/2020	98

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, and Philadelphia Authority for Industrial Development submitted their financial reports timely.
Source: Prepared by the Office of the 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: The failure of component units to submit their financial statements on time increases the risk 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 $2.4 million.[3]

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 director of finance 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].

Views of the Responsible Officials: 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. Finance continues to send initial requests for component unit financial statements and data in as early as May for all entities with March 31FYE, with required responses no later than June 30. We also continue to send requests for all other Component Units by end of June, with responses required by August 31. Follow-up requests are sent out to component units, with an emphasis on the importance of timely submission of financial data highlighted in all communications. The three component units called out for very late submissions, PMA, PPA and SDP, provided valid reasons for their delay or showed evidence of improvement. PMA (Philadelphia Municipal Authority) was late due the transfer of $300M of capital assets from PMA to the City. This transfer was required due to the maturity of the underlying PMA bonds, and required additional coordination between the City and PMA. PRA (Philadelphia Redevelopment Authority) indicated their audited financial statements were help up pending the completion of their single audit report. The SDP (School District of Philadelphia) actually improved from FY2018 (submitted 2/12/2019) to FY2019 (submitted 2/7/2020). We will continue to work with the Component Units to ensure timely submission of audited financial statements; as well as continuing to engage the City's Director of Finance, as needed.

2019-002 UNTIMELY 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

[3] This $2.4 million error was a misclassification between asset categories and had no effect on net position. It was not included in the $213 million error total discussed on page 1 of the report.

grants (departments). For fiscal year ending June 30, 2019, a preliminary SEFA was not prepared and provided for audit until March 28th of the following calendar year, which was 3 days prior to the required deadline of March 31st, to submit the reporting package[4].

Also, for the past several years, we have reported that GAAU has provided an inaccurate SEFA for audit. Due to the late receipt of the SEFA, we were unable to determine its accuracy for the reporting purpose.

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.

Effect: GAAU's untimely preparation and submission of the SEFA, 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 grants 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 city departments, to verify the accuracy of the SEFA and make necessary adjustments. For fiscal year 2019, GAAU sent requests for these reconciliations in November 2019. Second and third requests were sent to departments who did not meet the initial deadline on December 23, 2019 and January 17, 2020, respectively. Untimely responses from the departments and multiple follow-ups further delayed in the preparation and submission of a SEFA for audit.

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 [500114.12].

Views of the Responsible Officials: 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. While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, we must also point out that the Controller's Office needs to ensure its audits are completed on time, as late audits contribute to further delays in the submission to the Federal Audit Clearing House.

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[4] On March 19, 2020 the OMB issued memorandum M-20-17, "*Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations*," allowing recipients and subrecipients that have not filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 – *Audit Requirements*, to six months beyond the normal due date.

GAAU staff undergo a meticulous process involving numerous departments and requiring multiple follow-ups to produce a complete and accurate SEFA. We communicate the importance of providing complete and accurate information to the departments and we emphasize the need to provide timely data. GAAU provides guidance to departments and conducts numerous collaborative meetings with departments whenever necessary throughout the audit period to discuss issues and assist with resolutions. Our department continues to explore additional ways to provide a completed SEFA to our auditors in a timelier fashion. We agree that additional resources will aid in expediting the SEFA preparation.

Another step to accelerate the preparation of the SEFA, would involve fast-tracking the FAMIS Reconciliation process. GAAU will attempt to begin FAMIS reconciliations early, with Q3 FY2020 FAMIS reconciliations conducted in May 2020 and Q4 FY2020 reconciliations performed by August 2020. Our goal will be to accelerate departmental revenue validations so that these are completed no later than early September and we hope to complete AP accrual validations starting early September. GAAU is committed to working very closely with departments that have late expense and revenue transfers due to Grantor related issues on final award amounts. Further, our goal is to complete the reconciliation of Grant Fund Schedules by end of October 2020 and to provide you with the fully reconciled fund schedules and the SFA version A in November. We are hopeful that an accelerated timeline would result in a timely preparation of the SEFA and we hope to continue working with departments to ensure the requirements of SAP G 3-1 are followed.

We maintain that certain best practices will also enable a timely submission of the Single Audit Reporting Package, including 1) The provision of a "provided by client list" with a detailed 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, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit, 3) Regular audit status update meetings to identify any constraints and issues 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.

Auditor's Comments on Agency's Response: In above response, management states, "While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, we must also point out that the Controller's Office needs to ensure its audits are completed on time, as late audits contribute to further delays in the submission to the Federal Audit Clearing House."

To perform a timely audit, it is important that we receive the SEFA in a timely manner. Without a SEFA, we are not able to perform initial audit planning procedures, such as analytical reviews, risk assessment of the programs, selection of the major programs, and planning the internal control and compliance testing. Also, our audit timelines are dependent on the timely receipt of accurate financial schedules and supporting documentation for audit. As noted in the condition of finding 2019-002 of the report, for fiscal year 2019, the GAAU did not provide the preliminary SEFA for audit until March 28, 2020, which was only three days prior to the required deadline of March 31st, to submit the Single Audit reporting package.

Management also states "We maintain that certain best practices will also enable a timely submission of the Single Audit reporting package, including 1) The provision of a "provided by client list" with a detailed 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, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit, 3) Regular audit status update meetings to identify any constraints and issues 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."

The best practices management listed above have been in place during our audits, including a provided by client (PBC) list with target dates that was given to the Finance Office at the entrance conference on June 4, 2019 for the fiscal year 2018 audit. We also held multiple entrance conferences with the grantor departments that had major programs selected for audit. We held periodic update meetings with the Finance Office and tracked the status of the receipt of documents on the PBC list throughout the audit. The key obstacle to submitting the Single Audit reporting package to the Federal Audit Clearinghouse on time remains the Finance Office's untimely preparation and submission of the SEFA for audit.

2019-003 BREAKDOWNS IN THE FUNCTIONALITY AND APPLICATION IT CONTROLS OF THE ONEPHILLY SYSTEM INCREASE THE RISK FOR MATERIAL PAYROLL ERRORS

Condition: As part of our audit of the city's fiscal 2019 CAFR, we engaged an independent accounting firm to perform an assessment of the information technology (IT) application and general controls related to the city's new Oracle eBusiness Suite/PeopleSoft Workforce Management System (the OnePhilly system). The OnePhilly system replaced the legacy Human Resources (HR), Benefits, Payroll, and Time and Attendance systems.[5] In December 2018, the HR and Benefits modules went live. The next rollout was in March 2019 with the Payroll and Time and Attendance modules. The Finance Office oversees the OnePhilly Team, whose role is to manage the OnePhilly system project.

This assessment found multiple breakdowns in the functionality and application controls of the OnePhilly system, which we consider to be a material weakness. Specifically, the following was noted:[6]

- Assumed time was automatically recorded by the OnePhilly system if an employee's timecard was short of time in comparison to the employee's scheduled time. Assumed time is a concept where the OnePhilly system assumes that the employee works his/her minimum scheduled hours in a given week or pay period, regardless of what has been entered into Oracle Time & Labor (OTL). The addition of this time was not reviewed for accuracy or authorization.

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[5] The city's plan is also for the OnePhilly system to replace the legacy Pension system, but the OnePhilly Pension module has not yet been implemented.

[6] This assessment also noted significant deficiencies in the IT general controls for the OnePhilly system, which are discussed on pages 10 to 13 of this report. We also issued a separate report to the Finance Office on the OnePhilly IT controls assessment, which communicated the material weakness in application IT controls, the significant deficiencies in IT general controls, and other observations with lesser impact.

- Changes were made to employee timecards by the OnePhilly Team or the Finance Office's Central Payroll Unit without documented authorization or approval.

- Employees or timekeepers were able to enter time to hour types that may not be authorized for the department. When time was entered, an hour type was to be selected from a drop-down menu. Examples included regular time, leave time, on call time, etc. Hour types were not restricted by department.

- The OnePhilly Team ran a process which automatically changed employee timecards that were unapproved to approved status.

- Employees who entered their time via Manager Self-Service were able to authorize their own timecards instead of being submitted to his/her direct supervisor for approval.

- The OnePhilly system was not accurately calculating all employee leave accruals as multiple defects were self-identified during and after the testing period. According to the OnePhilly team, as of November 4, 2019, approximately 3,000 employees' vacation and sick balances were not accurately reflected in the OnePhilly system. The city departments were instructed to verify their employees' balances outside of the system.

- A defect was self-identified by the OnePhilly Team with the code that was written to transfer the time from Timelink to the OnePhilly system, which resulted in an incomplete time entry transfer. Timelink is the software for departments and employees which use a timeclock to record start and end times.

- During the recalculation of one employee's pay, a difference of $.06 in the hourly rate was identified; however, the OnePhilly Team did not provide an explanation for this difference.

- The Timecard Status Summary Dashboard (including the Missing Timecard Report) was not restricted by department. The super timekeepers were able to view all employees on the Dashboard. In addition, the Timecard Status table within the Dashboard did not reflect the total population of timecards as the missing timecards were not included. During a walkthrough, the missing timecards listing did not accurately update when different departments were selected.

- The Overpaid / Underpaid report had known inaccuracies according to the OnePhilly Team and required a full review each week. The report was created for each payroll cycle to identify employees which may have been overpaid or underpaid based upon employee type, scheduled hours, and hours entered. The report had over 3,000 lines requiring individual review.

- The controls for monitoring the completeness and accuracy of outbound interface files were inconsistent between the various outbound interfaces. There were customized outputs which were sent to various third parties, including unions for city employees. Certain third parties have requested specific formats which include checks on the completeness and accuracy of the produced files. However, for those groups which have not requested a similar level of detail, there were no formalized monitoring controls in place over the completeness and accuracy of the output files.

- OnePhilly OTL was not available on Mondays and portions of Tuesdays for self-service and timekeeper time entry.

- While the city departments' supervisory and executive-level approvals of the bi-weekly payroll transactions were electronic signoffs in the city's previous payroll system, since the OnePhilly Go-Live, departmental approvals of payroll were no longer electronic. Instead, departments were now required to have the supervisory and executive-level approvers physically sign a paper report, which was then scanned and sent to the OnePhilly Team and Central Payroll Unit.

Criteria: Application controls should be adequately designed to ensure the completeness, accuracy, and validity of processing data, as well as the confidentiality and availability of data. Also, controls should be sufficiently tested to ensure that they are operating effectively.

Effect: There is the potential for the payroll expense and other related liability accounts as reported in the city's CAFR to be materially misstated due to the controls breakdown. In addition, individual employee pay may be inaccurate and/or unauthorized.

Cause: The scope of our consultant's engagement was to assess the application controls in place when the OnePhilly system was in production, supporting the city's HR, Benefits, Payroll, and Time and Attendance processes. As many of these conditions appeared to be in existence from the time of the OnePhilly system Go-Live, the potential cause may have occurred before Go-Live. Therefore, it appears that the city may not have dedicated sufficient resources to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system.

Recommendation: Finance Office management and the OnePhilly Team should evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system. A formalized framework should be established and leveraged for identifying, prioritizing, and resolving system issues. Where applicable, this should include resolving the issue prospectively, as well any necessary retrospective corrections. Finally, the identification and tracking to resolution of the issues should be communicated on a periodic basis to applicable stakeholders or departments [303519.01].

Views of the Responsible Officials:

- The City of Philadelphia is committed to ensuring employees get paid on time. After thoughtful discussion, management agreed to running an Assumed Time program in the event that Departments are unable to update, review and approve time captured for the period. The statement that "time is not reviewed for accuracy and authorization" is inaccurate. Payroll timekeepers are tasked with reviewing the time entries for their departments for accuracy. Departments are also tasked with providing multi-level sign offs of time details captured in the time detail report for that department. Timekeepers go back in retro-effective time periods, perform necessary follow-ups, and update assumed time to reflect actual hours and submit and approve these changes. Management made the decision to leave all pay periods open during the first three months of stabilization, to allow timekeepers adequate time to make updates. Management updated this timeline in July 2019 and allowed timecards to remain open for 6 pay periods, until November 2019, when they switched to the normal timeline of 3 pay periods. Only Authorized personnel make changes to employee timecards after following the required approval steps for that specific process.

- The OnePhilly and Central Payroll teams perform certain citywide and cross functional tasks. These teams follow the appropriate steps when performing their functions, including making changes to employee timecards. Some of the changes are made with documental approvals from departments, others are made after discussion with departments, and other changes are made by higher-level payroll examiners, who possess the requisite skillset and knowledge to perform certain city-wide updates to employee records that do not require departmental level approvals.

- Only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours type should not be restricted at the department level. Hours types are driven by CUC and therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC “F” or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers.

- The OnePhilly team does not approve all timecards in unapproved status. Only timecards in the most current processing period that are in working status are approved in order to ensure all employees get paid. Timekeepers are then tasked with updating these timecards after the close of the processing period. In the absence of the automatic approval process and the Assume Time program, if managers and timekeepers did not complete their review and approval of employee timecards by the payroll processing deadline, employees would not receive their paychecks. Management determined that the risks related to not paying employees was greater than the risk of paying employees and retroactively adjusting these payments if needed. Further, the number of instances in which employees’ current timecards remain in unapproved status has significantly decreased.

- The number of employees with access to OTL Manager Self-Service has always been limited. Only supervisors and managers have access to OTL Manager Self-Service, which represents ~5% of all employees. Only a portion of that approximately 5% were actually using OTL Manager Self-Service instead of OTL Employee Self-Service to submit their hours worked. However, we are pleased that the system was updated to restrict the ability of management and supervisors to enter their hours worked using OTL Manager Self-Service.

- The OnePhilly team was fully aware of the leave accrual issues that existed in the system and alerted the Controller’s office of the unwavering testing and resolution efforts carried out by the team. Leave accrual have been fixed and are now accurately reflected in the system. A sick abuse program to enable departments to systematically track leave balances is targeted to be released by end of this month. This timeline may be impacted by COVID-19.

- Upon identification, this issue was resolved in a timely fashion.

- The team identified the root cause of the issue and logged a defect. The issue will be resolved by June 30, 2020. This timeline may be impacted by COVID-19.

- The Timecard Status Summary Dashboard allows timekeepers to view meaningful data during the time capture phase of payroll processing, such as, timecards in approved status and timecards in working or error status. All of this information is accessed and viewed at the department level. The Missing Timecard Report is the only dataset that is a citywide view in the Timecard Status Summary Dashboard. Timekeepers cannot edit this data, and they DO NOT have access to sensitive payroll and PII information of employees in other departments. We have requested an update to be made to the dashboard so that missing timecard details can be viewed at the department level only. The target timeline for this resolution is June 30, 2020. This timeline may be impacted by COVID-19.

- The team provided and demonstrated initial versions of the Overpaid/Underpaid reports during the walkthroughs. Those initial reports were fine-tuned and enhanced, as can be expected with any implementation, and this was communicated to the auditors. A team of payroll examiners conduct the review of the Overpaid/Underpaid reports. The statement that the 3,000-line report requires individual review is inaccurate.

- Post June 30, 2019, the OnePhilly team expanded controls over reconciliation of outbound interfaces. There are two sets of controls in place: controls that are required by the receiving organization/external entities for reconciliation purposes, and internal reconciliation controls and other controls that are carried out by the OnePhilly team during the interface execution process.

- The suspension of time only impacts self-service users and timekeepers every Monday and every other Tuesday. The overwhelming majority of city employees (greater than 75%) are not self-service users and are not impacted by the suspension of time. Notwithstanding, the OnePhilly team will implement a process that suspends time entry only for the current pay cycle, instead of for all pay-periods. The expected timeline for implementation, considering other enhancement priorities, is September 2020.

- The change from electronic to paper signoffs in and of itself is not an issue. In fact, the current paper sign-off process requires supervisory and executive-level approvers to review the time detail report before manual sign-off . As already communicated to the Controller’s office, the team is going to enhance the sign-off process even further, and specifically, Central Payroll has worked with the One Philly Team to develop the blueprint for automation of the payroll sign-off process. The target timeline for the additional enhancements to be completed is May 2020.

Auditor's Comments on Agency's Response: In above response, management states that "Timekeepers go back in retro-effective time periods, perform necessary follow-ups, and update assumed time to reflect actual hours and submit and approve these changes."

We note that, in a subsequent comment in its response, management states that the OnePhilly and Central Payroll Teams make changes to employee timecards, and not always "with documental approvals from departments."

Management also states that "only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours type should not be restricted at the department level. Hours types are driven by CUC and therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC 'F' or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers.

During the in-scope period, the independent accounting firm engaged by us to assess the OnePhilly system's IT application and general controls (our consultant) witnessed that employees and timekeepers could select from the full listing of hours types and submit time. It is our consultant's understanding that an initial system fix was implemented in November 2019.

Regarding the Overpaid / Underpaid report, management states the following:

The team provided and demonstrated initial versions of the Overpaid/Underpaid reports during the walkthroughs. Those initial reports were fine-tuned and enhanced, as can be expected with any implementation, and this was communicated to the auditors. A team of payroll examiners conduct the review of the Overpaid/Underpaid reports. The statement that the 3,000-line report requires individual review is inaccurate.

Management's response confirms that these reports were not fully functioning during the in-scope period. Further, the fact that the 3,000-line report – which only relates to one payroll type, for one pay period – requires manual review is not disputed. It appears, consistent with the OnePhilly Team's remarks during the exit conference, that the OnePhilly Team has interpreted "individual review" to mean that one individual is responsible for reviewing the entire report.

2019-004 DEFICIENCIES IN ONEPHILLY SYSTEM'S IT GENERAL CONTROLS REQUIRE IMPROVEMENT TO MINIMIZE VULNERABILITIES

As discussed in finding 2019-003 of this report, we engaged an independent accounting firm to conduct an assessment of the IT application and general controls of the city's new OnePhilly system. In addition to the material weakness found in application controls,[7] this review noted the following deficiencies in the OnePhilly system's IT general controls:

- There was no formal, documented monitoring of the third parties which significantly support the OnePhilly system.

- Authorization of OnePhilly elevated access for new users and transferred users was not performed using a formal, documented format. In addition, periodic user reviews had not been performed, and there was no formally documented Segregation of Duties policy.

- Passwords were not configured to meet city requirements, including complexity, minimum length, and expiration after 90 days.

- Go-Live approvals were not formally documented and maintained.

Each of these conditions is discussed in more detail below.

Monitoring of Third Parties Was Not Formally Documented

Condition: There was no formal, documented monitoring of the third parties which significantly support the OnePhilly system. Specifically, the following was noted:

- There was no evidence of a formal review and evaluation by the OnePhilly Team of the Ciber Oracle Managed Services (COMS) Service Organization Control (SOC) 2 report, and the CenturyLink Managed Network and Hosting Services SOC 2 report.[8]

- The 2018 COMS SOC 2 report (the most recently available report) was performed by an accounting firm that did not have offices in the United States (U.S.), and was not noted to be part of a network of firms with a U.S. presence.

- Within the CenturyLink SOC 2 report, physical access and environmental controls at the Sterling, Virginia data center where the city's data is housed were not part of the scope of that control evaluation. Also, the OnePhilly Team has not evaluated the sufficiency or effectiveness of these controls.

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[7] See pages 7 to 9 of this report for more detail on the material weakness in OnePhilly IT application controls.

[8] The city engaged Ciber, an HTC Global Company, (Ciber) to customize and implement the OnePhilly system. In addition, COMS has been contracted to perform the managed services of the day-to-day operations of the system. Ciber hosts the OnePhilly system with CenturyLink, a network services and managed services company.

- There was no evidence of formal monitoring of the Service Level Agreement (SLA) between OnePhilly and Ciber.

Criteria: Reliance on third parties to support key processes requires formalized monitoring controls by the OnePhilly team to ensure that services are being provided as contractually required. SLAs are established with third parties to define minimal acceptable services, including system availability, response times, and other performance metrics. SOC reports are American Institute of Certified Public Accountants (AICPA) defined reports which are performed by public accounting firms to evaluate and report on the controls at a third-party service provider. SOC reports allow management and auditors to gain comfort over controls at a third-party service provider without the need to perform their own audit procedures.

Effect: Formal review of third parties, including ongoing monitoring, was not documented. In addition, there was an increased risk of unauthorized access, and exposure of confidential employee data.

Cause: The primary third party, Ciber, was embedded and working closely with the OnePhilly Team for the development and support of the OnePhilly system. This can seem to cause a breakdown in the boundaries between the OnePhilly Team and the third party.

Recommendation: The OnePhilly Team should establish and document routine monitoring of performance of third parties, including against established SLAs, evaluation of relevant SOC reports, and other applicable reports [303519.02].

Views of the Responsible Officials: The review of the SOC reports that were provided during the audit would have been conducted by the previous OnePhilly director, who is no longer with the City of Philadelphia. All future SOC report reviews will be conducted by a team of reviewers comprising representatives from OIT's Information Security Group (ISG), Law and Finance. Where control gaps exist, vendor due diligence checks will be conducted.

In this global and technologically enhanced world, an audit firm does not need to be located in the US to perform its functions in accordance with US Audit guidelines. Also, the auditor on this engagement is a US registered CPA, and his team includes consultants from a PCAOB registered firm. The SOC report was created in AICPA format, and the auditors confirmed that their audit was conducted in accordance with AICPA standards. This fact is also highlighted within the SOC report, both in the "Scope" and the "Service Auditor's Responsibilities" sections.

As noted previously, we have assembled a team who will perform all future SOC report reviews, as well as conduct vendor due diligence checks where there are control gaps, moving forward.

There are numerous mechanisms in place to monitor SLA: Daily performance dashboard reports are sent to the OnePhilly team. Management reviews these automated system generated reports daily. There are also weekly PMO meetings scheduled and minutes to these meetings are maintained. Additional monthly SLA meetings are also conducted.

Cause: Initial elevated access was required only within the OnePhilly Team, which used informal requests to obtain and grant access to new team members. As the system went live, a formalized process to provision and review users was not established.

Recommendation: The OnePhilly Team should develop a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions. A formal process should be established to request and approve user access, which specifies the access required, considering the documented SoD requirements. Finally, a quarterly review of user access should be performed, with any identified SoD breakdowns removed, or acknowledged with identification of monitoring controls in place [303519.04].

Views of the Responsible Officials: During the audit, OnePhilly provided ample documentation concerning separation of duties and systematic permissioning based on responsibilities across departments. Based on feedback from Eisner Amper, we agreed to develop a single, comprehensive and easy to read document on Segregation of Duties. This document is in progress and the team aims to complete it during FY2021. Regarding access provisioning and de-provisioning, the OnePhilly security provisioning team was an integral part of building out the responsibilities in the system and are well versed with systematic permissioning and segregation of duties. As communicated during the audit, quarterly citywide access reviews occurred by default during implementation in December and March, because departments provided the listing of employees approved to be added during this time, and therefore, only payroll process owners were added, and access was reviewed and granted based on the assigned roles and responsibilities details provided by Departments. We also communicated that the team established quarterly reviews of user access post June 30, 2019. Furthermore, the team is making additional updates to the user access process, including daily automated de-provisioning of employee transfers and terminations target June 30, 2020.

Password Configurations Were Not in Compliance With City Requirements

Condition: The OnePhilly system was configured at Go-Live with a password requirement of case sensitivity and, for user accounts created after Go-Live, a password expiration of 90 days. Additionally, passwords for user accounts converted from the legacy system did not expire and thus did not meet the city's minimum expiration requirements.

Criteria: The OnePhilly system password settings did not meet the minimum requirements as outlined in the OIT's Information Security Access Control Policy V8 – section 6.5.2. This policy requires passwords to have a minimum length of eight characters; be composed of alphabetic, numeric, and special characters; not be the same as the User ID; not contain proper names or words taken from the dictionary; and be changed at a minimum every 90 days.

Effect: Inadequate password configurations significantly increases the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.

Cause: The OnePhilly system password settings were not configured in consideration of the OIT Information Security Access Control Policy requirements.

Recommendation: The OnePhilly password settings should be updated to meet OIT password requirements [303519.05].

Views of the Responsible Officials: As previously communicated, the password policy implemented by Ciber at Go-live was two-fold: 1) the standard password policy for Oracle was implemented across the board and 2) The password change requirement for all new users was set to 90 days, plus, the password change requirement established in Legacy for all legacy users was transferred; essentially, the timelines for password change for each user was already established in legacy, and these password expiration requirements were transferred from Legacy to OnePhilly at conversion. We also previously communicated that the OnePhilly team submitted a ticket request to Ciber to have the password policy updated to align directly with the OIT Information Security Access Control Policy. We also previously noted that the plan for implementing the city-wide policy was targeted to be implemented by April 30, 2020. This implementation has been completed despite being slightly delayed due to the COVID-19 crisis.

Go-Live Approval Documentation Was Not Maintained

Condition: Documented formal approvals or signoffs by the OnePhilly Steering Committee, authorizing the Go-Live of the system in December 2018 (HR and Benefits) and March 2019 (Payroll and Time & Attendance), were not documented or maintained. In addition, meeting minutes, including reports/ presentations used to support the Steering Committee's decision to Go-Live, including the decision to defer the Payroll and Time & Attendance Go-Live from December to March, were not maintained.

Criteria: The Go-Live approval sets the baseline of the new system in production. For a large, multiyear project, supporting significant processes, and a Steering Committee representing multiple stakeholders, having documented approvals or signoffs by each Steering Committee person is a critical control element.

Effect: Without documented approval of the Go-Live by the Steering Committee, there is no evidence that full consideration and review was performed of known risks, open tasks to be completed, completion of testing scenarios and agreement of all Steering Committee members.

Cause: The scope of our consultant's engagement was to review the IT general controls in place when the OnePhilly system was in production, supporting the city's HR, Benefits, Payroll, and Time & Attendance processes. As the Go-Live approval is the final step in the implementation project, the potential cause may have occurred before Go-Live, during the project. It appears that there was not adequate management oversight over the OnePhilly project to ensure that the documentation of the Go-Live approval was maintained.

Recommendation: The OnePhilly Team should maintain formal agendas and meeting minutes of the Steering Committee meetings, including capturing the results of any voting decisions by Steering Committee members. For any future module implementation, formal Go-Live approval by the Steering Committee should be obtained and documented prior to Go-Live [303519.06].

Views of the Responsible Officials: The team maintained and provided ample documentation of steering committee meeting agendas and presentations, go live timelines, and emails to the steering committee confirming Go-live was successful, among other communications. Therefore, the determination that the lack of a single, formal document, with signoffs from each steering committee member constitutes a significant deficiency, in light of the support provided, is unduly harsh.

2019-005 OIT'S IT GENERAL CONTROLS REQUIRE STRENGTHENING

Condition: We conducted, with the assistance of a consultant, a review of OIT's IT general controls over key financial-related applications.[9] This review noted the following deficiencies in OIT's IT general controls:[10]

- The current change management policy provided by OIT management did not specifically address (1) details on the Change Advisory Board (CAB) approval process that our prior review noted as having been added to the policy and (2) how end-user testing should be documented. OIT management indicated that they are working on an updated change management policy, which will address the CAB approval process and documentation of end-user testing. Additionally, the policy did not clearly identify the level of approvals required for the different types of changes that are migrated to production. As noted in prior reviews, the procedure was still inconsistently applied when performing change requests for in-scope applications. Change requests sampled by us were not consistently supported by documented end-user testing, including detailed testing procedures, and identification that testing was completed. Also, for sampled change requests, the service tickets did not consistently document required approvals, including evidence of review and approval by the CAB.

- OIT did not properly segregate duties in the following cases:
  1. Three OIT programmers had development rights to Basis2 as well as database administrator access rights.
  2. Four OIT employees had database administrator access as well as systems administrator access within FAMIS and ADPICS.

  3. Two OIT employees had database administrator access as well as systems administrator access within Basis2.

Criteria: Change management procedures should establish clear performance and documentation standards for end-user testing and required approvals to ensure that requested application changes are adequately tested and properly approved before migration to production. Also, OIT's Information Security Administrator Acceptable Use Policy Section 5.1.1 states that IT administrators shall ensure that information systems are configured to provide the ability for segregation of duties to reduce potential damage from the actions of one person. For example, responsibility for initiating transactions, recording transactions and custody of information systems on which the transactions have been performed are assigned to separate individuals.

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[9] The key financial-related applications included in the review were FAMIS, Advanced Purchasing Inventory Control System (ADPICS), Legacy Payroll (through March 18, 2019 when replaced by OnePhilly), Pension Payroll, Health and Welfare (through December 17, 2018 when replaced by OnePhilly), Taxpayer Inquiry and Payment System (TIPS), and Basis2.
[10] We also issued a separate report to OIT communicating these significant findings as well as other observations with lesser impact.

Effect: Inadequate compliance with established procedures to perform end-user testing and management approval increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment. Also, with the combination of (a) developer access rights, which allows for the creation or modification of code, configuration, and data, along with (b) the database administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper code migrations, configuration changes, and data changes occurring without detection. Lastly, with the combination of (a) systems administrator access rights, which allows for the creation or modification of user rights to perform transactions or change system configurations, along with (b) the database administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper data changes occurring without detection.

Cause: OIT management has not performed adequate monitoring of the change management function to ensure that established procedures are routinely followed and that the policy clearly identifies standards for documenting end-user testing and the required approvals (including CAB) for the different change types. For the three cases discussed above, OIT management did not exercise sufficient oversight of assigned system access rights to ensure that duties were adequately segregated or, if segregation of duties was not feasible, that there was monitoring of the employees' activities.

Recommendations: To improve IT general controls over financially significant systems, we recommend that OIT management:

- Review its change control procedures and implement measures to ensure that required steps for application changes are performed and documented in accordance with the policy. Also, OIT should update its change management policy to include (1) documentation standards for end-user testing and (2) more detail related to required approvals for all change types and how those approvals should be documented in the service ticket [300413.05].

- Separate the developer/programmer function from the database administrator function for the three programmers with development rights to Basis2 as well as database administrator access rights. If segregation of duties is not feasible, OIT should monitor the activities of the three programmers to ensure they are authorized and appropriate [300419.02].

- Separate the systems administrator function from the database administrator function for the four OIT employees who have database administrator and systems administrator access within FAMIS and ADPICS. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and proper [300419.03].

- Separate the systems administrator function from the database administrator function for the two OIT employees who have database administrator and systems administrator access within Basis2. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and appropriate [300419.04].

Views of the Responsible Officials: OIT will assess separating the functions mentioned above and will segregate the duties associated with each among available employees where possible. Where, due to limited resources, OIT must rely on one employee to perform multiple functions, OIT will make every effort to monitor employee activity. Additionally, OIT will continue to review its change management control procedures and implement measures to ensure that the process is adhered to for application changes. OIT will also work to revise its change management policy to include the two additional recommended requirements.

2019-006 TREASURER'S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior audit, we reported that, while the Office of the City Treasurer's (Treasurer's) reconciliation of the consolidated cash account had improved, there remained an unreconciled variance as well as the need for formal reconciliation procedures. Also, while Treasurer management asserted that four long unreconciled accounts had been fully reconciled, the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period. A resulting condition from the Treasurer's failure to reconcile accounts for several years was noncompliance with Pennsylvania's Disposition of Abandoned and Unclaimed Property Act (escheat act).

While the Treasurer made certain remediation efforts, deficiencies still existed in the Treasurer's bank reconciliation procedures. Specifically, the following was noted:

- The prior report disclosed that, with the assistance of a consultant, the Treasurer investigated and identified most of the $33.3 million unknown variance, which resulted from the Treasurer's failure to reconcile the consolidated cash account during fiscal years 2015 through 2017. As of January 2019, the remaining difference was down to $528,607, where book activity exceeded bank activity. The current audit disclosed that, since the Treasurer and Finance Office determined that additional investigation was unlikely to yield further adjustments to the variance, the remaining difference of $528,607 was written off and charged to the General Fund in December 2019.

- Also, we previously reported that, during the investigation of the $33.3 million unknown variance, the consultant noted 22 receipt transactions totaling $13.5 million – seven deposits amounting to $2.2 million and 15 wire transfers totaling $11.3 million – that could not be matched to FAMIS. At the May 15, 2019 exit conference, Treasurer management asserted that they had matched and closed out the $13.5 million of receipt transactions with no resulting effect on the $528,607 variance. During the current audit, we requested the documentation for the matching of the $13.5 million of receipts to FAMIS, but Treasurer management was unable to provide us with this evidence. However, according to the Treasurer, the 15 wire transfers were internal transfers into the consolidated cash account from other city bank accounts, and no adjustments to the city's books were necessary because the revenue had already been recorded. To verify the Treasurer's assertion, we selected the four largest internal transfers which totaled $8.5 million (75 percent of the $11.3 million of transfers) and, using information we extracted from the Revenue Department's files of recorded revenue receipts, confirmed that these transfers had already been recorded as revenue. Based upon this work, we deem the matter of the $11.3 million in transfers to be resolved. However, since the Treasurer has not provided evidence for the matching of the seven deposits totaling $2.2 million to FAMIS, that issue is still considered unresolved.

- Although Treasurer personnel timely prepared the fiscal year-end consolidated cash bank reconciliation, they were not timely in their investigation and resolution of reconciling items. Our testing noted numerous long outstanding reconciling items, which had been accumulating since the Treasurer started reconciling the consolidated cash account again in June 2017. As shown in Table 2 below, as of June 30, 2019, there were 1,058 book balance reconciling items over 90 days old with a net total dollar amount of $1.3 million and 43 bank balance reconciling items over 90 days old totaling $1.6 million.

Table 2: Reconciling Items Outstanding Over 90 Days on June 30, 2019 Consolidated Cash Account Bank Reconciliation

	Book Balance Reconciling Items						Bank Balance Reconciling Items	
	Additions to Book Balance		Reductions to Book Balance		Net Activity		Additions to Bank Balance	
Date of Reconciling Item (Fiscal Year=FY)	**# of Items**	**Dollar Amount**	**# of Items**	**Dollar Amount**	**# of Items**	**Dollar Amount**	**# of Items**	**Dollar Amount**
Prior to FY 2017	4	†<$4,397,776>	-	-	4	<$4,397,776>	-	-
FY 2017	35	$2,313,313	6	<$217,167>	41	$2,096,146	2	$6,750
FY 2018	284	*<$6,118,089>	189	<$12,431,612>	473	<$18,549,701>	34	$551,406
FY 2019 (through 3/31/2019)	368	$29,411,111	172	<$7,241,861>	540	$22,169,250	7	$1,021,048
All Fiscal Years	691	$21,208,559	367	<$19,890,640>	1,058	$1,317,919	43	$1,579,204

† = On the June 30, 2019 bank reconciliation under the additions to book balance section, the Treasurer included <$4,397,776> of reconciling items identified as part of the $33.3 million unreconciled variance. The <$4,397,776> consisted of <$3,869,169> of bank return items and the <$528,607> remaining unreconciled variance. As of June 30, 2019, no adjustments had been made to correct the book balance for these reconciling items so that is why they remained on the June 30, 2019 bank reconciliation.

* = The <$6,118,089> total for fiscal year 2018 resulted largely from timing differences between book and bank activity for transfers into the consolidated cash account from the city bank account into which electronic tax and water receipts are first deposited.

Source: Prepared by the Office of the Controller based upon the June 30, 2019 consolidated cash account's bank reconciliation provided by the Treasurer's Office

- 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 previous audits have noted variances between DPH's recorded collections and the amounts transferred daily to the consolidated cash account from the DPH's separate bank account. The June 30, 2019 consolidated cash bank account reconciliation showed a $6.9 million variance between DPH's recorded collections and actual transfers from DPH's bank account. In the prior audit, the Treasurer stated they began working with the DPH to develop a revised process for handling the DPH's revenue receipts. During the current year, the Treasurer informed us that the DPH now provides the necessary information for reconciliation, but the revised process has not yet been fully implemented.

- In fiscal year 2020, Treasurer management developed written procedures for the preparation of bank reconciliations and filing of reconciliation documentation. However, we observed that the procedures were marked as draft, and management indicated that, while these procedures were followed "by and large" by Treasurer staff, they would be updated and finalized when the Treasurer implements its new Treasury Management System.

- Our testing still noted noncompliance with the Pennsylvania escheat act. While $865,667 related to unclaimed payroll checks from fiscal year 2017 and prior were escheated to the state in September 2019, there remained $8 million in outstanding vendor checks for calendar years 1999 to 2016 that had not been escheated to the state. In May 2019, the Treasurer transferred $3 million of unclaimed vendor checks for calendar years 1999 through 2012 to the city's Unclaimed Monies Fund. For the remaining $5 million in outstanding vendor checks pertaining to calendar years 2013 through 2016, Treasurer personnel were contacting the payees to give them an opportunity to claim the monies before the funds are transferred to the Unclaimed Monies Fund.

- Lastly, regarding the four long unreconciled accounts for which the Treasurer was unable to provide bank reconciliations for a large portion of the unreconciled period,[11] Treasurer management informed us they are unable to prepare those monthly bank reconciliations because either the bank and/or the supporting city records for those months are not available. In light of this situation and given that (1) testing of fiscal year 2019 bank reconciliations did not identify any unreconciled accounts and (2) the Treasurer has taken action to escheat the old outstanding payroll checks and is working towards the escheatment of the old outstanding vendor checks from the general disbursement account (as discussed above), we will no longer report on this condition [500114.06].

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. Effective internal controls require reconciling items to be researched promptly so that corrective action, where necessary, may be taken. Per the Treasurer's *Bank Reconciliation Policy*, effective October 1, 2019,[12] any reconciling items must be resolved within 90 business days of the reconciled month.

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.

[11] The four accounts and their unreconciled periods were as follows:
Wells Fargo Bank Payroll Account (closed in May 2018) – Not reconciled from October 2010 through June 2016
Wells Fargo Bank Supplemental Payroll Account (closed in March 2018) – Not reconciled from October 2010 through June 2014
General Disbursement Account – Not reconciled from February 2012 through December 2012
Levy Account – Not reconciled from July 2014 through June 2016

[12] This policy was marked as draft although Treasurer management indicated that its staff follows this policy "by and large", except for the 90-day requirement to resolve reconciling items.

Effect: Numerous and old reconciling items complicate and prolong the bank reconciliation process. The untimely investigation and disposition of reconciling items increases the risk that errors or irregularities could occur and go undetected. Also, failure to implement and enforce 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. Lastly, noncompliance with the Pennsylvania escheat act may subject the city to penalties.

Cause: The Treasurer failed to take adequate steps to ensure that all reconciling items were resolved in a timely manner. Treasurer management indicated that its staff followed the *Bank Reconciliation Policy* "by and large", except for the 90-day requirement to resolve reconciling items. Treasurer management informed us that the ability to (1) more promptly investigate and resolve reconciling items, (2) finalize the bank reconciliation procedures, and (3) revise the process for DPH revenue receipts is contingent upon the implementation of the new Treasury Management System.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management take the necessary steps, including establishing a formal timeline, to implement the new Treasury Management System, in order to enable the Treasurer to:

- Finalize the written bank reconciliation procedures [500117.03].

- Investigate all differences between Treasurer account book and bank balances so that any errors can be quickly identified and resolved within the 90-day requirement of the Treasurer's *Bank Reconciliation Policy* [500119.02].

- Implement the revised process for DPH revenue receipts to eliminate the problems with reconciling the DPH's recorded collections to bank transfers [500115.06].

With regard to the $2.2 million of unmatched receipt transactions, if the Treasurer is unable to locate documentation to support the matching of these receipts to FAMIS, we recommend that Treasurer personnel investigate these receipt transactions and address any errors or improprieties discovered by this review. Management should formally establish a time frame for the completion of this task [500117.04].

Lastly, the Treasurer and Finance Office management should work together to ensure that all escheatable amounts are sent to the Pennsylvania Treasury. 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].

Views of the Responsible Officials: The City Treasurer's Office (CTO) is pleased that you acknowledged that its reconciliation of the consolidated cash account has improved. Thank you for also acknowledging that the remaining difference of $528,607 was written off and charged to the General Fund in December 2019, and thus this condition is now closed. We would like to note that CTO provided adequate alternative support for the 4 long unreconciled accounts, which included annual bank reconciliations instead of monthly reconciliations, and thus the statement that "the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period" is misleading. However, we acknowledge that you reported this condition as closed. CTO also developed policies and procedures which are final and used by staff. These documents will be updated to reflect any changes required by the implementation of the Treasury Management System. CTO has also re-engaged with the Department of Public Health to implement the revised process that improves the identification and recognition of revenue receipts.

Auditor's Comments on Agency's Response: In the finding above, we summarized a finding reported in the prior year as follows: "While Treasurer management asserted that four long unreconciled accounts had been fully reconciled, the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period." In its response, management asserts, "We would like to note that CTO[13] provided adequate alternative support for the 4 long unreconciled accounts, which included annual bank reconciliations instead of monthly reconciliations, and thus the statement that 'the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period' is misleading."

We disagree with management's assertion. As stated in our prior year report, with regard to the four long unreconciled accounts, the Treasurer did not provide us with sufficient, documented evidence that they had performed bank reconciliations for all of the unreconciled months.[14] In fact, Treasurer management informed us that they are unable to prepare those monthly bank reconciliations because either the bank and/or the supporting city records for those months are not available.

2019-007 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES

Condition: In the prior audit, we reported on a deficiency in the departmental approval process for payroll where the duties concerning the data entry, review, and approval of bi-weekly payroll transactions were not adequately segregated. Although improved as compared to the prior year's results,[15] our testing of 50 city departments for the first 20 pay periods during fiscal 2019 indicated that this condition continued. Specifically, we noted 100 occasions (10 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 seven departments performed duplicate functions for more than two pay periods, with the Mayor's Office and the Department of Planning and Development being the most recurrent among the larger departments.

On March 18, 2019, the city implemented its new OnePhilly payroll system. While the departments approved payroll electronically in the legacy payroll system, since the OnePhilly Go-Live, departmental approvals of payroll were no longer electronic. Instead, department personnel were now instructed to review and approve the Time Entry Detail Report from the OnePhilly system. To evidence the review and approval of departments' payroll entries, the supervisory and executive-level approvers were required to physically sign a printout of the last page of the OnePhilly Time Entry Detail Report, which was then to be scanned and sent to

[13] City Treasurer's Office

[14] The unreconciled months are listed on report page 17, footnote 11.

[15] The prior year's testing disclosed 257 occasions during fiscal year 2018 (18 percent) in which these payroll functions were not separated. Also, we noted that, for 23 of 55 departments, employees performed duplicate functions for more than two pay periods.

the OnePhilly Team and the Finance Office's Central Payroll Unit by the payroll closing date. The Central Payroll Unit required that the executive-level approver must be an authorized signer listed on the department's payroll signature authorization card.

We tested departments' compliance with the OnePhilly approval process and found most departments did not comply with these new requirements. Our testing of 50 city departments for the 4th quarter of fiscal year 2019 disclosed 278 instances (78 percent) where departments did not submit the Time Entry Detail Report with the required two signatures or did not submit the reports by the payroll closing deadline. Out of these 278 instances, we observed 14 reports which contained the required two approvals but were submitted after the payroll closing deadline. Out of the 50 city departments, only four were in full compliance with the OnePhilly approval process for all pay periods during the 4th quarter of fiscal year 2019.

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 ensure that payroll is reviewed and approved by properly authorized individuals increase the risk of undetected errors. Also, this condition 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 legacy payroll system that was in place until March 2019 allowed individuals with supervisory and executive-level approval authority to provide the approval at their level, as well as the levels below them. Finance Office management previously 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 perform the payroll review and approval.

The city's new OnePhilly system currently lacks an electronic payroll sign-off process. The director of payroll indicated that the OnePhilly Team and Central Payroll Unit had started work on a project to automate the payroll sign-off process. Regarding the current manual payroll approval procedures for OnePhilly, the Central Payroll Unit did not adequately enforce compliance with requirements.

Recommendation: To improve the departmental payroll approval process for OnePhilly, we recommend that the OnePhilly Team and Central Payroll Unit continue to work together to complete automation of the payroll sign-off process, which should include controls to adequately segregate incompatible duties, particularly the functions of entering, reviewing, and approving payroll transactions. Until the automation is completed, the Central Payroll Unit must remind departments of the current procedures for payroll approvals and enforce compliance with those departments who do not follow requirements [500119.03].

Views of the Responsible Officials: Thank you for acknowledging that improvements were made in the departmental approval process for payroll compared to prior year results. We communicated to departments that at least one level two and one level three sign-off would be required at implementation. After departments' failure to provide two levels of sign-offs, we reviewed the communication initially sent out and concluded that some departments may have mis-interpreted the initial communication to mean "a minimum of one level of authorization is required for the payroll sign-off; either one or more at level 2 or 1 or more at level 3, but one would be sufficient." In addition, there are some departments that have historically needed to delegate "temporary signature authorization." For such departments, when only one signature was provided, we have considered that the temporary signature authorization process was enforced. Nonetheless, we assigned a payroll representative to reach out to departments each payroll cycle to request additional sign-offs that are not received by the payroll closing date and time for each cycle. To fully resolve this issue, the following steps have been taken by our team:

1. To provide clarification, in November 2019 we amended the Payroll Close memo that goes out to departments each week to include language that states departments MUST have two signers on the Time Entry Edit Report. We also included this as an agenda item for the November 2019 HR Managers' meeting.

2. In order to be proactive, and to eliminate any instance of having only one signature, or the same person providing two levels of authorization, Central Payroll worked with the One Philly Team to develop the blueprint for automation of the payroll sign-off process. We hope to begin working on this project starting May 2020.

2019-008 ACCOUNTS PAYABLE REPORTING NEEDS IMPROVEMENT

Condition: In computing the accounts payable amounts for inclusion in the city's fiscal year 2019 CAFR, Finance Office accountants failed to record $30.2 million of accounts payable.

Criteria: Generally accepted accounting principles (GAAP) require that governments report a liability in the period in which it is incurred.[16] Governmental entities must establish adequate control procedures over the computation of accounts payable to ensure that reported amounts are accurate and complete.

Effect: As a result of the unrecorded payables, the city's CAFR contained the following misstatements:

- An $11 million understatement of both expenditures and accounts payable in the General Fund;

- A $2.7 million understatement of expenditures, a $1.3 overstatement of beginning fund balance, a $2.0 million understatement of accounts payable, and a $1.9 million understatement of due to component units in the HealthChoices Behavioral Health Fund;

- An $8.4 million understatement of expenditures, a $3.8 million overstatement of beginning fund balance, and a $12.2 million understatement of accounts payable in the Grants Revenue Fund; and

- A $3.0 million understatement of both construction in progress and construction contracts payable in the Water Fund.

[16] There are exceptions to this standard for governmental funds, such as debt principal and interest which are recognized only when due. Also, certain specific accrued liabilities, such as pension benefits and other post employment benefits, are recognized in governmental funds only to the extent that governments in general normally liquidate them with current financial resources.

We proposed adjustments to all four funds to correct the city's CAFR for these errors. However, the Finance Office and Philadelphia Water Department (PWD) management elected not to book our adjustments.[17] In addition, for the funds where fiscal year 2019 expenditures were understated as discussed above, since the city's fiscal year 2019 CAFR was not corrected, reported expenditures for fiscal year 2020 will be overstated by those same amounts.

Cause: Our review of the Finance Office's procedures for computing year-end accounts payable balances disclosed weaknesses that increased the risk for unrecorded payables. Finance Office accountants reviewed payment vouchers posted to FAMIS during fiscal year 2020 through August 16, 2019 in order to identify vouchers for goods or services received on or before June 30, 2019 but not paid until fiscal year 2020, which should be recorded as accounts payable for fiscal year 2019. The Finance Office then requested city departments to provide a list of fiscal year 2019 invoices not yet vouchered or submitted to the Finance Office for processing as of August 16, 2019. Per inquiry of Finance Office management, they computed reported accounts payable by combining (1) the identified payables from their review of FAMIS postings and (2) the information from departments, with the expectation that the departments would supply data on any fiscal year 2019 vendor invoices submitted for payment after the August 16, 2019 cutoff date through September 30, 2019. However, the memorandum that Finance Office management sent to departments requesting this payable data instructed departments to respond by August 23, 2019, 38 days before the date Finance informed us they expected departments to supply payable data. Also, Finance Office management did not provide any evidence documenting a basis for their expectation that departments would provide them with the fiscal year 2019 payables of which department personnel were aware through September 30, 2019.

Our audit testing for unrecorded liabilities – which involved reviewing fiscal year 2020 payment *vouchers* through December 31, 2019 to identify payments for goods or services received on June 30, 2019 or prior – found $30.2 million of payables that Finance Office accountants failed to include in reported accounts payable amounts. Table 3 below presents a breakdown of this $30.2 million in unrecorded accounts payable, showing that the vast majority of errors noted was posted to FAMIS after the Finance Office's cut-off date of August 16, 2019. Based upon our testing results, it was clear that the Finance Office's mid-August cut-off date for their review of FAMIS data to identify payables was too early to detect all significant accounts payable. In fact, we found several instances of large unrecorded payables pertaining to payment vouchers posted to FAMIS from early to mid-October 2019.

[17] As part of our audit procedures, for each of the affected funds, we combined these proposed adjustments with other uncorrected CAFR errors and determined that the resulting total was immaterial to the city's fiscal year 2019 financial statements.

Table 3: Unrecorded Accounts Payable by Fund and FAMIS Posting Date Before and After Finance Office's Cut-Off Date

	FAMIS Posting Date For Payables Occurred		
FUND	**Before Cut-Off Date†**	**After Cut-Off Date†**	**Total**
General Fund	$1,002,045	$9,973,039	$10,975,084
HealthChoices Behavioral Health Fund	-	$3,958,905	$3,958,905
Grants Revenue Fund	$113,408	$12,106,139	$12,219,547
Water Fund	*<$2,560,908>	$5,593,719	$3,032,811
Total	<$1,445,455>	$31,631,802	$30,186,347

† = The Finance Office's cut-off date for reviewing FAMIS postings to identify fiscal year 2019 accounts payable was August 16, 2019.
*= Our audit testing found a $2,560,908 overstatement of accounts payable in the Water Fund pertaining to transactions posted to FAMIS before the cut-off date. This $2,560,908 overstatement was netted against $5,593,719 of unrecorded payables posted to FAMIS after the cut-off date to arrive at the proposed audit adjustment amount of $3,032,811.
Source: Prepared by the Office of the Controller

Additionally, it was apparent that the departments' reporting of payables to the Finance Office was incomplete as departments may have been unaware of, misunderstood, or just not complied with the Finance Office's expectation that the departments provide payable data through September 30, 2019. The departments with the largest share of the total unrecorded payables by fund were as follows: Department of Prisons for the General Fund, Department of Behavioral Health and Intellectual Disabilities Services (DBHIDS) for the HealthChoices Behavioral Health Fund, DBHIDS for the Grants Revenue Fund, and the PWD for the Water Fund.

Recommendations: To improve the Finance Office's process for computing accounts payable and decrease the risk of unrecorded liabilities, we recommend that Finance Office management:

- Extend their review of FAMIS payments in the subsequent fiscal year to an appropriate later date that will enable them to identify significant accounts payable. Finance Office accountants should establish an appropriate threshold for each fund and review all payments exceeding that threshold [500119.04].

- Formalize in writing the payable data required from departments, including the exact timeframe to be covered and an appropriate due date for their response. Reinforce these requirements to departments as well as the importance of providing complete and accurate accounts payable information to the Finance Office for inclusion into the CAFR [500119.05].

Views of the Responsible Officials: Departments are provided with a memo explaining the requirements to provide accounts payable data by the applicable cut-off period. Finance will work on expanding this memo, where necessary. Our accounts payable cut-off timeline is based on our 120 days (after year end) timeline to complete the AFR in compliance with the deadline mandated by Charter requirements. While improvements can be made if the Auditors align their cut-off period with the cut-off period for Finance, we may continue to see discrepancies due to items such as late executed contracts and delayed invoices that hinder departments from providing such accounts payable details within our mandated timeline. Major improvements can be made, and we can reduce discrepancies if departments improve their reporting of accounts payable to the Finance office.

Auditor's Comments on Agency's Response: Regarding the finding on deficiencies in accounts payable reporting, in above response, management states "Our accounts payable cut-off timeline is based on our 120 days (after year end) timeline to complete the AFR[18] in compliance with the deadline mandated by Charter /requirements. While improvements can be made if the auditors align their cut-off period with the cut-off period for Finance, we may continue to see discrepancies due to items such as late executed contracts and delayed invoices that hinder departments from providing such accounts payable details within our mandated timeline."

Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In testing accounts payable as of June 30th (the city's fiscal year-end), we search for unrecorded liabilities by examining invoices paid in the subsequent fiscal year to identify payments for goods or services received on or before June 30th that were not accrued as payables. The cut-off period we use for this testing cannot be restricted to the Finance Office's cut-off period, especially when there is a risk of significant unrecorded payables as evidenced by the results of our current year testing, which found $30.2 million of unrecorded accounts payable. When there is a risk of significant unrecorded payables, auditors should extend the cut-off period for unrecorded liabilities testing to as close as possible to the audit opinion date.

2019-009 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[19] 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".

[18] Annual Financial Report

[19] While Finance Office management informed us that they were in the process of converting the Lotus 1-2-3 files to Excel, some of the files provided to us for our audit testing of fiscal 2019 capital asset amounts were still Lotus 1-2-3 files.

Criteria: Philadelphia's Home Rule Charter[20] requires management to maintain current and comprehensive records of all real property belonging to the city.

Effect: The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the CAFR and causes extensive audit effort. For example, we continued to find discrepancies between the "Proof" file and FAMIS – a $2.8 million discrepancy in the accumulated depreciation balance for buildings 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].

Views of the Responsible Officials: Finance Office continues to improve its process of accounting for real property assets. The number of Lotus 1-2-3 files utilized in our process have been significantly reduced, with a 90% conversion year on year. The remaining 3 files in use will soon be converted. While the excel file reliant fixed asset process is somewhat tedious, there have not been any material errors. It is our hope that this issue will be adequately addressed with new technology in the near future, possibly as part of the OPAL project.

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. In the prior year, we reported that, during fiscal year 2018, the Department of Public Property (Public Property) implemented the Integrated Workplace Asset Management System (IWAMS), which contains various data on the city's real estate assets, including maintenance and improvement costs. In its response to last year's report, Finance Office management indicated that it was working with OIT to develop a process to reconcile the city's fixed asset ledger with IWAMS, thus enabling management to periodically validate the completeness and accuracy of the city's fixed asset inventory. During the current audit, on November 6, 2019, Finance Office management informed us that it was going to meet soon with OIT to review the IWAMS database and attempt to reconcile IWAMS to the city's fixed asset ledger; however, as of March 24, 2020, this reconciliation had not yet been performed.

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

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

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].

- Work with OIT to perform a reconciliation of the IWAMS database to the city's fixed asset records to identify any discrepancies and ensure the completion and accuracy of the city's records [500113.14].

Views of the Responsible Officials: Finance Office management have had multiple preliminary meetings with the GIS unit concerning our objective of reconciling the fixed asset ledger to IWAMS. During November we had a meeting with GIS that laid the framework for the reconciliation process and jumpstarted our analysis. We anticipated the analysis would be a cumbersome task and plan to follow up. The team will be following up GIS in another meeting to discuss the progress of the reconciliation in the near future.

2019-010 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.

In April 2019, Finance Office management filled the new position of director of compliance and internal controls, who, in June 2019, was tasked with overseeing the SAP update project. Per discussion with the director of compliance and internal controls, the SAP update project will involve two phases. Phase one consisted of the following steps: the identification of SAP owners across city departments; the development of a SharePoint site where all existing SAP documentation was uploaded and access to those files was granted to SAP owners; and the review of existing SAP documentation by SAP owners, who identified which SAPs were outdated. We were provided with the project's tracking schedule, which listed all existing SAPs, identified those SAPs deemed obsolete, and provided target deadlines for completing updates. Phase two is the actual update of SAPs, and the goal is to have all SAPs updated by fiscal year 2025, with an initial, prioritized focus on SAPs pertaining to central departments. The director of compliance and internal controls indicated that, after all SAPs are updated, Finance Office management will explore the compilation of a singular SAP manual and examine how to best embed regular SAP review and updates into its process.

Since September 2015, the Finance Office has updated 18 SAPs, with the most recent being an update of eight grant SAPs issued on February 19, 2020[21] and an addendum to SAP No. 4.1.1.e, *Imprest Funds*, issued on March 11, 2020, which created a debit card/imprest account for DPH in response to the COVID-19 health emergency. Also, the Finance Office estimated that the update to the ninth and final grant SAP – No. G-6-1, *Budgeting Revenue from Other Governments* – would be completed by March 31, 2020. Lastly, in response to the new OnePhilly payroll system implemented in March 2019, the Finance Office has a target timeline of May 31, 2020 for the completion of payroll related SAPs. It is understood that the target timelines may be delayed due to the COVID-19 health emergency.

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.[22] 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 have compromised its ability to conduct periodic reviews and updates to the SAPs.

Recommendation: We recommend that the Finance Office continue 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].

Views of the Responsible Official: We agree with your recommendations to continue the update of the city's SAPs. Management will continue to prioritize this initiative, within budget constraints.

[21] The eight grant SAPs were Nos. G 1-1, *Grant Closeouts*; G 2-1, *Collection and Deposit of Grant Receipts*; G 2-2, *Program Income*; G 3-1, *Expenditure Reconciliation*; G 5-1, *Subrecipient Monitoring Policy*; G 5-2, *Subrecipient Audit Requirements*; G 5-3, *Resolution of Subrecipient Audit Findings and Questioned Costs*; and G 5-4, *Subrecipient Unspent Funds.*
[22] The Philadelphia Home Rule Charter, Section 6-101.

2019-011 REPORTING - SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Special Education – Grants for Infants and Families (EI) – CFDA #84.181
Temporary Assistance for Needy Families (TANF) – CFDA #93.558
Medical Assistance Program (MH/ID/EI) – CFDA #93.778
Block Grants for Community Mental Health Services (MH) – CFDA #93.958

Condition: GAAU did not accurately disclose the total payments to subrecipients in the preliminary SEFA provided for audit. Our testing indicated that subrecipient expenditures for the major programs listed below in Table 1 were understated by $5.3 million. GAAU concurred with our findings and corrected the amounts reported for subrecipient expenditures. This condition was reported as finding number 2018-013 in the prior year report.

Table 4: Summary of the Subrecipient Expenditure Variances by Major Program

	CFDA #	Amount Per Auditee ($)	Amount Per Auditor ($)	Difference Over/(Under) stated ($)
Special Education – Grants for Infants and Families[23]	84.181	5,794,536	6,009,536	(215,000)
Temporary Assistance for Needy Families[1]	93.558	28,697,755	29,761,094	(1,063,339)
Medical Assistance Program	93.778	6,915,552	7,838,174	(922,622)
Block Grants for Community Mental Health Services	93.958	-	3,079,748	(3,079,748)
Total		**41,407,843**	**46,688,552**	**(5,280,709)**

Source: Office of the Controller

Criteria: 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: Failure to completely and accurately report subrecipient expenditures can result in noncompliance with terms and conditions of federal awards. It could, for example, lead to the city not correctly identifying subrecipients for audits and monitoring. In addition, grantors will not have accurate information relating to the total amount of federal awards that were expended by subrecipients.

Cause: For the TANF program, GAAU did not accurately report accounts payable related to subrecipients. For the MH/ID/EI, programs the Philadelphia Department of Behavioral Health Services (DBHIDS) did not timely respond to GAAU's request for departments to identify subrecipient expenditures. Additionally, the DBHIDS did not timely provide GAAU with the required expenditure reconciliations.

Recommendations: We recommend that GAAU reinforce with departments the need to provide complete and accurate information to assist in reporting the correct amounts for total payments to subrecipients. Also, GAAU should work with departments to ensure that expenditure reconciliations are received on timely basis.

[23] Funding for this program is passed through the PA Department of Human Services.

Additionally, GAAU should strengthen its SEFA preparation procedures to ensure that all payments to subrecipients are properly reported as subrecipient expenditures.

Views of the Responsible Officials: We agree the Departments must perform all expenditure reconciliations of federal funding between the amount recorded in the FAMIS accounting system with the amount reported to the Grantor. This will result in improved reporting of payments to subrecipients. Over the past several years GAAU has reinforced with Departments the need to comply with prescribed municipal policies to complete an expenditure reconciliation each time expenditures are reported to the Grantor during the award period.

Contact Person: Leon Minka, Accounting Manager, Finance (215) 686-6172

2019-012 SPECIAL TESTS - COMPLIANCE FINDING

Children and Youth Programs
Guardianship Assistance – CFDA #93.090
Stephanie Tubbs Jones Child Welfare Services Program – CFDA #93.645
Foster Care Title IV-E – CFDA #93.658
Adoption Assistance – CFDA #93.659
Medical Assistance Program – CFDA #93.778
Act 148 Pennsylvania Department of Human Services

Condition: The Department of Human Services (DHS) reported salaries and benefits costs that exceeded maximum allowable amounts by $457,716 on its fiscal 2019 County Children and Youth Social Service Programs' Fiscal Summary. The programs are funded through the Pennsylvania Department of Human Services (PaDHS).

Criteria: The PA Code, Title 55, Chapter 3170, section 3170.41 through 3170.43 provides for PaDHS to reimburse salaries up to the limit of the county civil service personnel compensation plan, or where applicable up to the limit of Commonwealth compensation levels. The Commonwealth will not participate in costs which exceed the maximum salary levels.

Effect: The fiscal 2019 County Children and Youth Social Services Programs' Fiscal Summary included ineligible expenditures of $457,716. Because DHS is reimbursed a percentage of the expenditures it reports to PaDHS, we determined that ineligible costs had resulted in excess reimbursement of $366,449. That amount represents questioned costs distributed to the following programs:

Table 5: Funding Source	Questioned Costs
CFDA #93.090	$ 3,111
CFDA #93.645	2,016
CFDA #93.658	65,122
CFDA #93.659	22,697
CFDA #93.778	121
PaDHS – Act 148	273,382
Total	**$366,449**

Cause: DHS does not have procedures in place to ensure that salaries and benefits requested for reimbursement do not exceed the maximum allowable amount per the Commonwealth Compensation Plan.

Recommendation: DHS should revise its procedures to ensure that amounts requested for reimbursement do not exceed the maximum allowable amount per the Commonwealth Compensation Plan.

Views of the Responsible Officials: plans and will request waivers from the state department in the future for occasions where salaries being charged to the State Act 148 invoice exceed allowable limits.DHS understands the importance of adhering to PaDHS approved salary compensation

Contact Person: Nadine Perese, Budget Director, DHS (215) 686-6136

2019-013 REPORTING - COMPLIANCE FINDING

Children and Youth Programs
Act 148 Pennsylvania Department of Human Services

Condition: The Department of Human Services (DHS) improperly reported $3,566,773 of Central Service Costs (indirect costs) on their Act 148 Invoice based on an indirect cost rate of 13.61 percent. DHS should have based its claim on a rate of 9.32 percent calculated by using actual expenditures for central services costs determined by the city.

Criteria: The PA Code, Title 55, Chapter 3170, section 3170.60(c) states that in order to claim administrative overhead costs, the program should submit prior year financial data (expenditure data for the most recent financial periods) in accordance with and in support of their cost allocation plan. Furthermore, when costs are claimed, they shall be specifically identified and shall be included in the cost allocation plan.

Effect: The Act 148 Invoice included ineligible expenditures of $3,566,773. Because DHS is reimbursed a percentage of the expenditures it reports to PaDHS, we determined that ineligible costs had resulted in excess reimbursement request of $2,602,006.

Cause: The Act 148 invoice submitted by DHS improperly calculated the central services costs to be allocated to various cost centers using a prior year indirect cost rate of 13.61 percent. Additionally, DHS did not identify the error during their review of submitted expenditures.

Recommendation: We recommend that DHS strengthen internal controls over its report preparation and review procedures for the Act 148 invoice to ensure that expenditures submitted to the Commonwealth are calculated in accordance with program requirements.

Views of the Responsible Officials: DHS plans to utilize the approved percentages in the City of Philadelphia Cost Allocation Plan to charge indirect costs to the State Act 148 invoice.

Contact Person: Nadine Perese, Budget Director, DHS (215) 686-6136

2019-014 REPORTING - COMPLIANCE FINDING

Children and Youth Programs
Act 148 Pennsylvania Department of Human Services

Condition: The Department of Human Services (DHS) improperly reported $1,768,574 in unsupported expenditures in its fiscal year 2019 Act 148 County Children and Youth Fiscal Summary (Fiscal Summary) submitted to the Pennsylvania Department of Human Services (PaDHS). DHS also improperly reported $178,308 of encumbered funds as expenditures on the Fiscal Summary. Funding for these programs is from PADHS.

Criteria: Pennsylvania Code, Title 55, Chapter 3140, sections 3140.42 through 3140.45, provide for PaDHS to reimburse program costs based on actual expenditures. In addition, the Office of Children Youth and Families Bulletin 3140-18-01 Fiscal Summary instructions for the County Children and Youth Social Services Programs, issued by PaDHS, specify the reporting of actual expenditures.

Cause: The Act 148 invoice submitted by DHS improperly included encumbrances and unsupported expenditures in their request for reimbursement. Additionally, DHS did not identify the errors during their review of submitted expenditures.

Effect: The Act 148 Invoice included ineligible expenditures of $1,946,882. Because DHS is reimbursed a percentage of the expenditures it reports to PaDHS, we determined that ineligible costs had resulted in excess reimbursement request of $1,201,065.

Recommendation: We recommend that DHS strengthen internal controls over its report preparation and review procedures to ensure that only expenditures which are properly supported are included in the Fiscal Summary.

Views of the Responsible Officials: DHS understands the importance of strengthening internal controls to ensure that only actual expenditures are reported for reimbursement to the State for Act 148 Country Children & Youth funding reimbursement and plans to do so in the following fiscal years, internally as well as externally with expenditures from other departments.

Contact Person: Nadine Perese, Budget Director, DHS (215) 686-6136