

# Report on City of Philadelphia Internal Control FY2021

OFFICE OF THE CITY CONTROLLER

Each year, the Office of the City Controller audits the City of Philadelphia's basic financial statements. As part of that audit, the Controller's Office reviews the City's internal controls over financial reporting. Once the review is complete, the Controller's Office compiles its findings into a report on internal control and on compliance and other matters, identifying material weaknesses, significant deficiencies, issues of non-compliance and other conditions, and making recommendations to address the findings.

## WHAT ARE MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES?

A **material weakness** is a deficiency, or 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.

A **significant deficiency** is less severe than a material weakness, yet important enough to merit attention.

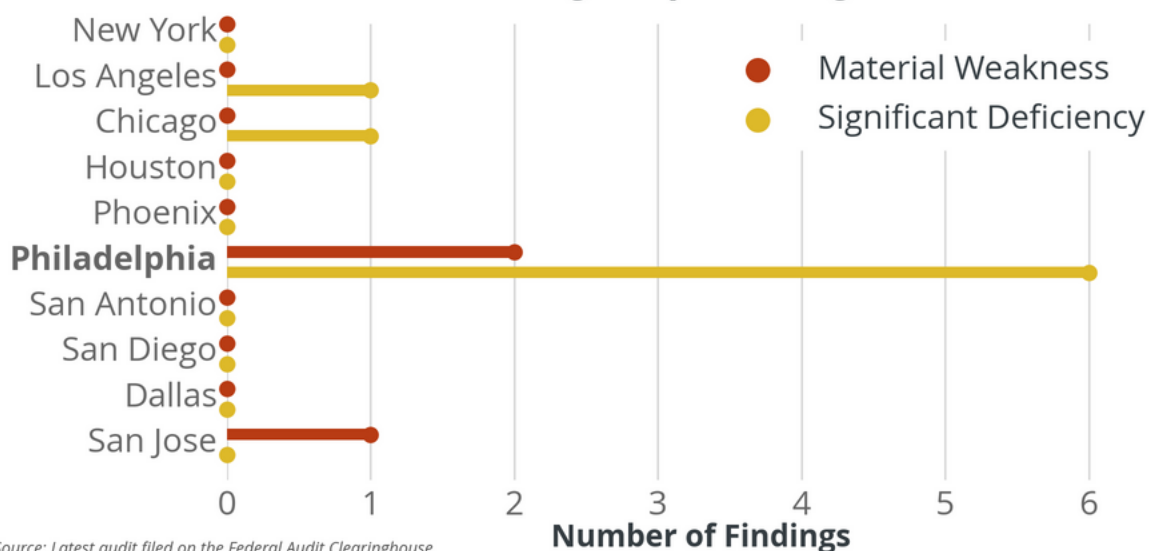
## WHY IS THIS IMPORTANT?

If a material misstatement occurred on the City's financial statements, the statements would be considered an ineffective tool for assessing the City's financial health and may have far reaching consequences. Weaknesses in internal controls also create an environment ripe for fraud, abuse and waste.

## Philly's Internal Control Findings Compared to the Top Ten Largest Cities

When comparing Philadelphia's internal control findings to those of the other top ten largest cities, Philadelphia stands out for all the wrong reasons. Since the comparison began in FY17, Philadelphia has been the worst of the top ten cities. This year, Philadelphia has two material weaknesses and six significant deficiencies. While three other cities have one finding each, Philadelphia is the only city with multiple significant deficiencies and material weaknesses, as shown below.

### Internal Control Findings: Top Ten Largest Cities



Source: Latest audit filed on the Federal Audit Clearinghouse

The Office of the City Controller's mission is to promote the effective and efficient operation of Philadelphia government by identifying cost savings, recommending best practices and modernization, and exposing fraud and mismanagement.



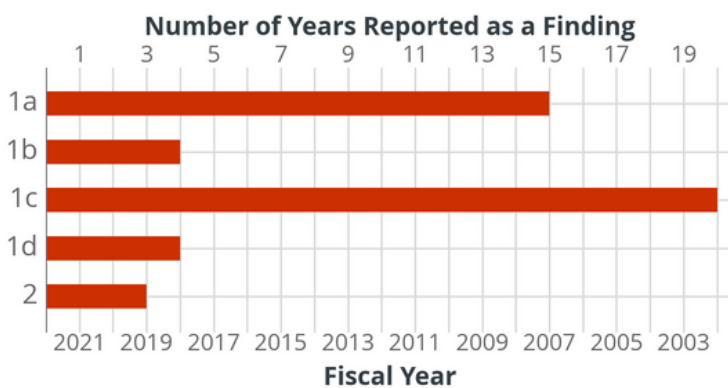
# FY2021 Findings

In the Fiscal Year 2021 internal control report, the Controller's Office identified two material weaknesses and six significant deficiencies. Many of the City's internal control findings have been reported year after year without remedy. Each of this year's findings is listed in the charts below, which also shows the length of time each finding has been reported.

## Material Weaknesses

### FY 2021 Internal Control Findings Over Time: Material Weaknesses

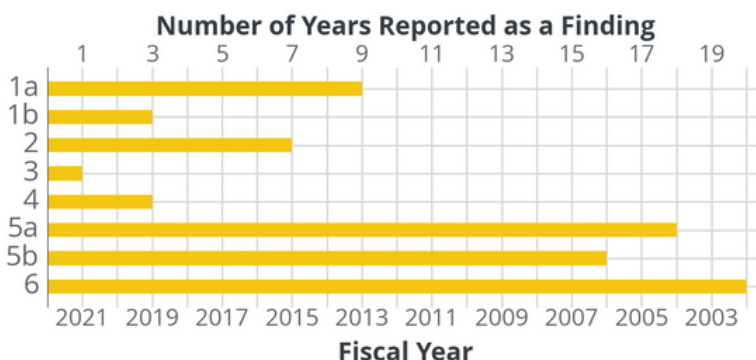
- 1. Inadequate Staffing Levels, Lack of Technological Investment, and Insufficient Oversight**
  - a. Significant Financial Statement Errors
  - b. Late Submission of the Aviation Fund Financial Statements
  - c. Late Receipt of Component Unit Financial Reports
  - d. Late Submission of the Single Audit Reporting Package
- 2. Breakdowns in the Functionality and Controls of the OnePhilly System**



## Significant Deficiencies

### FY 2021 Internal Control Findings Over Time: Significant Deficiencies

- 1. OIT's IT General Controls Continue to Require Strengthening**
  - a. Deficiencies in Change Management Procedures
  - b. Inadequate Segregation of Duties
- 2. Treasurer's Bank Reconciliation Procedures Still Require Improvement**
- 3. Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors**
- 4. Accounts Payable Reporting Still Needs Improvement**
- 5. Capital Asset Control Deficiencies**
  - a. Lack of a Comprehensive Capital Asset System
  - b. Failure to Inventory Real Property Assets
- 6. Standard Accounting Procedures Require Updating**



## Details on Key Findings

Finance accountants failed to identify \$229M in errors during the preparation of the ACFR, an improvement from FY17's nearly \$1 billion in errors but still a material weakness. Errors in the ACFR submitted to the Controller's Office have been a finding since FY07.

Finance accountants are supposed to provide the SEFA to the Controller's Office for audit with adequate time for audit before the federal submission deadline. For three years in a row, we have reported that Finance accountants have not provided an accurate SEFA in a timely manner. While a preliminary SEFA was provided on June 15, 2022, it was incomplete and insufficient for our office to complete our audit work. The City's continued failure to meet this filing requirement could affect future federal funding.

In FY19, the City launched OnePhilly, a new system for HR, Benefits, Payroll and Time and Attendance, costing more than \$43 million. Our review found multiple breakdowns in its functionality and general IT controls, as well as that individual employee pay may be inaccurate or unauthorized. In following up on those findings, the Controller's Office found many issues unresolved. These breakdowns could result in material misstatements in the City's financial statements or errors in employee pay.

## Controller's Comment

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

- City Controller Rebecca Rhynhart

Read the full report on [Controller.phila.gov](https://www.controller.phila.gov).

