



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

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Controller's Office Releases Internal Control Report

Philadelphia, PA – The Office of the City Controller released the Report on Internal Control and On Compliance and Other Matters Fiscal Year 2021. While the report found the City's financial statements to be fairly presented, in all material respects, it identified two material weaknesses and six significant deficiencies in internal controls over financial reporting.

"Internal controls are critically important safeguards against waste, fraud, and abuse. Other major cities do not have multiple material weaknesses and significant deficiencies that continue year after year like Philadelphia does," said City Controller Rebecca Rhynhart. "Despite how important internal controls are to ensure taxpayer dollars are protected, the administration has not worked to fix them with the urgency and seriousness this deserves. Philadelphians deserve better."

Key Findings

Material Weakness: Inadequate staffing levels, lack of technological investment, and insufficient oversight led to undetected material misstatements and the untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA). The audit detailed several conditions that impact Finance accountants' ability to prepare a timely, accurate, and completed Annual Comprehensive Financial Report (ACFR) and SEFA without the Controller's Office staff recommending significant adjustments. The audit found \$229 million in errors in the ACFR submitted for audit that Finance accountants did not detect during its preparation. Undetected material misstatements could result in financial statements that cannot be used as a reliable source of information regarding the status of the city's finances. Errors in the ACFR preparation have been a finding in the internal control report since FY07 without remediation.

Additionally, the federal government has granted a six-month extension for the completion and filing of the Single Audit reporting package to the Federal Audit Clearinghouse due to COVID-19. However, the untimely preparation of the SEFA by the Finance Office's Grants Accounting and Administrative Unit (GAAU) may result in the late submission of the Single Audit reporting package to the Federal Audit Clearinghouse. On June 15, 2022, the GAAU provided an incomplete

preliminary SEFA for fiscal year ending June 30, 2021. As noted in previous internal control reports, three months is an inadequate amount of time to complete the necessary audit work. Moreover, what was provided is missing key information necessary for our office's work on the Single Audit. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions. The City's continued failure to meet this filing requirement could affect future federal funding. This finding has been reported on since fiscal year 2018.

Material Weakness: Breakdowns in the functionality and application IT controls of the OnePhilly system continue to increase the risk for material payroll errors. The OnePhilly system was launched to replace the city's legacy Human Resources and Benefits systems (December 2018) and Payroll and Time and Attendance systems (March 2019). As part of the city's fiscal year 2021 ACFR audit, the Controller's Office reviewed the efforts of the OnePhilly team to remediate outstanding control deficiencies identified during a prior year evaluation of the information and technology application and general controls related to the OnePhilly system. While some conditions have been corrected, we noted that five of nine previously unresolved conditions, including issues with the assumed time program, use of an automated process to change unapproved time cards to approved status, and more, remain unremediated. As a result, the potential for the payroll expense and other related liability accounts to be materially misstated in the ACFR persists. Individual employee pay may be inaccurate and/or unauthorized.

A material weakness is a deficiency, or combination of deficiencies, in internal control resulting in a reasonable possibility that a material misstatement of the City's financial statements may not be prevented or detected and corrected on a timely basis. A significant deficiency, while less severe than a material weakness, is a deficiency, or a combination of deficiencies, that warrants attention.

[All findings, the administration's response, and the Controller's Office's comment on the administration's response are included in the full report, available here.](#)

[A quick guide to the report, including the number of years each finding has been reported on and a comparison of Philadelphia's internal control findings to the other top ten largest cities in the country is available here.](#) Of note, Philadelphia remains the worst big city for internal controls. It is the only city with multiple material weaknesses and significant deficiencies.