CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2020, 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, 2021. Our report 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

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Philadelphia, Pennsylvania's internal control over financial reporting (internal control) 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 Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 to 2020-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2020-004 to 2020-009 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philadelphia, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

City of Philadelphia, Pennsylvania's Response to Findings

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

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, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Philadelphia, Pennsylvania's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Pennsylvania Department of Human Services (DHS) Single Audit Supplement* that could have a direct and material effect on each of the City of Philadelphia, Pennsylvania's major federal and DHS programs for the year ended June 30, 2020. The City of Philadelphia, Pennsylvania's major federal programs and DHS programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Philadelphia, Pennsylvania's basic financial statements include the operations of the School District of Philadelphia, Community College of Philadelphia, Philadelphia Redevelopment Authority, Philadelphia Authority for Industrial Development, and Philadelphia Housing Authority, which expended a total of $876, 983,526 in federal awards which is not included in the City of Philadelphia, Pennsylvania's Schedule of Expenditures of Federal Awards for the year ended June 30, 2020. Our audit, described below, did not include the operations of these component units because they had separate audits performed in accordance with the *Uniform Guidance*.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City of Philadelphia, Pennsylvania with CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant as described in finding number 2020-010 for Reporting, consequently we were unable to determine whether the City of Philadelphia, Pennsylvania complied with those requirements applicable to that program.

Qualified Opinion on CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, City of Philadelphia, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant for the year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Philadelphia, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal and DHS programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and the DHS Single Audit Supplement and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2020-011, 2020-012, 2020-013, 2020-014 and 2020-015. Our opinion on each major federal and DHS program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or DHS program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or DHS program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2020-010 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or DHS program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-011, 2020-012, 2020-013 2020-014, and 2020-015 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. We issued our report thereon dated February 25, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
April 22, 2022

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Section I – Summary of Auditor's Results:

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ yes __X__ no

Federal Awards:
Internal control over major programs:

Material weakness(es) identified? ___X_yes ____ no
Significant deficiency(ies) identified?_X___ yes ____ none reported

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

Qualified

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

Identification of major federal programs:

Name of Federal Program or Cluster	CFDA Number(s)
Child Nutrition Program Cluster:	
National School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program	10.559
Community Development Block Grant	14.218
Emergency Solutions Grant	14.231
Home Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
Continuum of Care Program	14.267
Choice Neighborhoods Implementation Grant	14.889
Edward Byrne Memorial Assistance Grant	16.738
Airport Improvement Program	20.106
Coronavirus Relief Fund	21.019
Child Support Enforcement	93.563
Community Services Block Grant	93.569
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Staffing for Adequate Fire & Emergency Response	97.083

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

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

Schedule of Findings and Questioned Costs

Section II - Financial Audit Material Weaknesses

2020-001 INADEQUATE STAFFING LEVELS, LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT LED TO UNDETECTED MATERIAL MISSTATEMENTS

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city's) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Comprehensive Annual Financial Report. To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system (FAMIS[1]), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.[2] Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of Finance Office accountants to prepare a timely, accurate, and completed Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report;

- While improvement was noted, the Division of Aviation's (DOA's) late submission of its financial statements and compilation delayed preparation and audit of the Comprehensive Annual Financial Report; and

- Late receipt of component unit financial reports hampered the Comprehensive Annual Financial Report preparation.

Each of these conditions is discussed in more detail below.

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

Condition: Errors totaling $167 million were not detected by Finance Office accountants during preparation of the city's fiscal year 2020 Comprehensive Annual Financial Report.

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 2020 Comprehensive Annual Financial Report can be relied upon for informative decision making.

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[1]**F**inancial **A**ccounting and **M**anagement **I**nformation **S**ystem
[2]These quasi-government units are considered component units for purposes of the city's Comprehensive Annual Financial Report.

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 Comprehensive Annual Financial Report 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 2020). Inadequate staff size has resulted in significant and complex parts of the Comprehensive Annual Financial Report, 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 Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report. Instead, accountants produce the Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report. During our current audit, we determined that the Finance Office has now converted to Excel all remaining files created with Lotus 1-2-3, a program that had been discontinued and unsupported since 2014.

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 Comprehensive Annual Financial Report. Although 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, the Finance Office was again unable to implement that plan for the fiscal year 2020 Comprehensive Annual Financial Report. In the prior year, we noted the accounting firm assisted the Finance Office with the preparation of a Comprehensive Annual Financial Report review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of the fund financial statements. However, we continued to note the checklist has not yet been updated to include guidelines for review of the full accrual government-wide financial statements. Also, the accounting firm assisted with the calculation and recording of the compensated absences sick leave accrual, and the related footnote disclosures in the Comprehensive Annual Financial Report.

Despite the improvement noted, we still found that the Finance Office failed to detect significant errors in the Comprehensive Annual Financial Report submitted for audit and did not provide finalized footnotes until very late in the audit process. Examples of undetected errors included:

- The Finance Office did not include the longevity, stress pay, and tax liabilities for prior and current periods in the other long-term liabilities (termination compensation payable) for governmental activities. As a result, this liability was understated by $48.1 million.

- A $30.1 million overstatement of taxes receivable due to the Finance Office including receivables that were previously written off by the city's tax review panel.

An example of an untimely provided footnote was the disclosure for the governmental activities capital asset depreciation, for which we did not receive a substantially completed version for audit until February 16, 2021, just over a week before we issued the audit opinion.

Recommendations: Without sufficient accounting staff and a comprehensive financial reporting system to prepare and review information needed for the Comprehensive Annual Financial Report, 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 Comprehensive Annual Financial Report [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 2021 Comprehensive Annual Financial Report, management follow through with its plan to use the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the Comprehensive Annual Financial Report [500118.01]. Additionally, Finance Office accountants should utilize the accounting firm to assist with developing a Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report preparation and review process, we believe the appropriate long-term solution is to either hire more accountants or invest in a comprehensive financial reporting system, as recommended above.

Views of the Responsible Officials: The Accounting Bureau (Accounting) is committed to continuing to produce an accurate and well-prepared 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. While budget constraints in FY20 due to COVID-19 hindered the expansion of our workforce, we continue to look for opportunities to increase human capital resources, including the use of consultants in the absence of available funds to hire new staff.

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 to include 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.

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 40 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.

Auditor's Comments on Agency's Response: In its response on page 34, 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 Comprehensive Annual Financial Report to us for audit, accounting management should perform a review of those financial statements for accuracy and completeness. The $167 million of Comprehensive Annual Financial Report errors cited on page 1 of the report occurred because the city's controls over the financial reporting process failed to prevent or detect and timely correct the misstatements. In fact, we found most of the $167 million of Comprehensive Annual Financial Report errors very late in the audit process, proposing most of our audit adjustments within the one-month period prior to the issuance of the audit opinion. The errors were identified after the Finance Office should have already completed its financial statement review procedures and finalized the statements.

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

Condition: The Aviation Fund financial statements and supporting compilation were again completed late, with the DOA not submitting them to the Finance Office until December 28, 2020. While this was nine days earlier than the prior year, the late submission contributed to the city's financial statements not being entirely updated until January 6, 2021. While the DOA submitted a draft version of the financial statements to the Finance Office on October 22, 2020, those statements were very preliminary with various open items. The

DOA made significant financial statement changes between the October 22, 2020, and December 28, 2020 versions.

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

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

Cause: The delay in the DOA's submission of the Aviation Fund financial statements and compilation appeared to be the result of the DOA's discovery of reconciling items needed from the Finance Office to complete the compilation. The resulting delay for reconciling items was due to accounting errors by new Finance Office staff.

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

Views of the Responsible Officials: Thank you for acknowledging the strides made by DOA to provide key financial statement data on October 22, 2020 to enable audit testing to timely proceed. While the discovery of an error in the Sinking Fund and the lack of a schedule of deliverables, including a miscommunication around target deadlines, contributed to the delay in issuing the FY20 financial statements and compilation, we are pleased that our submissions in FY20 were earlier than in the prior year. 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.

Auditor's Comments on Agency's Response: In its response on page 35, management states, "Thank you for acknowledging the strides made by DOA to provide key financial statement data on October 22, 2020, to enable audit testing to timely proceed."

While we did acknowledge strides were made by the DOA, the financial statements the DOA provided to the Finance Office on October 22, 2020, did not enable us to timely proceed with audit testing. Those statements contained multiple open items and there were significant financial statement changes between the October 22, 2020, and December 28, 2020 versions. Additionally. the compilation, a key component which provides support for the amounts tested in the financial statements, was not submitted to Finance

Office until December 28, 2020, resulting in the city's financial statements to not be updated until January 6, 2021.

Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of Comprehensive Annual Financial Report

Condition: As we have reported for the last several years, late receipt of component unit financial reports continued to delay preparation and audit of the city's Comprehensive Annual Financial Report. As shown in Table 1 below, five of the city's 10 component units still did not submit their final reports by the due dates requested by Finance Office accountants.

Table 1: Late Submission of Component Unit Financial Reports

Component Unit	Due Date	Date Received	Days Late
Philadelphia Authority for Industrial Development	10/31/2020	1/7/2021	68
Philadelphia Housing Authority	10/31/2020	11/16/2020	16
Philadelphia Parking Authority	10/31/2020	1/21/2021	82
Philadelphia Redevelopment Authority	12/31/2020	2/12/2021	43
School District of Philadelphia	11/01/2020	2/17/2021	108

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, Philadelphia Gas Works, and Philadelphia Municipal Authority submitted their financial reports timely.
Source: Prepared by the Office of the City Controller

The greatest challenge to the timely completion of the Comprehensive Annual Financial Report came from the Philadelphia Parking Authority, the Philadelphia Redevelopment Authority, and the School District of Philadelphia. These three agencies submitted their reports very late (January 21, 2021, February 12, 2021, and February 17, 2021, respectively), leaving the Finance Office accountants and the Controller's Office auditors very little time to ensure that they were accurately included in the city's Comprehensive Annual Financial Report before it was issued on February 25, 2021.

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

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

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

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

Views of the Responsible Officials: We agree that the timely submission of all component unit reports is critical to the timely issuance and accuracy of the City's 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. Notably, after multiple meetings during the fiscal year, PMA provided timely submission. Finance continues to send initial requests for component unit financial statements and data in as early as May for all entities with March 31 FYE, with required responses no later than June 30. We also send requests for all other Component Units by end of June, with responses required by August 31. Follow-up requests are sent out to component units, with an emphasis on the importance of timely submission of financial data highlighted in all communications.

The five component units called out for very late submissions, PPA, PHA, PAID, PRA, and SDP, provided valid reasons for their delay or showed evidence of improvement. PPA (Philadelphia Parking Authority) was late due the national COVID 19 pandemic and their management team's full review of OPEB, GASB45 and GASB75. PPA anticipates meeting the FY21 deadline. PHA (Philadelphia Housing Authority) indicated their audited financial statements were delayed pending the completion of their single audit report. PAID (Philadelphia Authority for Industrial Development) submitted their audited report to the Finance Office on December 8, 2020. This delay was due to the COVID-19 pandemic challenges. However, the submission to the Controller's Office was further delayed because Finance Office accountants did not submit PAID's financial statements until January 7, 2021. PAID will work diligently towards and make every effort to meet the FY21 financial statements submission deadline. PRA (Philadelphia Redevelopment Authority) audited financial statements were delayed due to key personnel turnover, including their VP of Finance. The SDP (School District of Philadelphia) was delayed due to their audit. The Finance Office will continue to work with the component units to ensure timely submission of audited financial statements; and will continue to engage the City's Director of Finance, as needed.

2020-002 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

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. For fiscal year ending June 30, 2020, a preliminary SEFA was not prepared and provided for audit until March 13th of the following calendar year, which is three months prior to the deadline to submit the reporting package and insufficient time to complete the audit by the June 30th deadline[3].

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.
Effect: 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: The untimely preparation and submission of the SEFA caused delays in planning the audit and subsequent testing of the SEFA and major programs for the fiscal year ending June 30, 2020. Specifically, GAAU personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule, which is adjusted based on mandatory grant reconciliations provided by the city departments responsible for grants (departments). For fiscal year 2020, GAAU sent requests for these reconciliations in September 2020. Multiple follow-ups, untimely, and inaccurate responses from the departments further delayed the preparation and submission of an accurate SEFA for audit.

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].

Views of the Responsible Officials: Finance recognizes the importance of submitting a timely and accurate federal awards and major programs schedule (SEFA) to our auditors. More importantly, there is a crucial need for the timely completion of our audits, and the timely submission of an accurate Single Audit Reporting 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, we must also point out that the Controller's Office needs to ensure its audits are completed on time, as late audits contribute to further delays in the submission to the Federal Audit Clearinghouse. We also acknowledge that delayed responses to audit requests have impacted the Controller's Office audit timeline. Finance continues to work with departments and the Controller's Office to eliminate audit inefficiencies.

GAAU staff undergo a meticulous process involving numerous departments and requiring multiple follow-ups to produce a complete and accurate SEFA. We communicate the importance of providing complete and accurate information to the departments and we emphasize the need to provide timely data. GAAU provides guidance to departments and conducts numerous collaborative meetings with departments whenever

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[3] OMB's December 2020 Compliance Supplement Addendum allows recipients that received COVID-19 funding an extension for up to three months beyond the normal due date of March 31st for the completion and submission of the Single Audit reporting package.

necessary throughout the audit period to discuss issues and assist with resolutions. Our department continues to explore additional ways to provide a completed SEFA to our auditors in a timelier fashion. We agree that additional resources would aid in expediting the SEFA preparation, but the pandemic hindered our plans to add staff.

Another step to accelerate the preparation of the SEFA would involve fast-tracking the FAMIS reconciliation process. GAAU will attempt to begin FAMIS reconciliations earlier this year. Our goal will be to accelerate departmental revenue validations and AP accrual validations so that these are also completed earlier this year. GAAU is committed to working very closely with departments that have late expense and revenue transfers due to grantor-related issues on final award amounts. Further, our goal is to expedite the completion of the reconciliation of Grant Fund Schedules and to provide you with the fully reconciled fund schedules and the SFA version A in an accelerated timeframe. We are hopeful that maintaining this accelerated timeline would result in a timely preparation of the SEFA and we hope to continue working with departments to ensure the requirements of SAP G 3-1 and SAP G 6-1 are followed.

We maintain that certain best practices will also enable a timely submission of the Single Audit Reporting Package, including 1) The provision of a “provided by client list” with a detailed schedule of all required support for the audit with target due dates and dates of receipt from Finance for tracking purposes. This should include the due date for the SEFA Version 1.0; 2) The establishment of multiple planning meetings, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit; 3) Regular audit status update meetings to identify any constraints and issues and to monitor audit progress; 4) The completion of audit testing for the ACFR and Single Audit at the same time; and 5) The acceleration of the audit testing timeline, including cross-cutting procedures, where applicable, to ensure that the audits are completed on an accelerated timeline and reporting packages are submitted ahead of time.

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

The fiscal year 2020 Single Audit is currently on-going, and the key obstacle to submitting the reporting package to the Federal Audit Clearinghouse on time is the Finance Office’s untimely preparation and submission of the SEFA for audit and the inaccurate and untimely responses from grantor departments to the auditors’ requests. As noted on page 5 of the report, for fiscal year 2020, GAAU did not provide the preliminary SEFA for audit until March 13, 2020, which was only 15 days earlier than it was provided for audit in the prior year. As of July 7, 2021, we have not received a final SEFA, which is after the extended Single Audit submission deadline of June 30, 2021.

Management also states, "We maintain that certain best practices will also enable a timely submission of the Single Audit reporting package, including 1) The provision of a "provided by client list" with a detailed schedule of all required support for the audit with target due dates and dates of receipt from Finance for tracking purposes. This should include the due date for the SEFA Version 1.0; 2) The establishment of multiple planning meetings, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit; 3) Regular audit status update meetings to identify any constraints and issues and to monitor audit progress; 4) The completion of audit testing for the ACFR and Single Audit at the same time; and 5) The acceleration of the audit testing timeline, including cross-cutting procedures, where applicable, to ensure that the audits are completed on an accelerated timeline and reporting packages are submitted ahead of time."

The best practices management listed above have been in place during our audits, including 1) notifying the Finance Office on August 14, 2020, to provide a preliminary SEFA by October 31, 2020, and submitting a provided by client list with target dates to the Finance Office on April 15, 2021; 2) holding entrance conferences between April 2021 and May 2021 with the Finance Office and the grantor departments that had major programs selected for audit; 3) conducting biweekly audit status update meetings that began on May 12, 2021, and are ongoing; 4) completing audit testing for the Comprehensive Annual Financial Report and the Single Audit at the same time would require the Finance Office to provide an accurate and timely SEFA; and 5) performing cross-cutting procedures take place however, as stated above, the audit timeline is dependent on the timely receipt of accurate financial schedules and supporting documentation for audit.

2020-003 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 2020 Comprehensive Annual Financial Report, we reviewed the OnePhilly team's remediation efforts to address the control deficiencies identified during a prior year evaluation[4] 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 2019 have been corrected, multiple breakdowns remain with the functionality and application controls of the OnePhilly system. Our current year review noted that nine out of thirteen previously reported conditions remained and only 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

[4] 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.

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 change assumed time to a proper time category. However, insufficient controls exist to ensure these retroactive changes occur at the department level.

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

- Employee timecards continue to show hour 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.

- The OnePhilly team has reduced the overall number of issues causing inaccurate accrual of leave. However, an accrual defect from 2019 remains in need of correction.

- 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 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.

- The Overpaid / Underpaid report continues to have known inaccuracies according to the OnePhilly team and requires a full review each week. The report was created for each payroll cycle to identify employees which may have been overpaid or underpaid based upon employee type, scheduled hours, and hours entered. The OnePhilly team has made significant improvements reducing the number of known inaccuracies. The largest per diem over/under report examined had 234 lines requiring review, as compared to over 3,000 lines in the prior year. However, instances continue to occur where over/underpayments were not adequately explained, or where documentation of correction was not available.

- Many outbound files sent to various third parties including city employee unions, benefits providers, and insurance providers, continue to lack formalized monitoring controls over their completeness and accuracy.

- Supervisory and executive approvals of payroll continue to be recorded and submitted on paper reports.[5]

Our current year review disclosed that the following previously reported conditions have been corrected. We found that employees who enter their own time through the manager self-service function are no longer able to authorize their own timecards. These timecards are now submitted to their direct supervisor for approval. Additionally, the OnePhilly team has corrected a defect with Timelink, which transfers recorded start and end times from an electronic time clock to OnePhilly system timecards. Timelink had previously transferred incomplete entries resulting in inaccurate timecards. Also, we previously reported a difference of $.06 in the hourly rate recalculation of one employee's pay. Our current year testing did not disclose such differences and therefore, this condition is deemed resolved. Initially, OnePhilly Oracle Time & Labor (OTL) self-service and timekeeper time entry was not available on Mondays or portions of Tuesday while payroll was being processed. The OnePhilly system no longer has blackout periods for self-service functionality, however, timecards are not available while they are being processed to ensure the accuracy of the payments.

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 Comprehensive Annual Financial Report to be materially misstated due to the controls breakdown. In addition, individual employee pay may be inaccurate and/or unauthorized.

Cause: The scope of our 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].

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[5] Supervisory and executive approvals of payroll were still physical signatures on a paper report during the audit period. This condition was subsequently corrected, and payroll approvals are now recorded and submitted electronically. As this change occurred in fiscal year 2021, we will test and report upon our findings during the fiscal year 2021 audit.

Views of the Responsible Officials: 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) Employees with access to Oracle Time and Labor (OTL) manager self-service are no longer able to authorize their own timecards; 2) the Timelink defect noted in prior year has been resolved; 3) No hourly rate recalculation differences in employees' pay existed in the current period; and 4) The OnePhilly team successfully eliminated black-out periods for self-service functionality for timecards that are not being processed. These are just a few of the many enhancements implemented during FY20. 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 220 tickets open, which are primarily enhancements and not defects.

- The City of Philadelphia maintains its commitment to ensure employees get paid on time. As previously communicated, management agreed (after thoughtful discussion) to running an Assumed Time program in the event that Departments are unable to update, review and approve time captured for the period. Thank you for acknowledging our implementation of our Assumed Time reconciliation process, which ensures that timekeepers review and accurately update time in the system within three retro-periods. Departments implement controls to ensure that all retroactive changes are entered accurately into the system and occur in a timely manner. Payroll timekeepers are tasked with reviewing the time entries for their departments for accuracy. Only authorized personnel make changes to employee timecards after following the required approval steps for that specific process.

- The OnePhilly and Central Payroll teams perform certain Citywide and cross-functional tasks. These teams follow the appropriate steps when performing their functions, including making changes to employee timecards. Employees within Central Payroll and OnePhilly who update timecards are certified and have the level of competency required to fulfill the functions of their positions. SAPs E-9101 and I-9101 provide these employees with the authority to make corrections to erroneous employee timecard entries that are submitted by employee supervisors and timekeepers at the department level. If these corrections were not made by Central Payroll and OnePhilly, employees would be paid incorrectly.

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

- The OnePhilly team does not approve all timecards in unapproved status. Only timecards in the most current processing period that are in working status are approved in order to ensure all employees get paid. Timekeepers are then tasked with updating these timecards after the close of the processing period. In the absence of the automatic approval process and the 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.

- Thank you for acknowledging the strides the OnePhilly team has taken to correct all issues related to inaccurate accrual leave. The one outstanding accrual leave issue being referenced from 2019 was resolved in February FY20, however a manual coding error caused this issue to resurface in December FY21. This issue was prioritized and resolved effective February FY21 and is now accurately reflected in the system.

- We disagree with this finding. 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 in other departments. We continue to work with Oracle developers to prioritize the update of the missing timecard report so that Super Timekeepers will view it at the department level only.

- Thank you for acknowledging the progress made by the OnePhilly Team. According to the OnePhilly Team, there are no known inaccuracies existing in the Overpaid/Underpaid Report. The Overpaid/Underpaid Report has been significantly enhanced since FY19 and continues to be instrumental in the Central Payroll review process. A team of payroll examiners conducts the review of the Overpaid/Underpaid reports. The reduction in lines requiring review referenced above is indicative of the elimination of inaccuracies in the Overpaid/Underpaid Report during FY19 and FY20.

- The statement that outbound files "lack formalized monitoring controls over completeness and accuracy" is inaccurate. The OnePhilly Team has implemented controls for each type of outbound interface file. The information being sent to outside parties is different, and therefore different controls are required for monitoring accuracy and completeness for each file. There cannot be one individual standardized process for monitoring completeness and accuracy because of the customized nature of the produced files.

- Central Payroll had dedicated staff that thoroughly reviewed and compared the listing of approved authorized signers and followed up with departments to ensure appropriate levels of approvals were obtained from supervisory and executive-level approvers. During FY20, the Central Payroll and OnePhilly teams made significant strides to enhance the sign-off process, and specifically, as previously communicated, Central Payroll worked with the OnePhilly Team to develop a blueprint, and then implement the automated payroll sign-off process. This new automated sign-off process was implemented in September 2020.

Auditor's Comments on Agency's Response: 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 above, management states the following with regard to the use of assumed time:

> "Departments implement controls to ensure that all retroactive changes are entered accurately into the system and occur in a timely manner. Payroll timekeepers are tasked with reviewing the time entries for their departments for accuracy. Only authorized personnel make changes to employee timecards after following the required approval steps for that specific process."

The continued reliance on individual departments to make retroactive changes to processed timecards, without ensuring these changes are made constitutes an internal control weakness. If timekeepers do not make manual corrections to these timecards, the employee may be paid erroneously. While the Assumed Time Reconciliation Report aids a departmental timekeeper in identifying changes that should be made, there is no control in place to ensure these changes are being made.

Management states the following with regard to the changes made to employee timecards without documentation or approval:

> "Employees within Central Payroll and OnePhilly who update timecards are certified and have the level of competency required to fulfill the functions of their positions. SAPs E-9101 and I-9101 provide these employees with the authority to make corrections to erroneous employee timecard entries that are submitted by employee supervisors and timekeepers at the department level."

Our finding or recommendation does not question the authority or the competency of the employees making changes to timecards. When changes must be made to a timecard by a OnePhilly or Central Payroll employee, the unit should retain documentation supporting the validity of the change and include a secondary review of the correction to reduce the likelihood of an error being made. Subsequent to making changes, OnePhilly or Central Payroll should communicate all changes made to the applicable department.

Management states the following with regard to employee timecards continue to show hours types that are not appropriate for the employee's position:

> "Hours type should not be restricted at the department level. Hours types are driven by CUC and, therefore, not all hours types are available for each employee." "All hours types are reviewed and approved by managers and timekeepers."

Based on our review, organizing hours type permissions by CUC continues to make inappropriate hours types available. For example, an employee, who is in a department that does not schedule shift work, may select shift differential time because shift work is available to employees in other departments with the same CUC. Restricting the availability of these hours types creates a stronger control than the continued reliance on managers and timekeepers to identify timecard errors.

Management reiterates the importance of using assumed time and automatic approval so that employees are paid in a timely manner, and states the following with regard to the continued use of an automated process to change unapproved timecards to approved status for payroll processing:

> "Departments are responsible for implementing controls to ensure that all retroactive changes are entered accurately into the system and occur in a timely manner."

Our recommendation does not suggest that timecards in unapproved status should not be approved and processed for timely payment. While the departments may be responsible for making retroactive changes, Central Payroll should establish internal controls to ensure these changes occur in all departments.

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 disagree with this finding. The Timecard Status Summery Dashboard is restricted by Department." "Only one report with limited data on the dashboard has a Citywide view only access, and that is the Missing Timecard Report."

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 work with Oracle developers to prioritize the update of the Missing Timecard Report so that Super Timekeepers are able to view it at the department level only.

Management states the following with regard to many outbound files sent to various third parties that continue to lack formalized monitoring controls over their completeness and accuracy:

> "The statement that outbound files "lack formalized monitoring controls over completeness and accuracy" is inaccurate. The OnePhilly Team has implemented controls for each type of outbound interface file."

During our testing, the OnePhilly team provided documentation illustrating the progress in developing and implementing monitoring controls for outbound files. This documentation indicated that many of the outbound file controls were still in development, thus lacking formalized monitoring controls.

Schedule of Findings and Questioned Costs

Section III - Financial Audit Significant Deficiencies

2020-004 DEFICIENCY IN ONEPHILLY SYSTEM'S IT GENERAL CONTROLS REQUIRE CONTINUED IMPROVEMENT TO MINIMIZE VULNERABILITIES

In addition to the material weakness[6] we again noted in application controls, we previously reported several deficiencies[7] in the OnePhilly system's IT general controls which were identified during a prior year review[8]. As part of the current audit, we reviewed the status of the following previously reported deficiencies:

- There was no formal, documented monitoring of the third parties which significantly support the OnePhilly system.
- Authorization of OnePhilly elevated access for new users and transferred users was not performed using a formal, documented format. In addition, periodic user reviews had not been performed, and there was no formally documented Segregation of Duties policy.
- Passwords were not configured to meet city requirements, including complexity, minimum length, and expiration after 90 days.
- Go-Live approvals were not formally documented and maintained. In addition, meeting minutes or reports, used to support the steering committee's decision to go live, were also not maintained.

Our current testing revealed that the OnePhilly team has made corrections and improvements to three of the four conditions noted above.

In response to our prior year recommendation, the OnePhilly team has appropriately implemented formal review and evaluation of the Ciber Oracle Managed Services (COMS) Service Organization Control (SOC) 2 report, and the CenturyLink Managed Network and Hosting Services SOC 2 report[9]. This review and evaluation included an additional risk survey to address control gaps. Physical access and environmental controls for CenturyLink's data center located in Sterling, Virginia were evaluated in the 2019 COMS SOC2 report, and considered in the risk survey conducted by the OnePhilly team. Since the OnePhilly team is sufficiently monitoring the third-party performance of both Ciber and CenturyLink, we consider this condition to be resolved [303519.02].

Additionally, the OnePhilly team has made improvements in the configuration of password requirements. Regarding the Go-Live approvals not being formally documented and maintained, while no Go-Live

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[6] See pages 6 to 8 of this report for more detail on the material weakness in OnePhilly IT application controls.
[7] Our prior review also disclosed other deficiencies in OnePhilly IT general controls with lesser impact. The remediation status of those other deficiencies is discussed on page 23 and Appendix I of the report.
[8] 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.
[9] The city engaged Ciber, an HTC Global Company, (Ciber) to customize and implement the OnePhilly system. In addition, COMS has been contracted to perform the managed services of the day-to-day operations of the system. Ciber hosts the OnePhilly system with CenturyLink, a network services and managed services company.

event took place during fiscal year 2020, we found that the OnePhilly team had maintained steering committee reports for their meetings, as we recommended. Accordingly, these conditions are no longer considered significant deficiencies. The remedial status of these conditions is discussed on page 23 and Appendix I of the report.

With regard to the OnePhilly system's authorization of elevated access for new and transferred users, periodic user reviews, and a formal documented Segregation of Duties (SoD) policy, current testing found that conditions still exist that create vulnerabilities within the OnePhilly system. These conditions are discussed in more detail below.

Condition: 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 not be performed using a formal, documented format. Based on our testing, user provisioning/de-provisioning access requests continued to be made via email or HelpDesk. The OnePhilly team has drafted, but not finalized or approved, a design document to automate the provisioning of access for employees when newly hired, transferred, or terminated. Additionally, a formally documented SoD policy, including identification of incompatible roles, responsibilities, and permissions, had not yet been established. In response to our prior year recommendation, periodic user reviews are now being completed. However, these reviews did not include the identification and removal of SoD breakdowns, or identification of monitoring controls in place where SoD breakdowns cannot be removed.

Criteria: When elevated access is requested, the request should be performed in a formal manner, indicating the specific access (roles and/or permissions) required, capturing the appropriate approval, and maintaining such in an easily accessible format. Incompatible roles, responsibilities, and permissions should be established to enforce SoD in both the provisioning and the periodic reviewing of user access.

Effect: 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.

Cause: Initial elevated access was required only within the OnePhilly team, which used informal requests to obtain and grant access to new team members. They have yet to finalize a formal process to provision and review users.

Recommendation: We continue to recommend that the OnePhilly team develop a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions. A formal process should be established to request and approve user access, which specifies the access required, considering the documented SoD requirements. 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].

Views of the Responsible Officials:

- Thank you for highlighting the elimination of the four findings related to monitoring controls noted in the prior year. OnePhilly continues to maintain the numerous mechanisms in place to monitor Service Level Agreements (SLA), including Daily performance dashboard reports, weekly PMO meetings, and monthly SLA meetings. SOC report reviews, along with an accompanying risk survey, will continue to be conducted by representatives from OIT's Information Security Group (ISG), Law and Finance. Where control gaps exist, vendor due diligence checks will be conducted.

- Thank you for noting the elimination of verbal provisioning requests and the introduction of access requests through the help desk, which allows for tracking. Thank you also for highlighting the implementation of periodic user reviews. OnePhilly has previously provided documentation concerning separation of duties and systematic permissioning based on responsibilities across departments. Access provisioning and de-provisioning is carried out by the OnePhilly security provisioning team, which thoroughly considers systematic permissioning and segregation of duties when assigning access. The team continues to develop enhancements to the user access process and will finalize the automation of the access provisioning and de-provisioning for newly hired, transferred, or terminated employees during FY22.

- Thank you for highlighting the significant improvements made to the password requirements configured in the OnePhilly system. Please see additional response to this condition in Appendix I.

- The team continues to maintain that the plethora of support provided including steering committee meeting agendas and presentations, go-live timelines, and emails to the steering committee confirming Go-Live was successful, among other communications, collectively support the steering committee's decision to go live. Further, thank you for acknowledging the enhancements we made to our steering committee meeting reports. Please see additional response to this condition in Appendix I.

Auditor's Comments on Agency's Response: In response to our recommendation that the OnePhilly team develop a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions, and that a formal process be established to request and approve user access which considers the documented SoD requirements, on page 40 management states:

> "OnePhilly has previously provided documentation concerning separation of duties and systematic permissioning based on responsibilities across departments. Access provisioning and de-provisioning is carried out by the OnePhilly security provisioning team, which thoroughly considers systematic permissioning and segregation of duties when assigning access."

During the audit, the OnePhilly team provided a draft design document for systematic permissioning of user access during hiring, transfers, and termination of employees. This document does not contain sufficient internal controls that consider SoD including identification of incompatible roles, responsibilities, and permissions.

2020-005 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 applications[10], which were identified during a prior year review[11]. In the current audit we again noted the following conditions:

- OIT management 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. Three OIT programmers continued to have development rights to Basis2 as well as database administrator access rights.
  2. Four OIT employees continued to have database administrator access as well as systems administrator access within FAMIS and ADPICS.
  3. Two OIT employees continued to have database administrator access as well as systems administrator access within Basis2.

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

Effect: Inadequate compliance with established procedures to perform end-user testing and management approval increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment. Also, with the combination of (a) developer access rights, which allows for the creation or modification of code, configuration, and data, along with (b) the database

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[10] 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.
[11] 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.

administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper code migrations, configuration changes, and data changes occurring without detection. Lastly, with the combination of (a) systems administrator access rights, which allows for the creation or modification of user rights to perform transactions or change system configurations, along with (b) the database administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper data changes occurring without detection.

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

Recommendations: To improve IT general controls over financially significant systems, we 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 developer/programmer function from the database administrator function for the three programmers with development rights to Basis2 as well as database administrator access rights. If segregation of duties is not feasible, OIT should monitor the activities of the three programmers to ensure they are authorized and appropriate [300419.02].

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

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

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

2020-006 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). While the Treasurer made certain remediation efforts, deficiencies still existed in the Treasurer's bank reconciliation procedures. Specifically, the following was noted:

- 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 62 bank reconciliations prepared by Treasurer personnel disclosed 40 reconciliations with long outstanding reconciling items. As shown in Table 2 below, as of June 30, 2020, there were 1,310 bank reconciling items over 90 days old with a net total dollar amount of $118.0 million and 2,315 book reconciling items over 90 days old with a net total dollar amount of $37.0 million.

Table 2: Reconciling Items Over 90 Days as of June 30, 2020						
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 2018	81	$2,507,527	11	($2,141,108)	92	$366,419
FY 2018	79	1,169,093	10	(421,146)	89	747,947
FY 2019	114	3,490,748	69	(12,943,991)	183	(9,453,243)
FY 2020[12]	834	139,857,435	112	(13,498,418)	946	126,359,017
All Fiscal Years	1,108	$147,024,803	202	($29,004,663)	1,310	$118,020,140
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 2018	117	$11,446,988	83	($9,189,147)	200	$2,257,841
FY 2018	417	108,206,547	109	(115,521,656)	526	(7,315,109)
FY 2019	402	80,923,724	408	(61,612,417)	810	19,311,307

[12] Amounts for fiscal year 2020 include reconciling items through March 31, 2020.

FY 202012	390	312,717,555	389	(289,923,147)	779	22,794,408
All Fiscal Years	1,326	$513,294,814	989	($476,246,367)	2,315	$37,048,447

Source: Prepared by the Office of the Controller based upon the June 30, 2020 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. Previous audits have noted variances between DPH's recorded collections and the amounts transferred daily to the consolidated cash account. As of June 30, 2020, there was a $7.9 million variance between DPH's recorded collections and actual transfers. In the prior audit, the Treasurer informed us that they began a revised process for handling DPH revenue receipts. However, the current year audit disclosed that the process had not yet been fully implemented.

- Our testing still noted noncompliance with the Pennsylvania escheat act. There remains $6.7 million in outstanding checks for calendar years 2013 to 2017 that have not been escheated to the state. Treasurer management plans to engage an accounting firm to provide escheatment services to address the current escheatable amounts and provide future support as checks become eligible for escheatment.

- In the prior audit, we reported that written procedures for the preparation of bank reconciliations and filing of reconciliation documentation have not been finalized by the Treasurer management. During the current audit, the Treasurer management provided finalized procedures named *Bank Reconciliation Policy*, effective October 1, 2019. We deem this matter to be resolved [500117.03].

- With regard to the seven deposits amounting to $2.2 million that we previously reported could not be matched to FAMIS, Treasurer management asserted that these receipt transactions had been matched. We requested the documentation for the matching of receipts to FAMIS, but Treasurer management was unable to provide us with this evidence. Given that these unmatched receipts were likely already recorded in the city's books and did not contribute to the previously reported $33.3 million unknown variance, which has now been resolved, we believe the risk of significant financial statement error to be low and will no longer report on this condition [500117.04].

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.

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: 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 has not finalized a revised process for reconciliation of DPH revenue receipts. Regarding the long outstanding checks, due to staff turnover, Treasurer management had to reassign staff and prioritize other duties above the escheatment review.

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].

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

Views of the Responsible Officials: Thank you for acknowledging the improvements made to the City Treasurer's Office's (CTO) reconciliation procedures, including the timely preparation of fiscal year-end bank reconciliations and the finalization of the Bank Reconciliation Policy. We agree that additional actions are needed to improve the timeliness of resolution to reconciling differences between the Treasurer account book and bank balances. To address this, CTO has re-engaged fiscal staff from various departments when reviewing unidentified reconciling items on a monthly basis to more timely address such items. CTO is also working with Finance to create a process to book unidentified receipts while awaiting confirmation for validation.

To address the DPH finding, CTO is revisiting the process with DPH, Revenue, and Finance to make necessary adjustments to enable DPH to recognize their revenue prior to the funds transferring to the consolidated cash account.

To address the escheatment recommendation, CTO has engaged an Accounting Firm to work with CTO and Finance to provide escheatment services to address the current escheatable amounts and provide future support as checks become eligible for escheatment.

2020-007 FAILURE OF DEPARTMENTS TO PROPERLY AND TIMELY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES AND UNDETECTED ERRORS

Condition: OnePhilly, the city's payroll system, was implemented during the 4th quarter of fiscal year 2019, moving the departmental payroll approval process from electronic to manual. The manual process requires departments to evidence their review and approval of payroll by having supervisory and executive level approvers physically sign the Time Entry Detail Report and provide a scanned copy to the Central Payroll Unit by the closing date of the biweekly payroll. The executive level approver must be an authorized signer listed on the department's signature authorization card. This process was in effect for the entirety of fiscal year 2020; however, due to the COVID-19 pandemic, departments were instructed that in lieu of physically signing the Time Entry Detail Report, the supervisory and executive level approvals could be provided to the Central Payroll Unit via e-mail.

Although improved as compared to the prior year's results[13], our testing of all fiscal year 2020 pay periods for 50 city departments disclosed 741 instances (55%) where departments did not submit the Time Entry Detail Report with the required two signatures by the payroll close deadline. Out of these 741 instances, we observed 299 reports which contained the required two approvals but were submitted after the payroll close deadline. Out of the 50 city departments, only three were in full compliance with the OnePhilly approval process for all fiscal year 2020 pay periods.

In the prior audits, we reported on a deficiency in the legacy payroll system related to the departmental approval process for payroll where the duties concerning the data entry, review, and approval of bi-weekly payroll transactions were not adequately segregated. This process was not brought forward into the OnePhilly payroll system, and therefore, we will no longer report on this condition.

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: OnePhilly lacked controls that require department level approvals, and it did not have an electronic payroll sign-off process. Also, the Central Payroll Unit did not adequately enforce compliance with requirements for the manual payroll approval procedures for OnePhilly that were in effect during fiscal year

[13] The prior year's testing of the 4th quarter of fiscal year 2019 disclosed 278 instances (78%) where departments did not submit the Time Entry Detail Report with the required two signatures by the payroll close deadline.

2020. The deputy finance director of payroll indicated that as of September 2020, the approval process in OnePhilly has since been automated.

Recommendation: To improve the departmental approval process for OnePhilly, we recommend that the OnePhilly team and Central Payroll Unit continue to work together to ensure that the now automated controls over the payroll sign-off process adequately segregate incompatible duties, particularly the functions of entering, reviewing, and approving payroll transactions. The Central Payroll Unit must remind departments of the current procedures for payroll approvals and enforce compliance with those departments that do not follow those procedures. [500119.03]

Views of the Responsible Officials: Thank you for highlighting that the OnePhilly system configuration included the implementation of segregation of duties concerning data entry, review and approval of bi-weekly payroll transactions. Thank you for acknowledging that improvements were made in the departmental approval process for payroll compared to prior year results. Thank you also for acknowledging our recent automation of the payroll sign-off process. We continue to send out reminder emails to departments during each pay period to ensure that payroll sign-offs are conducted timely. You state in your finding that there were 741 instances where departments did not timely submit the time entry detail reports with the two required signatures. We will work to explore multiple options for enforcement.

Auditor's Comments on Agency's Response: In its response on page 41, management states, "Thank you for highlighting that the OnePhilly system configuration included the implementation of segregation of duties concerning data entry, review and approval of bi-weekly payroll transactions."

The OnePhilly system continued to use a manual payroll approval process and did not require the different levels of approvals prior to processing payroll. Therefore, we were not able to test and verify whether the city has implemented segregation of duties regarding this process during the current audit. Since the approval process has now been automated during fiscal year 2021, we will test and report on this process during the fiscal year 2021 audit.

2020-008 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 Comprehensive Annual Financial Report. 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 Charter[14] requires management to maintain current and comprehensive records of all real property belonging to the city.

Effect: The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the Comprehensive Annual Financial Report and causes extensive audit effort. For example, we continued to find discrepancies between the "Proof" file and FAMIS – a $4.5 million discrepancy in the accumulated depreciation balance for buildings and a $1.0 million variance between vehicle categories. Further, we discovered that Finance's conversion of the previously used Lotus 1-2-3 files to Excel caused a $4.8 million misclassification error between asset categories in the initial version of a file that supports the "Proof." Additionally, and unrelated to the conversion, we found that $17.1 million of assets reported in the Philadelphia Municipal Authority's fiscal year 2019 audited financial statements as transferred to the city were missing from this file. After bringing these errors to Finance's attention, they were corrected in a revised file which reconciled to the "Proof."

Cause: Finance management indicated that they agree it would be beneficial to have a comprehensive capital asset system and have previously stated that resources had not been identified to initially fund and maintain it. They further indicated that they hope to adequately address this issue with new technology in the near future.

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

Views of the Responsible Officials: Thank you for noting the conversion of Lotus 1-2-3 files previously used in our reconciliation process to Excel. We acknowledge that our existing process created some reconciling differences in our proof files, but we are happy that PMA assets were accurately reported, and all corrections were made to the final proof. 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.

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. We previously reported that, during fiscal year 2018, the Department of Public Property (Public Property)

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

implemented the Integrated Workplace Asset Management System (IWAMS), which contains various data on the city's real estate assets, including maintenance and improvement costs. In its response to last year's report, Finance Office management indicated that after multiple meetings with the Office of Innovation and Technology (OIT), a framework to reconcile the city's fixed asset ledger with IWAMS had been developed, thus enabling management to periodically validate the completeness and accuracy of the city's fixed asset inventory. However, Finance Office management confirmed they have not yet worked with OIT in utilizing this framework to review and reconcile the IWAMS database to the city's fixed asset ledger.

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 Public Property – the agency responsible for acquiring and maintaining the city's real property assets – have not developed a coordinated process for physically inventorying all city-owned real property.

Recommendations: We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort [50106.04].

- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the general public [500109.02].

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

Views of the Responsible Officials: Finance Office management have had multiple meetings with the GIS unit concerning our objective of reconciling the fixed asset ledger to IWAMS. The framework for the reconciliation process has been discussed and the hope is to perform the first reconciliation to IWAMS during FY22.

2020-009 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.

Since September 2015, the Finance Office has updated 18 SAPs, with the most recent being an update of eight grant SAPs issued on February 19, 2020[15] and an addendum to SAP No. 4.1.1.e, Imprest Funds, issued on March 11, 2020, which created a debit card/imprest account for DPH in response to the COVID-19 health emergency. Also, the Finance Office estimated that the update to the ninth and final grant SAP – No. G-6-1, *Budgeting Revenue from Other Governments* – would be completed by Jun 30, 2021. Lastly, in response to the new OnePhilly payroll system implemented in March 2019, the Finance Office has a target timeline of September 30, 2021, for the completion of updates to payroll related SAPs.

During fiscal year 2020, no additional SAPs have been updated since the grant SAP updates. 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. The goal is to have all SAPs updated by fiscal year 2025. We were informed that the director of compliance will be working collaboratively with the Finance Project Management Team and control and process owners, and holding regular recurring meetings to ensure that SAPs across the city are updated.

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.[16] 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.

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

Cause: Over the years, the Finance Office experienced staff reductions that have compromised its ability to conduct periodic reviews and updates to the SAPs.

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

Views of the Responsible Official: We agree with your recommendation to continue the update of the city's SAPs. We have increased Citywide engagement with control and process owners and continue to have working meetings with stakeholders to facilitate the update of SAPs. We have also made great strides to identify obsolete

SAPs. Management will continue to prioritize this initiative, within budget and resource constraints.

Schedule of Findings and Questioned Costs

Section IV – Federal and PA. Department of Human Services Findings and Questioned Costs

2020-010 REPORTING – MATERIAL WEAKNESS AND COMPLIANCE FINDING

Edward Byrne Memorial Justice Assistance Grant Program – CFDA 16.738

Condition: The Philadelphia Police Department (PPD) was unable to provide for audit, copies of the quarterly Federal Financial Reports (SF-425s), the Quarterly Performance Metrics, and Semi-annual Progress Reports for the Edward Byrne Memorial Justice Assistance Grant Program. Direct funding for this program is received from the U.S. Department of Justice and additional funding is passed-through the PA Commission on Crime and Delinquency.

Criteria: OMB’s Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.302(b)(2) specifies that the recipient must disclose accurate, current, and complete financial results. OMB’s Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.301 specifies that performance measurement progress must be both measured and reported. OMB’s Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.333 specifies that financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the final expenditure report, as reported to the federal awarding agency or pass-through entity in the case of a subrecipient.

Effect: Auditor was unable to audit compliance with reporting requirements. Also, federal grantors may not have complete and accurate information to make fiscal decisions on future federal awards.

Cause: According to management, in November 2020 the PPD had a change in the personnel responsible for the maintenance of the above reports. That employee would have had knowledge of the location of the hard copies of those reports. However, that information was not shared with other office employees, and no one was able to locate the hard copies. Additionally, management stated that the electronic report files were archived in the Federal Grants Management System that has been sunsetted, and the reports were not migrated into the new Just Grants System. Consequently, the PPD also could not obtain access to electronic copies of the reports.

Recommendation: When personnel changes occur, the PPD should have a plan in place to ensure the proper transfer of responsibility and access to the reports and information required to be retained and available for audit. Additionally, we recommend that the PPD maintain proper records of SF-425s and performance reports.

1. **Views of the Responsible Officials and Corrective Action Plan:** This response is to findings of the Philadelphia Controller's Office FY 20 Single Audit of the Philadelphia Police Department's (PPD), Edward Byrne Memorial Justice Assistance Grant Program (JAG program), CFDA 16.738.

   This response is provided to add context and clarity, from the managing agency's (PPD) perspective, of the findings of Material Weakness and Compliance.

   Condition: report stating in summary, that the managing agency, PPD, was unable to provide for audit, copies of quarterly Federal Financial Reports (SF-425's), Quarterly Performance Metrics, and Semi Annual Performance Reports. The PPD responds and comments as follows.

2. FFR's: Reporting is completed to and stored in the Federal Records systems, (RMS) for these reports. The PPD uses that system for retention and recall of official copies of these reports as its method of storing and producing the reports as needed for any subsequent review or audit.

While the Controller's report did mention that the federal Grant Management System was sunsetted, it needs to be emphasized that this is true and verifiable; and that there are several annual awards of JAG that are referenced collectively under a single CFDA; and that these awards and reports were not migrated to the new JustGrants reporting RMS that became the reporting portal and RMS in October of 2020. The oldest of these grant awards and reports under review for this FY 20 Single Audit have a project award start date in October of 2012, and each subsequent year awarded in the subsequent CY years, and have been closed with the federal awarding agency since September 2019. This is relevant because of the question of whether quarterly reports were filed and accepted by the Grantor.

Performance Metrics: The Performance Metrics, both quarterly and cumulative are completed through a separate federal portal and RMS called the Performance Measurement Tool (PMT). It needs to made clear that the PPD was able and did provide final PMT reports to the extent they were requested for review. In fact, in discussing and corresponding with the Controller's office, these were referred to as an element of supporting documentation for the FFR's. Although having a different primary purpose, the PMT report does reference dollar amounts expended and those amounts need to reconcile to the FFR's.

3. **Effect:** This response and comment wish to reflect that any question of whether the required reports were submitted and accepted by the grantor agency is collectively demonstrated by the facts that these grants have been closed out, statements by the PPD Grants Management Unit Commanding Officer who has first-hand knowledge and supervisory responsibility for completing of the reports, subsequent annual JAG awards following 2019 without any holding of funds or special conditions referencing delinquent or deficient prior grant award reporting, no DOJ notifications of City of Philadelphia POC's Mayor, Managing Director, City Treasurer, and written notice from the federal Office of Audit Assessment and Management in December of 2020, of removal of the City of Philadelphia from "High Risk" status from the OIG audit of the 2016 DNC.

4. **Recommendations and Corrective Actions:** The Controller's report noted that there were statements that changes in personnel occurred and affected the ability of the PPD to produce certain reports. While the PPD acknowledges and stated that were changes in personnel at both the PPD unit level and city administration within the Managing Director's Office, the statements referred to the fact that email correspondence pertaining to specific administrative decisions were no longer available. However, the Commanding Officer of the GMU was aware contemporaneously of the correspondence, and actually supervised that the specific actions directed

by the executive level of the MDO were effectuated in the management of the award.

Regarding corrective action for proper transfer of responsibility whenever personnel changes may occur, this has been and is addressed going forward at the unit level. The Grants Management Unit offices were moved to a new Public Safety facility in July of 2021.

Since that time, records of grant files are being stored in a separate electronic cloud file created for each award, that is accessible by several people within the unit.

Contact Person: Captain Stephen Murianka, Captain, Philadelphia Police Department (215) 683-2846

2020-011 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Emergency Solutions Grants Program – CFDA 14.231
Choice Neighborhoods Implementation Grants – CFDA 14.889

Condition: In our review of the fiscal year (FY) 2020 SEFA, we found GAAU improperly reported prior period expenditures for two grant programs in the current year SEFA. Specifically, we noted expenditures for the Emergency Solutions Grants Program (CFDA #14.231) and the Choice Neighborhoods Implementation Grants (CFDA#14.889) totaling $462,391 and $1,372,835 respectively, occurred in FY 2019, but were not included in the year-end accounts payable or reported in the FY 2019 SEFA. Instead, Finance reported those expenditures in the FY 2020 SEFA. The funding for those programs is received from the U.S. Department of Housing & Urban Development.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.510(b) specifies that the grantee must prepare a SEFA for the period covered by the financial statements which must include the total federal awards expended as determined in accordance with §200.502 Basis for determining federal awards expended. OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.502(a) specifies that the determination of when a federal award is expended must be based on when the activity related to the federal award occurs. Additionally, the city's financial statements are prepared on the modified accrual basis and follow Generally Accepted Accounting Principles (GAAP). GAAP requires that governments report a liability in the period in which it is incurred. Accordingly, governmental entities should record expenditures when a liability is incurred, or when the activity related to a federal award occurs, and not based on when the invoice is received.

Effect: Failure to report grant expenditures on the SEFA during the correct fiscal year is a departure from GAAP and caused inaccurate reporting of Federal expenditures.

Cause: In our FY 2020 audit of the city's ACFR, we noted that the city's Finance Office procedures for computing year-end accounts payable balances disclosed weaknesses that increased the risk for unrecorded payables. Specifically, our review disclosed that the Finance Office requested departments to provide them with a list of fiscal year 2020 invoices not yet vouchered or submitted for processing as of August 16, 2020. Based on our testing results, it was clear that the Finance Office's mid-August cut-off date for the review and identification of payables was too early to detect all significant accounts payable. This also caused the GAAU unit to improperly include expenditures for services provided in FY 2019 in the FY 2020 SEFA.

Recommendation: Finance should improve its accounts payable process by following GAAP and the accrual basis of accounting by recording expenditures in the FY they occur.

Views of the Responsible Officials and Corrective Action Plan: We rely on the Departments to submit accurate accounts payable to the Finance Office within the cut-off period in order to meet the Charter-mandated Annual Financial Report (AFR) submission which is 120 days after the end of the fiscal period.

As explained in finding 2020-0012, Departments have noted that there are instances where vendors may experience an administrative burden and are unable to provide them with invoices in a timely fashion. If invoices are not timely submitted, payments are delayed, and the accounts payable accrual for the reporting year may be understated. In instances of delayed invoicing, we reported expenditures in the subsequent reporting period that they were paid with a footnote to clearly identify the related accounting period when those expenditures should have been identified or accrued.

In FY 2021, the Finance Office management timeline extended the accounts payable review from September to the middle of October 2021. We will continue to work with the Departments with unique challenges to ensure that accurate accounts payable are submitted within the cut-off period for the AFR reporting.

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

2020-012 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Staffing for Adequate Fire and Emergency Response – CFDA 97.083

Condition: The Philadelphia Fire Department (PFD) submitted semi-annual Federal Financial Reports (FFR, or SF-425s) that were inaccurate for Federal awards received under the Staffing for Adequate Fire and Emergency Response (SAFER) program. Our review of two SF-425s submitted in fiscal year 2020 disclosed that amounts reported for “Federal share of expenditures” and “Recipient share of expenditures” were incorrect. The “Federal share of expenditures” was overstated by $456,573 and $1,549,285 for reporting periods ended December 31, 2019, and June 30, 2020, respectively. Additionally, the “Recipient share of expenditures” was overstated by $152,191 and $516,428 for reporting periods ended December 31, 2019, and June 30, 2020, respectively. As a result, all line items on the SF-425s that were calculated using those amounts were incorrect. The PFD provided documentation that the grantor informed them that they do not need to submit revised SF-425s but should correct the errors in their subsequent report. Funding for this program is received from the U.S. Department of Homeland Security and administered by the Federal Emergency Management Agency (FEMA).

Criteria: OMB’s Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.302 (b)(2) specifies that the recipient must disclose accurate, current, and complete financial results.

Effect: The SF-425 report tracks the status of financial data for this Federal award. Failure to properly report accurate information on the SF-425 report leads to noncompliance with reporting requirements. Also, federal grantors will not have complete and accurate information to make fiscal decisions on future Federal awards.

Cause: Difficulties obtaining, analyzing, and reviewing payroll and benefits data from the newly implemented OnePhilly payroll system caused PFD to not have completed information available at the time of submission of the FFR.

Recommendation: PFD should ensure their staff has proper training to prepare the SF-425 report and should correct the above noted errors in their subsequent report as advised by the grantor agency.

Views of the Responsible Officials and Corrective Action Plan: PFD agrees that there were errors in the SF-425 for reporting period ending December 31, 2019, and June 30, 2020. These errors – particularly the error related to the June 30, 2020 SF-425 – were initially identified by the PFD in August 2020 and immediately reported to PFD’s funding liaison at FEMA as well as to internal partners within City of Philadelphia government. At that time, FEMA advised not to correct the June 30, 2020 SF-425 but to focus on ensuring future SF-425 reports were correct. In reviewing the error identified, the PFD found a few contributing factors. The primary error was in calculating the grant appropriation split across FY2020 and FY2021 allowing more expenditures to book against the grant index code in FY2020 than should have. This simple administrative error would have been identified earlier than August 2020 if other conditions had not further complicated PFD’s work environment, namely the emergence of COVID-19 in March 2020 and the introduction of a new payroll system implemented in March 2019. COVID-19 deeply affected the work environment, productivity, and priority focus of PFD employees, often prolonging the time required for seemingly routine tasks. Further, detailed payroll analysis from the new payroll system proved more time-intensive than originally planned. These twin obstacles together prevented a more timely and thoughtful review of the SF-425 reports prior to submission. PFD recognizes the seriousness of these errors and has been and will continue to be committed to communicating with its partners as well as continuing to work on and improve its grants management process/procedures.

Contact Person: Tara Mohr, Chief of Staff, Philadelphia Fire Department (215) 683-1570.

2020-013 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Emergency Solutions Grant Program – CFDA #14.231
Home Investment Partnerships Program – CFDA #14.239
Choice Neighborhoods Implementation Grants – CFDA #14.889
Community Services Block Grant – CFDA #93.569
Blocks Grants for Prevention and Treatment of Substance Abuse – CFDA #93.959

Condition: GAAU did not accurately disclose the total payments to subrecipients in the preliminary SEFA provided for audit. Our review of records indicated that subrecipient expenditures for the major programs listed below in Table 1 were understated by $18.3 million. GAAU concurred with our findings and corrected the amounts reported for subrecipient expenditures. This condition was reported as finding number 2019-011 in the prior year report.

Table 1: Summary of the Subrecipient Expenditure Variances by Major Program

	CFDA #	Amount Per Auditee ($)	Amount Per Auditor ($)	Difference Overstated/ (Understated) ($)
Emergency Solutions Grant Program	14.231	4,547,636	4,246,669	300,967
Home Investment Partnerships Program	14.239	9,005,189	8,716,939	288,250
Choice Neighborhoods Implementation Grants	14.889	0	10,632,907	(10,632,907)
Community Services Block Grant	93.569	2,338,989	2,592,803	(253,814)
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,308,915	11,337,526	(8,028,611)
Total		**19,200,729**	**37,526,844**	**(18,326,115)**

Source: Office of the Controller

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph .510(b)(4) requires the total amount provided to subrecipients from each federal program to be included in the SEFA.

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

Cause: Departments responsible for the grants do not always provide timely and accurate subrecipient expenditure information to GAAU or informed them when expenditures are denoted with the incorrect document prefix. Additionally, GAAU's review of the subrecipient expenditures reported in the draft of the SEFA did not identify discrepancies between amounts reported and the city's accounting records.

Recommendations: We recommend that GAAU reinforce with departments the need to provide complete and accurate information to assist in reporting the correct amounts for total payments to subrecipients, and to inform them when expenditures are denoted by the incorrect document prefix. Additionally, GAAU should strengthen its SEFA preparation procedures to ensure that all payments to subrecipients are reported as subrecipient expenditures on the SEFA.

Views of the Responsible Officials and Corrective Action Plan: GAAU will reinforce with affected departments the need to review the new accounting expenditure report that includes both types of encumbrance document prefixes for professional service contracts. GAAU will also reinforce compliance with the prescribed municipal policy Standard Accounting Procedure G 5-1 Subrecipient Monitoring that is intended to assist city departments with compliance with 2 CFR 200.510(b)(4).

In FY 2022, GAAU will implement the digitized Grants Profile form. The requirements for subrecipient and contractor determinations are incorporated on this form. Identifying the subrecipients at the outset of the grant will enable the departments to ensure proper accountability and compliance with program requirements and achievement of performance goals. However, Departments have noted that there are instances where subrecipients may experience an administrative burden and are unable to provide Departments with invoices in a timely fashion. If invoices are not timely submitted, payments are delayed, and the accounts payable accrual for the reporting year may be understated. Depending on the reporting requirements of the grantor, prime recipients may be allowed to report these subrecipient expenditures in subsequent reporting periods in a manner that clearly identifies the related accounting period. In instances of delayed invoicing, reporting the expenditure in the current period with a footnote, if allowed by the grantor requirements, may provide the most relevant and reliable SEFA reporting information.

GAAU will continue to pursue innovative methods and work and consult with the Office of Recovery and Grants (ORG), Health and Human Services cluster and other departments to improve reporting of subrecipients expenditures.

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2020-014 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Coronavirus Relief Fund – CFDA #21.019

Condition: For the three subawards selected for testing, we noted that the information required in accordance with 2 CFR section 200.331(a) was not provided at the time of the subaward. Additionally, an evaluation of each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring was not performed. Furthermore, the agreements for two of the subrecipients did not describe applicable compliance requirements, or the for-profit subrecipients' compliance responsibilities. The funding source for this program is received from the U.S. Department of Treasury.

Criteria: 2 CFR section 200.331(a) states that a pass-through entity (the city) must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required award information so that it is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award. In addition, 2 CFR section 200.331(b) states that pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. Furthermore, 2 CFR section 200.501(f&h) states that for-profit subrecipient agreements describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility.

Effect: Failure to identify subrecipient awards, as Federal, and the applicable compliance requirements, could lead to noncompliance at the subrecipient level. Failure to perform risk assessments increases the risk of noncompliance with subrecipient monitoring requirements as set forth in the U.S. Office of Management and Budget Compliance Supplement, which could lead to the city's loss of Federal awards.

Cause: The city appropriated CARES Act monies in response to the public health emergency due to COVID-19. Due to the emergent nature of the spending, the city's existing internal control system did not operate effectively.

Recommendations: We recommend management modify and/or strengthen its current policies and procedures to ensure that all required award information and applicable requirements are communicated to subrecipients at the time of the subaward. Also, we recommend that management ensure that evaluations of each subrecipient's risk of noncompliance is performed prior to a subaward.

Views of the Responsible Officials and Corrective Action Plan: The Office of Recovery and Grants (ORG) acknowledges the finding and appreciates that the Office of the Controller's consideration of the complicating factors that distinguish the CARES Act Coronavirus Relief Fund (CRF) grant from typical federal grants, including:

1. Timeline for grant award: a COVID-19 emergency declaration was issued by the President of the United States, and was followed by a Mayoral declaration, during the week of March 13, 2020. The

City initiated a range of emergency operations at that time. However, the City did not know, and could not anticipate, the form in which federal grant funding would become available at the time of the initial declaration. It was not until mid-April 2020 that the City was made aware that CARES Act CRF grant funds would be available. By that time, the City's COVID-19 response was well underway.

2. Lack of timely and clear guidance: the U.S. Treasury issued guidance on grant eligibility requirements, financial and performance reporting, and subrecipient definitions in an evolving and retrospective manner. Specifically, the U.S. Treasury issued its first guidance relating to subrecipients in July through August 2020, which was after the actual FY2020 performance period ended.

    a. When ORG evaluated individual expenditures, we required that, in keeping with the City's procedures and policies, all expenditures had the required documentation detail and fit with any guidance as we knew it for the grant. We also provided direct guidance to departments on documentation necessary under 2 CFR 200 guidelines, as those guidelines became available.

3. Emergency circumstances: the City initiated emergency COVID-19 response activities in March of 2020, and, due to the exigent nature of public health and safety response, amended existing contracts with vendors to perform services that may have been substantially different than the initial, underlying contract entailed.

For these reasons, ORG and the City's operating departments were forced to identify and attempt to define CRF grant-related subrecipients retrospectively. As we have described in prior memos responsive to the audit, ORG performed a review of the specific, COVID-19 related emergency purchase or scope of work related to each vendor in order to determine whether the vendor would be classified as a subrecipient or contractor per 2 CFR 200.331. In each case, the City held an existing contract with the vendor, which was subsequently amended to include the COVID-19 related emergency goods or services, in accordance with federal grant guidance issued by the U.S. Treasury for Coronavirus Relief Funds (CRF) and Federal Emergency Management Administration guidance on emergent contracting during the COVID-19 pandemic. In ORG's view, the specific, COVID-19 related activities or purchases qualified each of the three vendors named above to be classified as a subrecipient.

While ORG did not communicate directly with the vendors subsequent to identifying their funding as a federal source, the office communicated to the City departments and indicated the specific vendors for which they held contracts where COVID-19 related purchases/scope of work was funded by the federal CRF grant. ORG also provided summary guidance on subrecipient monitoring to the respective departments.

Corrective actions: To improve subrecipient monitoring practices related to the CRF grant, ORG is planning for the Single Audit in consultation with central Finance offices, including the Grants Accounting Unit, Budget Office, and the Director of Controls and Compliance; and with operating departments, particularly the Managing Director's Office/Health and Human Services cluster. Corrective actions include:

- ORG has developed and is offering recurring training sessions for operational departments and fiscal officers on subrecipient monitoring.

- In cooperation with central Finance and MDO, creating a schedule for identification of subrecipients and their respective expenditures related to CRF projects.

- ORG is affirmatively communicating audit requirements to CRF subrecipients via memo to operating departments, so that those departments may send letters to subrecipients regarding monitoring and audit reporting requirements.

In conclusion, ORG is taking proactive steps based on the recommendations of the Office of the Controller to address the deficiency that was identified in the FY20 audit process. Our office welcomes continued communication with the Office of the Controller on process improvement and in preparation for ongoing audits of federal COVID-19 Recovery grants.

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2020-015 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Community Services Block Grant – CFDA 93.569

Condition: The Mayor's Office of Community Empowerment and Opportunity (CEO) did not perform a risk assessment to plan the during-the-award monitoring of their subrecipients. Funding for this program is received from the U.S. Department of Health & Human Services and administered by the PA Department of Community and Economic Development (DCED).

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.331(b) specifies that all pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations and the terms and conditions of the subaward for the purpose of determining the appropriate subrecipient monitoring to ensure proper accountability and compliance with program requirements.

Effect: Without a risk assessment, CEO may not know how to properly plan subrecipient monitoring. They may over-monitor a subrecipient that should be considered low risk or under-monitor a subrecipient that should be considered high risk.

Cause: CEO did not have a subrecipient risk assessment tool in place to pre-identify areas in which problems might arise with providers.

Recommendation: CEO should perform a risk assessment to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations and the terms and conditions of the subaward.

Views of the Responsible Officials and Corrective Action Plan: MOCEO acknowledges that we did not have a subrecipient risk assessment tool in place to pre-identify areas in which problems might arise with providers we contracted with during FY 2020.

To address this need, MOCEO developed a Risk Assessment Standard Operating Procedure in October 2020 with the actual Risk Assessment tool being finalized by MOCEO in 2021 (see attached). The intent was that both would be implemented for the CY 2020 contract period (monitoring and assessment take place in CY 2021) and moving forward. Implementation of this tool was negatively impacted by the COVID-19 pandemic as was the general timeliness of subrecipient monitoring. We have now resumed programmatic and fiscal monitoring for ALL subrecipients (low, moderate, or high risk).

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