

# Performance Audit of the Philadelphia Sheriff's Office Custodial Accounts



**City Controller**  
**Rebecca Rhynhart**  
May 2022



# CITY OF PHILADELPHIA

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REBECCA RHYNHART  
City Controller

Thursday, May 12, 2022

The Honorable Rochelle Bilal, Philadelphia Sheriff  
Office of the Sheriff  
100 South Broad Street, 5<sup>th</sup> Floor  
Philadelphia, PA 19110

Dear Sheriff Bilal,

Attached is my office's audit of the Sheriff's Office custodial accounts. The audit was conducted pursuant to Section 6-400(c) of the Philadelphia Home Rule Charter. The objectives of the audit were to review the internal control procedures and accounting records for the custodial accounts to determine compliance with specified provisions established by the City. To assist in this work, the Controller's Office engaged Mercadien, P.C., Certified Public Accountants.

The majority of the audit period, from July 1, 2015 through December 31, 2019, was conducted under your predecessor, Jewell Williams, with one year, January 1, 2020 through December 31, 2020, under your tenure as sheriff.

As detailed in the attached audit, we found internal control and compliance deficiencies, many of which were significant, in the Sheriff's Office management, operation, and use of its custodial accounts. This report outlines operational changes that must be made to bring the Sheriff's Office into compliance with the Home Rule Charter. I encourage you to develop a comprehensive corrective action plan with a timeline and milestones for each finding and to work expeditiously to remediate the findings in the report.

My office is available to meet and discuss any corrective action plan you develop in response to the audit.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Rebecca Rhynhart'. The signature is stylized with a large 'R' and a long horizontal stroke.

Rebecca Rhynhart  
City Controller



## **PERFORMANCE AUDIT OF THE PHILADELPHIA SHERIFF'S OFFICE CUSTODIAL ACCOUNTS**

### **EXECUTIVE SUMMARY**

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The Philadelphia Office of the Sheriff is responsible for managing the sale process for court-ordered mortgage and tax foreclosures of property, including collecting the proceeds of these sales and fees related to administering the sales. Prior to COVID-19, the Sheriff's Office handled between 4,200 and 4,800 new foreclosures and between 4,000 and 4,200 tax sales each year, resulting in millions of dollars under the Sheriff's Office management. These funds are then deposited into bank accounts, called custodial accounts. In the summer 2019, the Office of the City Controller became aware that the City of Philadelphia Finance Department and Sheriff's Office had engaged in preliminary conversations regarding transferring certain functions and custodial accounts from the Sheriff to the City. As such, the Controller's Office requested that no transfer of accounts or functions occur until after a proper and complete audit of the custodial accounts was conducted.

Pursuant to Section 6-400(c) of the Philadelphia Home Rule Charter, the Controller's Office undertook a performance audit of the Sheriff's Office custodial accounts from July 1, 2015 through December 31, 2019 (Initial Period) under Sheriff Jewell Williams's Administration. The audit scope was expanded to include the first year of Sheriff Rochelle Bilal's Administration, January 1, 2020 through December 31, 2020 (Expanded Scope). The Controller's Office engaged Mercadien, P.C. Certified Public Accountants to conduct the engagement.

The audit reviewed the Sheriff's Office's internal control procedures and accounting records to determine whether the Sheriff's Office established and implemented adequate accounting procedures to ensure accurate tracking of fee revenue and disbursements, followed the City's standard financial, procurement and other processes, and reviewed the custodial accounts for any abnormal financial activity.

The audit found internal control and compliance deficiencies, many of which were significant, in the Sheriff's Office management, operation and use of its custodial accounts, including inadequate accounting procedures and non-compliance with the City's standard financial, procurement and other processes. Additionally, auditors were unable to determine whether there was abnormal financial activity in the custodial accounts due to a lack of necessary documentation provided.

## **KEY FINDINGS**

Please note: all findings detailed in the report are applicable to both the Initial Period and Expanded Scope of the audit period.

The Sheriff's Office does not maintain a comprehensive accounting system, or general ledger, to track the overall balance of the accounts or document complete records of financial transactions. Moreover, the Sheriff's Office does not maintain adequate recordkeeping procedures for the fee revenue collected and maintained in accounts, nor the revenue that should be remitted to the City. As such, the Sheriff's Office is unable to accurately account for the fee revenue it collects, and the Office of the Director of Finance is unable to provide full oversight over financial activities of the Sheriff's Office. While the Sheriff's Office does provide some revenue to the City, our audit found that it is unlikely that the Sheriff's Office remits all applicable revenue to the City. Additionally, the Sheriff's Office is unable to provide an adequate audit trail for its custodial accounts and records are not kept in a way that enable the Controller's Office to properly fulfill the audit function over the accounts.

As determined by the City Solicitor's Office, all spending by the Sheriff's Office, including spending related to conducting property sales, should be included in its approved budget appropriation from the City. The Sheriff's Office charges advertising costs to other custodial accounts instead of using appropriated funds as required, . Additionally, the audit found that the Sheriff's Office spends money on discretionary purchases with funds that it collects on behalf of the City without appropriations for this spending. The Sheriff's Office makes purchases from the IT and Accounting account, a custodial account funded by transfers from other custodial accounts, primarily the Non-Tax Revenue Account. The Non-Tax Revenue Account is funded by transfers from other custodial accounts (except the IT and Accounting Account). The IT and Accounting Account exists only to provide funds for spending outside of the City's budget appropriation process. Based on banking activity reviewed, the amount of spending out of the IT and Accounting account for the Initial Period was approximately \$8.77 million and approximately \$700,000 during the Expanded Scope. Additionally, the Sheriff's Office represented that it only complies with the City's procurement policies for spending of appropriated dollars despite being subject to the City's contract and procurement policies for all contracts. The Sheriff's Office was unable to provide any evidence that it complies with the City's contracting and procurement policies and procedures for purchases paid through non-appropriated accounts.

Other findings include arbitrary advertising practices, lack of formal written policies and procedures, undocumented transfers between custodial accounts, inadequate segregation of duties and former employees not removed from online banking access. Additionally, we observed that the Sheriff's Office's bank reconciliation process is inadequate due to the lack of a recorded book balance to reconcile to and therefore cannot be relied upon.



## **RECOMMENDATIONS**

Given the Sheriff's Office's management and administration of the custodial accounts, including inadequately documenting and maintaining accounting records for the custodial accounts, not remitting all fees it has collected to the City as required, and indiscriminately spending from the custodial accounts, the Sheriff's Office is operating outside of the checks and balances established in the Home Rule Charter meant to protect taxpayer funds from mismanagement or misuse. To improve the management and administration of the custodial accounts, the Controller's Office made recommendations to the Sheriff's Office including:

- Implement a comprehensive accounting system based on a double-entry methodology that functions like a general ledger;
- Remit all fee revenue it collects to the City;
- Ensure all spending is accounted for in the office's budget appropriation, as well as reported to, reviewed by and approved by the City;
- Cease use of custodial funds for discretionary purposes unauthorized by the City; and
- Develop comprehensive policies and procedures governing the operations of the office.

Additional recommendations can be found in the body of this report.

May 12, 2022

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

Dear Ms. Rhynhart,

We are pleased to provide this performance audit of the Philadelphia Sheriff's Office ("Sheriff's Office") Custodial Accounts for the initial period July 1, 2015, through December 31, 2019, and the expanded scope period of January 1, 2020, through December 31, 2020. A synopsis of the results of our work is provided in the executive summary section of the report. The report details the project overview, findings, and recommendations.

We believe our recommendations, if implemented by management, will help improve the operations of the Sheriff's Office. We would like to acknowledge the assistance and cooperation provided by the City of Philadelphia, Controller's Office and Sheriff's Office personnel during the course of our performance audit.

*Mercadieu, P.C.*  
*Certified Public Accountants*

**PHILADELPHIA SHERIFF'S OFFICE**

Performance Audit

Initial Audit Period

July 1, 2015 - December 31, 2019

Expanded Scope Period

January 1, 2020 - December 31, 2020



# **PHILADELPHIA SHERIFF’S OFFICE**

Performance Audit  
July 1, 2015 - December 31, 2019  
January 1, 2020 - December 31, 2020

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## **EXECUTIVE SUMMARY**

Mercadien, P.C., Certified Public Accountants (“Mercadien”, “we” or “us”) has completed a performance audit (the “audit”) of the Philadelphia Sheriff’s Office (“Sheriff’s Office”) custodial accounts, under the supervision of the City of Philadelphia (“City”) Office of the Controller (“Controller’s Office”) for the period July 1, 2015, through December 31, 2019 (“Initial Period”). It should be noted the Initial Period was under the prior administration of Jewell Williams. The objectives of the audit were to review the internal control procedures and accounting records for the custodial accounts to determine compliance with specified provisions established by the City. These provisions include the Philadelphia Home Rule Charter, the Philadelphia Code, applicable Memos of Understanding, Finance Department accounting directives and other financial, procurement, contracting and legal processes of the City. In March 2020, the City of Philadelphia, including the Sheriff’s Office, experienced a prolonged period of limited in-person operations due to the COVID-19 pandemic. Due to the passage of time and lack of documentation made available to us for the Initial Period, under the direction of the City Controller, our scope was revised to include the first year of Sheriff Rochelle Bilal’s administration, January 1, 2020, through December 31, 2020 (“Expanded Scope”).

The Sheriff’s Office maintained 22 custodial accounts during the Initial Period, and 16 custodial accounts during the Expanded Scope as further described in the Background section of this report. To efficiently plan and evaluate the operating performance of the Sheriff’s Office functions, as it relates to their custodial accounts, we developed a performance audit plan and performed testing to determine compliance with specified provisions required by the City. Some of our procedures included: inspection of documentation provided by the City and the Sheriff’s Office, transaction testing of deposits, expenditures and transfers, performance of inquiries of Sheriff’s Office and City personnel, walkthroughs of specific operations and processes with Sheriff’s Office personnel, and on-site observations. As a result of these procedures, we identified findings and developed recommendations related to the Sheriff’s Office’s noncompliance with specified City provisions as well as internal control deficiencies, including some significant deficiencies.

As a result of performing our procedures, the following chart summarizes key findings and recommendations. All findings are applicable to both the Initial Period and Expanded Scope period.

<b>Number</b>	<b>Finding &amp; Recommendation Description – Compliance</b>
2020 – 001	Lack of a Comprehensive Accounting System; Inability to Produce Complete Financial Records
2020 – 002	Inadequate Accounting of Fee Revenue
2020 – 003	Unauthorized Spending from Custodial Accounts
2020 – 004	Arbitrary Advertising Practices
2020 – 005	Custodial Spending Fails to Comply with the City’s Contracting and Procurement Policies
2020 – 006	Problematic Voided Check Process for IT & Accounting Custodial Account

**EXECUTIVE SUMMARY (CONTINUED)**

<b>Number</b>	<b>Finding &amp; Recommendation Description – Internal Control Deficiencies</b>
2020 – 007	Lack of Accountability Over Custodial Funds (Significant Deficiency)
2020 – 008	Lack of Formal Written Policies and Procedures- Organization-Wide (Significant Deficiency)
2020 – 009	Inability to Provide Requested Supporting Documentation and Insufficient Supporting Documentation (Significant Deficiency)
2020 – 010	Former Employees Not Removed from Online Banking Access (Significant Deficiency)
2020 – 011	Inadequate Segregation of Duties (Significant Deficiency)
2020 – 012	Undocumented Transfers Between Custodial Accounts (Significant Deficiency)
2020 – 013	Check / Transfer Request Form Inconsistently Followed (Significant Deficiency)
2020 – 014	Lack of a Formal Training Program
2020 – 015	Lack of Sufficient Cross-Training of Employees
<b>Number</b>	<b>Observations &amp; Recommendation Description</b>
Observation 1	Inadequate Bank Reconciliation Process
Observation 2	Sheriff's Office's Operations Limit City's Ability to Provide Adequate Oversight Per the Home Rule Charter

## **FINDINGS & RECOMMENDATIONS- Compliance**

### **Finding 2020-001 – Lack of a Comprehensive Accounting System; Inability to Produce Complete Financial Records**

The Philadelphia Sheriff's Office is a city department and county agency led by an independently elected official. The Sheriff's Office has a fiscal responsibility related to Sheriff's Sales, or court ordered property sales for foreclosures, and certain other law enforcement services. The Sheriff's Office incurs the costs for Sheriff's Sales and collects the proceeds from Sheriff's Sales, as well as fees related to Sheriff's Sales and other duties the agency performs. Monies related to Sheriff's Sales are kept in several bank accounts, called custodial accounts. Given the nature of these accounts, including fees that must be remitted to the city or monies held on behalf of individuals whose properties are sold at Sheriff's Sales, comprehensive financial records should be kept for the individual properties sold, as well as the office's custodial accounts<sup>1</sup>.

While the Sheriff's Office uses two software programs, Civil System and County Suite<sup>2</sup>, to record financial activity related to individual Sheriff's sale properties, the programs are transactional in nature and are not capable of generating balance sheet detail. Neither program is, nor has the functionality to be used as, a comprehensive accounting system. A comprehensive accounting system or general ledger is a means for tracking an entity's total financial accounts with a complete record of financial transactions (debits and credits). A comprehensive accounting system allows for complete and accurate financial information to be obtained for the completion of the City's financial statements. This kind of a system would allow for debits and credits to be tracked, as well as transfers between accounts.

**Condition:** The Sheriff's Office maintains a bank account for each custodial account and tracks certain transactions for the accounts, but not overall account balances.

**Criteria:** The Philadelphia City Solicitor issued a legal opinion to the City Controller noting that “[m]oney held on behalf of lienholders . . . and on behalf of property owners entitled to the excess proceeds of Sheriff's Sales . . . is *not* “City” money . . . [but] accounts holding such funds are subject to auditing by the City Controller under Section 6-400 of the Charter.” As such, records of custodial accounts must be kept in an auditable fashion for the Controller to properly fulfill the functions of the office.

*Philadelphia Home Rule Charter § 6-101 – Accounts:* The Director of Finance . . . shall: . . . (b) Have complete supervision over the keeping of detailed accounting records by officers, departments, boards, commissions, agencies or others receiving appropriations from the City . . . [and] (c) Supervise the accounting for all moneys received and receivable by the City from any source whatever. . . .

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<sup>1</sup> During the initial scope of the audit, the Sheriff's Office had 22 custodial bank accounts. During the expanded scope, the Sheriff's Office had 16 custodial bank accounts.

<sup>2</sup> The County Suite System is also known as Teleosoft and formerly called “J.E.W.E.L.L.”, Judicial Enforcement Writ Execution Legal Ledger.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

[ANNOTATION]–2. Detailed accounting records are to be maintained by the various officers and agencies receiving City appropriations . . . . [T]he City Controller will have to audit the records maintained and they should reflect those items which the City Controller will have to look for. . .

Philadelphia Home Rule Charter § 6-400 – Functions: The Auditing Department shall have the power and its duty shall be to perform the following functions:

\* \* \*

(c) Audits of the Financial Affairs of Officers, Departments, Boards, Commissions and Other Agencies. The Department shall audit at least annually the affairs of every officer, department, . . . and, as far as may be necessary, the accounts of any other agency receiving an appropriation from the City. . . . Audits shall include all collections made on behalf of the City by an officer, department, board, commission or other agency. . . .

Special audits of the affairs of any officer, department, board, commission or agency may be made whenever in the judgment of the City Controller they appear necessary . . . .

[ANNOTATION] . . . 2. The Auditing Department is the official agency of the City for auditing annually every officer and agency, City or otherwise, receiving appropriations from the City. Collections as well as disbursements are to be audited.

\* \* \*

4. As a result of its audits, the Auditing Department will obtain detailed information of the operations of every officer and agency of the City. Such information may enable it to suggest economies and improved methods of operation and the Department is authorized to make recommendation towards this end.

Philadelphia Home Rule Charter § 6-405 – Access to Records: The City Controller shall have the right of access at all times to the financial records of every officer, department, board or commission of the City and any other governmental agency to which appropriations are made by the City. [ANNOTATION] The City Controller is given the right of access to the records of every officer and agency receiving appropriations from the City so that he may properly fulfill the functions of his office.

**Cause:** The Sheriff's Office does not maintain a comprehensive accounting system, general ledger system or double-entry bookkeeping system.

**Effect:** The lack of a comprehensive accounting system impedes the Sheriff's Office's ability to provide accurate financial reporting and to maintain accurate account balances. It also increases the risk of waste, fraud, or abuse occurring and not being detected in a timely manner.

While the Sheriff's Office stated it conducts bank reconciliations, the lack of a comprehensive accounting system that provides account balances calls into question the validity of the bank reconciliations being performed.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

The Sheriff's Office is unable to provide an adequate audit trail for its custodial accounts' financial activity. Records are not kept in a way that enables the Controller's Office to properly fulfill the audit function over the Sheriff's Office's custodial accounts.

**Recommendation:** The Sheriff's Office should implement a comprehensive accounting system based on double-entry methodology that functions like a general ledger.

A comprehensive accounting system will:

- Provide an accurate record and audit trail of all financial transactions in accordance with the Home Rule Charter;
- Provide records necessary in the City's preparation of financial statements;
- Enable reporting on all financial activity, monitoring expenses against budget, and helps users identify unusual transactions immediately, assisting in maximizing an organization's internal controls; and
- Allow for the Sheriff's Office to perform monthly bank reconciliations adequately, accurately, and efficiently for each of the custodial accounts in a more automated process.

### **Finding 2020-002 – Inadequate Accounting of Fee Revenue**

The Sheriff's Office charges fees for conducting tax lien sales, foreclosure sales, and other services as established under City law and set forth in Section 10-1002 of The Philadelphia Code. All revenues received by the Sheriff's Office from fees or the payment of costs for the provision of services by the Sheriff's Office in carrying out any of its duties are revenues of the City. Money held on behalf of lienholders and on behalf of property owners entitled to the excess proceeds of Sheriff's Sales (escrow funds), is not subject to the above requirements.

**Condition:** The Sheriff's Office does not maintain adequate recordkeeping procedures to account for the fee revenue collected, maintained in custodial accounts, and remitted to the City.

**Criteria:** The Philadelphia City Solicitor issued a legal opinion to the City Controller reiterating well-settled law that the Sheriff's Office must comply with the Home Rule Charter, including Charter requirements regarding the receipt of City revenue. "Most significantly, *all* revenues received by the Sheriff's Office from fees or the payment of costs for the provision of services by the Office in carrying out any of the office's duties are revenues *of the City*."

Philadelphia Home Rule Charter § 6-101 – Accounts: The Director of Finance . . . shall: . . . Supervise the accounting for all moneys received and receivable by the City from any source whatever.

[ANNOTATION]–2. Detailed accounting records are to be maintained by the various officers and agencies receiving City appropriations, . . . .

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

*Philadelphia Home Rule Charter § 6-200 – Powers and Duties in General:* [The Revenue Department] shall exercise the powers and perform the duties heretofore exercised and performed by the Receiver of Taxes . . . in the receipt and collection of taxes, license fees and other moneys due the City.

[ANNOTATION] . . . [The Revenue Department] is made responsible for the collecting of all moneys payable and due to the City. Centralization of revenue collecting functions will facilitate accountability for revenues to an extent not heretofore possible or experienced.

*Philadelphia Home Rule Charter § 6-204 – Assignment of Employees or Agents to Other Departments, Boards and Commissions:* . . . [T]he [Revenue] Department shall designate one or more of the employees of such other department . . . as the agents of the Department who may receive money on behalf of the City. Such agents . . . shall daily transmit to the [Revenue] Department all moneys received, together with copies in duplicate of the receipts issued by them.

*Philadelphia Home Rule Charter § 6-300 – Custodian of City Funds:* The City Treasurer shall receive from the [Revenue Department] daily all moneys received by that Department from any source and shall make daily deposits of such moneys in such banks or institutions as may be designated by the Council. . . .

[ANNOTATION]– . . . Moneys collected by the [Revenue Department] are to be turned over to the City Treasurer and he is to deposit them with depositories designated by the Council.

**Cause:** The Sheriff's Office did not adequately document fee collection to confirm the accurate transmission of all fee revenue to the City in any of the years audited.

**Effect:** Revenues reported by the City with respect to the Sheriff's Office do not accurately reflect the actual revenue collections made by the Sheriff's Office. The Sheriff's Office likely does not remit all revenues and fees to the City as required. The Office of the Director of Finance is unable to provide full oversight over financial activities of the Sheriff's Office as a result.

**Recommendation:** The Sheriff's Office should remit all fee revenue it collects to the City. The Sheriff's Office needs a comprehensive financial accounting system in place to accurately record and report financial activity. The system needs to produce financial reporting with respect to fee revenue that would enable the Director of Finance to perform an analytical review to determine the actual fee revenue collected and remitted to the City per the Home Rule Charter. This would allow the City to set realistic budget projections, provide adequate oversight and monitoring of revenue fees reported, and ensure that the City's financial statements accurately reflect the activity of the Sheriff's Office.



## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

### **Finding 2020-003 – Unauthorized Spending from Custodial Accounts**

While the Philadelphia Sheriff is an elected City official, the Sheriff's Office is an agency of the City. The Sheriff's Office is subject to the City's budget process for General Fund appropriated dollars, receiving General Fund appropriations for budgeted expenditures such as personnel, purchased services, materials and supplies, equipment, and contributions, indemnities and taxes. All spending, including spending on behalf of the custodial accounts it maintains for the receipt and disbursement of funds related to its duties of conducting property sales, by the Sheriff's Office should be included in its approved budget appropriation from the City.<sup>3</sup>

**Condition:** The Sheriff's Office spends money on discretionary purchases/purposes with funds that it collects on behalf of the City and maintains in its custodial accounts. The Sheriff's Office makes purchases from the IT & Accounting account, a custodial account funded by transfers from other custodial accounts, primarily the Non-Tax Revenue account. The Non-Tax Revenue account is primarily funded by transfers from the other custodial accounts (with the exception of the IT & Accounting account).

The Sheriff's Office's expenditures from the IT & Accounting custodial account are not reported to or reviewed or approved by the City. These expenditures include:

- Purchases typically allocated for as part of the City's budget process, such as billboard rentals, consulting services, software systems and maintenance, and office supplies;
- Costs for legal and lobbying fees. Note: The Sheriff's Office could not produce any documentation regarding the purpose(s) for the legal services procured;
- Purchases of items for which the City would not allocate funds. For example, the Sheriff's Office stated that facility renovations were included in the City's approved budget, however, the purchase of furniture was not. Subsequently, Sheriff's Office staff purchased new furniture through the IT & Accounting custodial account; and
- Between 2015 and 2016, the Sheriff's Office used approximately \$49,000 in City appropriations to obtain the software license for County Suite. However, we also noted approximately \$1.3 million in expenditures between 2015 and 2019 from the IT & Accounting account payable to Teleosoft, Inc., the County Suite system vendor. No documentation was provided related to these types of expenditures for the expanded scope.

In addition to spending from the IT & Accounting custodial account, the Sheriff's Office also charges advertising costs to other custodial accounts for the advertising costs related to individual properties. See additional detail regarding the arbitrary nature of advertising costs in Finding 2020-004. Advertising costs should be paid using appropriated funds and not be paid out of custodial accounts.

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<sup>3</sup> With the exceptions noted by the City Solicitor, i.e., the payment of money to non-City lienholders or property owners from the proceeds of Sheriff's Sales need not be made against appropriations because such payments do not constitute expenditures of "City" money.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

**Criteria:** The Philadelphia City Solicitor issued a legal opinion to the City Controller reiterating well-settled law that the Sheriff's Office must comply with the Home Rule Charter, including Charter requirements regarding spending by City offices and departments. In particular, the Charter requires that "spending by all City offices and departments, including the Sheriff's Office, be specifically authorized by appropriations . . . in the City's annual operating budget ordinance."

*Philadelphia Home Rule Charter § 2-300 – The Annual Operating Budget Ordinance:* . . . (2) The annual operating budget ordinance . . . shall make appropriations to the Council, the Mayor, and all officers, departments, boards and commissions which form a part of the executive or administrative branch of the City government, and for all other items which are to be met out of the revenue of the City. All appropriations shall be made in lump sum amounts . . . .

*Philadelphia Home Rule Charter § 6-101 – Accounts:* The Director of Finance . . . shall: (a) Keep separate accounts of each item of appropriation made to any . . . department . . . . Each such account shall show the amount of the appropriation, the amounts paid therefrom, the unpaid obligations against it, and the unencumbered balance. . . .

*Philadelphia Home Rule Charter § 6-104 – Contracts:* Before any contract shall be effective, the Director of Finance shall approve it as to the availability of appropriated funds. He shall designate on every such contract, the appropriation under which it is made and shall give it a number in the order of its date. He shall, in the order in which each contract is numbered, charge the appropriation out of which expenditures thereunder will be made.

[ANNOTATION] The Director of Finance is required to approve all contracts as to the availability of funds so that obligations will not be incurred in excess of available appropriations. . . . [P]rudent accounting requires funds in the appropriation to be set aside for the obligation incurred.

*Philadelphia Home Rule Charter § 8-101 – Payment of Moneys Out of the City Treasury:* (1) All payments out of the City Treasury shall be by the check of the City Treasurer issued upon order of the Auditing Department.

[ANNOTATION] 1. The procedure detailed for the payment of moneys out of the City Treasury is intended to prevent improper disbursements and to assure the strictest accountability for such funds as are disbursed. The safeguards provided for include requirements that funds shall be disbursed only by checks of the City Treasurer, only upon proper requisitions approved by the Director of Finance, and only upon approval and the order of the Auditing Department.

\* \* \*

5. The Director of Finance may disapprove a requisition if it fails to conform to current budgeting orders or if appropriations are unavailable to meet it. . . .

*Philadelphia Home Rule Charter § 10-104 – Fees:* No officer or employee of the City shall collect any fees or perquisites for his own use, but all such fees or perquisites, collectible under law, shall be paid into the City Treasury.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

**Cause:** During multiple interviews, Sheriff's Office's management stated that it believes fees collected from the public for services provided are funds to be used at its discretion (see Finding 2020-002). The City's oversight of the Sheriff's Office's spending is limited.

**Effect:** Not all financial activity related to revenue and spending conducted by the Sheriff's Office is accounted for in the City's budget. Therefore, the Sheriff's Office is not in compliance with the Home Rule Charter. The spending outside of the City's budget process and making purchases without the approval of any other entity, increases the risk for fraud, waste, mismanagement and/or abuse.

By spending outside of the City's procurement process, the Sheriff's Office undermines the Controller's Office's ability to review and approve expenditures and encumbrances as related to the contracts.

Due to lack of documentation provided, we could not verify the total amount spent outside of the City's budget process.

**Recommendation:** All spending should be included in the budget appropriation approved by the City. All spending should be reported to, reviewed by, and approved by the City. The Sheriff's Office should not use the custodial accounts for discretionary purposes or purposes unauthorized by the City.

### **Finding 2020-004 – Arbitrary Advertising Practices**

The Sheriff's Office is required to advertise Sheriff's Sales of foreclosed properties by publishing in a newspaper of general circulation and in a legal publication. Prior to COVID-19, the Sheriff's Office handled between 4,200 and 4,800 new foreclosures a year and between 4,000 and 4,200 tax sales a year. Due to the Covid-19 pandemic, the last Sheriff's Sale occurred in March of 2020 and did not resume for the remainder of the calendar year. However, we did observe that advertising for the sales resumed on or about August 2020 in anticipation of sales being resumed in September. While the Sheriff's Office complies with the requirement to advertise in a paper of general circulation and a legal publication, it additionally advertises in community and niche publications. Each advertising expenditure includes a consulting fee paid to an outside communication firm to place ads and is allocated only between the properties being listed for the first time for that sale. Once advertising expenditures have been allocated to a property, no further advertising expenses are allocated regardless of the number of subsequent sales in which they are included. The contract with the communications firm that placed ads on behalf of the Sheriff's Office for Sheriff's Sales expired in March 2020 and was not renewed by Sheriff Bilal. However, Sheriff Bilal entered into a new contract with an outside consultant for "Communications Consultation and Media Advertisement" services.<sup>4</sup>

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<sup>4</sup> We were provided a copy of the contract with TML, which was initially only for a three-month period with options for renewal. However, we were unable to determine whether the same services provided by the old consultant were being required of the new consultant.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

### **Condition:**

- ***Arbitrary Advertising Process:*** The advertisements for property sales consistently exceed the requirements as defined in the Criteria section below without any articulated basis for the variable amount of advertising per property and/or publications used. For example, as part of our sample testing for mortgage foreclosure sales, one property initially listed for sale in 2019 and subsequently sold in 2020, had 35 individual advertising entries, with 16 different vendors, totaling \$3,355.48 charged against the property. Another property initially listed for sale in 2019 and subsequently sold in 2020, had 22 individual advertising entries, with 10 different vendors, totaling \$2,130.93 charged against the property.
- ***Advertising Commission:*** Per discussion with Sheriff's Office staff, it was stated that during the Initial Period, the Sheriff's Office contracted with a communication firm to place some of the advertising in exchange for a 15% commission. Subsequently, the Sheriff's Office and the firm agreed to a reduced commission of 12%, with the Sheriff's Office retaining the remaining 3% for its work on the advertising formatting. The advertising vendors provided a 15% discount that was used to pay the commissions- i.e., 85% of the advertising invoice paid to the advertising vendor, 12% paid to the consultant, 3% paid to the Sheriff's Office.
- ***Advertising for Property Sales Paid Out of Custodial Funds:*** The advertising cost is paid out of the custodial accounts instead of City budget appropriations.

**Criteria:** Rule 3129.2 of the Pennsylvania Rules of Civil Procedure states in part: "Notice containing the information required by subdivision (b) shall also be given by publication by the sheriff once a week for three successive weeks in one newspaper of general circulation in the county and in the legal publication, if any, designated by rule of court for publication of notices, the first publication to be made not less than twenty-one days before the date of sale. No additional publication shall be required." *Pennsylvania R. Civ. P. 3129.2.*

The Philadelphia City Solicitor issued a legal opinion to the City Controller reiterating well-settled law that the Sheriff's Office must comply with the Home Rule Charter, including Charter requirements regarding spending by City offices and departments. "For example, expenditures by the Sheriff's Office in furtherance of Sheriff's Sales (e.g., advertising expenses) must be made by payment from the City Treasury based on funding that has been appropriated to the Sheriff in the operating budget ordinance. Like other expenditures, payments must be authorized by the Director of Finance and the City Controller, which includes a review of invoices to ensure that payments are made under a valid contract and against available appropriations."

**Cause:** The Sheriff's Office advertises Sheriff's Sales without consideration of a per property budget and with no standard advertising guidelines in place to follow. There are no written policies and procedures in place that define the steps to be taken in advertising Sheriff's Sales. Based on multiple interviews, the Sheriff's Office stated it felt it would reach more potential buyers who would not be reached solely via the legal publication or the general circulation newspaper.

The Sheriff's Office utilizes an outside consultant to function as a go-between with the advertising vendors. The Sheriff's Office stated that the 3% fee noted above is to recover the cost of employees' time spent formatting the property data into a printable format.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

**Effect:** An arbitrary process for determining advertising beyond the requirements in the Rules of Civil Procedure results in variable and potentially excessive advertising costs. Increased advertising costs directly reduces the amount ultimately due back to the original property owner. The utilization of an outside consultant adds additional costs, which further reduces the amount ultimately due back to the original property owner, without justification by standard advertising guidelines. Due to the lack of documentation, we could not determine the full spending for advertising costs.

The Sheriff's Office prepares the sale property information into a template that is used by the advertising vendor. For this work, the Sheriff's Office retains 3% of the fee paid to the communications consultant. This fee pays for the time and work of Sheriff's Office staff – a cost already provided for by payroll Class 100 appropriations. Therefore, the Sheriff's Office is, in essence, being paid twice for the same work.

**Recommendation:** In order to ensure that the Sheriff's Office incurs reasonable advertising expenditures associated with Sheriff's Sales, we recommend the following:

- Develop internal policies and procedures for advertising practices inclusive of criteria for contracts required for selected advertisers,
- Develop a budgeting process which designates the acceptable publications to fulfill the requirements and reflects provisions for advertising costs based on a rotation of community papers and justify the benefits of doing so, and
- Explore the possibility of either bringing advertising functions in-house or utilizing the City's advertising function to eliminate the costs associated with the usage of a third-party advertisement placement agency.

Additionally, all Sheriff's Office spending should be accounted and planned for in the department's budget appropriation.

## **Finding 2020-005 - Custodial Spending Fails to Comply with the City's Contracting and Procurement Policies**

The Sheriff's Office enters into contracts with vendors for the purchase of goods and services. As a City agency, the contracts that the Sheriff's Office enters into are subject to the City's contracting and procurement policies. The Sheriff's Office represented that spending from the IT & Accounting custodial account and the Non-Tax Revenue custodial account may utilize the City's eligible vendors without participating in the City's procurement process. Additionally, the Sheriff's Office stated it may just procure the goods or services directly with vendors not pre-approved through the City's procurement process, which includes contract reviews performed by the City's Law Department.

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

**Condition:** Despite being subject to the City's contract and procurement policies for all contracts, the Sheriff's Office represented that they only comply with the City's procurement policies for spending of appropriated dollars. As discussed in Finding 2020-003, the Sheriff's Office expends monies from the IT & Accounting custodial account for unauthorized purchases. The Sheriff's Office did not provide any evidence that it complies with the City's contracting and procurement policies and procedures for purchases paid through the custodial accounts.

**Criteria:** The Philadelphia City Solicitor issued a legal opinion to the City Controller reiterating well-settled law that the Sheriff's Office must comply with the Philadelphia Code and the Home Rule Charter, including requirements regarding execution of contracts and procurement.

"In particular, the Charter requires that certain contracts be issued only pursuant to detailed lowest responsible bidder or best value bidding requirements. Charter § 8-200. For most contracts not subject to such requirements, Chapter 17-1400 of The Philadelphia Code imposes a variety of requirements with respect to, *inter alia*, the posting of contracting opportunities, the posting of contract awards, the disclosure of certain campaign contributions by contract applicants and disqualification of contractors who have exceeded contribution limits. In addition, the Charter requires that all City contracts be approved by the Law Department, in order to ensure legality, protect the City's legal interests, and promote consistency in City contracting practices. Charter § 4-400(c)."

**Cause:** During interviews, the Sheriff's Office represented that only goods and services purchased with appropriated dollars follow the City's procurement process. Purchases of goods and services made from the custodial accounts do not follow the City's procurement process.

**Effect:** The impact of not complying with applicable sections of relevant contracting and procurement regulations noted above could result in the utilization of unapproved vendors, and/or improprieties, and does not ensure transparency, standardization, and confidentiality as intended by the City's procurement policies and procedures.

By spending outside of the City's procurement process, the Sheriff's Office undermines the Controller's Office's ability to review and approve expenditures and encumbrances as related to the contracts.

**Recommendation:** All procurement made by the Sheriff's Office should comply with applicable laws (Home Rule Charter and Philadelphia Code).

## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

### **Finding 2020-006 – Problematic Voided Check Process for IT & Accounting Custodial Account**

As discussed above, the Sheriff's Office does not maintain a comprehensive accounting system. Each custodial account is maintained in a separate bank account. The two software systems utilized by the Sheriff's Office can provide limited transactional detail by account.

**Condition:** The transaction data reports for the IT & Accounting custodial account, provided by the Sheriff's Office, and extracted from the Sheriff's Office's Civil System software system, reflect that every check issued from the account has been voided. This account is used by the Sheriff's Office to make purchases outside of the City's budget, accounting, contracting, and purchases processes. Despite the account showing every check being voided, most of the checks were actually paid out.

**Criteria:** *Philadelphia Home Rule Charter § 6-101 – Accounts:* [ANNOTATION]– Detailed accounting records are to be maintained by the various officers and agencies receiving City appropriations...

*Philadelphia Home Rule Charter § 6-400 – Functions:* The Auditing Department shall have the power and its duty shall be to perform the following functions:

\* \* \*

(c) Audits of the Financial Affairs of Officers, Departments, Boards, Commissions and Other Agencies. The Department shall audit at least annually the affairs of every officer, department, . . . and, as far as may be necessary, the accounts of any other agency receiving an appropriation from the City. . . . Audits shall include all collections made on behalf of the City by an officer, department, board, commission or other agency. . . .

Special audits of the affairs of any officer, department, board, commission or agency may be made whenever in the judgment of the City Controller they appear necessary . . . .

[ANNOTATION] . . . 2. The Auditing Department is the official agency of the City for auditing annually every officer and agency, City or otherwise, receiving appropriations from the City. Collections as well as disbursements are to be audited.

\* \* \*

4. As a result of its audits, the Auditing Department will obtain detailed information of the operations of every officer and agency of the City. Such information may enable it to suggest economies and improved methods of operation and the Department is authorized to make recommendation towards this end.

*Philadelphia Home Rule Charter § 6-405 – Access to Records:* The City Controller shall have the right of access at all times to the financial records of every officer, department, board or commission of the City and any other governmental agency to which appropriations are made by the City.



## **FINDINGS & RECOMMENDATIONS- Compliance (Continued)**

[ANNOTATION] The City Controller is given the right of access to the records of every officer and agency receiving appropriations from the City so that he may properly fulfill the functions of his office.

**Cause:** The Sheriff's Office's process is to enter the transactions in order to print the checks, however, the transaction is then voided within the Civil System. The check is then recorded in a manual check log.

**Effect:** The financial information system cannot provide complete and accurate information. This creates an environment in which fraud, waste, or abuse could occur and not be detected in a timely manner. The Sheriff's Office is unable to provide an adequate audit trail for its custodial accounts' financial activity.

**Recommendation:** We recommend that the Sheriff's Office implement a comprehensive accounting system and develop and follow strong record keeping procedures to assist in accurate expenditure tracking, as well as monitoring of debts and creditors. This will also save resources and potentially avoid errors.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies**

### **Finding 2020-007 - Lack of Accountability Over Custodial Funds (Significant Deficiency)**

The Sheriff is an elected City office and an agency of the City of Philadelphia. In the normal course of business, the Sheriff's Office collects proceeds from the sales of the court-ordered foreclosures of property (mortgage and tax) as well as fees for its services as they relate to the property sales and the civil services the agency performs. The Sheriff's Office deposits the collected funds into bank accounts referred to as the custodial accounts. The Sheriff's Office maintained 22 custodial accounts during the Initial Period, and 16 custodial accounts during the Expanded Scope period. Most of the custodial accounts were created for dedicated purposes, such as Sheriff's Sale activity, deeding activity, unclaimed funds, and execution and appearance purposes. Two custodial accounts, Non-Tax Revenue and IT & Accounting, were created for and funded by transfers from the other custodial accounts.

**Condition:** Funds are transferred between custodial accounts without adequate supporting documentation. Disbursements are made from custodial accounts that are unrelated to the dedicated purpose of the account. The IT & Accounting custodial account is not a true custodial account in that there is no fiduciary responsibility, and the account exists only to provide funds for spending outside of the City's budget appropriation process. Based on banking activity reviewed, the amount of spending out of the IT & Accounting custodial account for the initial audit period was approximately \$8.77 million and approximately \$700,000 for the expanded scope period.

**Criteria:** The Sheriff's Office is entrusted with the funds held in the custodial accounts and has a fiduciary responsibility to property owners, lienholders, the City, and others. In the ordinary course of business, all transactions need to be adequately documented, approved, and recorded. This record keeping would help substantiate receipts and expenditures and ensure account balances are accurate. Disbursements should only be made for the stated or dedicated purpose for which the account was established.

**Cause:** The Sheriff's Office maintains a bank account for each custodial account and tracks certain transactions for the accounts, but not overall balances. The Sheriff's Office does not maintain a comprehensive accounting system, general ledger system or double-entry bookkeeping system that would provide detailed activity with accurate account balances.

The Sheriff's Office stated when it needed funds for an expenditure outside of its budgeted appropriations, funds would be transferred from a service-specific custodial account to the Non-Tax Revenue account and then to the IT & Accounting custodial account to make a purchase.

The Sheriff's Office has not designed and implemented adequate internal controls over the custodial accounts, specifically transfers between accounts. Additionally, the Sheriff's Office does not uniformly follow its internal procedures for transfers.

**Effect:** The Sheriff's Office cannot provide a detailed accounting of financial transactions for each of the custodial accounts, nor provide a book balance for each account. Without proper documentation for transfers between accounts, there is a risk of waste, fraud, abuse, or mismanagement. The Sheriff's Office uses fee revenue, which should be remitted to the City, for discretionary spending purposes. The Sheriff's Office is unable to provide an adequate audit trail for its custodial accounts' financial activity. The Sheriff's Office also undermines the Controller's Office's ability to review and approve expenditures and encumbrances as related to the contracts.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

**Recommendation:** The Sheriff's Office needs a comprehensive financial accounting system in place to accurately record and report financial activity. Written policies and procedures should be developed and followed to ensure that all financial transactions, including transfers, are supported by adequate documentation. The IT & Accounting and the Non-Tax Revenue custodial accounts should be closed out. The Sheriff's Office could utilize a Clearing Account to temporarily hold monies until they are remitted to the City.

### **Finding 2020-008 - Lack of Formal Written Policies and Procedures- Organization-Wide (Significant Deficiency)**

In a normal office operation, manuals, policies and/or procedures would be documented in writing to ensure that employees and management understood their roles and responsibilities, as well as the function of an individual department or task. During our review, it was determined that none of the divisions within the Sheriff's Office developed or maintained any formal written policies and procedures to address departmental specific, operational or employee related matters.

**Condition:** The Sheriff's Office was not able to provide any formal written policies and procedures for any department, operation, or function, including real estate, accounting/finance, main filing desk, procurement, human resources, or general overall office operations. This situation existed under both the initial scope and the expanded scope.

**Criteria:** A policy is a set of general guidelines that outline the organization's plan for tackling an issue. Policies communicate the connection between the organization's vision and values and its day-to-day operations. A procedure explains a specific action plan for carrying out a policy. Documented procedures instruct employees on how to deal with a situation and when. Using policies and procedures together gives employees a well-rounded view of their workplace. They know the type of culture that the organization is striving for, what behavior is expected of them, and how to achieve both of these.

**Cause:** The Sheriff's Office does not maintain written policies and procedures for internal departments.

**Effect:** Without clear and formal written guidance, Sheriff's Office employees and management staff may not be able to efficiently and effectively perform their responsibilities to ensure that the organization's goals and objectives are met. The lack of formal written policies and procedures increases the risk that waste, fraud, abuse, and mismanagement may occur and not be detected in a timely manner.

**Recommendation:** Develop formal policies and procedures to allow the Sheriff's Office to operate more smoothly and efficiently.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

### **Finding 2020-009 – Inability to Provide Requested Supporting Documentation and Insufficient Supporting Documentation (Significant Deficiency)**

Supporting documentation for financial transactions was requested for both the Initial and Expanded audit scope to determine whether the Sheriff's Office had adequately designed and implemented accounting procedures to allow for the accurate tracking of revenues and expenditures. Examining supporting documentation for certain custodial accounts<sup>5</sup>, we attempted to gain a better understanding of the Sheriff's Office's day-to-day operations related to the execution of Sheriff's Sales and use of funds in the custodial accounts. We requested sample support for accounts payable and accounts receivable, expense records, purchase orders, and electronic payments.

**Condition:** Despite Sheriff's Office staff stating that paper documentation dating back to 2012 was stored on-site, the Sheriff's Office was unable to provide most of the requested supporting documentation that included, but was not limited to contracts, invoices, bank reconciliations, purchase orders, check/transfer requests, and Sheriff's sale schedules. Additionally, the supporting documentation that was provided for both audit periods was often insufficient for us to perform complete testing procedures.

**Criteria:** In the customary and normal course of business, financial documents are routinely kept for seven years, or permanently depending on the type of document, and organized in a fashion that is easily retrievable and available upon request. The Philadelphia Department of Records (DOR) provides guidance on and for record retention and disposal schedules.

**Cause:** The Sheriff's Office's document storage is disorganized. It does not appear that the Sheriff's Office is following uniform standards, procedures, and techniques for handling information and Record Retention and Disposal Schedules as promulgated by the DOR. During multiple interviews, Sheriff's Office staff informed us that there was no document retention policy.

Overall, the Sheriff's Office lacks formal written policies and procedures for handling information and for governing the retention and maintenance of supporting documentation. Additionally, they do not have an adequate process in place to ensure all documentation related to accounts payable and accounts receivable, and expenditure records such as invoices, purchase orders, and electronic payments, is properly maintained and readily available.

**Effect:** The Sheriff's Office may not be able to adequately support its financial activity, which creates an environment in which fraud, waste or abuse may occur.

Additionally, the Sheriff's Office does not have readily available records and documentation that should be maintained which would allow the City Controller the ability to properly fulfill their obligations as per the Philadelphia Home Rule Charter 6-405 – Access to Records (auditing department). Due to the lack of sufficient records provided by the Sheriff's Office, complete

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<sup>5</sup> Custodial accounts for which documentation was requested are as follows: Advertising, Deed, Employee, Execution/Appearance, IT/ACCT, Mortgage, Non-Taxable Revenue, Tax Delinquency, Tax Lien, and Unclaimed Funds.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

procedures could not be performed around fee revenue, escrow deposits, costs of Sheriff's Sales, and the distribution of delinquent taxes, water and gas bills, mortgage debt and monies owed to former property owners for both the Initial and Expanded Scope. The audit experienced delays due in part to the Sheriff's Office's inability to respond to most document requests in a timely manner, if at all.

**Recommendation:** The Sheriff's Office should develop written uniform standards, procedures, and techniques for retaining, maintaining, and handling documentation, and develop and implement Record Retention and Disposal Schedules in coordination with the Department of Records. To allow for more secure documentation back-up, the Sheriff's Office should consider the implementation of a virtual or cloud-based storage system with limited and secured access rights. Additionally, the Sheriff's Office should develop an organizational system for all existing paper documentation.

### **Finding 2020-010 - Former Employees Not Removed from Online Banking Access (Significant Deficiency)**

The Sheriff's Office bank accounts are managed via an online portal known as Digital Access. The online banking portal allows for certain employees to be assigned relevant permissions based on their accounting role. Administrator permissions are held by the City's Treasurer's Office. Typically, online access is documented- who has access rights to the online banking platform as well as their specific permissions- and the access record is continuously updated to accurately reflect which employees have access to which accounts and that permissions are assigned accurately based on the employee's current role.

**Condition:** Sheriff's Office upper management represented that at least two former employees who had "admin" access were not removed from their online banking access after being separated from employment and the Sheriff's Office was unable to determine how long they maintained access after they left employment. As of the last day of fieldwork (July 2021), the Sheriff's Office had not provided a comprehensive list of personnel with online banking access and their corresponding permissions.

**Criteria:** Not all employees need access to all Sheriff's Office accounts. Online banking administrators should carefully consider the level of access given to each online banking user and enable employee access to online accounts on a "need-to-know" basis to improve in-house security. With the proper roles assigned to the different trusted users, administrators can help reduce the level of risk of fraudulent activity for the organization's online and mobile banking.

**Cause:** The Sheriff's Office does not have a process in place to ensure employees who are removed from their position or no longer require online banking access for their job duties are removed from online access in a timely manner.

**Effect:** Failure to timely remove employees who possess online access and related permissions to the bank accounts makes the accounts susceptible to potential wrongdoing by former employees.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

**Recommendation:** The Sheriff's Office should continue to work with the City Treasurer's Office to resolve the current online access and permissions. The Sheriff's Office should develop a guideline that defines the positions that require online access and what level of permissions are necessary by position. The Sheriff's Office should develop a reporting process in conjunction with the City Treasurer's Office that allows for the timely removal of former employees and onboarding of new employees needing online permissions. Additionally, the Sheriff's Office should maintain a list of employees with online access and their permissions that is regularly monitored for accuracy to ensure the online access is updated as employees are added or leave the Sheriff's Office.

### **Finding 2020-011 - Inadequate Segregation of Duties (Significant Deficiency)**

Segregation of duties is the concept that more than one individual should be required to complete a task. This is an internal control principle designed to prevent fraud, as well as data entry errors. No one person should initiate, authorize, record, and reconcile a transaction.

**Condition:** There is inadequate segregation of duties within the accounting department for the functions related to the distribution of checks, check signatures, and bank transfers. For example, the Sheriff's Office CFO would initiate, authorize and perform the internal electronic transfer of funds between custodial accounts without completing the Check/Transfer Request Form and without obtaining a second authorization as required by the form.

**Criteria:** Segregation of Duties is a basic building block of sustainable risk management and internal controls for a business. The principle is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Different people should be assigned the approval, implementation, recording, and control of each activity, a financial decision, or transaction to apply this principle. The main reason for the practice of segregation of duties is to prevent the processing and concealment of unintentional or intentional errors in the ordinary course of activities.

**Cause:** Dividing up a process among more than one person minimizes the possibility of wrongdoing and increases the chance of detecting fraud, as well as unintentional errors, in a timelier manner. Procedures were not in place as it relates to the internal control environment, specifically as it relates to the segregation of duties principle.

**Effect:** Due to the lack of sufficient internal controls, there could be an opportunity for fraud, waste, or abuse to occur and not be detected in a timely manner. Without this separation in key processes, fraud and error risks are far less manageable.

**Recommendation:** The Sheriff's Office should implement a process which clearly defines segregation of duties within its accounting department in order to prevent, detect and deter the risk of fraud, wrongdoing, or erroneous work.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

### **Finding 2020-012 - Undocumented Transfers Between Custodial Accounts (Significant Deficiency)**

The Sheriff's Office utilizes a check request form for the issuance of checks as well as for bank transfers between custodial accounts. Check/transfer request forms are important to document the purpose of the transaction and to ensure the transaction has been through the proper authorization process. However, the Sheriff's Office represented that the CFO was the only person with the authority to make online bank transfers (see Condition in Finding 2020-011).

**Condition:** The Sheriff's Office is not consistently tracking nor maintaining supporting documentation for transfers occurring between the Sheriff's Office's custodial accounts. For the Initial Period, no response or documentation was received for 67 out of 79 transfer samples selected (85%) (missing support for \$28,125,515.16 out of \$28,424,827.06 in sampled transfer activity) and for the Expanded Scope, 5 out of 10 transfer samples were not accompanied by a response (50%) (missing support for \$212,127.88 out of \$458,717.98 in sampled transfer activity).

**Criteria:** In the ordinary course of business, when moving money from one bank account to another, a transfer needs to be recorded. This helps to ensure account balances are accurate and it also prevents users from mistaking a transfer between accounts as income or an expense.

**Cause:** There is no formal written policy and procedure documenting the transfer process. The Sheriff's Office has a Check/Transfer Request Form, but only verbal policies and procedures.

**Effect:** Without documenting the purpose for transfers between custodial accounts and obtaining the required approvals, funds could potentially be misplaced or transferred to unauthorized accounts. Additionally, the funds and accounts could be susceptible to improprieties or misuse if transfers are not appropriately reviewed and authorized.

**Recommendation:** We recommend the Sheriff's Office develop formal written policies and procedures and ensure that they consistently utilize the Check/Transfer Request forms, including obtaining authorized signatures, for every transfer between the custodial accounts. Additionally, the Sheriff's Office should implement a means of tracking all transfers, including the purpose of the transfer, *i.e.*, through a comprehensive accounting system.



## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

### **Finding 2020-013 – Check / Transfer Request Form Inconsistently Followed (Significant Deficiency)**

The Sheriff's Office utilizes a check request form for the issuance of checks and bank transfers between custodial accounts. The form requires two authorizations which can be made by a combination of the Chief Deputy of Finance, Undersheriff, Chief of Staff, Chief Deputy Sheriff, or Director of Finance. Other form information includes reason for check, requestor, book and writ if applicable, which account to issue the check from, payee, and reason for request. There is also a section for the accounting department's use to note if the check was reissued, check date and number, who it was distributed by and how, and a receiving party's signature if applicable.

**Condition:** The process for Check/Transfer Request forms used for accounts not associated with Sheriff's Sales is inconsistently followed, forms were not filled out completely, or lacked authorization signatures.

**Criteria:** Strong internal controls protect the effectiveness and efficiency of operations, support the reliability of financial reporting, and ensure compliance with applicable laws and regulations.

**Cause:** There is no formal written policy and procedure requiring a fully completed form in order to process any checks/transfers. There is only an existing verbal policy which is not consistently followed.

**Effect:** Based on the high volume of transfers and without a well-developed system of internal control in place, there is no assurance that the results of financial activity are accurate and that errors are detected or prevented. Additionally, the risk increases that waste, fraud, abuse, and mismanagement may occur and not be detected in a timely manner.

**Recommendation:** We recommend the Sheriff's Office develop a written policy requiring the completion of the existing Check/Transfer Request form, including instructions on how to properly complete the form. By providing a written policy, this enables the accounting staff to easily identify authorized expenditures, properly process requests, as well as develop a paper trail for the expenditure.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

### **Finding 2020-014 - Lack of a Formal Training Program**

Training programs are considered an integral part of development for human resources. It is an organized tool for the development of specific skills necessary to perform a specified job function with the help of information, instruction, guidance, and practice.

**Condition:** The Sheriff's Office does not have a formal training program to be utilized to ensure that employees have the necessary knowledge and skills to perform their job duties and responsibilities.

**Criteria:** Formal training is important because it represents a good opportunity for employees to grow their knowledge base, understand their roles/duties and improve their job skills to become more effective in the workplace. Training programs can also help prepare employees who are moving into higher roles and taking on more responsibilities in an organization. These programs will help them learn the skills that are required to function effectively in their new positions.

**Cause:** Based on multiple interviews, across different departments, the Sheriff's Office has traditionally relied only upon on-the-job training during their onboarding process and never implemented a formal training or continuing education program for their administrative staff. A lack of formal job descriptions contributes to the knowledge gap.

**Effect:** Employees and management who lack sufficient training may not perform their job responsibilities in an effective manner.

**Recommendation:** We recommend that the Sheriff's Office develop a formal training program to ensure that each new employee, upon hire or transfer, is provided with the technology access, knowledge and insight required to perform their duties. Record of training completion should be maintained by HR in the respective personnel files.

## **FINDINGS & RECOMMENDATIONS- Internal Control Deficiencies (Continued)**

### **Finding 2020-015 - Lack of Sufficient Cross-Training of Employees**

Cross-training of employees is a successful strategy for organizations to build skill sets while ensuring maximum coverage of key job responsibilities. The accounting department plays an essential role in the functioning of the Sheriff's Office.

**Condition:** The clerical staff within the accounting department are not sufficiently cross-trained to cover for each other's duties and responsibilities during times of absence.

**Criteria:** Cross-training strengthens departments, gives employees more opportunities to advance, and provides for contingency plans in case key team members resign or are no longer available. It can be useful to prepare a company for dealing with challenges presented by unforeseen emergencies, such as a sudden death, a disaster, or a pandemic. Cross-training helps ensure stability and provides valuable flexibility across teams. Any organization without backups for key roles can grind to a halt if key personnel are unavailable. Cross-trained staff can provide safeguards for these challenges.

**Cause:** No formal job descriptions or policy and procedure manuals exist for the accounting department and there are weak procedures in place regarding the internal control environment and the concept of cross-training. Additionally, there is not a formal onboarding or continual training program in place.

**Effect:** It was represented that when an accounting clerk takes vacation, their responsibilities are not tended to in their absence, resulting in a backlog of work to be completed. Additionally, when only one person is trained on a financial process, it makes it easier for that person to commit and conceal fraud.

**Recommendation:** The Sheriff's Office should implement an initiative to cross-train all clerical staff in the accounting department. There should be written policies and procedures that address the process and written job descriptions for each accounting clerk which reflects their specific duties and responsibilities. Additionally, a formal training program for new staff should be implemented.

## **OBSERVATIONS & RECOMMENDATIONS**

### **Observation 1 - Inadequate Bank Reconciliation Process**

Prior to the audit period, the Sheriff's Office contracted with an outside vendor to assist with a number of functions, including bank reconciliations. The accountant developed a process to conduct bank reconciliations. While the contract with the accountant has expired, the Sheriff's Office continues to follow this process. The format for the reconciliations is adequate, however, the bank reconciliations performed cannot be relied upon due to the lack of a book balance as detailed in Finding 2020-001. What is being called a bank reconciliation by the Sheriff's Office only reconciles the transactions that occur within the month. The reported beginning balance is carried over from the prior month's report. No books are maintained that reflect or support the purported book balance.

#### **Recommendation**

The Sheriff's Office needs to implement a comprehensive accounting system that not only captures all transactional activity but maintains account balance information that would support the bank reconciliation process.

### **Observation 2 – Sheriff's Office's Operations Limit City's Ability to Provide Adequate Oversight Per the Home Rule Charter**

As demonstrated in this report's findings, the Sheriff's Office's management of the custodial accounts does not comply with applicable provisions of the Home Rule Charter nor are internal controls suitably designed or implemented for the management of the custodial funds. Given the Sheriff's Office's management and administration of the custodial accounts, including inadequately documenting and maintaining accounting records for the custodial accounts, not remitting all fees it has collected to the City as required, and indiscriminately spending from the custodial accounts, the Sheriff's Office is operating outside of the checks and balances established in the Home Rule Charter meant to protect taxpayer funds for mismanagement or misuse.

#### **Recommendation**

The Sheriff must develop a detailed plan and timeline to immediately remedy all findings in this audit. This will ensure that other departments, including the Finance Department (Revenue, Budgeting and Accounting), Procurement Department, Law Department, City Controller's Office (Audit and Pre-Audit divisions), are able to perform the necessary and required oversight of the Sheriff's Office as defined in the Home Rule Charter.

## **PROJECT OVERVIEW**

### **Background**

The City of Philadelphia Office of the Controller, as the independent financial watchdog for the City of Philadelphia, has the mission to promote the effective and efficient operation of Philadelphia government by identifying cost savings, recommending best practices and modernization, and exposing fraud and mismanagement. Under City Controller Rebecca Rhynhart, the office is committed to transparency, accountability, and good government.

Under the Home Rule Charter, City Council ordinances and state legislation, the City Controller has a number of responsibilities, in addition to auditing municipal government, including, but not limited to investigating accusations of mismanagement and fraud by City agencies, employees and/or contractors.

The Philadelphia Sheriff is an independently elected law enforcement officer that serves four-year terms. The Sheriff's principal function is as an arm of the Court. The Sheriff's statutory responsibility is to serve, process, and execute orders directed to the Sheriff pursuant to applicable law, either personally or by deputy. In the normal course of business, the Sheriff's Office collects proceeds from the sales of the court-ordered foreclosures of property (mortgage and tax) as well as fees for its services as they relate to the property sales and the civil services the agency performs. The Sheriff's Office deposits the collected funds into bank accounts referred to as the custodial accounts.

The Sheriff's Office maintained 22 custodial accounts during the Initial Period, and 16 custodial accounts during the Expanded Scope, as follows:

- Six custodial accounts designated for Sheriff's Sale activity (two each for mortgage foreclosure, tax lien and tax delinquent (one of which is for transactions recorded in Civil System and one is for those recorded in County Suite));
- Three designated for deeding activity, one for each of the outside title companies and one for the Sheriff's Office;
- Three were for unclaimed funds (two closed in June 2019, and one was renamed as an advertising account in June 2018);
- One is an employee fund account funded by vending machine proceeds;
- Four are for execution and appearance services (one for each service for each recording program- Civil System and County Suite);
- Two were opened under Sheriff Jewell Williams for policy enforcement and deed prep that were never funded and were closed in June 2019;
- Two were known as IT & Accounting and Non-Tax Revenue funded by transfers from the Sheriff's Sale activity accounts; and
- One jumbo certificate matured in July 2019 and was deposited into the Non-Tax Revenue account.

## **PROJECT OVERVIEW (CONTINUED)**

The Sheriff's Office uses two software programs to record financial activity- Civil System and County Suite (also known as Teleosoft, and formerly referred to as Judicial Enforcement Writ Execution Legal Ledger aka "J.E.W.E.L.L."). Civil System is an antiquated record keeping program that was partially replaced by County Suite in July 2015. The County Suite system is a more sophisticated, integrated accounting program that tracks costs and keeps case ledgers current and is designed specifically for use by county government agencies, including sheriff's offices.

### **Audit Objectives**

The objectives of the audit were two-fold, first to review the internal control procedures and accounting records for the custodial accounts maintained by the Sheriff's Office to determine whether the Sheriff's Office:

- Established and implemented adequate accounting procedures and records to ensure the accurate tracking of fee revenue, escrow deposits, costs of sale, and the distribution of delinquent taxes, water and gas bills, mortgage debt, and monies owed to former owners;
- Followed the City's standard financial, procurement, contracting, and legal processes and rules during the execution of Sheriff's Sales and its other duties;
- Complied with city and state unclaimed money regulations; and
- Utilized the financial, procurement, contracting, and legal processes of the city, including the Philadelphia Home Rule Charter, Finance Department's accounting directives and any relevant Memorandums of Understanding ("MOUs").

And secondly, to review the Sheriff's Office custodial accounts to identify and quantify any abnormal financial activity.

### **Audit Scope**

The period covered in the initial audit scope was July 1, 2015, through December 31, 2019 ("Initial Period"), and the period covered in the expanded scope was January 1, 2020, through December 31, 2020 ("Expanded Scope") (collectively the "Audit Period"). The audit included an assessment of compliance with specified provisions governing operation of the Sheriff's Office. These provisions include applicable sections of the Philadelphia Home Rule Charter and the Philadelphia Code, applicable MOUs, the Finance Department accounting directives and other financial, procurement, contracting and legal processes of the City. The audit also included an assessment of controls where significant within the context of the compliance objectives. The audit scope did not include areas outside of these specified provisions.

The audit experienced delays due in part to the Sheriff's Office's inability to respond to most document requests, the rescheduling of site visits, technical issues experienced by the Sheriff's Office, staff turnover of key members of the Sheriff's Office assigned to work with us to facilitate the audit requests, and the COVID-19 pandemic. We were unable to perform certain procedures related to unclaimed monies due to the lack of supporting documentation provided by the Sheriff's Office, such as comprehensive transaction data reporting, and Sheriff's sale schedules that reflected the status of the property at the end of the sale (*i.e., closed, stayed, postponed*). The overall lack of supporting documentation maintained and made available by the Sheriff's Office limited our ability to adequately identify potential abnormal activity.

## **PROJECT OVERVIEW (CONTINUED)**

Under Mercadien's engagement letter with the Controller's Office, Mercadien anticipated performing testing around fee revenue, escrow deposits, costs of Sheriff's Sales, and the distribution of delinquent taxes, water and gas bills, mortgage debt and monies owed to former property owners. For both the Initial Period and the Expanded Scope, complete procedures around these processes were not performed due to the lack of sufficient records provided by the Sheriff's Office.

The audit was conducted pursuant to a request from the Controller's Office as outlined in the service order dated November 15, 2019. The scope was expanded on March 4, 2021, as a result of missing documentation and resulting gaps of information from the initial audit period, as well as concerns raised that activities from the initial audit period persisted under the new leadership of the Sheriff's Office.

### **Audit Methodology**

In order to effectively determine compliance with specified provisions, testing was performed in accordance with specified elements within the directives provided by the Controller's Office. We gathered information from a variety of sources using various methodologies, including those listed below.

- **Performance Audit Standards**

In the execution of the performance audit, we performed the engagement in accordance with *Generally Accepted Government Auditing Standards* ("GAGAS") issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Accordingly, we performed testing of records and source documentation as well as other auditing procedures determined necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

- **Interviews with Key Management and Staff**

To understand the entity and the environment to plan our audit procedures, we performed inquiries of Sheriff's Office management to gain an overview of their organizational activity. Once a preliminary understanding was obtained, we inquired of Sheriff's Office personnel during planning and fieldwork. These inquiries were performed of Sheriff's Office's management and staff, including the cashier's office, accounting department, main filing desk, procurement, and real estate, as well as Sheriff Rochelle Bilal. These inquiries included obtaining an overall understanding of the daily operations and oversight from management.

- **Observation and Walkthroughs**

To observe the design and physical structure of the Sheriff's Office and to substantiate the conclusions reached from inquiries performed, we toured the facility, including the cashier's office, main filing desk, common areas, and administration offices. Additionally, we "walked-through" specific operations and processes with certain Sheriff's Office personnel to corroborate our understanding of policies and procedures in place.

## **PROJECT OVERVIEW (CONTINUED)**

- **Internal Controls**

We obtained an understanding of the design, operation, and effectiveness of internal controls where significant within the context of the compliance objectives. During our preliminary assessment of the five components of internal controls, we determined that all components and principles were relevant to the audit objectives of assessing the Sheriff's Office's compliance with specified provisions, both in their daily activities and overall operations, and services performed on behalf of the City. As it relates specifically to their custodial accounts, the Sheriff's Office management staff is responsible for establishing an adequate control environment, performing risk assessments, assessing fraud risk, developing control activities through formal policies and procedures, providing and communicating information internally and externally, and continuously monitoring their compliance with City processes. We documented our understanding of the design of internal controls obtained through inspection of policies and procedures, and inquiries with management. We then identified the key controls that have an impact on compliance. These key controls were then tested through sample testing as well as other procedures. As a result of these procedures, we concluded whether the Sheriff's Office has controls in place that are designed and operating effectively to determine compliance with policies and procedures.

- **Requirements Tested**

The elements tested during our audit correspond directly to the requirements issued by the Controller's Office as outlined in our engagement letter dated February 25, 2019. A summary of the areas and compliance elements tested included:

- **Accounting Procedures and Records:** Testing to see if the Sheriff's Office established and implemented adequate accounting procedures and records to determine the accurate tracking of fee revenue, escrow deposits, costs of sale, and the distribution of delinquent taxes, water and gas bills, mortgage debt and monies owed to former property owners.
- **City Procedures and Rules:** Testing to determine whether the Sheriff's Office followed the City's standard financial, procurement, contracting, and legal processes and rules during the execution of Sheriff's Sales and its other duties.
- **Unclaimed Monies:** Testing to determine whether the Sheriff's Office complied with City and state unclaimed money regulations.
- **City Processes:** Testing to determine whether the Sheriff's Office utilized the financial, procurement, contracting, and legal processes of the City, including the Philadelphia Home Rule Charter, Finance Department's accounting directives, and any relevant Memorandums of Understanding.
- **Abnormal Financial Activity:** In addition, we analyzed the Sheriff's custodial accounts in an effort to identify and quantify abnormal financial activity.

We evaluated our testing parameters using a risk-based approach. Specifically, we evaluated risk at the individual Custodial Account level. Using this approach, we determined our sample sizes.



## **PROJECT OVERVIEW (CONTINUED)**

- **Sampling Methodology**

To perform our procedures for adequate accounting procedures and records, we requested copies of the Sheriff's Office General Ledger(s), bank statements, and bank reconciliations, for the Initial Period. Through Sheriff's Office interviews, it was represented that the Sheriff's Office does not maintain a General Ledger.

We made numerous requests for system generated reports ("transaction logs" or "transaction data" or "transactional data") that capture all financial activity. After multiple requests, the Sheriff's Office was unable to provide complete transaction logs for eleven bank accounts, and did not provide any transaction logs for nine bank accounts. Two other bank accounts had no transactions. Therefore, we relied on subpoenaed bank statements from TD Bank to calculate the volume of transactions to assist in determining risk and sample sizes. For the twenty-two TD Bank accounts, a risk was assigned based on auditor guidelines and judgment. Similar accounts were combined based upon the function they served for the Sheriff's Office, and account risk was assigned as below:

Low Risk	Advertising; Unclaimed Funds
Moderate Risk	Deed; Employee Fund; Execution & Appearance
High Risk	IT & Accounting; Mortgage Foreclosure; Non-Tax Revenue; Tax Delinquent; Tax Lien

We inspected the check images and bank statements provided by TD Bank to analyze the account activity and identify transactions of interest and/or potentially suspicious in nature. Based on the risk assessments and the auditors' inspection of the subpoenaed records provided by TD Bank, samples of deposits, bank transfers, and expenditures were selected.

For the Expanded Scope, we used the same methodology as the Initial Period. We relied on the check images and bank statements provided by TD Bank to analyze the account activity and identify transactions of interest and/or potentially suspicious in nature. Based on the risk assessments of the Initial Period, the auditors' inspection of the subpoenaed records provided by TD Bank and auditor judgment, samples of deposits, bank transfers, and expenditures were selected for the Expanded Scope.

## **PROJECT OVERVIEW (CONTINUED)**

### **Procedures Performed**

#### **Accounting Procedures and Records**

##### ***Interviews***

As part of our procedures, interviews were conducted to determine the employee's understanding of their job requirements, day-to-day functions, and policies and processes for the Sheriff's Office as it specifically relates to their role during the respective audit periods. For the Initial Period, we interviewed seven individuals from four different departments and the Sheriff's Office's accounting consultant. For the Expanded Scope, we interviewed eleven individuals from six different departments. We also observed a process walk-through of Sheriff's Office personnel performing certain duties while on-site at the Sheriff's Office on multiple occasions.

##### ***Transactional Data***

As part of our procedures, we performed inquiries to obtain an understanding of the information systems and/or software programs utilized to record day-to-day transactions.

We made numerous requests to the Sheriff's Office for systems-generated reports that capture all activity for all custodial accounts during the audit period. The Sheriff's Office did not produce the requested materials. On November 23, 2020, the Controller's Office issued a subpoena to the Sheriff's Office for the unproduced reports. After requesting additional time to comply with the request, the Sheriff's Office, Controller's Office and Mercadien agreed to a 30-day window to potentially locate and produce electronic files. While the Sheriff's Office did produce five electronic reports, none captured all activity for all custodial accounts or produced new information to us.

The limited transaction data provided was used in conjunction with bank statements and auditor judgment to identify sample selections and other procedures identified below.

##### ***Banking Records***

Per discussion with Sheriff's Office staff, the bank accounts are maintained by property sale category (tax lien, tax delinquent, mortgage foreclosure, execution/appearance, advertising) and by software system (Civil System or County Suite). The Sheriff's Office maintains three escrow bank accounts for deed work- one for each title provider: City Line Abstract, Patriot Land Transfer, and the Sheriff's Office. The Sheriff's Office also maintains an Employee Fund, Non-Tax Revenue, and IT & Accounting custodial accounts.

We requested a listing of all Sheriff's Office bank accounts for each audit period including account number, purpose of account, and period beginning and ending account balances. Per the limited transaction data provided by the Sheriff's Office, there appeared to be 26 bank accounts for the Initial Period, in five different banks. However, it was represented during interviews that the Sheriff's Office only had accounts in TD Bank. As a result, the Controller's Office issued various subpoenas for the banking records, (including monthly bank statements, check images, and deposit detail and support). We received banking records for 22 accounts held by the Sheriff's Office during the Initial Period and 16 bank accounts in the Expanded Scope period. The reduction in bank accounts between periods was the result of the closure of unused accounts.

## **PROJECT OVERVIEW (CONTINUED)**

We compared the lists provided by the Sheriff's Office to the transaction reports and bank statements to compile a comprehensive list of all custodial accounts for each audit period.

### ***Bank Reconciliations***

We performed inquiries to obtain an understanding of the Sheriff's Office bank reconciliation process for the Initial Period and were provided with a walk-through of the accounting consultant's process. We made numerous requests for copies of the monthly bank reconciliations for each account per month of the Initial Period (22 TD Bank accounts and one United Bank Jumbo Certificate account) and Expanded Scope (16 TD Bank Accounts).

Due to both the lack of transactional data received, and the inability of the Sheriff's Office to provide all the bank statements and reconciliations, we were unable to complete our testing as it relates to the bank reconciliations.

### ***Voided Transactions***

We inquired as to the process followed when a transaction needs to be voided which resulted in our requesting copies of the manual void log maintained by the Sheriff's Office. Based on the limited transaction data received from the Sheriff's Office, we identified 229 entries for the Initial Period and 86 entries for the Expanded Scope that appeared to be voided transactions. We then inspected the subpoenaed bank statements to verify the transactions did not clear the accounts and inspected the manual voided transaction logs maintained by the Sheriff's Office to verify if the void was recorded.

### ***Transfers Between Accounts***

We performed inquiries to determine the process followed and individuals who performed the transfers between custodial accounts. We inspected bank statements to identify if there were any transfers to accounts other than Sheriff's Office or City accounts. We then made a random selection of 121 transfers for the Initial Period and 10 for the Expanded Scope which were traced between Sheriff's Office accounts.

### ***Sample Testing***

To select a sample for the Initial Period, we grouped the 22 TD Bank accounts by their function, which resulted in ten categories of sample testing. For the Expanded Scope, we grouped the 16 TD Bank accounts by their function, identical to the Initial Period, which resulted in nine categories of sample testing. In each category, based on auditor guidelines and judgment, a sample pool was selected for deposits, bank transfers and expenditures, as further described above in *Sampling Methodology*.

For the Initial Period, in May 2020, we provided the Sheriff's Office with all underlying documentation requests for the samples selected. The Sheriff's Office produced limited documentation in response to our document request. After six months and numerous follow-up requests, the Sheriff's Office remained unresponsive to providing the requested sample support. On November 23, 2020, a subpoena was issued to the Sheriff's Office from the City Controller's Office for the sample support requested by us in May 2020, and the previously unproduced custodial account transaction reports (discussed in *Transaction Data*). To date, no additional sample support was produced as a result of the subpoena.

## **PROJECT OVERVIEW (CONTINUED)**

For the Expanded Scope, we provided the Sheriff's Office with all underlying documentation requests for the samples selected on April 13, 2021. Additionally, during preliminary onsite testing, we selected twelve samples from the Sheriff's Sale lists, one from each of the sales held in 2020 ("Real Estate Samples"). These selections included properties from mortgage sales, and both delinquent tax and tax lien sales. We provided the Sheriff's Office with all underlying documentation requests for the Real Estate Samples selected on April 29, 2021.

For deposit testing of the Initial Period and Expanded Scope, we requested copies of deposit slips, check image(s), case number associated with the deposit if applicable, purpose of the funds received, and any correspondence/check stubs/invoices etc. provided with the payment. The support provided for deposits included a system-generated 'Deposit Ledger', bank-generated 'Deposit Detail Report', and check/money order images.

For expenditure testing of the Initial Period and Expanded Scope, we requested the following documentation, if/when applicable: copies of the purchase order, check request forms with authorizations, case number associated with the expense, electronic transaction receipt, vendor contract, and documentation of budgetary approval. The support provided for expenditures included check request forms, invoices, check stubs, correspondence, auctioneer lists, consolidated check detail reports, and weekly time record reports.

For transfer testing of the Initial Period and Expanded Scope, we requested the transfer request form with reason for transfer, authorizations, confirmation number, and case number(s) associated with the transfer, if applicable. The support provided for transfers included transfer request forms, system-generated request ledgers, a bank-generated 'Deposit Detail Report', check images, and 'Deposit Summary for Cashiering Refunds to Cases from Accounting' forms.

For real estate sale testing we requested all documentation from the point of entry into the sale queue through the close of the property sale, this would include documentation such as the writ; a case ledger summary sheet, which summarized the monies deposited into each book and writ, as well as expenditures being drawn down on the book and writ; settlement policies prepared by title companies; copies of checks issued for expenditures; and copies of invoices.

### ***Subpoena Sample Testing***

Due to the lack of documentation received during the Initial Period from the Sheriff's Office, it was decided through discussions with the Controller's Office to perform select sub-set sample testing in an effort to gain insight into the purpose of certain transactions made by the Sheriff's Office. On December 22, 2020, the Controller's Office, issued fourteen subpoenas to select individuals and entities that had received funds from the Sheriff's Office during the Initial Period. Once responses were received from the third parties, we evaluated the documentation and performed expenditure testing procedures on the transactions.

## **PROJECT OVERVIEW (CONTINUED)**

### **City Procedures and Rules**

As requested by the Controller's Office, we conducted interviews, walkthroughs, and sample transaction testing to determine if the Sheriff's Office followed the City's standard financial, procurement, contracting, and legal processes and rules during the execution of Sheriff's Sales and its other duties. We requested copies of all departmental policies and procedures, job descriptions and relevant training manuals. For the Initial Period, we interviewed five individuals in four different departments and for the Expanded Scope, we interviewed eight individuals, three of which were employed by the City and five of which were employed by the Sheriff's Office across three different departments.

#### ***Financial***

See *City Processes* section.

#### ***Procurement***

For the Initial Period, we inquired as to the process followed by the procurement department of the Sheriff's Office to gain an understanding of how they utilize the City's systems and processes to obtain services, supplies or equipment, and contracts with vendors. The Sheriff's Office's Director of Procurement, who had only been in this role for approximately two months at the time of our interview, walked us through the procurement process, including viewing and/or discussing the four software systems utilized by the City's Finance Department and Procurement Department (FAMIS, ADPICS, ACIS, and PHL Contracts). We were provided with a copy of their Document Transmittal Form and a developing list of vendors compiled by the Director of Procurement for her own use. The vendor list included vendor name and number, services and start date.

The Director of Procurement was unable to run activity reports requested by us due to her limited access to the software systems noted above.

At the time of our site visit for the Expanded Scope, the Director of Procurement had been moved from her role as Director of Procurement and transferred into Community Outreach. We interviewed her again to gain an understanding of any changes in the procurement process during the Expanded Scope.

#### ***Contracts***

The Sheriff's Office was requested to provide copies of contracts between the Sheriff's Office and vendors, contractors, and/or consultants in effect during the Initial Period and the Expanded Scope.

#### ***Sheriff's Sales***

As part of our Initial Period procedures, we anticipated attending three live Sheriff's Sales, one for each type of sale: tax delinquent, tax lien, and mortgage foreclosure. We attended a mortgage foreclosure sale in March 2020, before the COVID-19 pandemic halted live sales.

## **PROJECT OVERVIEW (CONTINUED)**

Prior to our attendance of a live sale, we conducted interviews of relevant personnel to gain an understanding of the expected procedures and policies related to Sheriff's Sales. The Sheriff's Office's Real Estate department was able to provide informal policies and procedures developed by the Deputy Chief for the Real Estate department's use, which we were able to inspect for consistency to personnel's understanding.

At the time of our Expanded Scope fieldwork, the Sheriff's Office was in the process of conducting their first month of virtual Sheriff's Sales. We requested written policies and procedures as it relates to the new virtual Sheriff's Sales format and no written policies and procedures were provided. We requested to observe a live virtual sale and were denied access. Before we concluded fieldwork for the Expanded Scope, virtual sales were halted.

### **Unclaimed Monies**

As part of our procedures, Mercadien anticipated testing the Sheriff's Office compliance with: *City of Philadelphia – Office of the Director of Finance – Standard Accounting Procedure (SAP) 4.1.2 – Unclaimed Monies*. This SAP requires that, "All monies which remain unclaimed by the owner(s) for one year or more shall be deposited with the Revenue Department together with interest earnings thereon...".

### ***Interviews***

As part of our procedures, we interviewed three individuals in two different departments for the Initial Scope and two individuals in two different departments for the Expanded Scope, to gain an understanding of the Sheriff's Office's processes related to excess proceeds resulting from Sheriff's Sales and the process to return to homeowners and subsequently escheat to the City.

We selected samples from the applicable accounts in an attempt to track unclaimed monies, however, we were unable to perform specific procedures related to unclaimed monies due to the lack of supporting documentation, such as comprehensive transaction data reporting and complete Sheriff Sale schedules with the status of each property at the end of the sale (*i.e., closed, stayed, postponed*), provided by the Sheriff's Office.

### **City Processes**

As requested by the Controller's Office, we conducted interviews to determine if the Sheriff's Office utilized the financial, procurement, contracting, and legal processes of the City, established in the Philadelphia Home Rule Charter, Finance Office's accounting directives, and any relevant Memorandums of Understanding.

### ***Interviews***

As part of our procedures, we interviewed two individuals in two different departments for the Initial Period and three individuals employed by the City and one employed by the Sheriff's Office for the Expanded Scope.

## **PROJECT OVERVIEW (CONTINUED)**

### ***Philadelphia Home Rule Charter and Other Laws and Rules***

We reviewed applicable provisions of the Philadelphia Home Rule Charter (“Charter”), the Philadelphia Code, and Pennsylvania Rules of Civil Procedure to determine the Sheriff’s Office compliance requirements. Upon review of the laws and rules, and after discussions with the Controller’s Office, we believe the Sheriff’s Office to be bound by those laws and rules, including but not limited to the below, which are discussed throughout the report and Findings and Recommendations-Compliance section.

- *Philadelphia Home Rule Charter § 2-300 – The Annual Operating Budget Ordinance*
- *Philadelphia Home Rule Charter § 4-400 – Functions (Law Department)*
- *Philadelphia Home Rule Charter § 6-101 – Accounts*
- *Philadelphia Home Rule Charter § 6-104 – Contracts*
- *Philadelphia Home Rule Charter § 6-106 – Requisitions for the Payment of Money*
- *Philadelphia Home Rule Charter § 6-200 – Powers and Duties in General (Revenue Department)*
- *Philadelphia Home Rule Charter § 6-204 – Assignment of Employees or Agents to Other Departments, Boards and Commissions*
- *Philadelphia Home Rule Charter § 6-300 – Custodian of City Funds*
- *Philadelphia Home Rule Charter § 6-400 – Functions (Auditing Department)*
- *Philadelphia Home Rule Charter § 6-405 – Access to Records (Auditing Department)*
- *Philadelphia Home Rule Charter § 8-101 – Payment of Moneys Out of the City Treasury*
- *Philadelphia Home Rule Charter § 8-200 – Contracts*
- *Philadelphia Home Rule Charter § 10-104 – Fees*
- *Philadelphia Code, Chapter 17-1400- Non-Competitively Bid Contracts: Financial Assistance*
- *Pennsylvania Rule of Civil Procedure 3129.2*

### ***Finance Office Directives***

We reviewed the Finance Office’s accounting directives (“Directives”) to determine the Sheriff’s Office compliance requirements. We conducted interviews to determine the financial relationship between the Sheriff’s Office and the City and to gain an understanding of the Sheriff’s Office’s participation in the City’s annual budgeting and ongoing appropriations process. We inquired as to what reporting was expected to be filed with the City and if the Sheriff’s Office was complying.

### ***Memorandums of Understanding***

We performed inquiries of both Sheriff’s Office and City personnel to better understand any applicable MOUs that may have been in effect during our audit period. We were provided copies of certain MOUs by the Controller’s Office. Through discussion with the Controller’s Office, there is a March 2, 2012, MOU in effect between the Sheriff’s Office and Mayor of Philadelphia. Upon discussion with the Sheriff’s Office, they stated that no MOU was being followed, including the March 2, 2012, MOU noted above. Sheriff Bilal’s staff indicated the prior administration did not share any documentation that would support either the existence or termination of the March 2, 2012, MOU.

## **PROJECT OVERVIEW (CONTINUED)**

### **Abnormal Financial Activity**

To identify potential abnormal financial activity, we requested certain financial, administrative, and miscellaneous records. We obtained documentation directly provided by the Sheriff's Office and from information produced through a variety of subpoenas. We inspected this information for inconsistencies and potential abnormal financial activity. From our inspection we targeted transactions for testing and performed the procedures noted throughout the sections above.

The overall lack of supporting documentation not made available by the Sheriff's Office limited our ability to adequately identify potential abnormal activity.

## **CONCLUSION**

Through the results of interviews, walkthroughs and other testing procedures performed, we could reasonably determine compliance or noncompliance with the following objectives of the audit:

- The Sheriff's Office has not established and implemented adequate accounting procedures and records to ensure the accurate tracking of fee revenue, escrow deposits, costs of sale, and the distribution of delinquent taxes, water and gas bills, mortgage debt, and monies owed to former owners.
- The Sheriff's Office does not follow the City's standard financial, procurement, contracting, and legal processes and rules during the execution of Sheriff's Sales and its other duties.
- The Sheriff's Office does not utilize the financial, procurement, contracting, and legal processes of the City, including the Philadelphia Home Rule Charter, Finance Department's accounting directives and any relevant MOUs.

We are not able to conclude on the audit objectives related to compliance with City and state unclaimed monies regulations and the identification and quantification of abnormal financial activity due to the lack of supporting documentation as noted in the Scope section of this audit report.

We determined that internal controls over the Sheriff's Office compliance with the specified provisions of Philadelphia Home Rule Charter were not designed, nor operating effectively, to ensure compliance with these provisions.

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



## **VIEWS OF RESPONSIBLE OFFICIALS**

The Sheriff's Office response to the findings, observations and recommendations identified in our performance audit is included on Attachment A. This response was not subjected to the audit procedures applied in the performance audit.

## **AUDITORS' RESPONSE TO VIEWS OF RESPONSIBLE OFFICIALS**

In accordance with GAGAS, we are required to comment on the views of responsible officials when we are in disagreement with the statements provided in response to our performance audit report. As such, we have included our response, which is included on Attachment B.

ATTACHMENT A

OFFICE OF THE PHILADELPHIA SHERIFF (CITY AND COUNTY)  
FROM THE DESK OF ROCHELLE BILAL



April 26, 2022

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

Greetings Ms. Rhynhart:

This correspondence is the official response to the audit examination of the Philadelphia Sheriff's Office for the initial audit period, July 1, 2015 to December 31, 2019, which includes an expanded scope period of January 1, 2020 to December 31, 2020. **Please accept this letter as my official clarification to some of the statements and/or results for the following reasons:**

As you are aware, my tenure as Sheriff began on January 6, 2020. You will note this report indicates that the audit began July 1, 2015 to December 31, 2019. Therefore, there are findings contained herein that reflect concerns you express from a previous administration. This report reflects a 54-month period in which the Sheriff's Office was under the Jewell William's administration. Moreover, on March 18, 2020, the City of Philadelphia, 1<sup>st</sup> Judicial District, and surrounding agencies, with the rest of the country, was stifled as a result of the emerging COVID-19 pandemic. Consequently, at that point, my office had been fully operational for less than three months prior to this pandemic. We submit that three months is simply not enough time for a new administration to assess, review, research, plan, implement, and reverse the problems and missteps of the 4 years and 6 months of the Williams administration. Prior to taking office the current Sheriff was not provided with files, documentation, receipts, etc., from the previous administration. Many of the documents requested for the audit time frame were not made accessible to the Sheriff. This circumstance along with the COVID -19 pandemic added to the Sheriff's Office inability to respond to most document requests, the rescheduling of site visits, and technical issues experienced by the Sheriff's Office, which caused undue delay in completion of this audit. As with most of the city agencies, we only became fully operational in March of 2021. Therefore, reflecting one year of my administration, in which six months were under COVID-19 restrictions.

**Corrective Actions Taken**

While confronted with many challenges and the unprecedented negative effects of COVID-19, in a short period of time my administration successfully took corrective actions by implementing new policies and procedures. In order to better manage the Sheriff's Office accounting functions, my office organized a check request system and a transferred funds tracking log. Considering the importance of advertising and complying with legal publication requirements, alongside maintaining the budget, the Sheriff's Office contracted with a more affordable outside

**ATTACHMENT A**  
**OFFICE OF THE PHILADELPHIA SHERIFF (CITY AND COUNTY)**  
**FROM THE DESK OF ROCHELLE BILAL**



communications firm. The Sheriff's Office also developed a compliance plan with the Home Rule Charter, ensured that internal processes are a collaborative effort, and improved the procedure for training and hiring the "best qualified" candidates.

To improve accounting affairs, our office entered a collaboration with the 1<sup>st</sup> Judicial Districts' Office of Judicial Records to duplicate their multi-layered financial system. The system corrected and aided in improved retrieval regarding the following findings and observations:

- 2020 – 001 Lack of a Comprehensive Accounting System; Inability to Produce Complete Financial Records**
- 2020 – 002 Inadequate Accounting of Fee Revenue**
- 2020 – 003 Unauthorized Spending from Custodial Accounts 2020**
- 2020 – 005 Custodial Spending Fails to Comply with the City's Contracting and Procurement Policies**
- 2020 – 007 Lack of Accountability Over Custodial Funds (Significant Deficiency)**
- 2020 – 009 Inability to Provide Requested Supporting Documentation and Insufficient Supporting**
- 2020 – 012 Undocumented Transfers Between Custodial Accounts (Significant Deficiency)**
- 2020 – 013 Check / Transfer Request Form Inconsistently Followed (Significant Deficiency)**

This collaboration has assisted our office in the ability to create written policies, enhance bank reconciliations, and introduce other financial controls. In addition, the Sheriff's Office is using the City Treasurer's Office (CTO) Policies, as indicated below, to correct past practices regarding opening and closing bank accounts. The documents are as follows:

- A. S.A.P 7.1.3.A-Fund Reconciliation
  - B. S.A.P 7.1.3.B-Reconciliation of All Bank Accounts in All City Agencies
  - C. S.A.P. 4.1.1.G-Establishment of Agency Bank Account (Outside of City Treasurer)
1. The accounts in the Sheriff's Office includes both custodial and non-custodial accounts. Custodial accounts hold the monies due from the proceeds of the Sheriff Sales. There is a fiduciary responsibility for the monies in the custodial accounts and the funds are not for the Sheriff's Office to retain. Rather, those monies are paid out to their respective payees. The custodial accounts we currently oversee include:

Philadelphia Sheriff's Office Mortgage Foreclosure Account  
Philadelphia Sheriff's Office Tax Lien Account  
Philadelphia Sheriff's Office Appearance Account  
Philadelphia Sheriff's Office Delinquent Taxes Account  
Philadelphia Sheriff's Office Rochelle Bilal Appearance  
Philadelphia Sheriff's Office Rochelle Bilal Execution

OFFICE OF THE PHILADELPHIA SHERIFF (CITY AND COUNTY)  
FROM THE DESK OF ROCHELLE BILAL



Philadelphia Sheriff's Office Rochelle Bilal Mortgage Foreclosure  
Philadelphia Sheriff's Office Rochelle Bilal Tax Liens  
Philadelphia Sheriff's Office Rochelle Bilal Tax Delinquent

**The non-Custodial accounts include:**

Philadelphia Sheriff's Office Electronic Deed Filing Escrow Acct A  
Philadelphia Sheriff's Office Electronic Deed Filing Escrow Acct B  
Philadelphia Sheriff's Office Electronic Deed Filing Escrow Acct C  
Philadelphia Sheriff's Office Electronic Advertising Account  
Philadelphia Sheriff's Office Electronic the Sheriffs Employee Fund Account  
Philadelphia Sheriff's Office Electronic IT & Accounting  
Philadelphia Sheriff's Office Electronic Non-Tax Revenue.

In an effort for transparency, allow me to clarify the types of accounts referenced in the audit report.

Both the Non-Tax Revenue and IT & Accounting Accounts are **non-custodial accounts**. The Non-Tax Revenue Account is funded by the **fees collected for services rendered by the office and it does not receive transfers from custodial accounts**. Likewise, the IT & Accounting Account does not receive funds from custodial accounts, and it is funded by transfers from the Non-Tax Revenue Account. **Disbursements are made by way of checks to pay the proper parties/debtors in a sheriff sale.**

I have instituted a check request system that requires approvals from myself, the Undersheriff, the Chief Financial Officer and/or the Budget Officer before funds are released for real estate operations, services, supplies, or equipment. Our office has instituted a transfer tracking log, and currently is conducting further research on the best practices for policies pertaining to the transfer of funds, between accounts, and for the payment of services, supplies, and equipment to vendors. These simple actions provide the necessary corrective action concerning the following findings and observations:

**Observation 1 Inadequate Bank Reconciliation Process**  
**2020 – 008 Lack of Formal Written Policies and Procedures**  
**2020 – 012 Undocumented Transfers Between Custodial Accounts (Significant Deficiency) 2020 – 013 Check / Transfer Request Form Inconsistently Followed (Significant Deficiency)**

2. Because we understand the importance of diligent and effective advertising practices regarding properties located in the City of Philadelphia, the Sheriff's Office exceeds the requirements to advertise properties. We agree that the "Sheriff's Office complies with the legal requirement to advertise in a paper of general circulation and a legal publication."<sup>1</sup>

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<sup>1</sup> City Controller Report p.9.

ATTACHMENT A

**OFFICE OF THE PHILADELPHIA SHERIFF (CITY AND COUNTY)  
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The Sheriff's Office also engages community papers to ensure that underserved populations and minority groups are properly informed about the Sheriff Sales. This ensures fair notice to all Philadelphians, regardless of the neighborhood they may live in.

Pursuant to a properly issued RFP (2021) and a contract approved by the City of Philadelphia Law Department, the Sheriff's Office contracts with an outside communications firm for the following services: Advertising Placement, and Public Relations (which includes Crisis Communications, Social Media Management, Community Engagement, Photography, and Videography).

The Sheriff's Office has a process in place that advertises Sheriff Sales properly with the assistance of an outside communications firm. Please note that under the Williams administration, the prior contractor received approximately \$500,000 per year in their contract, while the current contractor (under my administration) receives less than 25% of that amount on an annual basis. My decision to use the current contractor has saved several hundred thousand dollars per year.

We also place great value on ensuring that underserved communities and minorities are reached through the advertising process. Increasing advertising ensures that there is a competitive bidding process, which includes more buyers for more properties at a particular sale. Like a business selling a product, increasing advertising increases competition, and thus increases the amount that goes back to the original property owner.

3. We found that the contracting practices from the Williams administration were not aligned with the Home Rule Charter and related regulations. As a direct result, my administration immediately corrected this error and established a collaboration with Monica Nesmith-Joyner, the Procurement Commissioner. Together we are developing a compliance plan for contracting and procurement that administratively complies with the Home Rule Charter.
4. As with the Williams administration's contracting practices, the voided check process for the IT & Accounting account had similar issues. In fact, the accounting department previously used a written log to ensure that checks were voided and did not show up as a check written from a dormant account. We are currently using an online log, which keeps track of all written checks, and are in the process of obtaining a multi-layer accounting system that will fully support the IT & Accounting account. **Once the system is implemented, the IT & Accounting account will no longer operate in the civil system and this issue will be resolved.**
5. It is important to note that our office has taken significant measures to improve the efficiency and effectiveness of my administrations. For example:

ATTACHMENT A

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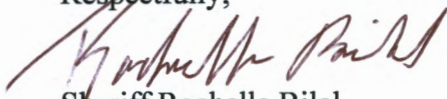


- a. All financial transactions, which include check signing, transfer of funds, approving contracts, such as, ensuring that ACIS, FAMIS, and PHL contracts, are no longer exclusively handled by the Chief Financial Officer.
  - b. It should be noted that all contract preparation and approvals are multi-layered in its processes.
  - c. Moreover, we are finalizing a policy for transfers between accounts, and a procedure for checks and balances for such transfers.
6. Lastly, after being sworn in on January 6, 2020, I immediately started an assessment of the requirements for available exempt and/or civil service positions. During this assessment, it was brought to my attention that over 20-30 contractors were converted to civil service positions, without evaluation of their skills or ability to fulfill the duties required. Subsequently, my administration offered and provided training to Sheriff Deputies in law enforcement, supervising counseling, leadership, crisis management, and investigations. Moreover, after extensive personnel assessments, we took steps to hire the best qualified candidates while reconstructing the Sheriff's Office.

**Conclusion**

We hope that this brief letter clarifies some of the statements and/or results in the audit. Should you have any questions or concerns regarding same, please contact me.

Respectfully,

  
Sheriff Rochelle Bilal  
City and County of Philadelphia





May 12, 2022

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

Dear Ms. Rhynhart,

Mercadien, P.C., Certified Public Accountants (“Mercadien”, “we” or “us”) has read the Philadelphia Sheriff’s Office’s (“Sheriff’s Office”) response dated April 26, 2022, to our draft performance audit report of the Sheriff’s Office. Our performance audit (the “audit”) covered the periods of July 1, 2015 through December 31, 2019 (the “Initial Period”) and January 1 through December 31, 2020 (the “Expanded Scope”).

Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program. A performance audit is an independent assessment of an entity's operations with a goal of determining whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

The City of Philadelphia’s (“City”) City Controller’s mission is to promote the effective and efficient operation of Philadelphia government by identifying cost savings, recommending best practices and modernization, and exposing fraud and mismanagement. The Controller's Office views this audit as an important opportunity to identify problematic management practices which were occurring during the Initial Period, and subsequently continued in the Expanded Scope, to support the Sheriff in her efforts to reform the office.

Based on our decades of experience and professional opinion, our audit report provides an accurate and fair assessment of the Sheriff’s Office’s compliance with specified provisions established by the City and identified in our audit report.

## ATTACHMENT B

### Rebuttal to Specific Sheriff's Office Responses

We acknowledge that the Initial Period occurred under the previous administration. However, as indicated in the audit report, the audit findings detailed in the report are applicable to both the Initial Period and Expanded Scope.

The Covid-19 pandemic shutdown occurred during our onsite fieldwork which was the second month of our engagement. Due to a temporary split work week schedule assumed by the Sheriff's Office accounting department, we were asked for and accommodated a request for additional time to assemble requested audit documentation. No additional requests were made as it relates to the Initial Period. Fieldwork for the Expanded Scope was scheduled to accommodate the timing indicated by the Sheriff's Office. At the time of fieldwork for the Expanded Scope, April 2021, Sheriff Bilal had been in the position for approximately 16 months.

While Sheriff Bilal states that her administration successfully took corrective action by revising certain policies and procedures and implementing new processes, we were not provided with any evidence of these updated, written policies and procedures or a compliance plan with the Home Rule Charter. Accounting department staff described certain revised processes implemented by Sheriff Bilal, however, these procedures were not documented in writing nor provided to us. With respect to the collaboration with the 1<sup>st</sup> Judicial District to duplicate their "multi-layered financial system", we were not advised, nor did we observe any evidence to support this statement.

1. Prior to fieldwork for the Initial Period and again for the Expanded Scope, Sheriff's Office personnel identified and provided to Mercadien a schedule of custodial accounts. This schedule was verified during fieldwork from multiple sources that the list of bank accounts provided to Mercadien were in fact all custodial accounts. Additionally, copies of the bank reconciliation reports submitted monthly to the City Finance Department for both the Initial Period and Expanded Scope identify every account as a custodial account. These schedules and bank reconciliations identify each of the accounts noted in the Sheriff's response, as well as an additional six accounts that were in use during the Initial Period and since closed.

Importantly, the Sheriff's Office has a fiduciary responsibility for *all* accounts reviewed as part of this audit whether it be to property owners, lienholders, the City, and others.

In its response, the Sheriff's Office stated that the Non-Tax Revenue account is not funded by transfers from the custodial accounts, but rather fees for services rendered. This is inaccurate. Mercadien is in receipt of the Sheriff's Office's bank statements, which were provided through a subpoena issued to the financial institution and noted numerous transfers of funds between custodial accounts. Regardless of the method used to move funds between accounts, electronic fund transfer (EFT) or via a written check, they all constitute a 'transfer' of funds.

Moreover, as stated in the Philadelphia City Solicitor's legal opinion to the City Controller, in part "...*all* revenues received by the Sheriff's Office from fees or the payments of costs for the provision of services by the Office in carrying out any of the office's duties are revenue *of the*



## ATTACHMENT B

City.” Therefore, if these monies were fees, they should have been remitted to the City, rather than transferred to the IT & Accounting account and used for discretionary purposes.

As stated by multiple accounting department personnel, including the budget officer and interim CFO, funds were transferred from custodial accounts to the Non-Tax Revenue and ultimately the IT & Accounting account when the Sheriff’s Office wanted to make an expenditure outside of budgeted appropriations.

2. The RFP issued by the Sheriff’s Office (Contract Opportunity Number: 21201221111309) presented as evidence of their compliance with the City’s procurement policies was issued in March 2021, which was outside the scope of the audit. Additionally, while increased advertising may result in a higher selling price for a Sheriff’s Sale property, the increased cost for advertising is billed directly to the property and therefore reduces the funds provided to the property owner.
3. The Sheriff’s Office contradicts themselves by first indicating it “was *immediately* corrected with our direct collaboration” with the City’s Procurement Commissioner and then indicating “...we are *developing* a compliance plan” (*emphasis added*). The Sheriff’s Office did not provide evidence to support a process for complying with the Home Rule Charter. A detailed corrective action plan with corresponding milestones and target dates of completion needs to be developed.
4. The ‘online log’ implemented by the Sheriff’s Office to track checks issued from the IT & Accounting account is still a manual process, and as such creates an environment subject to fraud, waste or abuse occurring and not being detected in a timely manner. Utilization of an Excel spreadsheet still requires manual entry and is not an ‘online process.’
5. We were not provided with written policies or procedures as it relates to new or revised processes implemented by Sheriff Bilal’s administration. A detailed corrective action plan with corresponding milestones and target dates of completion needs to be developed.
6. The trainings listed in the Sheriff’s Office response are necessary and relevant for deputies to conduct their duties. However, the report finding is referring to a formal training program for all employees, including accounting, finance, and administrative staff.

*Mercadieu, P.C.*  
*Certified Public Accountants*