

Report On Internal Control and On Compliance and Other Matters City of Philadelphia Fiscal Year 2021



**City Controller
Rebecca Rhynhart**
June 2022



CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

Thursday, June 30, 2022

Honorable James F. Kenney, Mayor
City of Philadelphia
City Hall, Room 215
Philadelphia, PA 19107

Dear Mayor Kenney,

Please find the Office of the City Controller's annual report on internal control and on compliance and other matters for fiscal year 2021. Our report's findings regarding internal control over financial reporting shows Philadelphia continues to be the worst of the top ten largest cities.

Our office found that the city's fiscal year 2021 financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. However, the audit procedures identified two material weaknesses and six significant deficiencies, as well as other conditions, in the city's internal control over financial reporting. As we have in the last four internal control reports, we compared Philadelphia's internal control findings to the most recent reports by the other top ten largest cities and found that Philadelphia has the weakest internal controls over financial reporting by far. Just three other cities have any findings compared to our two material weaknesses and six significant deficiencies.

Specifically, I want to draw your attention to the lateness of the Schedule of Expenditures of Federal Awards (SEFA). The SEFA is primarily used by the Controller's Office to determine which grant programs will be tested for as part of the Single Audit. Without a timely and accurately produced SEFA, our audit work for the Single Audit cannot begin. With the federal government's six-month extension for the completion and filing of the Single Audit reporting package to the Federal Audit Clearinghouse due to COVID-19, the deadline for submission is September 30, 2022. Our office received an incomplete preliminary SEFA on June 15, 2022 – an insufficient document received with insufficient time to complete our audit work by the deadline. I want to reiterate the consequences if the Single Audit reporting package is late: 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.

I also want to call attention to the continuing issues with the OnePhilly system. As you may be aware, we conduct the General Controls review every three years. In the next few months, my office will begin the process of hiring an outside firm to conduct this review again. However, the issues we identified in the previous review remain unresolved today, including the breakdowns in the functionality of the OnePhilly system. We noted that five of nine outstanding findings from the previous review were still not remediated. As I've recommended before, the City must ensure that appropriate resources and focus are directed to stabilize the OnePhilly system immediately. These findings must not become another decades long non-remediated problem. And as I communicated last year, I strongly recommend that you halt the FAMIS replacement efforts until the OnePhilly breakdowns are fully addressed.

As part of our report, my office made several recommendations to improve the City's internal control over financial reporting. The findings and recommendations contained in this report were shared with management prior to release. Management's written response to the findings and recommendations are included in the attached report. *Government Auditing Standards* state that auditors should evaluate the validity of the auditee's response to a report's findings. Auditors are required to report instances in which the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendation. Our comments to management's response, when deemed necessary per these auditing standards, are also included in the report.

While we would like to thank City of Philadelphia management and staff for their cooperation as we conducted this audit, we want to call your attention to the seriousness of the findings in this report and the continual nature of these findings – most have been reported on for years without remediation. Strong internal controls over financial reporting are critical to good financial management, and as such, a comprehensive plan to address these findings should be paramount to the administration. I urge management to prioritize remediating the findings in this report with urgency.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Rebecca Rhynhart', with a stylized, flowing script.

Rebecca Rhynhart
City Controller

CC: Honorable Darrell L. Clarke, President, City Council
Honorable Members of City Council
Rob Dubow, Finance Director
James Engler, Chief of Staff, Office of the Mayor
Members of the Mayor's Cabinet



CITY OF PHILADELPHIA FISCAL YEAR 2021 REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller (Controller's Office) audited the City of Philadelphia's (city) basic financial statements as of and for the fiscal year ended June 30, 2021, issued as part of the city's Annual Comprehensive Financial Report (ACFR). To help plan and perform the audit, which occurs annually, the Controller's Office reviews the city's internal control over financial reporting and examines the city's compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance that could have a direct and material effect on financial statement amounts.

The Controller's Office reports on any identified significant deficiencies and material weaknesses in the city's internal controls. Significant deficiencies are less severe than material weaknesses, yet important enough to merit attention by those charged with governance. Material weaknesses identified in financial reporting result 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. If a material misstatement on the city's financial statements occurred, the statements would be an ineffective tool for assessing the city's financial health.

Fiscal Year 2021 Report Findings

While the Controller's Office found that the city's financial statements were presented fairly, in all material respects, our review identified two material weaknesses and six significant deficiencies, as well as four other conditions in the city's internal controls over financial reporting. The fiscal year 2021 report on internal control and on compliance and other matters discusses the material weaknesses and significant deficiencies in depth. Key findings include:

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 ACFR and SEFA without the Controller's Office staff recommending significant adjustments. Specifically, the Controller's Office 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 fiscal year 2007 without remediation.

Additionally, 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. 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. The GAAU provided the Controller's Office with an incomplete preliminary SEFA on June 15, 2022, which is an inadequate amount of time for our office to complete its audit by the September 30, 2022 deadline.

(Continued on next page)

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 timecards to approved status, and more, remain. 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.

Significant Deficiency: Treasurer's bank reconciliation procedures still require improvement.

The Treasurer's Office reconciliations for the consolidated cash and other cash accounts contain numerous long-standing reconciling items since fiscal year 2018. The Treasurer's Office also continues to have issues reconciling revenue activity for the Department of Public Health, resulting in a \$15.9 million variance between DPH's recorded collections and actual transfers as of June 30, 2021. Additionally, Controller's Office testing noted noncompliance with the Pennsylvania escheat act with more than \$12 million not yet escheated to the state. The Treasurer's Office informed our office that it has engaged an outside accounting firm to assist in addressing the legacy escheatment backlog.

What the Controller's Office Recommends

The Controller's Office developed recommendations to address the findings in this report. Some of the more significant recommendations to the above findings are noted below.

To improve controls over the preparation and review of the city's ACFR, the Controller's Office recommends that Finance Office management either hire more accountants or invest in a new comprehensive financial reporting system that will reduce the labor-intensive procedures needed to prepare the ACFR. To ensure the timely preparation and submission of the SEFA for audit purposes, we recommend that GAAU allocate adequate resources and proactively enforce existing policies and procedures with departments for expenditure reconciliations.

To improve the OnePhilly system's functionality and application IT controls, Finance Office management and the OnePhilly team should evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system, as more resources may be needed to make necessary modifications to the system.

To improve its bank reconciliation procedures, the Treasurer's Office should investigate and resolve all reconciling difference between the account book and bank balances within 90-days, and work to ensure all escheatable amounts are reported and paid to the Pennsylvania Treasury.

Additional recommendations developed by the Controller's Office can be found in the body of this report.

**AUDITOR'S REPORT ON INTERNAL
CONTROL AND ON COMPLIANCE
AND OTHER MATTERS**

CITY OF PHILADELPHIA

FISCAL 2021



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City Controller

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Deputy City Controller

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements, and have issued our report thereon dated February 25, 2022. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Notes I.14. and III.14.A. to the basic financial statements. Our report also includes a reference to other auditors who audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

Primary Government

Municipal Pension Fund
Philadelphia Gas Works Retirement Reserve Fund
Parks and Recreation Departmental and Permanent Funds
Philadelphia Municipal Authority
Pennsylvania Intergovernmental Cooperation Authority

Component Units

Community College of Philadelphia
Philadelphia Parking Authority
Philadelphia Redevelopment Authority
Community Behavioral Health
Philadelphia Authority for Industrial Development
Philadelphia Gas Works
Philadelphia Housing Authority

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

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Philadelphia Parking Authority were not audited in accordance with *Government Auditing Standards*. Also, the reported amounts for the Philadelphia Housing Authority (PHA) include PHA's discretely presented component units whose financial statements (except for 1952 Allegheny Associates Limited Partnership, Casa Indiana LLC, Francis House on Fairmount, L.P., Mantua Phase II, L.P., St. Francis Villa Senior Housing, L.P., St. Ignatius Senior Housing I, L.P., St. Ignatius Senior Housing II, L.P., Spring Garden Development Associates, L.P., and Uni-Penn Housing Partnership II) were not audited in accordance with *Government Auditing Standards*.

We have also audited the basic financial statements of the School District of Philadelphia, a component unit of the City of Philadelphia, in accordance with *Government Auditing Standards* and issued a separate report on the School District's internal control over financial reporting and on compliance and other matters.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Philadelphia, Pennsylvania's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying report, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying report as items 2021-001 and 2021-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2021-003 to 2021-008 to be significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philadelphia, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Conditions

We noted certain other conditions that represent deficiencies in internal control described in the accompanying report as items 2021-009 to 2021-012. Also, during our annual examination of the financial affairs of city departments, we identified other internal control and compliance deficiencies which will be communicated to management in a separate report.

City of Philadelphia, Pennsylvania's Response to Findings

The City of Philadelphia, Pennsylvania's written response to the findings identified in our audit is described in the accompanying report. The City of Philadelphia, Pennsylvania's written response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. We have also included our comments to the City of Philadelphia, Pennsylvania's responses that we believe do not adequately address our findings and recommendations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 25, 2022

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MATERIAL WEAKNESSES

2021-001 INADEQUATE STAFFING LEVELS, LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT LED TO UNDETECTED MATERIAL MISSTATEMENTS AND UNTIMELY PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city's) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Annual Comprehensive Financial Report (ACFR) and the Schedule of Expenditures of Federal Awards (SEFA). To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system (FAMIS¹), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.² Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of Finance Office accountants to prepare a timely, accurate, and completed ACFR and SEFA without significant adjustments recommended by the City Controller's audit staff. More specifically, we observed that:

- Staff reductions in the Finance Office, as well as a lack of a comprehensive financial reporting system, have compromised the timely and accurate preparation of the ACFR;
- Late submission of Aviation Fund financial statements continues to delay preparation and audit of the ACFR;
- Late receipt of component unit and fiduciary fund financial reports again delayed preparation and audit of the ACFR; and
- Untimely preparation of the SEFA may result in the late submission of the single audit reporting package to the federal audit clearinghouse.

Each of these conditions is discussed in more detail below.

Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Condition: The Finance Office failed to detect errors totaling \$229 million during preparation of the city's fiscal year 2021 ACFR submitted for audit and did not provide finalized footnotes until very late in the audit process. Examples of undetected errors included:

- Accounts payable were under recorded by a total of \$67 million in the General Fund, HealthChoices Behavioral Health Fund, Grants Revenue Fund, and Aviation Operating and

¹Financial Accounting and Management Information System

²These quasi-government units are considered component units for purposes of the city's ACFR.

Capital Funds due to weaknesses in the payables identification and recording process, as discussed in more detail on pages 14 to 16 of this report.

- Taxes receivable were overstated by \$45.5 million because of the inclusion of receivables which were previously written off by the city's Tax Review Panel.
- The Community College of Philadelphia (CCP), a city component unit, account balances were understated by \$34.2 million due to the failure to incorporate the financial data of a new CCP component unit.

An example of an untimely provided footnote was the completed disclosure for the Aviation Fund notes payable, for which we did not receive a substantially completed version for audit until February 15, 2022, just over a week before we issued the audit opinion.

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

Effect: Because Finance Office accountants corrected the most significant errors we identified; the city's publicly issued fiscal year 2021 ACFR can be relied upon for informative decision making.

Cause: Ongoing inadequate staffing, along with the lack of a comprehensive financial reporting system, have hindered the ability of the Finance Office to produce a timely and accurate ACFR for audit. More specifically:

- The Finance Office has continued to operate with reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by over 23 percent (from 64 full-time employees in fiscal year 2000 to 49 in fiscal year 2021). Inadequate staff size has resulted in significant and complex parts of the ACFR, such as the preparation of the full accrual government-wide financial statements, being performed by Finance Office accounting management. These factors have made the task of completing the ACFR more difficult and compromised the ability of Finance Office management to perform adequate reviews of the financial statements and related financial disclosures.
- Accountants in the Finance Office lacked a comprehensive financial reporting system to prepare the ACFR. Instead, accountants produce the ACFR using numerous Excel and Word files with various links between the files. Using multiple linked files creates a cumbersome process that can adversely affect the accuracy and completeness of the ACFR.

During the current audit, we observed that the Finance Office continued to work with the accounting firm they have worked with in prior years to help with the preparation and review of the ACFR. The

initial plan (as it had also been since fiscal year 2017) was for the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the financial statements. While progress was made on the compilation, including the completion of the first several sections, the Finance Office was again unable to fully implement that plan for the fiscal year 2021 ACFR. In the prior year, we noted the accounting firm assisted the Finance Office with the preparation of a review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of the fund financial statements. However, we continue to note the checklist has not been updated to include guidelines for review of the full accrual government-wide financial statements. During the current year, the checklist was moved closer to finalization with the creation of a draft of these guidelines. Also, the accounting firm assisted with the implementation of new Governmental Accounting Standards Board (GASB) requirements for component unit reporting and fund classification.

Recommendations: Without sufficient accounting staff and a comprehensive financial reporting system to prepare and review information needed for the ACFR, the risk increases that significant errors can occur and not be timely discovered and corrected. We continue to recommend that Finance Office management either hire more accountants, or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's ACFR [50107.01]. The Finance Office, in conjunction with the Office of the Chief Administrative Officer and Office of Innovation and Technology (OIT), have continued a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS.

In the meantime, we recommend that, for the fiscal year 2022 ACFR, management follow through with its plan to use the accounting firm to assist with the preparation of the compilation package with detailed documentation supporting the ACFR [500118.01]. Additionally, Finance Office accountants should utilize the accounting firm to assist with finalizing the review checklist for the full accrual government-wide financial statements [500119.01]. While we support the Finance Office's hiring of the accounting firm as a short-term remedy to improve the ACFR preparation and review process, we believe the appropriate long-term solution is to either hire more accountants or invest in a comprehensive financial reporting system, as recommended above.

Late Submission of Aviation Fund Financial Statements Continues to Delay Preparation and Audit of ACFR

Condition: We have previously reported that the late submission of the Aviation Fund financial statements and supporting compilation contributed to the city's inability to timely prepare the preliminary ACFR. For fiscal year 2021, the Aviation Fund statements and compilation were again completed late, with the DOA not submitting this information to the Finance Office until December 20, 2021. While this was eight days earlier than the previous year, the late submission contributed to the Aviation Fund not being included in the city's financial statements until December 29, 2021.

Criteria: It is essential that the Finance Office and the DOA work together to ensure the timely completion of the Aviation Fund financial statements and compilation, so there is adequate time to review and incorporate those statements into the ACFR.

Effect: The inability to timely submit the Aviation Fund financial statements delays the completion of required financial reporting and auditing processes for the city's ACFR. It also increases the risk for errors, as Finance Office accountants have less time to adequately review the statements.

Cause: In preparing the city's ACFR, Finance Office accountants must collect, analyze, and summarize financial information from numerous sources, including the DOA. Additionally, the DOA must wait for information from the Finance Office before it can finalize its financial statements and the supporting compilation. The Finance Office and the DOA have not established mutually agreed upon target dates for key information that would allow for the timely completion of the Aviation Fund financial statements and therefore, earlier inclusion in the preliminary ACFR.

Recommendation: To improve the timeliness of its financial reporting, we continue to recommend that the Finance Office and the DOA work together to establish an earlier deadline for the completion of the Aviation Fund financial statements and the supporting compilation. [500118.04].

Late Receipt of Component Unit and Fiduciary Fund Financial Reports Again Delayed Preparation and Audit of ACFR

Condition: Over the last several years, we have reported that the late receipt of component unit financial reports continued to delay preparation and audit of the city's ACFR. For the fiscal year ended June 30, 2021, four of the city's 10 component units and one fiduciary fund did not submit their final reports by the due dates requested by Finance Office accountants. See Table 1 below.

Table 1: Late Submission of Financial Reports			
<u>COMPONENT UNIT</u>	<u>DUE DATE</u>	<u>DATE RECEIVED</u>	<u>DAYS LATE</u>
Philadelphia Municipal Authority	12/31/2021	1/5/2022	5
Philadelphia Authority for Industrial Development	10/31/2021	1/25/2022	86
Philadelphia Redevelopment Authority	1/15/2022	2/8/2022	24
School District of Philadelphia	1/15/2022	2/22/2022	38
<u>FIDUCIARY FUND</u>			
Fairmount Park Trust Funds	11/30/2021	2/10/2022	72

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, Philadelphia Gas Works, Philadelphia Housing Authority, and Philadelphia Parking Authority submitted their financial reports timely.

Source: Prepared by the Office of the City Controller.

The submission of required financial reports very late in the audit process represents the greatest challenge to the timely completion of the ACFR, leaving Finance Office accountants and Controller's Office auditors little time to ensure that the financial reports are accurately included in, or excluded from, the city's ACFR. Component Units submitting very late reports include the Philadelphia Authority for Industrial Development, the Philadelphia Redevelopment Authority, and the School District of Philadelphia. These agencies submitted their reports on January 25, 2022, February 8, 2022, and February 22, 2022, respectively. Similarly, the financial report for the Fairmount Park Trust Funds (FPTF), an independently audited fiduciary fund, was not received by the Finance Office until February 10, 2022.

Additionally, the June 30, 2021, audited financial report for the Philadelphia Housing Development Corporation (PHDC), an excluded component unit³, was not received by the city's Finance Office prior to the release of the city's ACFR.⁴ Without a final audit report, Finance Office accountants could only use updated, but unaudited, versions of PHDC's financial statements to support their initial materiality evaluation that excluded PHDC from being reported as a discretely presented component unit.

Criteria: An essential element of timely financial reporting is that it promotes management accountability and communicates information early enough to allow users of the financial statements to make informed decisions.

Effect: The failure of component units' and FPTF's management to submit their financial statements on time increases the risk for errors or omissions, as Finance Office accountants become limited in the amount of time available to adequately review the reports. The risk of error also increases as accountants must make significant changes to the financial statements and footnote disclosures each time financial information is added to the report. Additionally, each series of changes requires considerable audit time to ensure that accountants have correctly changed previous amounts and footnotes presented for audit.

Cause: There is no incentive for component units' or FPTF's management to submit their final financial statements timely to the city and no consequences for those who do not meet the required deadline.

Recommendation: We again recommend that, early in the ACFR preparation process, Finance Office accountants solicit the assistance of the director of finance to secure the cooperation of component unit and FPTF management in the timely submission of their respective final financial reports to the city's Finance Office [50102.01].

³ Per the city's interpretation of GASB 14, paragraph 131, which is consistent with prior years, an organization that may otherwise qualify as a component unit (i.e. the city is financially accountable to the organization because it can impose its will or has a financial benefit or burden relationship with the organization) can be excluded from reporting requirements if the nature and significance of the organization's relationship with the city is such that exclusion would NOT cause the city's financial statements to be misleading or incomplete.

⁴ An audited report for PHDC was received on March 25, 2022, after the city issued the ACFR on February 25, 2022.

Untimely Preparation of the SEFA May Result in the Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Condition: Because the city expends more than \$750,000 of federal awards, Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant activities to be performed each year. Finance Office's Grants Accounting and Administrative Unit (GAAU) is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA), which serves as the primary basis that the auditors use to determine which programs will be tested. As of the date of this report, the fiscal year ending June 30, 2021 SEFA has not been provided for audit.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.⁵

Standard Accounting Procedure (SAP) No. G 3-1, *Expenditure Reconciliation*, instructs departments to complete the "FAMIS Expenditure Reconciliation" form for each billing event, and for GAAU to receive copies of those forms along with copies of the billings to grantor agencies, from departments.

Effect: Non-compliance with the reporting requirements is a violation of federal grants terms and conditions. The city's continued failure to meet this filing requirement could affect future federal funding.

Cause: GAAU uses the FAMIS expenditure reconciliations prepared by various city departments, to verify the accuracy of the SEFA and make necessary adjustments. For fiscal year 2021, GAAU sent requests for these reconciliations in November 2021, which was two months later than they sent the requests in the prior year. Multiple follow-ups, untimely, and inaccurate responses from the departments further delayed the preparation and submission of an accurate SEFA for audit. Additionally, the SAP does not provide enforcement measures to ensure compliance with the procedures.

Recommendation: We recommend that GAAU allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes [500118.05]. We also recommend the proactive enforcement of the existing policies and procedures requiring departments to complete the FAMIS expenditure reconciliations by the due date [500114.12].

⁵ OMB Memo 21-20 allows recipients to delay the completion and submission of the Single Audit reporting package to six months beyond the normal due date of March 31, 2022.

2021-002 BREAKDOWNS IN THE FUNCTIONALITY AND APPLICATION IT CONTROLS OF THE ONEPHILLY SYSTEM CONTINUE TO INCREASE THE RISK FOR MATERIAL PAYROLL ERRORS

Condition: As part of our audit of the city's fiscal 2021 ACFR, we reviewed the OnePhilly team's remediation efforts to address the remaining control deficiencies identified during a prior year evaluation⁶ of the information technology (IT) application and general controls related to the city's Oracle eBusiness Suite/PeopleSoft Workforce Management System (the OnePhilly system). The OnePhilly system replaced the legacy Human Resources (HR), Benefits, Payroll, and Time and Attendance systems. In December 2018, the HR and Benefits modules went live. The next rollout was in March 2019 with the Payroll and Time and Attendance modules. An additional module for pensions remains outstanding. The Finance Office oversees the OnePhilly team, whose role is to manage the OnePhilly system project.

While some conditions that existed during fiscal 2020 have been corrected, multiple breakdowns remain with the functionality and application controls of the OnePhilly system. Our current year review noted that five out of nine previously reported unresolved conditions remained, and four conditions have been corrected. We continue to consider these breakdowns to be a material weakness. Specifically, the following was noted:

- Assumed time continued to be automatically recorded by the OnePhilly system if an employee's timecard was short of the employee's scheduled hours. This time is automatically added to the timecard under the assumption that the employee worked their minimum scheduled hours in the pay period if the time entered into Oracle Time and Labor is insufficient. The departments are now provided an Assumed Time Reconciliation report to retroactively reconcile all assumed time before the close of the next pay period or no later than the end of the three pay period reconciliation timeframe. While providing the Assumed Time Report has reduced the total amount of unreconciled assumed time, insufficient controls exist to ensure these retroactive changes occur at the department level in a timely manner.
- Employee timecards continue to show hours types, such as regular time or on-call time, that are not appropriate for the employee's position, increasing the likelihood of erroneous or fraudulent time entry.
- The OnePhilly team continues to use an automated process to change unapproved timecards to approved status. Departments are responsible for retroactively examining timecards and making corrections. However, insufficient controls exist to ensure this post-pay review and correction occur at the departmental level.
- We previously reported that the Timecard Status Summary Dashboard (including the Missing Timecard Report) is not restricted by department. The Super Timekeepers are able to view all

⁶ During the fiscal year 2019 audit, we engaged an independent accounting firm to perform an assessment of the information technology (IT) application and general controls of the OnePhilly system.

employees on the Dashboard. In addition, the Timecard Status table within the Dashboard does not reflect the total population of timecards as the missing timecards are not included. During our testing, the OnePhilly team indicated that there were no changes to this condition.

- Formalized monitoring has been developed for files sent to various third parties including city employee unions, benefits providers, and insurance providers. However, these monitoring activities are not supported by a written policy. Additionally, during the period under audit, a vendor had to repeatedly contact the city to obtain a missing interface file.

Our current year review disclosed that the following previously reported conditions have been corrected. We found that changes made to employee timecards by the OnePhilly team or the Finance Office's Central Payroll Unit are now supported with documented authorization or approval. The OnePhilly team has reduced the overall number of issues causing inaccurate accrual of leave and corrected the outstanding accrual issue identified in 2019. While the Overpaid / Underpaid report continues to have known inaccuracies according to the OnePhilly team and still requires a full review each week, documentation of these corrections has improved. For 18 of 20 samples selected, over/underpayments were adequately explained, and documentation of the correction was available. Lastly, supervisory and executive approvals of payroll are no longer recorded and submitted on paper reports. These approvals are now submitted electronically.

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

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

Cause: The scope of our review was to assess the progress of the remediation of deficiencies identified in the application controls in place when the OnePhilly system was in production, supporting the city's HR, Benefits, Payroll, and Time and Attendance processes. As many of these conditions continue to be in existence from the time of the OnePhilly system Go-Live, it appears that the city may still not have dedicated sufficient resources to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system.

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

SIGNIFICANT DEFICIENCIES

2021-003 OIT'S IT GENERAL CONTROLS CONTINUE TO REQUIRE STRENGTHENING

Condition: We previously reported several deficiencies in the Office of Innovation and Technology's (OITs) IT general controls over key financial-related applications⁷, which were identified during a prior year review⁸. Current year testing revealed that while OIT has made certain remediation efforts, the following conditions remain:

- OIT management again provided a Change Management Standard Operating Procedures (SOP) created on January 29, 2019, which still did not specifically address (1) details on the Change Advisory Board (CAB) approval process and (2) how end-user testing should be documented. As noted in prior reviews, the procedure was still inconsistently applied when performing change requests for in-scope applications. Change requests sampled by us were still not consistently supported by documented end-user testing, including detailed testing procedures, and identification that testing was completed. Also, for sampled change requests, the service tickets did not consistently document required approvals, including evidence of review and approval by the CAB, even though the SOP clearly identifies the level of approvals required for the different types of changes that are migrated to production.
- OIT still did not properly segregate duties in the following cases:
 1. Four OIT employees continued to have database administrator access as well as systems administrator access within FAMIS and ADPICS.
 2. Two OIT employees continued to have database administrator access as well as systems administrator access within Basis2.

In response to our recommendation, the OIT has appropriately corrected a segregation of duties deficiency reported in prior years, in which three OIT programmers continued to have development rights to Basis2 as well as database administrator access rights. OIT segregated these incompatible duties by removing the database administrator access for each of these programmers. We consider this condition to be resolved [300419.02].

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

⁷ The key financial-related applications included in the review were FAMIS, Advanced Purchasing Inventory Control System (ADPICS), OnePhilly, Pension Payroll, Taxpayer Inquiry and Payment System (TIPS), and Basis2.

⁸ The prior review also disclosed other findings with lesser impact. The remediation status of those other findings is discussed on page 23 and Appendix II of this report.

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

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

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

- Review its change control procedures and implement measures to ensure that required steps for application changes are performed and documented in accordance with the policy. Also, OIT should update its change management policy to include (1) documentation standards for end-user testing and (2) information relating to how approvals for all change types should be documented in the service ticket [300413.05].
- Separate the systems administrator function from the database administrator function for the four OIT employees who have database administrator and systems administrator access within FAMIS and ADPICS. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and proper [300419.03].
- Separate the systems administrator function from the database administrator function for the two OIT employees who have database administrator and systems administrator access within Basis2. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and appropriate [300419.04].

2021-004 TREASURER'S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior audit, we reported that the consolidated cash bank reconciliation contained numerous long outstanding reconciling items, which had been accumulating since the Treasurer resumed reconciling the consolidated cash account in June 2017. A resulting condition from the Treasurer's failure to reconcile accounts for several years was noncompliance with Pennsylvania's Disposition of Abandoned and Unclaimed Property Act (escheat act). Our current year audit noted that deficiencies still existed in the Treasurer's bank reconciliation procedures. Specifically, the following was noted:

- All 69 bank reconciliations selected for testing did not contain the signature of the City Treasurer, 1st Deputy City Treasurer, Deputy Treasurer or Assistant Treasurer as evidence that the reconciliations were approved by the administrative officials as required by the Treasurer's *Bank Reconciliation Policy*.
- Although Treasurer personnel timely prepared the fiscal year-end bank reconciliations, they were not timely in their investigation and resolution of reconciling items. Our prior year report noted numerous long outstanding reconciling items for the consolidated cash account. Current year testing of all 69 bank reconciliations disclosed 50 reconciliations with long outstanding reconciling items. As shown in Table 2 below, as of June 30, 2021, there were 672 bank reconciling items over 90 days old with a net total dollar amount of \$12.8 million and 1,280 book reconciling items over 90 days old with a net total dollar amount of \$85.1 million.

Table 2: Reconciling Items Over 90 Days as of June 30, 2021						
Bank Balance Reconciling Items						
	Additions to Bank Balance		Reductions to Bank Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2019	82	\$3,261,039	97	(\$9,623,964)	179	(\$6,362,925)
FY 2019	23	586,031	70	(1,438,754)	93	(852,723)
FY 2020	34	15,914,373	222	(19,499,663)	256	(3,585,290)
FY 2021 ⁹	46	44,811,993	98	(46,807,537)	144	(1,995,544)
All Fiscal Years	<u>185</u>	<u>\$64,573,436</u>	<u>487</u>	<u>(\$77,369,918)</u>	<u>672</u>	<u>(\$12,796,482)</u>
Book Balance Reconciling Items						
	Additions to Book Balance		Reductions to Book Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2019	227	\$ 107,597,760	169	(\$123,983,904)	396	(\$16,386,144)
FY 2019	124	60,438,242	101	(40,826,637)	225	19,611,605
FY 2020	197	126,099,316	109	(202,771,016)	306	(76,671,700)
FY 2021 ⁹	294	134,096,627	59	(145,715,518)	353	(11,618,891)
All Fiscal Years	<u>842</u>	<u>\$428,231,945</u>	<u>438</u>	<u>(\$513,297,075)</u>	<u>1,280</u>	<u>(\$85,065,130)</u>

Source: Prepared by the Office of the Controller based upon the June 30, 2021 bank reconciliations provided by the Treasurer's Office

- Ongoing problems with reconciling revenue activity for the Department of Public Health (DPH) had not been corrected and the variance has significantly increased. Previous audits have noted variances between DPH's recorded collections and the amounts transferred daily to the consolidated cash account. As of June 30, 2021, there was a \$15.9 million variance between DPH's recorded collections

⁹ Amounts for Fiscal 2021 include reconciling items through March 31, 2021.

and actual transfers compared to \$7.9 million variance reported in the prior year. The Treasurer informed us that they implemented a revised process for handling DPH revenue receipts. However, the current year audit disclosed that the process had not been fully implemented.

- Our testing still noted noncompliance with the Pennsylvania escheat act. There remains \$10.8 million in outstanding vendor checks for calendar years 2013 to 2018 and \$1.5 million in outstanding payroll checks for calendar years 2016 through 2019 that have not been escheated to the state. Treasurer personnel informed us they have engaged an outside accounting firm to assist in addressing the legacy escheatment backlog.

Criteria: Standard Accounting Procedure (SAP) No. 7.1.3.b, *Reconciliation of All Bank Accounts in All City Agencies*, requires that monthly reconciliations of city bank accounts readily identify all of the specific transactions comprising the differences between book and bank balances to allow city agencies to investigate these reconciling items and determine whether they represent errors or irregularities. Effective internal controls require reconciling items to be researched promptly so that corrective action, where necessary, may be taken. Per the Treasurer's *Bank Reconciliation Policy*, effective October 1, 2019, any reconciling items must be resolved within 90 business days of the reconciled month. Additionally, the City Treasurer, 1st Deputy City Treasurer, Deputy Treasurer or Assistant Treasurer's signature on the bank reconciliation summary will confirm that the procedures have been followed, and that the reconciliation accurately embodies the status of the account at the bank, as well as, on the books.

SAP No. 4.1.2, *Unclaimed Monies*, instructs city departments to remit all checks outstanding for over one year to the city's Unclaimed Monies Fund, which is administered by the Finance Office who is then responsible for remitting amounts to the state in accordance with the escheat act. The Pennsylvania escheat act requires that property that remains unclaimed by the owner for a specified dormancy period (depending on property type) be remitted to the Pennsylvania Treasury. The dormancy period is two years for unclaimed wages/payroll and three years for all other unclaimed property types.

Effect: Numerous and old reconciling items complicate and prolong the bank reconciliation process. The untimely investigation and disposition of reconciling items increase the risk that errors or irregularities could occur and go undetected. The likelihood of resolving reconciling items decreases the longer they remain outstanding. Also, failure to enforce formal written policies and procedures increases the risk that critical control activities may be inconsistently applied or not applied at all and thus creates the potential for errors. Lastly, noncompliance with the Pennsylvania escheat act may subject the city to penalties.

Cause: Administrative Officials did not review the bank reconciliations and confirm whether the procedures have been followed by OTC. Treasurer management failed to take adequate steps to ensure that all reconciling items were promptly investigated and resolved within 90 days in accordance with the *Bank Reconciliation Policy*. Concerning the variances related to DPH revenue receipts, Treasurer management did not fully implement the revised process for reconciliation of DPH revenue receipts. Regarding the long outstanding checks, Treasurer management has not completed the escheatment process.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management take the following steps:

- Investigate and resolve all reconciling differences between the Treasurer account book and bank balances within the 90-day requirement of the Treasurer's *Bank Reconciliation Policy* [500119.02].
- Implement the revised process for DPH revenue receipts to eliminate the problems with reconciling the DPH's recorded collections to bank transfers [500115.06].
- Ensure that all bank reconciliations are signed and approved by the appropriate official as required in the *Bank Reconciliation Policy* [500121.01].

Lastly, the Treasurer and Finance Office management should work together to ensure that all escheatable amounts are reported and pay to the Pennsylvania Treasury. In the future, the Treasurer should comply with SAP No. 4.1.2 in remitting all checks outstanding over one year to the city's Unclaimed Monies Fund, and the Finance Office should send all unclaimed monies due to the Pennsylvania Treasury in accordance with the state escheat act [500117.05].

2021-005 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

Condition: The Finance Office along with city departments failed to timely identify and close out remaining balances for certain completed grants. Grants Accounting and Administrative Unit (GAAU) personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule, which is adjusted based on grant reconciliations and closeouts provided by the departments responsible for grants. Specifically, our review of the six departments¹⁰ with the largest accounts receivable and advance balances on the fund schedule identified \$26.9 million in accounts receivable and \$45.7 million in advances for grants that had no current year activity and the grant award date expired three or more years ago, ranging from fiscal years 1998 to 2018.

Criteria: The city's SAP No. G 1-1 – *Grant Closeouts* provides a uniform procedure for city departments and the Finance Office's GAAU to follow for the purpose of closing the books and records on grants that have been completed or discontinued. SAP No. G 1-1 instructs city departments to notify GAAU when a grant is completed and send the final reimbursement request and/or closeout report to GAAU. SAP No. G 1-1 also requires GAAU to monitor grant expenditure activity in FAMIS at least twice a year to identify inactive grants for closeout.

Effect: Failure to timely close out remaining account balances for completed grants increases the risk of material reporting errors in the city's ACFR.

Cause: While GAAU sends annual reminders to departments to identify grants with award dates that expired three years ago, to be written off to the General Fund or to return the unused funds to the grantor, the

¹⁰ The six departments selected for testing based on the largest dollar amounts of outstanding accounts receivables and advance balances were the Department of Planning and Development, the Managing Director's Office, Department of Public Health, Department of Behavioral Health and Intellectual disAbility Services, Office of Homeless Services, and First Judicial District of Pennsylvania.

departments do not always properly respond and timely identify and close out completed grants. Additionally, GAAU does not follow up on these requests.

Recommendation: To ensure the accuracy of the city's accounting records and reduce the risk of reporting errors, we recommend that Finance Office management:

- Instruct Finance Office accountants to complete the necessary adjustments to close out inactive grants in the Grants Revenue Fund [500121.02].
- Reinforce SAP No. G 1-1 requirements with both city departments and GAAU. Management should remind city departments of the requirements to notify GAAU of completed grants and submit the grants' final reports to GAAU. GAAU should monitor grant activity in FAMIS to identify and close out inactive grants in accordance with SAP No. G 1-1 requirements [500121.03].

2021-006 ACCOUNTS PAYABLE REPORTING STILL NEEDS IMPROVEMENT

Condition: During fiscal year 2021 audit testing, we detected understated accounts payable as a result of unrecorded liabilities amounting to \$67 million. This understatement of accounts payable occurred in the General Fund for \$11.6 million, HealthChoices Behavioral Health Fund for \$33.8 million, Grants Revenue Fund for 12.9 million, Aviation Operating Fund for 3.6 million, and Aviation Capital Fund for \$5.1 million. We proposed accounts payable adjustments on these above-mentioned funds. However, the Finance Office and the DOA management agreed to only correct the understated accounts payable in the Grants Revenue Fund, portions of HealthChoices Behavioral Health Fund and Aviation Capital Fund for the total amount of \$43.3 million.

Criteria: Generally accepted accounting principles (GAAP) require that governments report a liability in the period in which it is incurred.¹¹ Governmental entities must establish adequate control procedures over the computation of accounts payable to ensure that reported amounts are accurate and complete.

Effect: As a result of the unbooked adjustments, the city's fiscal year 2021 ACFR contained understatements of accounts payable totaling \$23.7 million¹², as detailed below:

- A \$11.6 million understatement of both expenditures and accounts payable in the General Fund;
- A \$8.5 million misstatement in the HealthChoices Behavioral Health Fund where the beginning fund balance was overstated and the accounts payable was understated; and
- A \$3.6 million understatement of both expenses and account payable in the Aviation Operating Fund.

¹¹ There are exceptions to this standard for governmental funds, such as debt principal and interest which are recognized only when due. Also, certain specific accrued liabilities, such as pension benefits and other postemployment benefits, are recognized in governmental funds only to the extent that governments in general normally liquidate them with current financial resources.

¹² As part of our audit procedures, for each of these funds, we combined these proposed adjustments with other uncorrected ACFR errors and determined that the resulting total was immaterial to the city's fiscal year 2021 financial statements.

Cause: Our review of the Finance Office’s procedures for computing year-end accounts payable balances disclosed weaknesses that increased the risk for unrecorded payables. The Finance Office accountants reviewed payment vouchers posted to FAMIS during fiscal year 2022 on various reviewing dates for various funds up to the third week of September, to identify vouchers for goods or services received on or before June 30, 2021, but not paid until fiscal year 2022, which should be recorded as accounts payable for fiscal year 2021. The Finance Office then requested departments to provide a list of fiscal year 2021 invoices not yet vouchered or submitted to the Finance Office for processing as of September 3, 2021. The Finance Office management extended the cut-off date of accounts payable through early-September compared to prior year’s August 16 in accordance with the memorandum that Finance Office management sent out to departments. The Finance Office requested departments to submit accounts payable data and instructed them to respond no later than September 14, 2021, but the Finance Office did not provide departments with any instructions or procedures to document a basis for their expectation that departments would provide them with the fiscal year 2021 payables of which department personnel were aware of through October 2021 or beyond.

Our audit testing for unrecorded liabilities – which involved reviewing fiscal year 2021 payment vouchers through December 31, 2021, to identify payments for goods or services received on June 30, 2021, or prior – found \$67 million of payables that the Finance Office accountants failed to include in accounts payable amounts (The amounts of \$43.3 million of accounts payable corrections booked by Finance Office were included). Table 3 below presents a breakdown of this \$67 million in unrecorded accounts payable, showing that most errors noted were posted to FAMIS after the Finance Office’s department Cut-Off date of September 3, 2021. Based upon our testing results, Finance Office’s cut-off date of September 3 was too early to detect all significant accounts payable. In fact, we found instances of large unrecorded payables pertaining to payment vouchers posted to FAMIS from late-September to October 2021.

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

<u>FUND</u>	<u>FAMIS POSTING DATE FOR PAYABLES OCCURRED</u>		<u>TOTAL</u>
	<u>BEFORE CUT-OFF DATE†</u>	<u>AFTER CUT-OFF DATE†</u>	
General Fund	\$9,956,252	\$1,619,751	\$11,576,003
HealthChoices Behavioral Health Fund [#]	\$8,459,026	\$25,377,078	\$33,836,104
Grants Revenue Fund [®]	\$2,743,353	\$10,165,182	\$12,908,535
Aviation Operating Fund	\$(250,442)	\$3,841,670	\$3,591,228
Aviation Capital Fund [®]	\$33,850	\$5,064,259	\$5,098,109
Total	\$20,942,039	\$46,067,940	\$67,009,979

†= The Finance Office’s cut-off date for reviewing FAMIS postings to identify fiscal year 2021 accounts payable was September 3, 2021.

[#] = The Finance Office agreed to correct portions of the accounts payable errors and the amount was partially booked in fiscal year 2021 ACFR.

[®]= The Finance Office agreed to correct the accounts payable errors and the amounts were booked in fiscal year 2021 ACFR.

It is apparent from the table that the departments' reporting of payables to the Finance Office was incomplete. The departments with the largest share of unrecorded payables by fund were as follows: the Streets Department for the General Fund; Department of Behavioral Health and Intellectual Disabilities for the HealthChoices Behavioral Health Fund, Department of Human Services for the Grants Revenue Fund and DOA for the Aviation Operating and Aviation Capital Funds. Also, a very large portion of the unrecorded accounts payables were after the Finance Department's cut-off as illustrated in Table 3.

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

- Extend the cut-off date in the memorandum to departments to review accounts payables in the subsequent fiscal year to an appropriate later date to enable them to more accurately and completely report accounts payable to the Finance Office [500119.04].
- Collaborate with departments that face unique and substantial challenges to properly reporting accounts payables to the Finance Office to develop processes to ensure sufficient and appropriate reporting going forward. Reinforce the accounts payable reporting requirements to all departments as well as the importance of providing complete and accurate accounts payable information to the Finance Office for inclusion into the ACFR [500119.05].

2021-007 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

As previously reported during the last several audits, controls over capital assets are deficient because (1) the city does not have a comprehensive capital asset system to facilitate accounting and reporting of these assets and (2) periodic physical inventories of real property assets are not performed. Each of these conditions is discussed in more detail below.

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Condition: The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Excel files, that together with FAMIS, constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation expense and accumulated depreciation reported in the city's ACFR. Real property addresses are only available in FAMIS by user code, which is identified in an Excel file called the "Proof".

Criteria: Philadelphia's Home Rule Charter¹³ requires management to maintain current and comprehensive records of all real property belonging to the city.

¹³ The Philadelphia Home Rule Charter, Section 6-501

Effect: The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the ACFR and causes extensive audit effort. For example, we continued to find discrepancies between the “Proof” file and FAMIS – a \$1.3 million discrepancy in the misclassification in Horticultural Equipment vehicle categories could cause errors in depreciation expense because of differing useful lives for two categories. Also, the address for one of the assets we sampled did not agree between FAMIS and the proof, thus making a physical inventory difficult to complete.

Cause: While Finance Office management agrees that it would be beneficial to have a comprehensive capital asset system, resources have not been identified to initially fund and continually maintain it.

Recommendation: To improve the accounting and reporting of the city’s capital assets, we continue to recommend that Finance Office management secure the necessary resources to design or purchase a computerized capital asset management system that will provide accurate and useful information such as the book value and related depreciation for each city-owned asset [50104.01].

Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records

Condition: Except for the Philadelphia Water Department (PWD) and the Division of Aviation (DOA), which both periodically check the physical existence and condition of their real property assets, this year’s audit again disclosed no evidence that the city’s other real property assets had been recently inventoried. In its response to last year’s report, Finance Office management stated it has been working with OIT’s Geographic Information System (GIS) unit with the objective of reconciling the fixed asset ledger to Integrated Workplace Asset Management System¹⁴ (IWAMS), no reconciliation has been provided.

Criteria: SAP No. E-7201, *Real Property Perpetual Inventory*, specifies that the Procurement Department shall physically inspect all city-owned real property on a cyclical basis and check against the inventory listing to determine actual existence, condition and propriety of use. Additionally, the Government Finance Officers Association (GFOA) recommends that governments periodically inventory tangible capital assets, so that all assets are accounted for, at least on a test basis, no less often than once every five years. It also recommends governments periodically inventory the physical condition of all existing capital assets so that the listing of all assets and their condition is kept current. Furthermore, the GFOA recommends that a “plain language” report on the condition of the government’s capital assets be prepared and made available to elected officials and the general public at least every one to three years.

Effect: Continued failure to perform a physical inventory increases the risk that the city’s recorded real property assets could be inaccurate and/or incomplete.

Cause: This issue has not been a priority for city management. The Finance Office, Procurement Department, and Department of Public Property (Public Property) – the agency responsible for acquiring and maintaining the city’s real property assets – have not developed a coordinated process for physically inventorying all city-owned real property.

¹⁴ During fiscal year 2018, the Department of Public Property (Public Property) implemented the Integrated Workplace Asset Management System (IWAMS), which contains various data on the city’s real estate assets, including maintenance and improvement costs.

Recommendations: We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort [50106.04].
- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the general public [500109.02].
- Work with OIT to perform to complete the reconciliation of the IWAMS database to the city's fixed asset records to identify any discrepancies and ensure the completion and accuracy of the city's records [500113.14].

2021-008 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Condition: The city's Standard Accounting Procedures (SAPs), which serve as the basis for the city's system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over two hundred SAPs to provide city departments and agencies with guidance on how to handle various accounting related activities, including proper procedures for ensuring the accuracy of transactions and the safeguarding of assets. Over the years, as new technologies were adopted and daily practices were enhanced, the existing SAPs have not been updated accordingly, with over 50 percent of them still being more than half a century old.

During fiscal year 2021, the Finance Office continued updating 26 SAPs with the most recent being an update of SAP- No. E – 4601 *Accounting for Proceeds from Disposition of Capital Assets Originally Acquired Through Loan Funds*, issued on December 2, 2021. During current year's follow up, we were provided with an updated project tracking schedule, which listed all existing SAPs, identified those SAPs deemed obsolete, and provided new target deadlines for completing updates for all SAPs by fiscal year 2026. We were informed that the director of compliance prioritized working meetings with Control Owners and reviewed old and long outdated SAP information to identify obsolete procedures and flag areas requiring updates. Finance Office management estimated that the update to the ninth and final grant SAP – No. G-6-1, *Budgeting for Revenue from Other Governments* – would be completed by April 30, 2022. Lastly, in response to the new OnePhilly payroll system implemented in March 2019, the Finance Office has a target timeline of December 30, 2022, for the completion of updates to payroll related SAPs.

Criteria: In accordance with Philadelphia's Home Rule Charter, the city's Finance Office is required to establish, maintain and supervise an adequate and modern accounting system to safeguard city finances. Also, in its best practices publication, the GFOA recommends that governments perform an on-going review, evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

Effect: With the majority of SAPs not reflecting the automated processes and practices currently in use, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting errors and/or misappropriation of assets.

Cause: Over the years, the Finance Office experienced staff reductions that have compromised its ability to conduct periodic reviews and updates to the SAPs. Also, we were informed that the Finance Office continue to experience operating and budgetary constraints.

Recommendation: We recommend that the Finance Office continue to complete the review and update of the SAPs. Procedures no longer pertinent should be rescinded, and those that are out-of-date should be revised to reflect the automated processes and practices in use today. Once this initial update is completed, the Finance Office should develop a schedule for periodically updating SAPs on a regular basis in the future [50102.16].

OTHER CONDITIONS

2021-009 WHILE IMPROVEMENT WAS NOTED IN DEPARTMENTS' BIWEEKLY PAYROLLS APPROVALS PROCESS, UPDATES TO AUTHORIZED SIGNERS NEED STRENGTHENING

Condition: In prior audits, we reported departments did not properly submit biweekly payroll approvals with the required two signatures by the payroll close deadline. With the implementation of OnePhilly, the city's payroll system, during the 4th quarter of fiscal year 2019, the departmental payroll approval process moved from electronic to manual. The manual process required departments to evidence their review and approval of payroll by having supervisory and executive level approvers physically sign the Time Entry Detail Report and then provide a scanned copy to the Central Payroll Unit by the closing date of the biweekly payroll. The executive level approver was required to be an authorized signer listed on the department's signature authorization card. This process was in effect for the first four pay periods of fiscal year 2021.

In mid-September 2020, a new OnePhilly electronic departmental payroll approval process was implemented. The electronic process requires departments to evidence their review and approval of payroll by having supervisory and executive level approvers examine on-screen timecards and then electronically sign off by the closing date of the biweekly payroll. The executive level approver must still be an authorized signer listed on the department's signature authorization card.

Prior to Go-Live of electronic payroll approvals, the Central Payroll Unit oversaw the related departmental training and selected the anticipated executive level authorized signers for set up on OnePhilly based on each department's current signature authorization card. The Central Payroll Unit then asked the departments to confirm or request a change to these OnePhilly authorized signers via an e-mail response prior to final set up. This request also reminded departments of the requirement to update the executive level authorized signers on the signature authorization cards to match changes to the OnePhilly authorized signers. For subsequent changes to all OnePhilly authorized signers, the Central Payroll Unit instructed departments to utilize a new Authorized Signer Update Form.

The biweekly payroll approval process significantly improved after the implementation of electronic payroll approvals. Our testing of the final 22 pay periods of fiscal year 2021 for 50 city departments disclosed 182 instances (16 percent) where departments did not submit the required two approvals by the payroll close deadline.¹⁵ Out of these 182 instances, we observed only 14 approvals, six of which occurred during the first two payrolls of this new process, that included the required two sign-offs but were submitted after the payroll close deadline. Out of the 50 city departments, 22 were in full compliance with the OnePhilly approval process during our test period.

We also determined that the electronic payroll approval process adequately segregates incompatible duties, as the supervisory and executive level approvers are not responsible for entering the timecards. Additionally, our review of all 1,111 electronic payroll approvals confirmed that, for each approval, the supervisory and executive level sign-offs were performed by separate individuals.

Despite this improvement in the timeliness of payroll approvals and the proper segregation of duties, of the 182 instances noted above we observed 134 approvals in which the executive level approver was not listed on the

¹⁵ The prior year's testing of all fiscal year 2020 pay periods disclosed 741 instances (55 percent) where departments did not submit the Time Entry Detail Report with the required two signatures by the payroll close deadline.

department's signature authorization card. All but one of the 134 approvals was supported by a departmental authorized signer e-mail or Authorized Signer Update Form listing the executive level approver. However, this lack of an updated signature authorization card prevented 12 departments from reaching full compliance with the electronic payroll approval process.

Criteria: Effective internal control procedures require that all payroll transactions are properly and timely approved by authorized employees.

Effect: Failure to ensure that payroll is reviewed and timely approved by properly authorized individuals increases the risk of undetected errors. Also, this condition provides opportunities for a person to perpetrate and conceal irregularities during the bi-weekly payroll preparation process, which may result in fraudulent payroll payments.

Cause: The Central Payroll Unit did not ensure that departments updated the executive level approvers on the signature authorization cards when departments requested changes to the authorized OnePhilly payroll approvers. The Central Payroll Unit indicated that after the initial process to set up the OnePhilly electronic payroll approvers was performed, reminding the departments to update the signature authorization cards for changes to executive level approvers and verifying that update was not a priority. Further, the electronic payroll approval training guides and the Authorized Signer Update Form did not instruct departments to update signature authorization cards when they requested changes to the OnePhilly executive level approvers.

Recommendation: To improve the departmental payroll approval process, we recommend that the Central Payroll Unit establish procedures to ensure departments promptly update signature authorization cards to agree with requested changes to the authorized OnePhilly executive level approvers. Instructions to complete these updates should be added to the OnePhilly electronic payroll approval training guides and the Authorized Signer Update Form. Also, the Central Payroll Unit must proactively remind departments of the payroll close deadlines and enforce compliance with those departments that miss the deadlines [500119.03].

2021-010 CITY'S ACCOUNTING SYSTEM NOT UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES

Condition: As previously reported, accountants in the Finance Office, the Philadelphia Water Department (PWD), and the Division of Aviation (DOA) were still not utilizing the full accrual Water and Aviation Funds established in the city's accounting system (FAMIS) to post year-end adjusting journal entries to prepare the financial statements.

The current audit revealed that the Finance Office prepared entries in FAMIS to record the change in the fiscal year 2021 ending balances for only 5 of 28 accounts listed in the full accrual Water Fund. Since the Finance Office failed to prepare any entries in FAMIS for the remaining 23 accounts, these accounts continue to reflect the beginning balances for fiscal year 2020. Also, as reported in the prior year for the full accrual Aviation Fund, the last time the Finance Office prepared and posted entries in FAMIS was to record the fiscal year 2018 beginning balances. There have been no other journal entries posted since then to reflect the activity and resulting ending balances for fiscal years 2018 through 2021.

Criteria: The Finance Office, PWD, and DOA should be using the full accrual Water and Aviation Funds in FAMIS to post adjusting entries so as to provide a clear trail of adjustments between the modified and full accrual statements and decrease the risk of errors in the ACFR.

Effect: There is an increased risk of error in compiling the city's ACFR.

Cause: In the past, Finance Office accountants have indicated that more urgent priorities have precluded them from working with the PWD and DOA to utilize the full accrual Water and Aviation Funds in FAMIS. Instead, accountants from the PWD and DOA, with the assistance of consultants, each produce a compilation package containing detailed support for the financial statements, including year-end adjusting journal entries.

We observed that the entries posted to the FAMIS full accrual Water and Aviation funds were simply to record the balance (for a first-time entry) or a change in balance for each account rather than the actual year-end accrual adjustments. Finance Office accountants stated that the information in these funds has little value and is not used. However, we noted that the DOA used the balances in the Aviation full accrual fund as the beginning balances in the compilation. Since FAMIS only reflected the fiscal year 2018 beginning balances, the DOA accountants had to prepare additional journal entries to record the correct fiscal year 2021 beginning balances in compiling the Aviation Fund financial statements.

Recommendations: As the city continues to replace its financial accounting systems,¹⁶ we continue to recommend that Finance Office management include a process for the PWD and DOA to record their year-end accrual adjustments in the new accounting system [500119.06].

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Water and Aviation funds up-to-date through fiscal year 2021 for the upcoming fiscal year 2022 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02].

2021-011 CERTAIN OTHER GENERAL IT CONTROLS FOR ONEPHILLY SYSTEM STILL NEED IMPROVEMENT

In addition to the deficiencies discussed on pages 7 and 8 of this report, several other deficiencies with lesser impact remained in OnePhilly system's IT general controls. As part of the current audit, we reviewed the OnePhilly team's remediation efforts to address these deficiencies. Of the eight prior noted conditions, we observed that the deficiency regarding open findings from an External Penetration Test had been resolved. The OnePhilly team has made certain remediation efforts but had not completed corrective action for the other seven prior noted conditions involving (1) authorization of OnePhilly elevated access, (2) password configurations, (3) Go-Live approval documentation, (4) documentation of impacted accounts, (5) application and system patching, (6) backlog of change tickets, and (7) disaster recovery testing. Details regarding the eight prior noted conditions and their current remediation status are presented in Appendix I.

¹⁶ The city is continuing a project to modernize core financial, grants, procurement, and supply chain business processes, known as the OPAL ERP project.

2021-012 CERTAIN OTHER GENERAL IT CONTROLS FOR OIT STILL NEED IMPROVEMENT

In addition to the deficiencies discussed on pages 9 and 10 of this report, several other deficiencies with lesser impact remained in OIT's IT general controls over key financial-related applications¹⁷. As part of the current audit, we reviewed the OIT's remediation efforts to address these deficiencies. For seven prior noted conditions, we observed that OIT made certain remediation efforts but had not completed corrective action. Our findings involved the following seven areas: (1) IT policies and procedures relating to Basis2 security policy, (2) IT policies and procedures relating to firewall administration, maintenance, and monitoring, (3) authorization of database administrator access, (4) periodic access rights review, (5) user administration – notification of terminated users, (6) business continuity plan, and (7) Basis2 disaster recovery. Details regarding the seven prior noted conditions and their current remediation status are presented in the table in Appendix II.

¹⁷ The key financial-related applications included in the review were FAMIS, Advanced Purchasing Inventory Control System (ADPICS), Legacy Payroll (through March 18, 2019 when replaced by OnePhilly), Pension Payroll, Health and Welfare (through December 17, 2018 when replaced by OnePhilly), Taxpayer Inquiry and Payment System (TIPS), and Basis2.

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

As part of our current audit, we followed up on the conditions brought to management's attention during our last review. We routinely monitor uncorrected conditions and report on them until management takes corrective action or until changes occur that resolve our recommendations.

Our follow-up has disclosed that the city made progress addressing several prior issues. We blended the status of a resolved prior-noted condition¹⁸ with new observations and reported upon these matters in other sections of this report.

¹⁸ The resolved prior-noted conditions involved (1) the OnePhilly team addressed certain application control deficiencies, as discussed on page 8 of the report, (2) the OIT has appropriately corrected a segregation of duties deficiency reported in prior years, in which three OIT programmers continued to have development rights to Basis2 as well as database administrator access rights, as discussed on page 9 of the report; and (3) a general IT control deficiency in OnePhilly system regarding open findings from an External Penetration Test had been resolved., as discussed on page 22 and Appendix I of this report.

APPENDICES

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF ONEPHILLY

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><u>SECURITY MANAGEMENT</u></p> <p>1. <u>External Penetration Test Findings Remediation:</u> The External Penetration Test Report dated 12/13/2018, performed by Cyber Security Solutions (CBI) on behalf of the city, identified seven medium risk findings. Five of the findings are still open, and a remediation plan has not been formally documented to address the findings.</p>	<p>The five remaining findings potentially expose the OnePhilly system to external vulnerabilities.</p>	<p>Not Applicable – Remediation status is complete.</p>	<p>Complete: The five remaining findings were corrected during FY 2021.</p> <p>Based on the above, we consider this condition resolved [303519.03].</p>
<p><u>ACCESS CONTROLS</u></p> <p>2. <u>Authorization of OnePhilly Elevated Access:</u> Authorization of OnePhilly elevated access, which allows for the ability to perform transactions beyond employee self-service, for new users and transferred users continued to be performed while lacking a formal, documented format. User provisioning/ deprovisioning access requests continued to be made via email or HelpDesk. The OnePhilly team has not finalized or approved, a design document to automate the provisioning of access for employees when newly hired, transferred or terminated. Additionally, a formal documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities and permissions had not yet been established. Periodic user access reviews did not include the identification and removal of Segregation of Duties breakdowns, or identification of monitoring controls in place where Segregation of Duties breakdowns cannot be removed.</p>	<p>There may be users with access not commensurate with their job responsibilities. In addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.</p>	<p>We continue to recommend that the OnePhilly team develop and implement a formal process to request and approve user access, which specifies the access required, considering the documented SoD requirements. Additionally, the quarterly review of user access should include the identification and removal of SoD breakdowns, or identification of monitoring controls in place where SoD breakdowns can not be removed [303519.04].</p>	<p>Incomplete: The OnePhilly Team provided the final approved version of the SoD policy. They also forwarded their newly created SoD Request form for user access and their SoD analysis file used to identify incompatible roles, responsibilities, and permissions. However, there was evidence that the request forms are not in use. An email from prisons requesting an employee be given access to replace another employee, who's access was terminated, shows that the access was authorized via the email correspondence</p> <p>The OnePhilly team also provided several examples of user access reviews of the Controller's Office, District Attorney's Office, Department of Human Services and Department of Prisons.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF ONEPHILLY

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>3. <u>Password Configurations:</u> The OnePhilly system was configured at Go-Live with a password requirement of case sensitivity and, for user accounts created after Go-Live, a password expiration of 90 days. Additionally, passwords for user accounts converted from the legacy system did not expire and thus did not meet the city's minimum expiration requirements.</p>	<p>Inadequate password configurations significantly increase the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.</p>	<p>The OnePhilly password settings should be updated to meet OIT's password requirements [303519.05].</p>	<p>Incomplete: No additional changes have been implemented to OnePhilly password settings to align with OIT's Information Security Access Control Policy. The OIT requirement stating that passwords cannot be proper names or dictionary words has yet to be addressed, nor has the requirement that passwords used for production systems can not be the same as those used for non-production systems. The requirement regarding a unique password for each system cannot be configured in OnePhilly. During the period under audit, OnePhilly management had not applied for an exception to the OIT password policy.</p>
<p><u>CONFIGURATION MANAGEMENT</u></p> <p>4. <u>Go-Live Approval Documentation:</u> Documented formal approvals or sign-offs by the OnePhilly steering committee, authorizing the Go-Live of the system in December 2018 (Human Resources and Benefits) and March 2019 (Payroll and Time & Attendance), were not documented or maintained. In addition, meeting minutes, including reports/ presentations used to support the Steering Committee's decision to Go-Live, including the decision to defer the Payroll and Time & Attendance Go-Live from December to March, were not maintained.</p>	<p>Without documented approval of the Go-Live by the Steering Committee, there is no evidence that full consideration and review was performed of known risks, open tasks to be completed, completion of testing scenarios, and agreement of all Steering Committee members.</p>	<p>The OnePhilly team should maintain formal agendas and meeting minutes of the Steering Committee meetings, including capturing the results of any voting decisions by Steering Committee members. For any future module implementation, formal Go-Live approval by the Steering Committee should be obtained and documented prior to Go-Live [303519.06].</p>	<p>Incomplete: This finding could not be fully tested during fiscal year 2021, as no additional modules were released, and therefore no Go-Live authorizations were given. We will test again in future years. The OnePhilly team maintains copies of Steering Committee reports and has provided several examples.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF ONEPHILLY

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>5. <u>Documentation of Impacted Accounts:</u> When system issues were identified, documentation to determine all impacted city employee accounts was not maintained.</p>	<p>The lack of documentation for all impacted accounts increases the risk that uncorrected issues remain.</p>	<p>The OnePhilly team should maintain formal documentation of the accounts which are included as being impacted when system issues are identified [303519.07].</p>	<p>Incomplete: Of ten FY'21 sampled impacted accounts, the OnePhilly team was only able to provide evidence that all impacted accounts were identified in one instance. The other samples showed resolution for the initially identified account, but failed to provide documentation of additional test cases.</p>
<p>6. <u>Application and System Patching:</u> From Go-Live through June 30th, 2019, Operating System (OS) patches have not been applied to production Linux servers, and Oracle patches have not been applied to the production instance of the OnePhilly application.</p>	<p>There is an increased risk that vendor known system vulnerabilities will not be addressed, which could be exploited by unauthorized users.</p>	<p>The OnePhilly team should evaluate and where appropriate, apply outstanding system patches. In addition, the OnePhilly team should adhere to a recommended schedule of evaluating and applying patches in a timely manner [303519.08].</p>	<p>Incomplete: In the prior year OS patches have been applied to the Linux serves and Oracle patches were applied to the production instance of OnePhilly. During the current year the OnePhilly team has created a patching calendar detailing the timeline for each patch application. However, the OnePhilly team has not established written criteria detailing recommendations for how quickly a patch should be evaluated and applied.</p>

APPENDIX I: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF ONEPHILLY

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>7. <u>Backlog of Change Tickets:</u> For the PMRx change tickets, the web-based project control and repository workspace developed by Ciber, as of December 5, 2020, there were 553 open tickets as provided by the OnePhilly team.</p> <p>Over 91% (502) had been open for more than 90 days. There were 418 tickets open for over 180 days, including 40 Emergency (P1) and 111 High (P2) tickets.</p>	Depending on the nature of the issue, unresolved tickets have the potential to create operating and financial reporting issues the longer they remain unresolved.	The OnePhilly team should evaluate and prioritize the open change tickets, including identifying the amount of resources needed to address the backlog of tickets. In addition, continued periodic reporting of the status of open change tickets should be provided to the Steering Committee and applicable stakeholders [303519.09].	<p>Incomplete: As of 9/29/21 there were 209 open tickets. All of these tickets had been open more than 90 days. 78 of these tickets were High Priority, 70 were Medium Priority, and 61 were low priority. 102 of these tickets were to correct defects, and 107 tickets were to implement enhancements.</p> <p>The OnePhilly team has again provided examples of periodic reporting of the status of open tickets to the Steering Committee.</p>
<p><u>CONTINGENCY PLANNING</u></p> <p>8. <u>Disaster Recovery Testing:</u> A full Disaster Recovery (DR) test has not been performed against the DR plan established for OnePhilly.</p>	If the disaster recovery plan is not adequately tested to ensure it works, it could adversely affect the ability to restore OnePhilly operations in a timely manner.	The OnePhilly Disaster Recovery plan should be tested and the results documented in writing [303519.10].	<p>Incomplete: The OnePhilly team has completed significant portions of full disaster recovery testing, however a portion was omitted due to employee unavailability and no mitigating tests were conducted on this module. We were informed that they intend to complete full-scale disaster recovery testing in fiscal year 2022 in accordance with the Fourth Amendment Agreement between the city and Ciber.</p>

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF OIT

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<u>SECURITY MANAGEMENT</u>			
<p>1. <u>IT Policies and Procedures - Basis2 Security Policy:</u> As of the end of our fieldwork, the Revenue IT group did not provide a documented security policy that governs the Basis2 application.</p>	<p>Failure to formally develop and document security policies and procedures increases the risk that critical control activities for monitoring security threats may be inconsistently applied. As a result, the Basis2 application is at an increased risk for data leak and/or loss.</p>	<p>OIT should work with the Basis2 application owners to establish and disseminate to users a formal security policy for the Basis2 application. Once the policy is established, OIT should periodically review it to determine if it requires updating [300416.01].</p>	<p>Incomplete: There is still no documented security policy to govern the Basis2 application. OIT management stated that new IT leadership in the Revenue Department intends to develop a comprehensive Basis2 security policy.</p>
<p>2. <u>IT Policies and Procedures - Firewall, Administration, Maintenance, and Monitoring:</u> OIT's existing documented policies do not cover firewall administration, maintenance, and monitoring requirements.</p>	<p>Failure to formally develop and document security policies and procedures around firewall management and maintenance standards increases the risk of security exposure, security breaches, and unauthorized external access to applications and data.</p>	<p>OIT should update the Information Security Access Control Policy and the Information Security Operations Management Policy to include details of the firewall management standards and the required firewall maintenance monitoring [300419.01]</p>	<p>Incomplete: As previously reported, OIT has drafted a policy to address firewall administration issues, but it has not been finalized or approved by OIT management. OIT management stated that will prioritize documentation of the full spectrum of its firewall administration, maintenance and monitoring standard operating procedures.</p>

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF OIT

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><u>ACCESS CONTROLS AND SYSTEM FILES</u></p> <p>3. <u>Authorization – Database Administrator Access:</u> As previously reported, OIT was unable to provide evidence documenting the authorization of database access for four IT consultants functioning as database administrators for Basis2.</p>	<p>Unauthorized access to the database could lead to unapproved or inappropriate database activities and/or direct data table changes.</p>	<p>OIT management should finalize and formally approve the policy for granting database system access to IT consultants and the Basis2 access request form. This policy should require that, when granting access to consultants, OIT:</p> <ul style="list-style-type: none"> • Maintain the authorizing documentation for all users granted access. • Obtain and review the consultant's contract and confirm with the supervising manager that the consultant's access is appropriate. • Check periodically with the supervising manager that access is still appropriate, authorized, and supported by an active vendor contract [300416.04]. 	<p>Incomplete: OIT has not provided a formal policy for granting database system access to IT consultants or finalized a Basis2 access request form. OIT management stated that it will continue its efforts to finalize a database access policy including the appropriate controls and recommended requirements. OIT did provide access forms signed by the four IT consultants, however these forms were not signed by city management.</p>

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF OIT

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p>4. <u>Periodic Access Rights Review:</u> As previously reported, OIT was still unable to provide evidence that periodic reviews of active users' access rights had been completed for all in-scope applications.</p>	<p>There is a risk that over time access rights will not be updated due to oversights.</p>	<p>OIT should work with the impacted departments to complete the required reviews of the active users and their associated access rights for appropriateness [300416.05].</p>	<p>Incomplete: OIT provided documentation to demonstrate periodic access rights review for OnePhilly and ADPICS. However, OIT was unable to provide evidence that access rights reviews are performed for FAMIS, Pension Payroll, TIPS, and Basis2.</p>
<p>5. <u>User Administration – Notification of Terminated Users:</u> OIT management has not completed the draft policy to formally document the process for the notification of employee terminations to OIT's Support Center and IT Administrators.</p>	<p>Without evidence of notification of termination to management and owners of applications, users may retain access beyond their termination date resulting in the possible unauthorized use of these accounts.</p>	<p>OIT should continue to work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].</p>	<p>Incomplete: OIT has been working with the Office of Human Resources and the OnePhilly team to complete a draft policy to document procedures for the notification of employee terminations. We were again provided with a copy of the draft policy that was updated as of October 14, 2021. This draft policy was unchanged from the policy submitted in the previous fiscal year and was not signed by the Chief Innovation Officer.</p>

APPENDIX II: REMEDIATION STATUS OF PRIOR YEAR FINDINGS FOR GENERAL IT CONTROLS REVIEW OF OIT

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)
<p><u>CONTINGENCY PLANNING</u></p> <p>6. <u>Business Continuity Plan:</u> As previously reported, a business continuity plan has not yet been developed for the in-scope applications.</p>	<p>In the event of a disruption of service, city departments may not be able to provide required services or continue limited operations until service is restored.</p>	<p>OIT should request the assistance of Office of Emergency Management (OEM) in obtaining the departments' Continuity of Operations Plans (COOP) in order to review the IT components of the plans. OIT should provide guidance and assistance in helping the impacted departments when establishing the plans [300413.13].</p>	<p>Incomplete: OIT has acknowledged that they have not worked with OEM to review the IT components of departmental COOP plans, and that the process has remained informal for departments that maintain COOP plans.</p>
<p>7. <u>Basis2 Disaster Recovery:</u> As noted in the prior report, there was no formal written disaster recovery plan that specifically addressed Basis2.</p>	<p>In the event of a disruption of service, the city may not be able to provide required services or continue limited operations until service is restored.</p>	<p>OIT management should develop a formal written disaster recovery plan that specifically addresses Basis2. Once established, OIT should periodically (at least annually) test the plan and document the tests and their results in writing [300413.14]</p>	<p>Incomplete: OIT has indicated that technical infrastructure has been implemented to safeguard data and configurations. However, OIT acknowledges that a documented full disaster recovery plan has not been completed. OIT management stated that they are collaborating with the Revenue department to create this plan but could not provide an estimate for its completion.</p>

RESPONSE TO AUDITOR'S REPORT



CITY OF PHILADELPHIA

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ROB DUBOW
Director of Finance

May 17, 2022

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

Re: Auditor's Report on Internal Control and on Compliance and Other Matters – Fiscal 2021

Dear Ms. Rhynhart:

Thank you for the opportunity to respond to the findings and recommendations reported in the City of Philadelphia's Fiscal 2021 Auditor's Report on Internal Control and on Compliance and Other Matters. Before providing our responses, I would like to thank you for noting the resolutions and improvements made to prior year findings, including: significant improvements to OnePhilly IT Application and IT General Controls and the correction and resolution of multiple OnePhilly prior year findings, including the resolution of the external penetration testing finding, the automation of biweekly payroll approvals, and the elimination of issues causing inaccurate accrual of leave. Thanks for also acknowledging the efforts made to improve the Office of the Director of Finance's accounts payable review process through the extension of the timeline for review. Finally, thanks for outlining the improvements made to OIT's Periodic Access Rights review process, including the periodic access rights review for OnePhilly and ADPICS.

We offer the following responses to the findings and recommendations found in the Controller's Office audit for fiscal year 2021:

2021-001 Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Finding & Recommendation: You state that ongoing inadequate staffing, determined by a comparison of current staff numbers with staffing levels in 2000, along with the lack of a comprehensive reporting system, have contributed to errors in financial statements presented for audit. You also note that errors were corrected prior to finalizing the Annual Comprehensive Financial Report (ACFR) and that the ACFR is a reliable document for informative decision-making. You continue to recommend that Finance Office management either hire more accountants or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's ACFR. Further, you recommended that management continue working with the external accounting firm to create a compilation package with detailed documentation supporting the ACFR and to finalize the review checklist for the full accrual government-wide financial statements.

Response: The Accounting Bureau (Accounting) is committed to continuing to produce an accurate and well-prepared ACFR and to continuously improving the City's financial reporting. We continue to actively work on implementing staff retention and training strategies, to focus on training, with an emphasis on the ACFR preparation process and to have senior management accountants attend the national Government Finance Officers Association (GFOA) conference so that management stays informed of current industry trends, regulatory updates, and best practices in government financial management.

We continue to make improvements in our ACFR preparation and review, and we have maintained engagement with the external accounting firm. We continue to update a comprehensive checklist for accountants, which includes guidelines for review of the full accrual government-wide financial statements. We will maintain the services of the outside accounting firm to assist in the ACFR compilation efforts. Finance continues to focus on enhancing our reporting processes and increase efficiencies.

The Accounting Bureau works with departments to eliminate errors and request corrections to the reporting submitted to the Accounting Bureau and will work with the Department of Revenue to avoid tax receivable overstatement or other inaccurate reporting.

The Community College of Philadelphia (CCP) failed to report accurately in their reformatted financial statements the newly formed discretely presented component unit, CCP Development, LLC. A revised reformatted financial statement report was submitted by CCP to the Accounting Bureau to correct the error. CCP will ensure that accurate reformatted statements will be submitted moving forward.

The Accounting Bureau already made changes to the accounts payable process over the last few fiscal years to minimize the risk of unrecorded account payable, however, there are still a lot of challenges in departments whose vendors were unable to provide them with invoices in a timely manner. If invoices are not timely submitted, payments are delayed, and the accounts payable accrual for the reporting year may be understated. The Accounting Bureau will continue to work with the Departments with unique challenges to ensure that accurate accounts payable are submitted within the cut-off period.

We acknowledge that a new comprehensive financial reporting system will improve the ACFR preparation process, and have begun planning for the implementation of such system through our OPAL project. This project will redesign the City's financial, grants, procurement, supply chain and business intelligence business processes, by leveraging new ERP technology that will replace the City's legacy applications: FAMIS, ADPICS, ACIS, and other ancillary systems.

Accounting has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for 41 consecutive years and has successfully addressed all GFOA recommendations presented in that process. As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent ACFR audit with the entire accounting staff as a learning tool to produce improved financial statements going

forward.

2021-001 Late Submission of Aviation Fund Financial Statements Continues to Delay Preparation and Audit of ACFR

Finding & Recommendation: You state that the Aviation Fund financial statements and the supporting compilation were again completed late and you highlight that the Division of Aviation (DOA) provided their final submissions on December 20, 2021, eight days earlier than in the previous year. You continue to recommend that the DOA management work with the Office of the Director of Finance to establish an earlier deadline for the completion of the Aviation Fund Financial Statements and the supporting Compilation.

Response: Thank you for acknowledging the year over year improvements in the timeline in which the DOA provided key financial statement data. While the lack of a schedule of deliverables, and no communication around target deadlines, contributed to the delay in issuing the FY21 financial statements and compilation, we are pleased that our submissions in FY21 were earlier than in the prior year. We would also like to highlight that for the past two years, due to the complex nature of certain calculations, my office was delayed in providing final balances for select accounts that were necessary for the DOA compilation calculations, thereby extending the timeline for our submission beyond mid-December. However, for the past two years, once the necessary finalized numbers were received from my office, within one business day, the DOA completed, reviewed, and submitted its financial statement compilation. To facilitate timely submissions, the DOA will work with my office to develop a schedule that is in line with the Controller's Office target deadlines/submission dates. The Division of Aviation has and will continue to work with the Office of the Director of Finance to submit financial statements and compilations that are timely, accurate, and include a compilation review checklist.

2021-001 Late Receipt of Component Unit and Fiduciary Fund Financial Reports Again Delayed Preparation and Audit of ACFR

Finding & Recommendation: You found that late submission of financial reports is the greatest challenge to the timely preparation and audit of the City's ACFR and this may increase the risk of errors and omissions. You continue to recommend that Finance accountants request the assistance of the Finance Director early in the ACFR preparation process to secure the cooperation of Component Unit and fiduciary fund management in the timely submission of their financial data.

Response: We agree that the timely submission of all Component Unit reports is critical to the timely issuance and accuracy of the City's ACFR. We will continue to meet with management and auditors of various Component Units concerning timely submission of financial reports, as well as have additional meetings to provide guidance and assist with problems in Component Units that experience issues that delay the preparation of their financial reports. Finance continues to send initial requests for Component Unit financial statements and data in as early as May for all entities with a March 31 fiscal year end, with required responses no later than June 30. We also send requests for all other Component Units by the end of June, with responses required by August 31. Follow-up requests are sent out to Component Units, with an emphasis on the importance of timely submission of financial data highlighted in all communications. As a result of our communication efforts, the total number of late submissions from Component Units decreased to four from five in the previous year.

The four Component Units and the fiduciary fund that did not provide submissions by the due dates are PMA (Philadelphia Municipal Authority), PAID (Philadelphia Authority for Industrial Development), PRA (Philadelphia Redevelopment Authority), SDP (School District of Philadelphia), and FPTF (Fairmount Park Trust Funds), respectively. Each provided valid reasons for their delay. A late legal judgement created the delay for PMA as additional time was needed to review the potential impact to the financial statements. PMA anticipates an early submission next year. PAID submitted their audited report late due to COVID-19 related staff and logistical challenges. PAID will work diligently towards and make every effort to meet the FY22 financial statements

submission deadline. PRA audited financial statements were delayed due to staff shortages in their Finance unit. The SDP was delayed due to their audit. FPTF financial statements were submitted late due to unexpected early retirement of key personnel and staff turnover that delayed the completion of their audit. The Accounting Bureau will continue to work with the Component Units and the fiduciary fund management to ensure timely submission of audited financial statements; and will continue to engage me as needed.

2021-001 Untimely Preparation of Schedule of Expenditures of Federal Awards May Result in Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Finding & Recommendation: You state that as of the date of your report, the FY21 SEFA was not provided for audit, and requests for FAMIS Expenditure reconciliations were not sent out until November 2021, which is two months later than the prior year. You further state that multiple follow-ups and untimely and inaccurate responses from departments further delayed the preparation and submission of an accurate SEFA for audit. You recommend that Finance allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes. You also recommend the proactive enforcement of the existing policies and procedures requiring departments to complete the FAMIS expenditure reconciliations by the due date.

Response: Finance recognizes the importance of submitting a timely and accurate federal awards and major programs schedule (SEFA) to our auditors. More importantly, there is a crucial need for the timely completion of our audits, and the timely submission of an accurate Single Audit Reporting package to the Federal Audit Clearinghouse to prevent a violation of federal grant terms and conditions and to prevent the suspension of federal funding for the City's grants and programs. While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, and the Controller's Office needs to ensure its audits are completed more timely, Finance will utilize the September 30th, 2022, Single Audit deadline pursuant to OMB M-21-20. Since OMB has given the 6-month extension for the completion and submission of the Fiscal Year 2021 Single Audit reporting package past the normal due date (March 31, 2022), our responsible officials in the Grants Accounting Unit do not believe that the SEFA is late. Finance requests that the Controller's Office works with Grants Accounting to determine an appropriate timeline for the FY21 SEFA submission in light of this extension, and in consideration of the remaining work to be completed for the FY20 Single Audit which is still underway as of the writing of this response.

2021-002 Breakdowns in the Functionality and Application IT Controls of the OnePhilly System Continue to Increase the Risk for Material Payroll Errors

Finding & Recommendation: You recommend Finance Office management and the OnePhilly team continue to evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing necessary modification to the OnePhilly system. You maintain your recommendation that a formalized framework be established and leveraged for identifying, prioritizing and resolving system issues. Finally, you recommend that identification and tracking to the resolution of issues be communicated periodically to applicable stakeholders and departments.

Response: The OnePhilly team continues to dedicate resources to system enhancements and the resolution of system issues. In the past year, the team has made significant progress as is evident by the findings resolved in this report and from the conditions noted as corrected, including: 1) Changes made to employee timecards by the OnePhilly team or Central Payroll Teams are supported with documented authorization or approval; 2) The OnePhilly team has reduced the overall number of issues causing inaccurate accrual of leave and corrected the outstanding accrual defect identified in 2019; 3) Overpayments and Underpayments in the Overpaid/Underpaid reports are adequately explained and documentation of corrections are available; and 4) Supervisory and executive approvals are now performed electronically. These are just a few of the many enhancements implemented during FY21. Shortly after Go-Live, there were 1,680 defects and enhancements logged, however the team has worked to resolve issues and implement enhancements. That work has been effective. At the time of this writing, there are only approximately 149 tickets open, with the majority (94 of these) being enhancements and not defects. This represents a 91% decline in defects and enhancements since Go-Live.

Finding: Assumed time continues to be automatically recorded by the OnePhilly system if an employee's timecard is short of the employee's scheduled hours. This time is automatically added to the timecard under the assumption that the employee worked their minimum scheduled hours in the pay period if the time entered into OTL is insufficient. The departments are now provided an Assumed Time Reconciliation report to retroactively reconcile all assumed time before the close of the next pay period or no later than the end of the three-pay-period reconciliation timeframe. While providing the Assumed Time Report has reduced the total amount of unreconciled assumed time, insufficient controls exist to ensure these retroactive changes occur at the department level in a timely manner.

Response: The City of Philadelphia maintains its commitment to ensure employees get paid on time. As previously communicated, Finance introduced the Assumed Time reconciliation controls to ensure that departments retroactively adjust time in the post payroll cycle. Detailed procedures for the Assumed Time Reconciliation process were provided to departments, with an emphasis on timely reconciliation. Thank you for acknowledging the effectiveness of the Assumed Time reconciliation process in reducing the total unreconciled assumed time. Finance will take steps to ensure that departments take ownership and timely perform these controls.

Finding: Employee timecards continue to show hours types, such as regular time or on-call time, that are not appropriate for the employee's position, increasing the likelihood of erroneous or fraudulent time entry.

Response: Only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours types are driven by CUC and, therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC 'F' or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers. OnePhilly continues to make necessary improvements to the system so that time types can be restricted as much as programmatically possible. Even though the City has a complex workforce that makes it difficult to put hard restrictions on time type views within the system, system controls as well as reviews by timekeepers prevent selection of inaccurate time types and prevent employees from being inaccurately paid.

Finding: The OnePhilly team continues to use an automated process to change unapproved timecards to approved status. Departments are responsible for retroactively examining timecards and making corrections. However, insufficient controls exist to ensure this post-pay review and correction occur at the departmental level.

Response: The OnePhilly team does not approve all timecards in unapproved status. Only timecards in the most current processing period that are in working status are approved in order to ensure all employees get paid. Timekeepers are then tasked with updating these timecards after the close of the processing period. In the absence of the automatic approval process and the Assumed Time program, if managers and timekeepers did not complete their review and approval of employee timecards by the payroll processing deadline, employees would not receive their paychecks. Management determined that the risks related to not paying employees were greater than the risk of paying employees and retroactively adjusting these payments if needed. Further, the number of instances in which employees' current timecards remain in unapproved status continues to decrease significantly. Departments are responsible for implementing controls to ensure that all retroactive changes are entered accurately into the system and occur in a timely manner. We continue to look for ways to enhance our processes and will explore additional controls that can be implemented at the department level.

Finding: You repeated your finding that the Timecard Status Summary Dashboard (including the Missing Timecard Report) is not restricted by department. The Super Timekeepers are able to view all employees on the Dashboard. In addition, the Timecard Status table within the Dashboard does not reflect the total population of timecards as the missing timecards are not included. During our testing, the OnePhilly team indicated that there were no changes to this condition.

Response: We previously communicated that the Timecard Status Summary Dashboard is restricted by Department. Timekeepers use this dashboard to view meaningful data during the time capture phase of payroll processing, such as timecards in approved status and timecards in working or error status. All of this information is accessed and viewed at the department level. Only one report with limited data on the dashboard has a Citywide view only access, and that is the Missing Timecard Report. Super timekeepers can view the listing of all employees across the City that have missing

timecards in this report, but they do not have access to sensitive payroll and personally identifiable information (PII) of employees that are not in their department. OnePhilly team continues to work with Oracle developers to restrict the Missing Timecard view of Timekeepers.

Finding: Formalized monitoring has been developed for files sent to various third parties including city employee unions, benefits providers, and insurance providers. However, these monitoring activities are not supported by a written policy. Additionally, during the period under audit, a vendor had to repeatedly contact the city to obtain a missing interface file.

Response: Thank you for acknowledging that formalized monitoring has been developed for files sent to various third parties, including city employee unions, benefits providers, and insurance providers. As discussed during the FY21 audit, the OnePhilly team has necessary controls in place to ensure the accuracy of each type of transmitted files. The vendor in question did obtain transmission of the interface file, however, the OnePhilly team confirms that the files were successfully sent, and therefore the issue was on the Vendor's end of reception.

2021-003 OIT'S IT General Controls Continue to Require Strengthening

Finding & Recommendation: You continue to note deficiencies in OIT's IT general controls, including: failure to segregate the duties of the database administrator function and the systems administrator function in FAMIS, ADPICs and Basis2, and an incomplete Change Management Standard Operating Procedure which did not specify the Change Advisory Board approval process, and did not specify how end-user testing should be documented. You recommend that OIT review its change control procedures and implement measures to ensure that required steps for application changes are performed and documented in accordance with the policy. You also recommend OIT update its change management policy to include (1) documentation standards for end-user testing and (2) information related to how approvals should be documented in the service ticket. Finally, you recommend that OIT implement segregation of duties and if this is not feasible, monitor employees to ensure they are authorized and appropriate.

Response: Thank you for acknowledging the correction of one of the segregation of duties deficiencies reported in prior years, and the removal of incompatible database administrator access rights in Basis2 for three OIT programmers with development rights in Basis2. We are happy that this condition is resolved. OIT will assess the unresolved segregation of duties mentioned above and will separate the duties associated with each function among available employees where possible. Where, due to limited resources, OIT must rely on one employee to perform multiple functions, OIT will make every effort to monitor employee activity. Additionally, OIT will continue to review its change management control procedures and implement measures to ensure that the process is adhered to for application changes. OIT will also work to revise its change management policy to include the two additional recommended requirements.

2021-004 Treasurer's Bank Reconciliation Procedures Still Require Improvement

Finding & Recommendation: You state that although Treasury personnel timely prepared fiscal year-end bank reconciliations, they were not timely in their investigation and resolution of outstanding unreconciled items. You also note that failure to reconcile accounts for several years resulted in non-compliance with the Pennsylvania Escheatment Act. You also state that bank reconciliations selected for testing did not contain the signature of the City Treasurer, First Deputy City Treasurer, Deputy Treasurer or Assistant Treasurer as evidence that the reconciliations were approved by the administrative officials as required by the Treasurer's *Bank Reconciliation Policy*. You highlight that ongoing problems with reconciling revenue activity for the Department of Public Health (DPH) still exist and the variance has significantly increased. You recommend Treasury investigate and resolve all reconciling differences between Treasurer account book and bank balances within 90 days in accordance with the Treasurer's Bank Reconciliation Policy, and that the Treasurer continue work with DPH to implement the revised process for revenue receipt reconciliations. You also asked that Treasurer management ensure that all bank reconciliations are signed and approved by the appropriate official as required in the *Bank Reconciliation Policy*. Finally, you recommend that the Treasurer and Finance Office management work together to ensure that all escheatable amounts are sent to the

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Pennsylvania Treasury in compliance with SAP No. 4.1.2.

Response: Thank you for again acknowledging the timely preparation of fiscal year-end bank reconciliations. We acknowledge the Controller's finding regarding long outstanding unreconciled items. CTO continues to work to reconcile current year variances timely and to investigate and properly address older legacy variances. Additionally, the CTO Accounting Manager and Accounting staff understand that all reconciliations must be signed and approved by the appropriate supervisory leadership in CTO, and this issue has been corrected in FY22.

Also, in FY22, CTO worked with the Department of Revenue to revise the process by which Health revenue is identified and worked with the Department of Public Health to ensure revenue is properly deposited to improve reconciliations. Incoming revenue is now reported on the new daily consolidated report separately from other funding sources and Health is using the proper deposit codes. This change enabled CTO to adjust the bank account structure from a zero-balance account (ZBA) to regular manual transfers upon revenue being identified. Together, these changes prevent deposits from automatically being pushed via ZBA into the consolidated cash account without proper recognition. This prior practice resulted in reconciliation challenges for both the Department of Public Health and CTO.

To address the escheatment recommendation, CTO, in coordination with Finance, engaged an outside accounting firm to assist with the research necessary to address the legacy escheatment backlog. CTO staff and the consultant have completed their research and are preparing to notify recipients and update the outstanding check list. Upon conclusion of the required notification period, we expect to escheat eligible unclaimed payroll and vendor funds.

2021-005 Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors

Finding & Recommendation: You state that the Finance Office along with city departments failed to timely identify and close out remaining balances for certain completed grants. You note that your review of six departments with the largest accounts receivable and advance balances on the fund schedule identified \$26.9 million in accounts receivable and \$45.7 million in advances for grants that had no current year activity and the grant award date expired three or more years ago, ranging from fiscal years 1998 to 2018. You highlight that while GAAU sends annual reminders to departments to identify grants with award dates that expired three years ago, to be written off to the General Fund or to return the unused funds to the grantor, the departments do not always properly respond and timely identify and close out completed grants. Failure to timely close out remaining account balances for completed grants increases the risk of material reporting errors in the city's ACFR. You recommend that Finance Office management reinforce SAP No. G 1-1 requirements with both city departments and GAAU. You also state that management should remind city departments of the requirements to notify GAAU of completed grants and submit the grants' final reports to GAAU. You also recommend that GAAU monitor grant activity in FAMIS to identify and close out inactive grants in accordance with SAP No. G 1-1 requirements.

Response: We agree with the finding. However, we must note that a significant portion of the total \$45.7 million Advance Revenue balance was related to the Child Support Enforcement program. Upon further review of the balance with officials from the First Judicial District of Pennsylvania (FJD), it was determined that a contributing factor to the deficiency was the result of a failure by FJD to accurately administer its allowable budgetary expenditures under the Child Support Enforcement program. This caused the Advance Revenue balance for the fiscal years tested to be significantly overstated. This is supported by Exhibit A-1 (d) in the SEFA for the fiscal years tested. The FJD will be submitting a reconciliation to the Accounting Bureau and the Budget Department for review, to determine if the excess revenue is eligible to spend under the Child Support Enforcement program. Moving forward, this reconciliation will be required to be submitted annually to avoid this issue.

For FY21, GAAU sent third quarter and year end reminders for departments to close out their grants. For future fiscal years, GAAU will continue to send multiple follow-up reminders to departments to close out their grants in compliance with SAP G-1-1 Grant Closeout.

2021-006 Accounts Payable Reporting Still Needs Improvement

Finding & Recommendation: You state that as a result of the unbooked adjustments, the city's fiscal year 2021 ACFR contained understatements of accounts payable totaling \$23.7 million. You also acknowledge that Finance extended the cut-off date to September 3, 2021, compared to mid-August in the previous year. You indicate that your testing for unrecorded liabilities extend through the period ending December 31, 2021. You also indicate that most "errors" noted were posted to FAMIS after the Finance Office's department Cut-Off date of September 3, 2021, and included large unrecorded payables pertaining to payment vouchers posted to FAMIS from late September to October 2021. You believe that Finance Office's cut-off date of September 3 was too early to detect all significant accounts payable and recommend that Finance extend the cut-off date in the memorandum to departments to review accounts payable in the subsequent fiscal year. You believe this will enable more accurate and complete reporting of accounts payable. You also recommend Finance collaborate with departments that face unique and substantial challenges that prevent accurate reporting of accounts payables to develop processes to ensure sufficient and appropriate reporting going forward. You ask that Finance reinforce the accounts payable reporting requirements to all departments as well as the importance of providing complete and accurate accounts payable information to the Finance Office for inclusion into the ACFR.

Response: Thank you for highlighting the efforts made by Finance to improve the reporting of accounts payable through the extension of the accounts payable review from August to early September 2021. We agree with your recommendations. Since departments should be aware of the status of their outstanding obligations, ultimately, they are the ideal source for the status of services received but unpaid. Finance believes that a combination of better departmental reporting of payables and an extension of the timeline for the internal staff review of processed invoices would reduce the risk of unidentified payables to acceptable levels. We will continue to work with departments with unique challenges and will consider extending the cut-off period to the extent that the Charter-mandated AFR reporting process timeline would allow.

2021-007 Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Finding & Recommendation: You repeat your finding that the City still lacks a comprehensive capital asset management system to better manage and account for real property assets. You continue to recommend that Finance Office management secure the necessary resources to design or purchase a computerized capital asset management system that will provide accurate and useful information such as the book value and related depreciation for each City-owned asset.

Response: We agree that the Office of the Director of Finance needs to implement a comprehensive capital asset management system and to eliminate the existing cumbersome process. This condition is expected to be resolved with the OPAL project implementation.

2021-007 Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records

Finding & Recommendation: You repeat your finding that with the exception of PWD and DOA, the physical existence of real property assets across the City are not periodically checked. You again mention the Integrated Workplace Asset Management System (IWAMS) implemented by the Department of Public Property, which contains various data on the City's real estate assets, and you mention that Finance Office management has not yet provided the reconciliation of its fixed asset ledger with IWAMS. You highlight that continued failure to perform a physical inventory increases the risk that the City's recorded real property assets could be inaccurate and/or incomplete. You recommend that Finance Office management work with OIT to perform a reconciliation of the IWAMS database to the City's fixed asset records, work with the Procurement Department and Department of Public Property to periodically take physical inventories of all real property assets, and develop a periodic report on the condition of capital assets.

Response: Finance Office management have had multiple meetings with the GIS unit concerning our objective of reconciling the fixed asset ledger to IWAMS. During FY21, the GIS unit did a review of our FaProof, reconciling it to their database. The result was three items unreconciled that we will address this upcoming fiscal period. We will attempt a follow-up review prior to submission of the preliminary FY22 ACFR.

2021-008 SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations

Finding & Recommendation: You repeat your finding that the City's SAPs are long outdated and fail to reflect the automated processes and practices currently in use. You state that with the majority of SAPs not reflecting the automated processes and practices currently in use, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting errors and/or misappropriation of assets. You recommend that the Finance Office continue to complete the review and update of the SAPs and once the initial update is completed, develop a schedule for periodically updating SAPs on a regular basis in the future.

Response: Thank you for acknowledging our efforts to update SAPs during FY21, including the prioritization of working meetings with Control Owners, and the strides we made to identify SAPs that are obsolete. We agree with your recommendation to continue the update of the city's SAPs. We believe that the increased Citywide engagement with control and process owners is effective, and we will continue to have working meetings with stakeholders to facilitate the update of SAPs. Management will continue to prioritize this initiative.

2021-009 While Improvement was Noted in Departments' Biweekly Payroll Approvals Process, Updates to Authorized Signers Need Strengthening

Finding & Recommendation: You note that the biweekly payroll approval process significantly improved after the implementation of electronic payroll approvals. You also note that out of the 50 city departments, 22 were in full compliance with the OnePhilly approval process during our test period. You highlight that your testing of the final 22 pay periods of fiscal year 2021 for 50 city departments disclosed 182 instances (16 percent) where departments did not submit the required two approvals by the payroll close deadline. You state that of the 182 instances noted above, you observed 134 approvals in which the executive-level approver was not listed on the department's signature authorization card, which prevented 12 departments from reaching full compliance with the electronic payroll approval process. You recommend that the Central Payroll Unit establish procedures to ensure departments promptly update signature authorization cards to agree with requested changes to the authorized OnePhilly executive level approvers. You also recommend that OnePhilly updates its electronic payroll approval training guides and proactively remind departments of the payroll close deadlines and enforce compliance with departments that miss the deadlines.

Response: We would like to underline that the condition of manual departmental approvals of payroll is now resolved. Thank you for highlighting that the biweekly payroll approval process significantly improved after the implementation of electronic payroll approvals. Thank you for also acknowledging the electronic payroll approval process adequately segregates incompatible duties, and for highlighting that in your review of 1,111 electronic payroll approvals, for each approval, the supervisory and executive level sign-offs were performed by separate individuals. We continue to proactively send out reminder emails to departments during each pay period to ensure that payroll sign-offs are conducted timely. To this end we are pleased that there were only 182 instances (compared to 741 instances in the prior year) where departments did not timely submit the two required approvals by the payroll close deadline. This will only improve with our consistent reminders. We will also remind departments of the importance of updating the signature authorization cards when changes are requested to the OnePhilly executive-level approvers.

2021-010 City's Accounting System Not Utilized for Posting Enterprise Funds' Year-End Journal Entries

Finding & Recommendation: You repeat your finding that accountants in the Finance Office, the PWD, and the DOA are still not utilizing the full accrual Water and Aviation Funds established in FAMIS to post year-end adjusting journal entries to prepare the financial statements. You maintain your recommendation that as part of the OPAL ERP project, Finance Office management should include in the new accounting system a process for the PWD and DOA to utilize for recording their year-end accrual adjustments. You also recommended that since the FAMIS full accrual balances are utilized by the DOA in its compilation, that Finance Office accountants bring the balances in the FAMIS full accrual Water and Aviation funds up to date through fiscal year 2021 for the upcoming fiscal year 2022 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced.

Response: We agree that PWD and DOA should utilize the new accounting system for recording their year-end accrual adjustments. However, we do not believe that there is an increased risk of error in compiling the City's ACFR, as the act of entering this data into FAMIS is simply duplicative to the compilation and workpapers, which provide a clear trail of the adjustments between the modified and full accrual statements for both Water and Aviation. In the future, the Aviation Fund will no longer include the "unadjusted balances" of FAMIS fund (960) and will use the opening balances from the prior year's compilation binder (the financial statement balances). This should simplify the reporting of "full accrual" amounts in the compilation binder and the financial statements. In addition, all compilation entries effecting the operating, capital, or sinking funds will be posted to FAMIS to ensure balances per the compilation binder and FAMIS agree for these funds. Central Finance will review the Aviation compilation binder in subsequent years based on the new methodology of preparation noted above and evaluate the cost/benefit of updating FAMIS to include the "full accrual" balances per the compilation. As previously indicated, we feel that the compilation binders provide a clear and accurate audit trail of all "full accrual" balances and serves as the source record for these activities and balances.

2021-011 Certain Other General IT Controls for OnePhilly System Still Need Improvement

See responses to conditions highlighted here in the Appendix I section.

2021-012 Certain Other General IT Controls for OIT Still Need Improvement

See responses to conditions highlighted here in the Appendix II section.

Appendix I

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>SECURITY MANAGEMENT</u></p> <p><u>1. External Penetration Test Findings Remediation:</u></p> <p>The External Penetration Test Report dated 12/13/2018, performed by Cyber Security Solutions (CBI) on behalf of the city, identified seven medium risk findings. Five of the findings are still open, and a remediation plan has not been formally documented to address the findings.</p>	<p>The five remaining findings potentially expose the OnePhilly system to external vulnerabilities.</p>	<p>Not Applicable – Remediation status is complete.</p>	<p>Complete: The five remaining findings were corrected during FY 2021. Based on the above, we consider this condition resolved [303519.03].</p>	<p>Resolved during FY21</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>ACCESS CONTROLS</u></p> <p><u>2. Authorization of OnePhilly Elevated Access:</u></p> <p>Authorization of OnePhilly elevated access, which allows for the ability to perform transactions beyond employee self-service, for new users and transferred users continued to be performed while lacking a formal, documented format. User provisioning/deprovisioning access requests continued to be made via email or HelpDesk. The OnePhilly team has not finalized or approved, a design document to automate the provisioning of access for employees when newly hired, transferred or terminated. Additionally, a formal documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities and permissions had not yet been established. Periodic user access reviews did not include the identification and removal of Segregation of Duties breakdowns, or identification of monitoring controls in place where Segregation of Duties breakdowns cannot be removed.</p>	<p>There may be users with access not commensurate with their job responsibilities. In addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.</p>	<p>We continue to recommend that the OnePhilly team develop and implement a formal process to request and approve user access, which specifies the access required, considering the documented SoD requirements. Additionally, the quarterly review of user access should include the identification and removal of SoD breakdowns, or identification of monitoring controls in place where SoD breakdowns cannot be removed [303519.04].</p>	<p>Incomplete:</p> <p>The OnePhilly Team provided the final approved version of the SoD policy. They also forwarded their newly created SoD Request form for user access and their SoD analysis file used to identify incompatible roles, responsibilities, and permissions. However, there was evidence that the request forms are not in use. An email from prisons requesting an employee be given access to replace another employee, who's access was terminated, shows that the access was authorized via the email correspondence. The OnePhilly team also provided several examples of user access reviews of the Controller's Office, District Attorney's Office, Department of Human Services and Department of Prisons.</p>	<p>OnePhilly has established a formal process for</p> <ol style="list-style-type: none"> 1. Requesting Access to the OnePhilly functionality 2. Termination of access when employees separate from the city or move to a different position from their current position for which elevated access is authorized 3. Conducting quarterly review of the user access. <p>If requests are completed via email or there are other breakdowns, these will be caught and resolved during regular access reviews.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>ACCESS CONTROLS</u></p> <p><u>3. Password Configurations:</u></p> <p>The OnePhilly system was configured at Go-Live with a password requirement of case sensitivity and, for user accounts created after Go-Live, a password expiration of 90 days. Additionally, passwords for user accounts converted from the legacy system did not expire and thus, did not meet the city's minimum expiration requirements.</p>	<p>Inadequate password configurations significantly increase the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.</p>	<p>The OnePhilly password settings should be updated to meet OIT's password requirements [303519.05].</p>	<p>Incomplete:</p> <p>No additional changes have been implemented to OnePhilly password settings to align with OIT's Information Security Access Control Policy. The OIT requirement stating that passwords cannot be proper names or dictionary words has yet to be addressed, nor has the requirement that passwords used for production systems cannot be the same as those used for non-production systems. The requirement regarding a unique password for each system cannot be configured in OnePhilly. During the period under audit, OnePhilly management had not applied for an exception to the OIT password policy.</p>	<p>OnePhilly has already received an exemption from OIT on the Password policy.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>CONFIGURATION MANAGEMENT</u></p> <p><u>4. Go-Live Approval Documentation:</u></p> <p>Documented formal approvals or sign-offs by the OnePhilly steering committee, authorizing the Go-Live of the system in December 2018 (Human Resources (HR) and Benefits and March 2019 (Payroll and Time & Attendance)), were not documented or maintained. In addition, meeting minutes, including reports/presentations used to support the Steering Committee's decision to Go-Live, including the decision to defer the Payroll and Time & Attendance Go-Live from December to March, were not maintained.</p>	<p>Without documented approval of the Go-Live by the Steering Committee, there is no evidence that full consideration and review was performed of known risks, open tasks to be completed, completion of testing scenarios, and agreement of all Steering Committee members</p>	<p>The OnePhilly team should maintain formal agendas and meeting minutes of the Steering Committee meetings, including capturing the results of any voting decisions by Steering Committee members. For any future module implementation, formal Go-Live approval by the Steering Committee should be obtained and documented prior to Go-Live [303519.06].</p>	<p>Incomplete:</p> <p>This finding could not be fully tested during fiscal year 2021, as no additional modules were released, and therefore no Go-Live authorizations were given. We will test again in future years. The OnePhilly team maintains copies of Steering Committee reports and has provided several examples.</p>	<p>The OnePhilly team has provided the necessary support showcasing formal agendas and steering committee reports. Even though the implementation of the Pensions module was not completed, we have completed large projects that followed necessary standards. For example, a large project included the fix for Leave Accruals and the documentation and approvals were previously provided to the Controller's Office in the form of supporting documents.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>5. Documentation of Impacted Accounts:</u></p> <p>When system issues were identified, documentation to determine all impacted city employee accounts was not maintained.</p>	<p>The lack of documentation for all impacted accounts increases the risk that uncorrected issues remain.</p>	<p>The OnePhilly team should maintain formal documentation of the accounts which are included as being impacted when system issues are identified [303519.07].</p>	<p>Incomplete:</p> <p>Of ten FY'21 sampled impacted accounts, the OnePhilly team was only able to provide evidence that all impacted accounts were identified in one instance. The other samples showed resolution for the initially identified account, but failed to provide documentation of additional test cases.</p>	<p>When OnePhilly took charge of the defect/enhancement resolution process, the team established development standards that adequately document and resolve all impacted accounts. The Controller's office may have an issue with understanding that certain changes impact large groups of employees and in other cases all employees. In these cases, we would be more than happy to provide the proof of resolution if the Controller's Office can select a sample population. As previously stated, OnePhilly already maintains documentation of all impacted accounts.</p>
<p><u>6. Application and System Patching:</u></p> <p>From Go-Live through June 30th, 2019, Operating System (OS) patches have not been applied to production Linux servers, and Oracle patches have not been applied to the production instance of the OnePhilly application.</p>	<p>There is an increased risk that vendor known system vulnerabilities will not be addressed, which could be exploited by unauthorized users.</p>	<p>The OnePhilly team should evaluate and where appropriate, apply outstanding system patches. In addition, the OnePhilly team should adhere to a recommended schedule of evaluating and applying patches in a timely manner [303519.08].</p>	<p>Incomplete:</p> <p>In the prior year OS patches have been applied to the Linux servers and Oracle patches were applied to the production instance of OnePhilly. During the current year the OnePhilly team has created a patching calendar detailing the timeline for each patch application. However, the OnePhilly team has not established written criteria detailing recommendations for how quickly a patch should be evaluated and applied.</p>	<p>The OnePhilly team is composed of seasoned Oracle consultants who have years of Oracle patching experience. These consultants are consulted for each patch application and then the determination is made regarding the application of patches and timing of the patches. Also, Oracle delivers the guidance around application and CPU patching. The team follows such guidance. If the Controller's Office needs further information, OnePhilly would be more than happy to walk the Controller's Office through various patches.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>7. Backlog of Change Tickets:</u></p> <p>For the PMRx change tickets, the web-based project control and repository workspace developed by Ciber, as of December 5, 2020, there were 553 open tickets as provided by the OnePhilly team. Over 91% (502) had been open for more than 90 days. There were 418 tickets open for over 180 days, including 40 Emergency (P1) and 111 High (P2) tickets.</p>	<p>Depending on the nature of the issue, unresolved tickets have the potential to create operating and financial reporting issues the longer they remain unresolved.</p>	<p>The OnePhilly team should evaluate and prioritize the open change tickets, including identifying the amount of resources needed to address the backlog of tickets. In addition, continued periodic reporting of the status of open change tickets should be provided to the Steering Committee and applicable stakeholders [303519.09].</p>	<p>Incomplete:</p> <p>As of 9/29/21 there were 209 open tickets. All of these tickets had been open more than 90 days. 78 of these tickets were High Priority, 70 were Medium Priority, and 61 were low priority. 102 of these tickets were to correct defects, and 107 tickets were to implement enhancements. The OnePhilly team has again provided examples of periodic reporting of the status of open tickets to the Steering Committee.</p>	<p>The OnePhilly team regularly prioritizes the defects/enhancements into monthly planned releases or emergency releases as appropriate. The team meets twice a week to access the priority and progress of all tickets so that changes are addressed timely and accurately. At the time of this writing, we have 149 open tickets: 55 open defects and 94 open enhancements of which none are emergency tickets, and only 4 are high importance tickets. This represents a 91% reduction in open enhancements and defects since Go-Live.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	Finance Responses
<p><u>CONTINGENCY PLANNING</u></p> <p><u>8. Disaster Recovery Testing:</u></p> <p>A full Disaster Recovery (DR) test has not been performed against the DR plan established for OnePhilly.</p>	<p>If the disaster recovery plan is not adequately tested to ensure it works, it could adversely affect the ability to restore OnePhilly operations in a timely manner.</p>	<p>The OnePhilly Disaster Recovery plan should be tested and the results documented in writing [303519.10].</p>	<p>Incomplete:</p> <p>The OnePhilly team has completed significant portions of full disaster recovery testing, however a portion was omitted due to employee unavailability and no mitigating tests were conducted on this module. We were informed that they intend to complete full-scale disaster recovery testing in fiscal year 2022 in accordance with the Fourth Amendment Agreement between the city and Ciber.</p>	<p>As an industry best practice, the OnePhilly team has established yearly DR testing cadence. The team developed a detailed testing plan which was provided to the Controller's Office during the Audit Period. The concern around one person not being available for testing has been addressed for the next planned DR test, as OnePhilly has ensured that there are adequate backup resources in the event that a primary tester is not available.</p>

Appendix II

<u>Prior Condition</u>	<u>Risk/Potential Effect</u>	<u>Recommendation</u>	<u>Remediation Status (Complete or Incomplete)</u>	<u>OIT Responses</u>
<p><u>1. IT Policies and Procedures – Basis2 Security Policy</u></p> <p>As of the end of our fieldwork, the Revenue IT group did not provide a documented security policy that governs the Basis2 application.</p>	<p>Failure to formally develop and document security policies and procedures increases the risk that critical control activities for monitoring security threats may be inconsistently applied. As a result, the Basis2 application is at an increased risk for data leak and/or loss.</p>	<p>OIT should work with the Basis2 application owners to establish and disseminate to users a formal security policy for the Basis2 application. Once the policy is established, OIT should periodically review it to determine if it requires updating [300416.01].</p>	<p>Incomplete:</p> <p>There is still no documented security policy to govern the Basis2 application. OIT management stated that it will continue its efforts to establish a final security policy for Basis2, and it will be subjected to regular review and updating.</p>	<p>OIT will continue working with the IT Revenue Group to formally adopt a final policy for the Basis2 application. After a policy is adopted, it will be included with all other policies for regular review and updating.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	OIT Responses
<p><u>2. IT Policies and Procedures - Firewall, Administration, Maintenance, and Monitoring:</u></p> <p>OIT's existing documented policies do not cover firewall administration, maintenance, and monitoring requirements.</p>	<p>Failure to formally develop and document security policies and procedures around firewall management and maintenance standards increases the risk of security exposure, security breaches, and unauthorized external access to applications and data.</p>	<p>OIT should update the Information Security Access Control Policy and the Information Security Operations Management Policy to include details of the firewall management standards and the required firewall maintenance monitoring [300419.01]</p>	<p>Incomplete:</p> <p>As previously reported, OIT has drafted a policy to address firewall administration issues, but it has not been finalized or approved by OIT management. OIT management stated that will prioritize documentation of the full spectrum of its firewall administration, maintenance and monitoring standard operating procedures.</p>	<p>OIT will work to finalize the draft policy and to have it approved and implemented.</p>
<p><u>ACCESS CONTROLS AND SYSTEM FILES</u></p> <p><u>3. Authorization – Database Administrator Access:</u></p> <p>As previously reported, OIT was unable to provide evidence documenting the authorization of database access for four IT consultants functioning as database administrators for Basis2.</p>	<p>Unauthorized access to the database could lead to unapproved or inappropriate database activities and/or direct data table changes.</p>	<p>OIT management should finalize and formally approve the policy for granting database system access to IT consultants and the Basis2 access request form. This policy should require that, when granting access to consultants, OIT:</p> <ul style="list-style-type: none"> • Maintain the authorizing documentation for all users granted access. • Obtain and review the consultant's contract and confirm with the supervising manager that the consultant's access is appropriate. • Check periodically with the supervising manager that access is still appropriate, authorized, and supported by an active vendor contract [300416.04]. 	<p>Incomplete:</p> <p>OIT has not provided a formal policy for granting database system access to IT consultants or finalized a Basis2 access request form. OIT management stated that it will continue its efforts to finalize a database access policy including the appropriate controls and recommended requirements. OIT did provide access forms signed by 4 consultants, however these forms were not signed by City management.</p>	<p>OIT recognizes the importance of overseeing procedures for granting database access and ensuring that such access for consultants is carefully monitored. OIT will continue to work on finalizing and approving a database access policy with the necessary and appropriate controls, including the recommended requirements.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	OIT Responses
<p><u>4. Periodic Access Rights Review</u></p> <p>As previously reported, OIT was still unable to provide evidence that periodic reviews of active users' access rights had been completed for all in-scope applications.</p>	<p>There is a risk that over time access rights will not be updated due to oversights.</p>	<p>OIT should work with the impacted departments to complete the required reviews of the active users and their associated access rights for appropriateness [300416.05].</p>	<p>Incomplete:</p> <p>OIT provided documentation to demonstrate periodic access rights review for One Philly and ADPICS. However, OIT was unable to provide evidence that access rights reviews are performed for FAMIS, Pension Payroll, TIPS, and Basis2.</p>	<p>OIT will continue to increase its efforts working with departments to ensure that active user access reviews are completed periodically, and user access rights are level-set as necessary.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	OIT Responses
<p><u>5. User Administration – Notification of Terminated Users</u></p> <p>OIT management has not completed the draft policy to formally document the process for the notification of employee terminations to OIT's Support Center and IT Administrators.</p>	<p>Without evidence of notification of termination to management and owners of applications, users may retain access beyond their termination date resulting in the possible unauthorized use of these accounts.</p>	<p>OIT should continue to work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].</p>	<p>Incomplete:</p> <p>OIT has been working with the Office of Human Resources and the OnePhilly team to complete a draft policy to document procedures for the notification of employee terminations. We were again provided with a copy of the draft policy that was updated as of October 14, 2021. This draft policy was unchanged from the policy submitted in the previous fiscal year and was not signed by the Chief Innovation Officer.</p>	<p>OIT teams will continue to engage with the OHR and/or the OnePhilly Team to address a reporting process for updated and as near real-time notification of employee separations. These teams continue to work together to adopt the current draft policy that formally documents the reporting process and establishes a method to retain notifications.</p>

Prior Condition	Risk/Potential Effect	Recommendation	Remediation Status (Complete or Incomplete)	OIT Responses
<p><u>CONTINGENCY PLANNING</u></p> <p>6. Business Continuity Plan:</p> <p>As previously reported, a business continuity plan has not yet been developed for the in-scope applications.</p>	<p>In the event of a disruption of service, city departments may not be able to provide required services or continue limited operations until service is restored.</p>	<p>OIT should request the assistance of the Office of Emergency Management (OEM) in obtaining the departments' Continuity of Operations Plans (COOP) in order to review the IT components of the plans. OIT should provide guidance and assistance in helping the impacted departments when establishing the plans [300413.13].</p>	<p>Incomplete:</p> <p>OIT has acknowledged that they have not worked with OEM to review the IT components of departmental COOP plans, and that the process has remained informal for departments that maintain COOP plans.</p>	<p>As the City emerges from the pandemic, OIT will continue to coordinate with OEM in their efforts assisting city departments with developing their respective COOPs and will provide further guidance and assistance as necessary with any IT components of each plan.</p>
<p><u>7. Basis2 Disaster Recovery:</u></p> <p>As noted in the prior report, there was no formal written disaster recovery plan that specifically addressed Basis2.</p>	<p>In the event of a disruption of service, the city may not be able to provide required services or continue limited operations until service is restored.</p>	<p>OIT management should develop a formal written disaster recovery plan that specifically addresses Basis2. Once established, OIT should periodically (at least annually) test the plan and document the tests and their results in writing [300413.14]</p>	<p>Incomplete:</p> <p>OIT has indicated that technical infrastructure has been implemented to safeguard data and configurations. However, OIT acknowledges that a documented full disaster recovery plan has not been completed. OIT management stated that they are collaborating with the Revenue department to create this plan but could not provide an estimate for its completion.</p>	<p>OIT recognizes the need for a documented and periodically tested disaster recovery plan for all city systems and specifically for Basis2. As the City begins to resume normal operations, OIT will continue its work providing for disaster recovery protocols for all city systems. OIT is actively working on improving the City's resilience to events that would threaten the IT infrastructure and information assets.</p>

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Thank you for the observations provided in your report and for the opportunity to respond.

Sincerely,



Rob Dubow
Director of Finance

Enclosures

cc: James Engler, Mayor's Chief of Staff
Josefine Arevalo, Accounting Director, Office of the Director of Finance
Tracy Borda, Chief Financial Officer, Division of Aviation
Frank Breslin, Revenue Commissioner & Chief Collections Officer
Stephanie Tipton, Chief Administrative Officer
Kathleen Duggan, Audit Director, City Controller's Office
Christy Brady, Post-Audit Deputy Controller, City Controller's Office
Catherine Lamb, First Deputy Director of Finance
Mervisa Johnson, Director of Compliance and Internal Controls
Jacqueline Dunn, City Treasurer
Sarah Stevenson, Chief Integrity Officer
Melissa LaBuda, Deputy Commissioner, Water Department
Prachi Sathe, OnePhilly Director
Valerie D Hayes, Payroll Director
Mark Wheeler, Chief Information Officer
Sabrina Maynard, Chief of Staff, Office of the Director of Finance

AUDITOR'S COMMENTS ON AGENCY RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendations. We believe this to be the case with certain statements made in the City of Philadelphia, Pennsylvania's (city's) response regarding the following:

- Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors.
- Late Receipt of Component Unit and Fiduciary Fund Financial Reports Again Delayed Preparation and Audit of ACFR.
- Untimely Preparation of the SEFA May Result in the Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse.
- Breakdowns in the Functionality and Application IT Controls of the One Philly System Continue to Increase the Risk for Material Payroll Errors.
- Accounts Payable Reporting Still Needs Improvement.
- City's Accounting System Not Utilized for Posting Enterprise Funds' Year-End Journal Entries.
- Authorization of OnePhilly Elevated Access.
- Password Configurations (OnePhilly).
- Documentation of Impacted Accounts (OnePhilly).
- Application and System Patching (OnePhilly).

Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

In its response on pages 34 and 35, management states, "As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent ACFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward."

We disagree with management's use of the term "drafts" when describing the financial statements submitted to us for audit. Effective internal control requires that, before the Finance Office submits the ACFR to us for audit, accounting management should perform a review of those financial statements for accuracy and completeness. The \$229 million of ACFR errors cited on page 1 of the report occurred because the city's controls over the financial reporting process failed to prevent or detect and timely correct the misstatements. The errors were identified after the Finance Office should have already completed its financial statement review

procedures and finalized the statements.

Late Receipt of Component Unit and Fiduciary Fund Financial Reports Again Delayed Preparation and Audit of ACFR

In its response on page 36, management states the following with regard to the late receipt of School District of Philadelphia's (SDP) financial report, "SDP was delayed due to their audit."

According to SDP's management, their financial report was delayed due to the pandemic and the implementation of their new accounting system.

Untimely Preparation of the SEFA May Result in the Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Regarding management's statements concerning the untimely preparation of the SEFA which may result in the late submission of the Single Audit reporting package, we have the following comments:

- In its response on page 36, management states, "Finance recognizes the importance of submitting a timely and accurate federal awards and major programs schedule (SEFA) to our auditors. More importantly, there is a crucial need for the timely completion of our audits, and the timely submission of an accurate Single Audit Reporting package to the Federal Audit Clearinghouse to prevent a violation of federal grant terms and conditions and to prevent the suspension of federal funding for the City's grants and programs. While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, and the Controller's Office needs to ensure its audits are completed more timely, Finance will utilize the September 30th, 2022, Single Audit deadline pursuant to OMB M-21-20. Since OMB has given the 6-month extension for the completion and submission of the Fiscal Year 2021 Single Audit reporting package past the normal due date (March 31, 2022), our responsible officials in the Grants Accounting Unit do not believe that the SEFA is late. Finance requests that the Controller's Office works with Grants Accounting to determine an appropriate timeline for the FY21 SEFA submission in light of this extension, and in consideration of the remaining work to be completed for the FY20 Single Audit which is still underway as of the writing of this response."

The Controller's Office has always worked with the Finance Office to provide a reasonable timeline to complete the Single Audit. However, the key obstacle to submitting the Single Audit reporting package (SAR) to the Federal Audit Clearinghouse (FAC) on time is the Finance Office's untimely preparation and submission of a complete, accurate and final SEFA for audit and the inaccurate and untimely responses from grantor departments. While OMB memorandum M-21-20 has given a six-month extension for the submission of the fiscal year 2021 SAR to be uploaded to the FAC past the normal due date (March 31, 2022), the extension was not intended to give grant recipients more time past March 31st to prepare the SEFA. It was given to allow entities who have not yet filed their single audits with the FAC to delay the completion and submission of the SAR up to six (6) months beyond the normal due date. Additionally, the city is also considered to be a high-risk auditee requiring increased audit coverage of federal programs. As of the date of this writing, GAAU has still not provided the fiscal year SEFA for audit. This is not a reasonable timeframe to plan and perform the

audit, issue an opinion, and then allow the city to complete and submit the SAR to the FAC by the extended due date.

Breakdowns in the Functionality and Application IT Controls of the One Philly System Continue to Increase the Risk for Material Payroll Errors

Regarding management's statements on the breakdowns in the functionality and application IT controls of the OnePhilly system, we have the following comments:

- In its response on page 37, management states the following with regard to employee timecards which continue to show hours types that are not appropriate for the employee's position:

“Only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours types are driven by CUC and, therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC ‘F’ or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers. OnePhilly continues to make necessary improvements to the system so that time types can be restricted as much as programmatically possible. Even though the City has a complex workforce that makes it difficult to put hard restrictions on time type views within the system, system controls as well as reviews by timekeepers prevent selection of inaccurate time types and prevent employees from being inaccurately paid.”

While CUC specific hours types such as “Hazmat” and “Stress Pay” may be restricted to certain departments, other inappropriate time types remain available in the time sheet drop down menu for employees who would not be eligible. For example, shift differential continues to be available to employees in departments who are only authorized to work during the standard workday. While we acknowledge the roll that managers and timekeepers play in ensuring accurate reporting, system controls limiting these options are a stronger control mechanism to ensure that pay is accurate and appropriate.

- In its response on pages 37 and 38, management states the following with regard to Super Timekeeper's ability to view information on the Timecard Status Summary Dashboard from other departments, including the Missing Timecard Report:

“We previously communicated that the Timecard Status Summary Dashboard is restricted by Department. Timekeepers use this dashboard to view meaningful data during the time capture phase of payroll processing, such as timecards in approved status and timecards in working or error status. All of this information is accessed and viewed at the department level. Only one report with limited data on the dashboard has a Citywide view only access, and that is the Missing Timecard Report. Super timekeepers can view the listing of all employees across the City that have missing timecards in this report, but they do not have access to sensitive payroll and personally identifiable information (PII) of employees that are not in their department. OnePhilly team continues to work with Oracle developers to restrict the Missing Timecard view of Timekeepers.”

Management's response confirms that the Timecard Status Summary Dashboard is not restricted by Department. The continued ability for a Super Timekeeper to view the Missing Timecard Report from other departments remains an internal control weakness. The OnePhilly team also acknowledges their need to continue to work with Oracle developers to restrict the Missing Timecard view of Timekeepers.

Accounts Payable Reporting Still Needs Improvement

Regarding the finding on deficiencies in accounts payable reporting, in its response on page 40, management states, "We will continue to work with departments with unique challenges and will consider extending the cut-off period to the extent that the Charter-mandated AFR reporting process timeline would allow."

As we stated on page 14 of the report, GAAP requires that governments report a liability in the period in which it is incurred. In testing accounts payable as of June 30th (the city's fiscal year-end), we search for unrecorded liabilities by examining invoices paid in the subsequent fiscal year to identify payments for goods or services received on or before June 30th that were not accrued as payables. We found that most errors noted were posted to FAMIS after the Finance Office's internally established September 3rd cut-off date resulting in a risk of significant unrecorded payables. Finance Office management should extend the cut-off period to a later date not limited to the reporting timeline for the unaudited Charter-mandated AFR.

City's Accounting System Not Utilized for Posting Enterprise Funds' Year-End Journal Entries

In its response on page 42, management states, "We agree that PWD and DOA should utilize the new accounting system for recording their year-end accrual adjustments. However, we do not believe that there is an increased risk of error in compiling the City's ACFR, as the act of entering this data into FAMIS is simply duplicative to the compilation and workpapers, which provide a clear trail of the adjustments between the modified and full accrual statements for both Water and Aviation. In the future, the Aviation Fund will no longer include the "unadjusted balances" of FAMIS fund (960) and will use the opening balances from the prior year's compilation binder (the financial statement balances). This should simplify the reporting of "full accrual" amounts in the compilation binder and the financial statements. In addition, all compilation entries effecting the operating, capital, or sinking funds will be posted to FAMIS to ensure balances per the compilation binder and FAMIS agree for these funds. Central Finance will review the Aviation compilation binder in subsequent years based on the new methodology of preparation noted above and evaluate the cost/benefit of updating FAMIS to include the "full accrual" balances per the compilation. As previously indicated, we feel that the compilation binders provide a clear and accurate audit trail of all "full accrual" balances and serves as the source record for these activities and balances."

We disagree with management's assertion that entering Water and Aviation Fund modified to full accrual statement adjusting entries into FAMIS is duplicative. FAMIS is the official accounting system of record, and the compilation data should be considered supporting documentation for properly and timely completed FAMIS entries. Bypassing FAMIS and entering this data directly from the compilations into the City's ACFR weakens the accounting and audit trail by excluding this information from FAMIS inquiry screens and reports intended to support the complete, accurate, and efficient preparation of the ACFR.

Authorization of OnePhilly Elevated Access

In its response on page 44 management states: “One Philly has established a formal process for 1) Requesting Access to the OnePhilly functionality, 2) Termination of access when employees separate from the city or move to a different position from their current position for which elevated access is authorized, 3) Conducting quarterly review of the user access. If requests are completed via email or there are other breakdowns, these will be caught and resolved during regular access reviews.”

Management confirms while there is a formal process, it is not consistently followed.

Password Configurations (OnePhilly)

In its response on page 45, management states the following with regard to OnePhilly password settings that do not align with OIT’s password requirements:

“OnePhilly has already received an exemption from OIT on the Password policy”.

At the conclusion of the audit field work, the auditors requested if an exemption or other documentation was obtained from the OIT to correct any discrepancies of this finding. The OnePhilly team indicated that they would continue to work on resolving this finding for fiscal year 2022. Additionally, no documentation was submitted to the auditors at the time. We will follow up on this finding during the fiscal year 2022 audit to determine if an exemption has been received.

Documentation of Impacted Accounts (OnePhilly)

In response to our recommendation that the OnePhilly team should maintain formal documentation of the accounts which are impacted when system issues are identified, on page 47 management states:

“When OnePhilly took charge of the defect/enhancement resolution process, the team established development standards that adequately document and resolve all impacted accounts. The Controller’s office may have an issue with understanding that certain changes impact large groups of employees and in other cases all employees. In these cases, we would be more than happy to provide the proof of resolution if the Controller's Office can select a sample population. As previously stated, OnePhilly already maintains documentation of all impacted accounts.”

As stated in our finding, we tested a sample of impacted accounts to determine whether all impacted city employee accounts were included when system issues were identified. The OnePhilly team was only able to provide evidence for one instance that all impacted accounts were identified.

Application and System Patching (OnePhilly)

In response to our recommendation that the OnePhilly team should develop a schedule with criteria detailing recommendations for how quickly a patch should be evaluated and applied, on page 47 management states:

“The OnePhilly team is composed of seasoned Oracle consultants who have years of Oracle patching experience. These consultants are consulted for each patch application and then the determination is made regarding the application of patches and timing of the patches. Also, Oracle delivers the guidance around application and CPU patching. The team follows such guidance. If the Controller’s Office needs further information, OnePhilly would be more than happy to walk the Controller’s Office through various patches.”

Management’s response does not address the auditor’s recommendation. As stated in our report, the OnePhilly team has not established written criteria detailing recommendations for how quickly patches should be evaluated and applied.