

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL AND ON
COMPLIANCE AND OTHER MATTERS

CITY OF PHILADELPHIA

FISCAL YEAR 2023



City Controller
Christy Brady, CPA

*Ensuring transparency, accountability,
and fiscal integrity in city government*





CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

May 28, 2024

Honorable Cherelle L. Parker, Mayor
City of Philadelphia
City Hall, Room 215
Philadelphia, PA 19107

Dear Mayor Parker,

In accordance with the Philadelphia Home Rule Charter, the Office of the Controller conducted an audit of the basic financial statements of the City of Philadelphia, Pennsylvania (city) as of and for the fiscal year ended June 30, 2023, and has issued its Independent Auditor's Report dated February 24, 2024.

In planning and performing our audit, we considered the city's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over financial reporting.

Attached is our report on Internal Control over Financial Reporting and on Compliance and Other Matters dated February 24th, 2024. The findings and recommendations contained in the report were discussed with management. We have included management's written response to the findings and recommendations and our comments on that response as part of the report. We believe that, if implemented by management, the recommendations will improve the city's internal control over financial reporting.

We would like to express our thanks to the management and staff of the city for their courtesy and cooperation in the conduct of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Christy Brady".

CHRISTY BRADY, CPA
City Controller

CC: Honorable Kenyatta J. Johnson, President, City Council
Honorable Members of City Council
Rob Dubow, Finance Director
Tiffany Thurman, Chief of Staff, Office of the Mayor
Members of the Mayor's Cabinet



CITY OF PHILADELPHIA FISCAL YEAR 2023 REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller (Controller's Office) audited the City of Philadelphia's (city's) basic financial statements as of and for the fiscal year ended June 30, 2023, for the purpose of opining on its fair presentation. As part of this audit, we reviewed the city's internal control over financial reporting to help us plan and perform the examination. We also examined compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance that could have a direct and material effect on financial statement amounts.

What the Controller's Office Found

The Controller's Office found that the city's financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and issued a separate report that accompanies the city's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. The audit procedures used to arrive at our conclusion regarding these financial statements led us to identify matters involving the city's internal control over financial reporting that require management's attention. Some of the more important matters include:

- Inadequate oversight and review procedures over the city's financial reporting process, and the lack of a comprehensive financial reporting system, continued and led to (1) the Finance Office delaying the implementation of new accounting standards and (2) the untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA) which resulted in the late submission of the single audit reporting package to the Federal Audit Clearinghouse.
- Various weaknesses in information technology (IT) access controls and segregation of duties (SoD) were noted for certain key financial-related applications, including:
 - With regard to periodic user access reviews (UARs), a UAR had not yet been performed for the Philadelphia Revenue Information System Management (PRISM) application, the OnePhilly application, and certain other applications.
 - Duties were not adequately segregated in multiple instances. For example, there were several non-IT personnel with system administrator access and multiple IT personnel with domain administrator, system administrator, and database administrator access.
- The Finance Office along with city departments did not timely identify and close out remaining balances for certain completed grants. Our review of the six departments with the largest accounts receivable and advance balances on the fund schedule identified \$89.8 million in accounts receivable and \$150.9 million in advances for grants that had no current year activity and the grant award date expired three or more years ago, ranging from fiscal years 1998 to 2020.

What the Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the findings noted above. These recommendations can be found in the body of the report.

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

CITY OF PHILADELPHIA

FISCAL 2023



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City Controller

CHARLES EDACHERIL
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 (*Government Auditing Standards*), 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, 2023, 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 24, 2024. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Notes I.15. and III.9. to the basic financial statements. Our report also includes a reference to other auditors who audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

Primary Government

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

Component Units

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

C I T Y O F P H I L A D E L P H I A
OFFICE OF THE CONTROLLER

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

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.

Report on 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 were not identified. However, as described in the accompanying report, we identified certain deficiencies in internal control that we consider to be a material weakness 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 combination of deficiencies described in the accompanying report as item 2023-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2023-002 to 2023-008 to be significant deficiencies.

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

Report on Compliance and Other Matters

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

Other Conditions

We noted certain other conditions that represent deficiencies in internal control described in the accompanying report as items 2023-009 to 2023-016. Also, during our fiscal year 2023 examination of the financial affairs of city departments, we identified other internal control and compliance deficiencies which will be communicated to management in a separate report.

City of Philadelphia, Pennsylvania's Response to Findings

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

Purpose of this Report

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



CHARLES EDACHERIL, CPA
Deputy City Controller



CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
February 24, 2024

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MATERIAL WEAKNESS

2023-001 LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT INCREASED THE RISK FOR UNDETECTED MISSTATEMENTS AND LED TO UNTIMELY FINANCIAL REPORTING

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city's) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Annual Comprehensive Financial Report (ACFR) and the Schedule of Expenditures of Federal Awards (SEFA). To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system (FAMIS¹), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.² Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of Finance Office accountants to prepare a timely, accurate, and completed ACFR and SEFA. More specifically, we observed that:

- The Finance Office's lack of a comprehensive financial reporting system and delayed implementation of new accounting standards have compromised the timely and accurate preparation of the ACFR;
- Late submission of Water Fund financial statements delayed preparation and audit of the ACFR;
- Late receipt of component unit and fiduciary fund financial reports again delayed preparation and audit of the ACFR; and
- Untimely preparation of the SEFA resulted in late submission of the single audit reporting package to the federal audit clearinghouse.

Each of these conditions is discussed in more detail below.

The Lack of a Comprehensive Financial Reporting System and Delayed Implementation of New Accounting Standards Have Compromised the Timely and Accurate Preparation of the ACFR

Condition: The Finance Office failed to detect errors totaling \$31.7 million³ during preparation of the city's fiscal year 2023 ACFR submitted for audit and did not provide certain financial statement information and finalized footnotes until very late in the audit process. An example of an undetected error was an \$18.9 million misstatement of reported grant expenditures (an \$18.9 million understatement of Grants Revenue Fund

¹Financial Accounting and Management Information System

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

³As part of our audit procedures, we analyzed these uncorrected ACFR errors and determined the total was immaterial to the city's publicly issued fiscal year 2024 financial statements and therefore the financial statements can be relied upon for informative decision making.

expenditures and an \$18.9 overstatement of General Fund expenditures) because certain departments' FAMIS expenditure reconciliations, which reconcile FAMIS expenditures to amounts billed to grantors, were not obtained and reviewed timely.

Finance Office accountants did not provide financial statements and footnotes reflecting the lease and new subscription-based information technology arrangements (SBITA) accounting and reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, and GASB Statement No. 96, *SBITA*, until very late in the audit. Financial statements for the Governmental Activities were not updated to include the GASB Statements No. 87 and 96 adjustments until February 9, 2024. The updated Aviation and Water Funds' financial statements were also not revised to include the GASB Statement No. 87 activity until February 9, 2024. Additionally, we did not receive a substantially completed set of ACFR footnotes reflecting the lease and SBITA disclosure requirements until February 17, 2024, just a week before we issued the audit opinion.

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

Effect: There is an increased risk for undetected errors and/or omissions in the ACFR financial statements and footnotes which could affect a reader's ability to rely on the ACFR for informative decision making.

Cause: The lack of a comprehensive financial reporting system has hindered the ability of the Finance Office to produce a timely and accurate ACFR for audit. Instead, accountants produce the ACFR using numerous Excel and Word files with various links between the files. Using multiple linked files creates a cumbersome process that can adversely affect the accuracy and completeness of the ACFR. A comprehensive financial reporting system would integrate and automate processes, therefore minimizing manual data entry and reducing the risk of errors.

During the current audit, we observed that the Finance Office continued to work with the accounting firm they have worked with in prior years to help with the preparation and review of the ACFR. The initial plan (as it had also been since fiscal year 2017) was for the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the financial statements. However, during the current audit, Finance Office management stated that they were no longer working to develop a compilation since they believe the "prepared by client list" (PBC List) accomplishes the same goal.⁴ While the Finance Office has not moved forward with completing the compilation, given the detailed financial statement support provided by the Finance Office in response to the PBC List, we will no longer recommend that the Finance Office proceed with the preparation of a separate compilation package [500118.01].

Previously, we also reported the accounting firm assisted the Finance Office with the preparation of a review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of

⁴ Beginning in fiscal year 2018, the Controller's Office created and sent to the Finance Office an annual PBC List that requests comprehensive documentation which forms the basis for the financial statements, and the PBC list has been expanded and refined each year.

the fund financial statements. However, we noted the checklist had not been updated to include guidelines for review of the full accrual government-wide financial statements. Though the fiscal year 2021 audit noted that a draft of those guidelines had been created, Finance Office accounting management informed us that they had not updated and finalized the draft for fiscal year 2023. Also, the accounting firm assisted with the implementation of the new GASB requirements for SBITA, reviewed the Finance Office's GASB implementation memo and Net Investment in Capital Assets (NICA) calculation, and completed a high-level review of the financial statements.

Despite the accounting firm's assistance, the SBITA footnotes were severely delayed because the Finance Office did not implement the new accounting requirements until late in the audit. While the requirements were first issued in June 2020, with a mandatory implementation by fiscal year 2023, the city failed to complete the analysis to identify SBITA agreements that would fall under the scope of GASB Statement No. 96 until February 2024. As a result, a complete set of auditable system records was not provided until February 7, 2024.

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

In the meantime, we recommend that, for the fiscal year 2024 ACFR, Finance Office accountants should finalize the review checklist for the full accrual government-wide financial statements [500119.01].

Lastly, we also recommend that, when there is a new accounting standard to be implemented, Finance Office accountants establish an earlier timeframe for analyzing the new accounting standard's effect on the city's ACFR and performing the necessary procedures to ensure timely preparation and submission of the related accounting entries and footnote disclosures for audit purposes [500123.01].

2023-001 Late Submission of Water Fund Financial Statements Delays Preparation and Audit of ACFR

Condition: The late submission of the Water Fund financial statements and supporting compilation contributed to the city's inability to timely prepare the preliminary ACFR. For fiscal year 2023, while the Philadelphia Water Department (PWD) submitted the initial Water Fund financial statements and approximately half of the compilation by November 17, 2023, significant sections of the compilation were not provided until either mid-December 2023, or mid-February 2023. Further, the Water Fund financial statements were not finalized until February 22, 2024, and the PWD did not submit the final compilation until February 23, 2024, one day prior to the issuance of the final ACFR and our audit opinion.

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

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

Cause: PWD management informed us there are several reports and valuations produced by consultants and other city agencies that are the source for certain financial statement amounts, but several reports and valuations are not available until late December or January, thus affecting the submission of the related compilation sections. Also, PWD management stated there were changes to the valuation of some account balances, resulting in financial statement revisions. On February 20, 2024, the Law Department sent a significant revision to the Water Fund’s estimated liability related to litigation, which necessitated a change to the financial statements.

Recommendation: To improve the timeliness of its financial reporting and reduce the chance of reporting errors or omissions, we recommend that the Finance Office and the PWD work together to establish an earlier deadline for the completion of the Water Fund financial statements and the supporting compilation [500123.02].

Late Receipt of Financial Reports for Component Units and Fairmount Park Trust Funds Still Delayed Preparation and Audit of ACFR

Condition: Over the last several years, we have reported that the late receipt of component unit financial reports continued to delay preparation and audit of the city’s ACFR. For the fiscal year ended June 30, 2023, four of the city’s 10 component units and the Fairmount Park Trust Funds (FPTF)⁵ again did not submit their final reports by the due dates requested by Finance Office accountants. See Table 1 below.

Table 1: Late Submission of Financial Reports			
<u>COMPONENT UNITS</u>	<u>DUE DATE</u>	<u>DATE RECEIVED</u>	<u>DAYS LATE</u>
Philadelphia Authority for Industrial Development	10/31/2023	11/22/2023	22
Philadelphia Municipal Authority	12/29/2023	1/23/2024	25
Philadelphia Redevelopment Authority	12/29/2023	2/3/2024	36
School District of Philadelphia	1/15/2024	2/20/2024	36
<u>GOVERNMENTAL FUNDS</u>			
Fairmount Park Trust Funds	12/29/2023	2/2/2024	35

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

Source: Prepared by the Office of the City Controller.

⁵ The FPTF are reported as the Parks and Recreation Departmental and Permanent Funds, two non-major governmental funds. The commissioner of the city’s Department of Parks and Recreation is the trustee responsible for administering the FPTF.

The submission of required financial reports very late in the audit process is the greatest challenge to the timely completion of the ACFR, leaving Finance Office accountants and Controller's Office auditors little time to ensure that the financial reports are accurately included in, or excluded from, the city's ACFR. Component units submitting very late reports included the Philadelphia Municipal Authority (on January 23, 2024), the Philadelphia Redevelopment Authority (on February 3, 2024), and the School District of Philadelphia (on February 20, 2024). Similarly, the financial report for the FPTF, which are independently audited governmental funds, was not received by the Finance Office until February 2, 2024.

Additionally, the June 30, 2023, audited financial report for the Philadelphia Housing Development Corporation (PHDC), which has been assessed as an excluded component unit⁶, was not received by the city's Finance Office until after we issued our opinion on the city's ACFR. Without a timely final audit report, Finance Office accountants could only use an updated, but unaudited, version of PHDC's financial statements to support their initial materiality evaluation that excluded PHDC from being reported as a discretely presented component unit. Further, the audited financial statements for the Delaware River Waterfront Corporation, which has also been assessed as an excluded component unit, were requested by November 30, 2023, but not received until January 31, 2024, allowing little time for Finance Office accountants to verify the accuracy of this determination.

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

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

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

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

⁶ Per the city's interpretation of GASB 14, paragraph 131, which is consistent with prior years, an organization that may otherwise qualify as a component unit (i.e. the city is financially accountable to the organization because it can impose its will or has a financial benefit or burden relationship with the organization) can be excluded from reporting requirements if the nature and significance of the organization's relationship with the city is such that exclusion would NOT cause the city's financial statements to be misleading or incomplete.

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

Condition: Because the city expends more than \$750,000 of federal awards, the 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. The Finance Office's Grants Accounting and Administrative Unit (GAAU) is responsible for preparing the SEFA, which serves as the primary basis that the auditors use to determine which programs will be tested. For the fiscal year ending June 30, 2023, a preliminary SEFA was not prepared and provided for audit until February 6, 2024. Although the preliminary SEFA was provided one month earlier than the previous year,⁷ there was still insufficient time for the completion of the single audit and submission of the reporting package by the required deadline of March 31st.

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.

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

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

Cause: GAAU uses the FAMIS expenditure reconciliations prepared by various city departments to verify the accuracy of the SEFA and make necessary adjustments. When compared to the prior year's timeline, GAAU sent out the fiscal year 2023 requests for these reconciliations slightly earlier, in October 2023, whereas the fiscal year 2022 requests went out in November 2022. Multiple follow-ups as well as untimely and inaccurate responses from the departments further delayed the preparation and submission of an accurate SEFA for audit. Additionally, the SAP does not provide enforcement measures to ensure compliance with the procedures.

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

⁷ The initial fiscal year 2022 SEFA, which did not include subrecipient expenditures, was provided for audit on March 8, 2023. The fiscal year 2023 preliminary SEFA received on February 6, 2024 included subrecipient expenditures and was provided for audit two months earlier than the fiscal year 2022 SEFA with subrecipient expenditures, which was submitted by GAAU on April 8, 2023.

SIGNIFICANT DEFICIENCIES

2023-002 OIT'S ACCESS CONTROLS AND SEGREGATION OF DUTIES FOR KEY FINANCIAL SYSTEMS REQUIRE STRENGTHENING

Condition: In following up on the findings identified during the prior year's evaluation of the OIT's general information technology (IT) controls over key financial-related applications,⁸ we found that the following weaknesses remained in OIT's access controls and segregation of duties (SoD) for these applications, which collectively are considered to be a significant deficiency:⁹

- As noted in the prior year report, OIT was still unable to provide documented evidence that user access reviews (UARs) were performed for certain key financial-related applications per OIT's Access Control Policy.
- OIT still did not consistently maintain documentation for the authorization of new user access. For some sampled new users, OIT was unable to provide the new user access forms per OIT's Access Control Policy.
- As disclosed in the prior year report, OIT had still not completed the draft policy to formally document the process for the notification of employee terminations to OIT's Support Center and IT Administrators. Further, for a sample of employees who either separated from the city or transferred to another city department, OIT was unable to provide documentation for the revocation of system access for the majority of sampled employees. Additionally, for one of the sampled employees that OIT provided the documentation for the removal of system access, the documentation showed that user access was not revoked for 39 days after the request was made.
- Certain non-IT employees continued to have system administrator access to a key financial-related application, creating an SoD risk. Management was unable to provide any supporting documentation or an exemption waiver as justification for this system administrator access. Management stated that they are working with the OIT compliance officer to formally document risk acceptance to continue granting system administrator access to these employees.

Our current year review disclosed that the following previously reported condition has been corrected:

- As noted in the prior year report, OIT had not properly segregated the duties of two employees who had database administrator access as well as system administrator access within a key financial-related application. During fiscal year 2023, OIT took action to correct this finding, and our testing showed that database administrator access had been removed for both previously identified users. Based upon the results of our testing, we consider this condition resolved [300419.04].

⁸During the fiscal year 2022 audit, we engaged an independent accounting firm to perform this evaluation of the OIT's general IT controls. The key financial-related applications included in the review were the Financial Accounting Management Information System (FAMIS), Advanced Purchasing Inventory Control System (ADPICS), Basis2 (water billing system), PHLContracts (request for contract procurement system), and Automated Contract Information System (ACIS).

⁹ Due to computer security concerns, certain details for this finding have been excluded from this report, which is publicly available.

Criteria: OIT’s Access Control Policy (updated April 29, 2021) Section 3 states that information owners are responsible for performing “a documented review of standard user access and execution rights, at least annually.” All requests for user access to systems, including transferred users, should be performed in a formal manner, documented, and supported by management approval and authorization. Also, the Access Control Policy Section 3.1 requires that “OIT and city departments create, enable, modify, disable, and remove information system accounts in accordance with documented agency account management procedures.” Lastly, the Access Control Policy Section 3.5 requires that “the department shall restrict privileged accounts on the information system to a limited number of authorized individuals with a need to perform administrative duties” to provide the ability for SoD.

Effect: There is a risk that over time access rights will not be updated due to oversights or aligned with expected access right entitlements. Unauthorized users may gain or retain inappropriate access to system resources and could perform manipulation of system data. There may be users with access not commensurate with their job roles and responsibilities. In addition, users may have incompatible access roles, responsibilities, and permissions within the system thereby potentially allowing a user to bypass system controls and make improper data changes without detection.

Cause: A formalized process by OIT to perform UARs had not been established. Also, OIT management had not prioritized the completion of the draft policy for the notification of employee terminations to OIT’s Support Center and IT Administrators. Additionally, OIT management did not provide adequate oversight of the documentation of access rights and revocation of access to ensure all access documentation had been adequately prepared and included with management approval. For the non-IT personnel with systems administrator access, initial elevated access may have been required for these individuals since they are members of the application’s management team and provide administrative support to the application.

Recommendations: To improve logical access controls over financially significant systems and data, we recommend that OIT management:

- Establish and document a formal process to perform UARs, which include a review of user access permissions that consider SoD conflicts per OIT’s Access Control Policy. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness [300416.05].
- Validate and ensure current processing procedures for user access provisioning and deprovisioning are appropriate per OIT’s Access Control Policy. Established procedures should include formal documentation requirements for authorization of new user access and terminations, including retention of onboarding and offboarding tickets so they are available for later review and audit [300422.01].
- Work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT’s Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].

- For the non-IT employees with system administrator access to a key financial-related application, revoke this access and restrict system administrator access to IT personnel only. If this solution is not feasible, OIT should prepare an exemption waiver as justification for the system administrator access and perform monitoring and review of activity to ensure only authorized transactions are performed [300422.02].

2023-003 PRISM'S USER ACCESS APPROVALS WERE NOT DOCUMENTED, AND PERIODIC USER ACCESS REVIEW WAS NOT PERFORMED

Condition: We followed up on the deficiencies noted during the prior year's review of the IT application and general controls of the city's new tax system – the Philadelphia Revenue Information System Management (PRISM) application – which was fully implemented in October 2022.¹⁰ The current audit found that the following deficiencies remained in the PRISM application's access controls, which collectively are considered to be a significant deficiency:¹¹

- The PRISM team was unable to provide new user tickets for 10 of 21 sampled users as evidence for the authorization of initial onboarding.
- As of January 2024, the PRISM team still had not performed a current UAR of the PRISM system users per OIT's Access Control Policy.

Criteria: All requests for user access to systems should be performed in a formal manner, documented, and supported by management approval and authorization. OIT's Access Control Policy (updated April 29, 2021) Section 3 states that information owners are responsible for performing a “documented review of standard user access and execution rights, at least annually.”

Effect: Unauthorized users may gain inappropriate access to system resources and could perform manipulation of system data. There is a risk that unintended access rights will be prevalent without periodic review.

Cause: Regarding the 10 sampled users for which the PRISM team was unable to provide new user tickets, PRISM IT management stated that these 10 sampled users were external users (i.e. employees from city departments other than the Department of Revenue). During fiscal year 2023, access requests for external users were performed via email since these other departments did not have the ability to submit onboarding tickets directly into the PRISM system, but the supporting email correspondence was not retained. Also, management has not developed and implemented a formal policy and procedure to complete periodic UARs.

Recommendations: To improve logical access controls over the PRISM system, we recommend that PRISM management:

¹⁰ During the fiscal year 2022 audit, we engaged an independent accounting firm to perform the evaluation of PRISM's IT application and general controls.

¹¹ While this condition was considered a significant deficiency, the assessment of PRISM IT controls noted another finding with lesser impact that was reported as an other condition under finding number 2023-013 in this report.

- Formally document new user access requests and approvals of those requests through the use of new user tickets [300422.03].
- Develop a formal policy and procedure for periodic UARs and ensure that the PRISM team completes the UAR of all PRISM users and their assigned roles and system privileges, including management sign-off per OIT's Access Control Policy [300422.04].

2023-004 ONEPHILLY SYSTEM'S ACCESS CONTROLS AND SEGREGATION OF DUTIES NEED IMPROVEMENT

Condition: In following up on the findings identified in the prior year assessment of the OnePhilly system's general IT controls,¹² the following weaknesses remained in the OnePhilly system's access controls and SoD, which collectively are considered to be a significant deficiency:¹³

- Prior audits noted deficiencies in the OnePhilly UAR. During the current year's evaluation, the OnePhilly team failed to provide any documentation evidencing that UARs were performed per the city's policies.
- Duties still were not adequately segregated in several instances. OnePhilly management took action to correct previously noted SoD conflicts, removing domain administrator and system administrator access maintained by non-IT personnel and IT developers who were city contractors. However, current year testing noted numerous instances where employees had multiple inappropriate access types. Of the 25 sampled users with elevated access that were examined for conflicts in access types, we noted the following: (1) four employees had domain administrator, system administrator, and database administrator access; (2) four employees had both domain administrator and system administrator access; and (3) two employees had domain administrator and database administrator access. Domain administrator access in the OnePhilly system allows users to grant, remove, or modify Oracle user responsibilities. These users can create and deactivate Oracle user accounts, change passwords, and assign responsibilities. System administrator access allows users to perform system administrative activities with payroll "super user" access to modify payroll information. Database administrators have workflow administrator web responsibilities.
- The OnePhilly SoD matrix, which details the functions and roles that are restricted to specific user groups, did not show evidence of review and approval on an annual basis. However, the OnePhilly SoD Policy was reviewed during fiscal year 2023.

¹² During the fiscal year 2022 audit, we engaged an independent accounting firm to perform the evaluation of the OnePhilly system's general IT controls. The OnePhilly system handles the human resources, benefits, time and attendance, and payroll functions for the city.

¹³ While this condition was considered a significant deficiency, there was another finding with lesser impact that was reported as an other condition under finding number 2023-014 in this report.

Criteria: OIT’s Access Control Policy (updated April 29, 2021) Section 3 states that information owners are responsible for performing a “documented review of standard user access and execution rights, at least annually.” The OnePhilly SoD Policy Section 3.0 states that “SoD are designed to ensure that no individual has the capability of executing a particular task/set of tasks for which they are not authorized. This requirement is to ensure accountability as well as limit the ability of individuals to negatively impact the confidentiality, integrity, or availability of the OnePhilly system.”

Effect: There is a risk that over time access rights will not be updated due to oversights or aligned with expected access right entitlements. 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: OnePhilly management did not provide adequate oversight over the UAR process and SoD to ensure that the performance of UARs was formally documented, duties were adequately segregated, and the SoD matrixes were reviewed and approved on an annual basis per the city’s policies.

Recommendations: In accordance with the city’s policies, to improve access controls and SoD for the OnePhilly system, we recommend that OnePhilly management:

- Perform and document a formal UAR and recertification process including all city departments. The UAR should include all OnePhilly system users in addition to Oracle system and domain administrators and be performed on at least a quarterly basis. Each department's review should evidence whether users' access roles and permissions are appropriate or require revisions. The review should include signoff and approval from each designated department manager. All results should be retained for subsequent review and audit [303519.04].
- Review and re-evaluate domain administrator, system administrator, and database administrator access to the application. If it is deemed necessary for certain employees to have more than one of these three functions, then management should monitor the activities of these employees to ensure they are authorized and appropriate [300422.05].
- Review and approve the SoD supporting matrixes on at least an annual basis [300422.06].

2023-005 TREASURER’S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior audit, we reported that 36 of 65 bank reconciliations prepared by the Office of the City Treasurer (Treasurer) contained numerous long outstanding reconciling items. Also, we noted that the Treasurer was not in compliance with Pennsylvania’s Disposition of Abandoned and Unclaimed Property Act (escheat act), failing to escheat long outstanding vendor and payroll checks. Our current year audit noted that these deficiencies still existed in the Treasurer’s bank reconciliation procedures. Specifically, the following was noted:

- Treasurer personnel were still not timely in their investigation and resolution of reconciling items. Current year testing of all 68 bank reconciliations disclosed 28 reconciliations with long outstanding reconciling items. As shown in Table 2 below, as of June 30, 2023, there were 727 bank reconciling items over 90 days old with a net total dollar amount of \$25.5 million and 963 book reconciling items over 90 days old with a net total dollar amount of \$51.8 million.

Table 2: Reconciling Items Over 90 Days as of June 30, 2023						
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 2020	48	\$ 2,541,658	159	(\$2,262,254)	207	\$279,404
FY 2020	19	7,914,190	181	(17,996,613)	200	(10,082,423)
FY 2021	23	56,415,608	123	(44,713,752)	146	11,701,856
FY 2022	43	85,372,474	74	(69,294,310)	117	16,078,164
FY 2023 ¹⁴	6	8,303,412	51	(51,828,365)	57	(43,524,953)
All Fiscal Years	<u>139</u>	<u>\$ 160,547,342</u>	<u>588</u>	<u>(\$ 186,095,294)</u>	<u>727</u>	<u>(\$ 25,547,952)</u>
Book Balance Reconciling Items						
	Additions to Book Balance		Reductions to Book Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2020	150	\$ 83,956,848	167	(\$ 78,459,226)	317	\$ 5,497,622
FY 2020	76	56,817,901	70	(54,375,616)	146	2,442,285
FY 2021	93	91,801,246	56	(79,710,671)	149	12,090,575
FY 2022	66	65,386,613	61	(48,274,762)	127	17,111,851
FY 2023 ¹⁴	168	78,568,273	56	(63,891,015)	224	14,677,258
All Fiscal Years	<u>553</u>	<u>\$ 376,530,881</u>	<u>410</u>	<u>(\$ 324,711,290)</u>	<u>963</u>	<u>\$51,819,591</u>

Source: Prepared by the Office of the Controller based upon the June 30, 2023 bank reconciliations provided by the Treasurer's Office

- While improvement was noted, our testing still disclosed noncompliance with the Pennsylvania escheat act. In fiscal year 2023, the Treasurer escheated to the state \$7.6 million related to vendor checks for calendar years 2013 through 2018. However, there remained \$2.2 million in outstanding vendor checks for calendar years 2013 to 2019 and \$1.6 million in outstanding payroll checks for calendar years 2017 through 2020 that have not been escheated to the state. According to the Treasurer, the remaining outstanding checks will be escheated to the state during fiscal year 2024.

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

¹⁴ Amounts for fiscal year 2023 include reconciling items through March 31, 2023.

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*, revised on January 2022, 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*. Regarding the long outstanding checks, Treasurer management has not completed the escheatment process.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management 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].

Additionally, the Treasurer and Finance Office management should continue to work together to ensure that all escheatable amounts are reported and paid 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].

2023-006 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

Condition: As previously reported, the Finance Office along with city departments did not timely identify and close out remaining balances for certain completed grants. GAAU personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule, which is adjusted based on grant reconciliations and closeout reports provided by the departments responsible for grants. The prior year report disclosed that the fund schedule contained \$66.7 million in accounts receivable and \$88.5 million in advances for inactive grants that expired three or more years ago. The current audit found that this condition has worsened. Specifically, our review of the six departments¹ with the largest accounts receivable and advance balances on the fund schedule identified \$89.8 million in accounts receivable and \$150.9 million

in advances for grants that had no current year activity and the grant award date expired three or more years ago, ranging from fiscal years 1998 to 2020.

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

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

Cause: GAAU sends annual reminders to departments asking them to identify inactive grants that should be written off or for which unused funds should be returned to the grantor. However, departments do not always properly respond and timely identify and close out completed grants, despite the Finance Office accountant’s numerous follow-ups with the departments.

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

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

2023-007 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

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

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Condition: The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Excel files, that together with FAMIS, constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation

expense and accumulated depreciation reported in the city's ACFR. Real property addresses are only available in FAMIS by user code, which is identified in an Excel file called the "Proof."

Criteria: Philadelphia's Home Rule Charter¹⁵ 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 could affect the accuracy and completeness of capital asset amounts reported in the ACFR and causes extensive audit effort.

Cause: While Finance Office management agreed that it would be beneficial to have a comprehensive capital asset system, which it is considering as part of the OPAL ERP project, the system has not been implemented yet.

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

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

Condition: Except for the PWD and the Department 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.

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 that this report be made available to elected officials and the general public at least every one to three years.

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

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

¹⁵ The Philadelphia Home Rule Charter, Section 6-501

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].

2023-008 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Condition: The city’s Standard Accounting Procedures (SAPs), which serve as the basis for the city’s system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over one hundred seventy active 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.

In fiscal year 2023, the Finance Office continued to utilize the Operations Transformation Fund (OTF)¹⁶ to support its SAP update project. The Finance Office used the OTF award to fund consultant support, which includes performing outreach to control and process owners throughout the city, working with relevant staff in city departments to update the SAPs, and ensuring that the updated draft SAPs obtain the appropriate sign-off from Finance Office management. During our current year follow-up, the Finance Office provided an updated project tracking schedule as of March 8, 2024, which listed all 171 active SAPs and an additional 37 SAPs which were rescinded over the past year. For the active SAPs, the schedule indicated the status of their update (not started, in progress, or published), and provided a new target deadline for completing updates for all SAPs by June 2024. According to this schedule, there were 126 SAPs for which an update was in progress, including three payroll-related SAPs that had been updated but not yet officially published. Additionally, Finance management indicated that 24 of the 171 active SAPs were likely to be rescinded upon final review. Despite these efforts, since February 2020, only 10 SAPs have been completed, with the most recent being SAP No. 4.1.3, *Gift and SEPTA Card Management Procedures*, which was a new SAP issued in December 2022.

Criteria: In accordance with Philadelphia’s Home Rule Charter, the city’s Finance Office is required to establish, maintain, and supervise an adequate and modern accounting system to safeguard city finances. Also, in its best practices publication, the GFOA recommends that governments perform an ongoing review,

¹⁶ The OTF was established to fund projects that create or transform a process or service that benefits Philadelphia residents and improves city government efficiency and impact. The \$10 million fund was open to city departments and employees to submit their ideas and apply for funding. A board and advisory committee led by the Office of the Chief Administrative Officer reviewed projects and awarded funding.

evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

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

Cause: Limited staffing capacity has compromised the Finance Office's ability to conduct periodic reviews and updates to the SAPs so consultant support has been obtained, as discussed above.

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

OTHER CONDITIONS

2023-009 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES AND UNDETECTED ERRORS

Condition: In prior audits, we reported departments did not properly submit biweekly payroll approvals with the required two signatures by the payroll close deadline. The electronic payroll approval process, implemented in mid-September 2020, requires departments to evidence their review and approval of payroll by having supervisory and executive-level approvers examine on-screen timecards and then electronically sign off by the closing date of the biweekly payroll. The executive-level approver must be an authorized signer listed on the department's signature authorization card. Also, for changes to all OnePhilly authorized signers, the Central Payroll Unit instructed departments to utilize a new Authorized Signer Update Form.

Our prior year testing disclosed 80 instances (6.23 percent) where departments did not submit the required two approvals by the payroll close deadline, and 42 out of 49 city departments were in full compliance with the OnePhilly approval process. The current year audit noted that the biweekly payroll approval process did not improve during the second full fiscal year of electronic payroll approval. Our testing of all 26 pay periods of fiscal year 2023 for 49 city departments disclosed 112 instances (8.90 percent) where departments did not submit the required two approvals by the payroll close deadline. None of those 112 approvals had the executive-level approver listed on the department's signature authorization card. Further, only 76 of the 112 instances were supported by an Authorized Signer Update Form listing the executive-level approver. Out of the 49 city departments, 41 were in full compliance with the OnePhilly approval process during our test period. However, the lack of an updated signature authorization card prevented the remaining eight departments from reaching full compliance with the electronic payroll approval process.

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

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

Cause: The Central Payroll Unit did not ensure that departments updated the executive-level approvers on the signature authorization cards when departments requested changes to the authorized OnePhilly payroll approvers. The Central Payroll Unit indicated that after the initial process to set up the OnePhilly electronic payroll approvers was performed, they began to email weekly payroll close memos to departments during each pay period. These memos contain a reminder instructing departments to update their authorized signers regularly and when changes occur. However, the weekly payroll close memos as well as the electronic payroll approval training guides and the Authorized Signer Update Form did not specifically instruct departments to update signature authorization cards when they requested changes to the OnePhilly executive-level approvers.

Recommendation: To improve the departmental payroll approval process, we recommend that the Central Payroll Unit establish procedures to ensure departments promptly update signature authorization cards to agree with requested changes to the authorized OnePhilly executive-level approvers. Instructions to complete these

updates should be added to the OnePhilly electronic payroll approval training guides and the Authorized Signer Update Form [500119.03].

2023-010 WHILE IMPROVEMENT WAS NOTED, CITY'S ACCOUNTING SYSTEM WAS NOT FULLY UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES

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

In fiscal year 2023, there was some improvement in this condition. Our audit revealed that the Finance Office prepared entries in FAMIS to record the fiscal year 2022 ending balances for both the full accrual Water and Aviation Funds. However, these entries simply recorded the change in balance for each account rather than the actual year-end accrual adjustments per the Water and Aviation Fund compilations. Also, we noted that, as of March 4, 2024, no entries were posted in the full accrual Water and Aviation Funds to record the fiscal year 2023 ending balances.

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

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

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

Recommendations: As the city continues to replace its financial accounting systems,¹⁷ we continue to recommend that Finance Office management include a process for the PWD and DOA to record their year-end accrual adjustments in the new accounting system [500119.06].

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Water and Aviation Funds up to date through fiscal year 2023 for the upcoming fiscal year 2024 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02].

2023-011 WHILE IMPROVEMENT WAS NOTED, LATE SUBMISSION OF AVIATION FUND FINANCIAL STATEMENTS CONTINUES TO DELAY PREPARATION AND AUDIT OF ACFR

¹⁷ The city is continuing a project 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 will replace systems such as FAMIS.

Condition: We have previously reported that the late submission of the Aviation Fund financial statements and supporting compilation contributed to the city’s inability to timely prepare the preliminary ACFR. For fiscal year 2023, there was improvement in this condition, as the DOA provided the initial Aviation Fund statements and more than half of the compilation by November 24, 2023, 11 days earlier than the previous year. The key to this improvement was the DOA management’s restructuring of the compilation to create a more efficient layout that would allow for the submission of the majority of sections earlier. As a result, significant additional sections of the compilation were received by December 18, 2023, 26 days earlier than in the prior year. The DOA submitted updated versions of the Aviation Fund financial statements and compilation that included adjustments for the lease accounting requirements of GASB Statement No. 87 on January 25, 2024. However, the ACFR financial statements were not updated by the Finance Office until February 9, 2024, and the required Aviation lease footnote disclosures were not included in the ACFR until February 17, 2024, only a week before we issued the opinion.

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

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

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

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

2023-012 CERTAIN OTHER GENERAL IT CONTROLS FOR OIT STILL NEED IMPROVEMENT

In addition to the significant deficiency discussed on pages 7 to 9 of this report, the follow-up of findings from the prior year’s evaluation of OIT’s general IT controls over key financial-related applications noted that the following other deficiencies with lesser impact were not remediated:

- OIT had again not performed a disaster recovery test during the period under audit (fiscal year 2023), and their current disaster recovery plan contained no evidence of review and management approval.
- OIT’s Change Management Standard Operating Procedure (SOP) still did not specifically address details of the Change Advisory Board (CAB) approval process and documentation standards for end-user testing.

Each of these conditions is discussed in more detail below.

Disaster Recovery Testing and Plan Update Was Not Performed by OIT

Condition: OIT disaster recovery testing was again not performed during the audit period tested (fiscal year 2023). During the current year review, OIT provided documentation for an informal disaster recovery test result. However, this documentation did not include relevant information which would be produced as part of a comprehensive disaster recovery test. Regarding the disaster recovery plan, the OIT's deputy chief innovation officer stated that OIT had planned to publish in the third quarter of calendar 2023 a Contingency Planning Policy and documented procedures, which were to include disaster recovery control testing requirements. However, as of December 7, 2023, OIT was still working on this formal policy and procedures.

Criteria: Disaster recovery plans are vital to organizations to avoid and mitigate risks associated with unplanned disruptions of operations. Disaster recovery testing is a process for restoring an entity's data in the event of a disaster and allows the city to maintain or resume critical operations following a significant or catastrophic event.

Effect: In the event of a disruption of service, the city may not be able to provide required services or continue limited operations until service is restored.

Cause: OIT management indicated that disaster recovery testing and Plan updates had not been performed over the last few years because of the COVID-19 pandemic and staffing limitations.

Recommendations: OIT management should perform disaster recovery testing at least annually. The disaster recovery testing results should be submitted for review and approval by senior management. We also recommend that management review and approve the Enterprise Management Disaster Recovery Plan on an annual basis [300422.08].

OIT Change Management Policy Was Still Not Updated to Address CAB Approval Process and Documentation Standards for End-User Testing

Condition: While OIT Change Management Standard Operating Procedure (SOP) was reviewed and updated on July 7, 2023, it did not specifically address (1) details on the CAB approval process and (2) how end-user testing should be documented.

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.

Effect: Failure to establish clear performance and documentation standards for end-user testing and required approvals increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment.

Cause: OIT management has not performed adequate monitoring of the change management function to ensure that the policy clearly identifies standards for documenting end-user testing and the required approvals (including CAB) for the different change types.

Recommendations: OIT management should update its Change Management SOP 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].

2023-013 DISASTER RECOVERY TESTING HAD NOT BEEN PERFORMED FOR PRISM

Condition: Disaster recovery testing still had not been performed on the PRISM system. A full disaster recovery test for the system is now expected to be conducted in fiscal year 2024.¹⁸

Criteria: Disaster recovery testing is a process for restoring an entity's data in the event of a disaster and allows the city to maintain or resume critical operations following a significant or catastrophic event.

Effect: In the event of a disruption of service, the system may not be able to provide required services or continue limited operations until service is restored.

Cause: PRISM management indicated that this condition was impacted by the system go-lives being performed in two separate rollout implementations.

Recommendation: Revenue IT management should perform a full failover disaster recovery test that specifically addresses PRISM at least annually. The results of the testing should be documented and retained for review and audit [300422.09].

2023-014 ONEPHILLY PHYSICAL SECURITY POLICY WAS NOT RECENTLY REVIEWED

Condition: The prior audit's review of the OnePhilly system's general IT controls noted that, for the third-party vendor who managed the OnePhilly system's daily operations, the vendor's Physical Security Policy and Physical Access Control documents for OnePhilly were last reviewed and updated on April 28, 2021. As of the end of our fieldwork, OnePhilly management did not provide sufficient documentation to evidence that this prior noted condition was remediated.¹⁹

Criteria: Physical security documents are vital to organizations so that they have a proactive plan to safeguard the system's information from unauthorized access, misuse, and technical hazards.

Effect: In the event of a physical security breach, the system may not be able to provide the required services to safeguard its information.

¹⁸ In addition to the other condition reported above, the current audit noted a significant deficiency in PRISM's access controls, which is discussed on pages 9 to 10 of this report.

¹⁹ In addition to the other condition reported above, the current audit noted a significant deficiency in OnePhilly's access controls and segregation of duties, which is discussed on pages 10 to 11 of this report.

Cause: OnePhilly outsources services to a third-party vendor which could result in delays in obtaining technical vendor documentation.

Recommendations: OnePhilly management should request the assistance of its third-party vendor in obtaining the current Physical Security Policy and Physical Access Control documents [300422.10].

2023-015 CERTAIN GENERAL IT CONTROLS FOR PHLCONTRACTS STILL REQUIRE STRENGTHENING

During the current audit, we followed up on the findings identified during the prior year's assessment of general IT controls over PHLContracts, the city's e-Procurement system for the various city contracts handled by the Procurement Department.²⁰ The following deficiencies in PHLContracts' general IT controls continued:

- The disaster recovery and contingency plans showed no evidence of recent review.
- There was no change management policy maintained for PHLContracts.

Each of these conditions is discussed in more detail below.

Disaster Recovery and Contingency Plans Were Not Recently Reviewed for PHLContracts

Condition: The review of the current disaster recovery plan for PHLContracts determined that the last review and revision occurred in June 2021. For the contingency plan, the last review and revision occurred in November 2020. The Procurement Department outsources their disaster recovery services to a third-party vendor, Periscope.

Criteria: Disaster recovery and business continuity plans are vital to organizations, so they have a proactive plan to avoid and mitigate risks associated with unplanned disruptions of operations.

Effect: In the event of a disruption of service, the system may not be able to provide required services or continue limited operations until service is restored.

Cause: The Procurement Department outsources services to a third-party vendor which could result in delays in obtaining technical vendor documentation.

Recommendations: Procurement Department management should request the assistance of their third-party vendor in reviewing and updating the disaster recovery and contingency plan documents. In addition, management should also ensure that the vendor provides evidence that the application's disaster recovery plan is successfully tested at least annually [300422.11].

Change Management Policy Was Not Maintained for PHLContracts

²⁰ During the fiscal year 2022 audit, we engaged an independent accounting firm to perform an evaluation of the general IT controls over key financial-related applications, including PHLContracts.

Condition: The Procurement Department did not have a change management policy in place for managing the change request process for the PHLContracts application.

Criteria: The change management policy should establish clear performance and documentation standards for application changes, including procedures for change request submission, approval, testing, and migration to production.

Effect: In the absence of a documented change management policy, unauthorized or inadequately tested and reviewed changes could be implemented into the production environment.

Cause: The Procurement Department's team does not have access to the production environment and must submit a change request ticket to the third-party vendor to make application changes for them.

Recommendations: Procurement Department management should work with the third-party vendor to document and implement a change management policy to ensure that all required steps for application changes are clearly defined and understood by all related parties [300422.12].

2023-016 ACIS SYSTEM'S PASSWORD CONFIGURATIONS DID NOT MEET OIT REQUIREMENTS

Condition: During the prior year audit, we reported that the password parameter settings for the Automated Contract Information System (ACIS) contained certain inadequate password configurations that did not meet the Office of Innovation and Technology's (OIT's) password requirements.²¹ The current audit found that, while improvement was made to bring some ACIS password configurations into compliance with OIT requirements, there still remained certain password configurations which did not meet OIT standards.²²

Criteria: Password settings should be configured to meet OIT requirements to reduce the possibility of unauthorized access to systems.

Effect: Inadequate password configurations significantly increase the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.

Cause: OIT management has not performed a recent review and recertification of the system's password configuration settings.

Recommendation: OIT management should ensure that ACIS password configuration settings are updated to meet OIT's password requirements. If this solution is not feasible, management should prepare an exemption waiver as justification for the ACIS non-compliant password configuration settings [300422.07].

²¹ During the fiscal year 2022 audit, we engaged an independent accounting firm to conduct a review of general IT controls over key financial-related applications, including ACIS which is the city's system for professional services contracts.

²² Due to computer security concerns, certain details for this finding have been excluded from this report, which is publicly available.

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

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

Our follow-up has disclosed that the city made progress addressing several prior issues. We blended the status of resolved prior-noted conditions with new observations and reported upon these matters in other sections of this report. Other resolved prior year issue is discussed below.

ACCOUNTS PAYABLE REPORTING HAS IMPROVED

In the prior year, we reported that, in computing the accounts payable amounts for inclusion in the city's ACFR, Finance Office accountants failed to record a net of \$6.5 million of accounts payable. We noted the primary cause of this misstatement was the failure of the Finance Office to properly allocate accounts payable when the related service spanned two fiscal years. We also commended the Finance Office for reducing the unrecorded accounts payable by extending the cut-off date for the review of payables.

During the current year audit, we determined this improvement continued, with our testing noting a \$0.7 million net overstatement of reported accounts payable, which consisted of a \$2.2 million overstatement in the Water Fund and a \$1.5 million understatement in the Aviation Fund. Based upon our current year testing results, we believe that sufficient improvement has been made to consider this condition resolved [500122.01].

RESPONSE TO AUDITOR'S REPOR



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Director of Finance

2023-001 LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT INCREASED THE RISK FOR UNDETECTED MISSTATEMENTS AND LED TO UNTIMELY FINANCIAL REPORTING

The Lack of a Comprehensive Financial Reporting System and Delayed Implementation of New Accounting Standards Have Compromised the Timely and Accurate Preparation of the ACFR

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

In the meantime, we recommend that, for the fiscal year 2024 ACFR, Finance Office accountants should finalize the review checklist for the full accrual government-wide financial statements [500119.01].

Lastly, we also recommend that, when there is a new accounting standard to be implemented, Finance Office accountants establish an earlier timeframe for analyzing the new accounting standard's effect on the city's ACFR and performing the necessary procedures to ensure timely preparation and submission of the related accounting entries and footnote disclosures for audit purposes [500123.01].

Management's View: We acknowledge that a new comprehensive financial reporting system will improve the ACFR preparation process and have begun the implementation of this system through our OPAL project.

We continue to make improvements in our ACFR preparation and review. Finance Office accountants will finalize the review checklists for the full accrual government-wide financial statements in time for the review of the fiscal year 2024 ACFR.

The Accounting Bureau is fully committed to the timely and accurate implementation of all GASB regulatory requirements. The complexity of the changes to financial reporting and disclosures, in conjunction with the large volume of agreements that had to be analyzed to implement GASB 96 caused delays in the planned implementation timeline. The accounting team has already begun to analyze the potential effect of GASB pronouncements to be implemented in future reporting periods.

Late Submission of Water Fund Financial Statements Delays Preparation and Audit of ACFR

Recommendation: To improve the timeliness of its financial reporting and reduce the chance of reporting errors or omissions, we recommend that the Finance Office and the PWD work together to establish an earlier deadline for the completion of the Water Fund financial statements and the supporting compilation [500123.02].

Management's View: PWD plans to develop an internal document tracker that will assist in the monitoring of the receipt of key documentation. PWD will continue its partnership & coordination with Central Finance regarding the receipt of the necessary documentation needed to complete the annual financial statements in a timelier manner. In addition, PWD will work with the City Controller's Office to develop a realistic timeline, which will include considering information needed from third party agencies and departments.

Late Receipt of Financial Reports for Component Units and Fairmount Park Trust Funds Still Delayed Preparation and Audit of ACFR

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

Management's View: 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 the timely submission of financial reports. For certain Component Units that consistently experience delays in the preparation of their financial statements, at the director of finance's recommendation consultants were contracted to augment staff and alleviate the delays. The Accounting Bureau will continue to follow up with Component Units that do not meet initial deadlines with the help of the director of finance.

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

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].

Management's View: Finance recognizes the importance of submitting a timely and accurate SEFA to our auditors with the goal of completing the audit and submitting an accurate Single Audit Reporting package to the Federal Audit Clearinghouse by the required deadline.

GAAU will continue all efforts to improve the SEFA submission timeline and continue to work with the Controller's Office to ensure the audit can be completed in a timely manner. GAAU accountants will continue to follow up with departments to remind them of the importance of submitting their FAMIS expenditure reconciliations by the due date and provide training to departmental staff as needed.

2023-002 OIT'S ACCESS CONTROLS AND SEGREGATION OF DUTIES FOR KEY FINANCIAL SYSTEMS REQUIRE STRENGTHENING

Recommendations: To improve logical access controls over financially significant systems and data, we recommend that OIT management:

- Establish and document a formal process to perform UARs, which include a review of user access permissions that consider SoD conflicts. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness [300416.05].

- Validate and ensure current processing procedures for user access provisioning and deprovisioning are appropriate. Established procedures should include formal documentation requirements for authorization of new user access and terminations, including retention of onboarding and offboarding tickets so they are available for later review and audit [300422.01].
- Work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].
- For the non-IT employees with system administrator access to a key financial-related application, revoke this access and restrict system administrator access to IT personnel only. If this solution is not feasible, OIT should prepare an exemption waiver as justification for the system administrator access and perform monitoring and review of activity to ensure only authorized transactions are performed [300422.02].

Management's View:

User Access Review: OIT agrees that this is a key access control and will perform user access review for standard, privileged and administrator user access in financial-related applications as required by policy. OIT management team will produce access lists for UAR review and coordinate with system owners of the financial applications to confirm that user access and execution rights are appropriate for users' current job functions, in accordance with the OIT Access Control Policy. OIT designed the process in April 2024 and it is now implemented. For the specified financial applications, OIT intends to perform the user access reviews at least every six months for all access types to ensure appropriate access rights on these applications and expects to complete UAR review for Finance by July 2024 and Procurement by December 2024.

New Hire and Termination Documentation and Retention: OIT will be implementing a new ITSM, TeamDynamix, to replace the current ticketing system Sysaid in the fall of this calendar year (2024). The implementation of TeamDynamix will include improved processes for granting and removing system access to critical applications OIT manages with more thorough documentation. Tickets tied to onboarding and offboarding staff supported by OIT will also be kept in TeamDynamix for at least three years. These processes will be based on policy and procedures defined in the OIT Access Control Policy.

Termination Notification Policy: OIT anticipates publishing in quarter four of FY2024 version 2.0 of the City's Access Control Policy, which will align to the National Institute of Standards and Technology (NIST) guidance titled "Security and Privacy Controls for Information Systems and Organizations" (800-53 rev 5). An internal procedure for notification of employee terminations based on data pulled from OnePhilly and including documentation and logging was produced by OIT Platform Engineering Team in February 2024 and is in use. This document will be revised and published in quarter four of FY2024, to include retention requirements, along with the procedure for mainframe termination notifications. The draft termination policy provided in FY21 will not be published; it has been superseded by the processes implemented after FY21 and the termination controls described in the pending Access Control Policy v 2.0.

Non-IT employees with System Administrator Access: The business owner for this system is currently working with OIT ISG to complete an IT Risk Acceptance for the identified access, including business and technical justification and compensating controls to ensure only authorized transactions are performed.

2023-003 PRISM'S USER ACCESS APPROVALS WERE NOT DOCUMENTED, AND PERIODIC USER ACCESS REVIEW WAS NOT PERFORMED

Recommendations: To improve logical access controls over the PRISM system, we recommend that PRISM management:

- Formally document new user access requests and approvals of those requests through the use of new user tickets [300422.03].
- Develop a formal policy and procedure for periodic UARs and ensure that the PRISM team completes the UAR of all PRISM.

Management's View: The PRISM Security Team continues to refine and enhance the onboarding and offboarding of PRISM users. Processes and protocols were developed to meet the City and Revenue's business needs, priorities, and operational standards.

The FY23 audit found that ten external onboarding user accounts (users from other City departments) were created through email correspondence rather than through PRISM tickets. At that time, external users did not yet have access to submit onboarding or offboarding tickets directly in PRISM. As of February 2024, external users have access to create security tickets for PRISM access.

The PRISM Security Team developed a User Activity Report policy and procedure. The review process will ensure that users have the proper access level. An added security feature includes an auto-cess function that automatically locks out users who have not logged into the system for a period of 120 consecutive days.

Additional staffing resources will be onboarded in the beginning of FY25 to perform audit and compliance assignments, including user audit activities in PRISM.

2023-004 ONEPHILLY SYSTEM'S ACCESS CONTROLS AND SEGREGATION OF DUTIES NEED IMPROVEMENT

Recommendations: To improve access controls and SoD for the OnePhilly system, we recommend that OnePhilly management:

- Perform and document a formal UAR and recertification process including all city departments. The UAR should include all OnePhilly system users in addition to Oracle system and domain administrators and be performed on at least a quarterly basis. Each department's review should evidence whether users' access roles and permissions are appropriate or require revisions. The review should include signoff and approval from each designated department manager. All results should be retained for subsequent review and audit [303519.04].
- Review and re-evaluate domain administrator, system administrator, and database administrator access to the application. If it is deemed necessary for certain employees to have more than one of these three functions, then management should monitor the activities of these employees to ensure they are authorized and appropriate [300422.05].
- Review and approve the SoD supporting matrixes on at least an annual basis [300422.06].

Management's View:

[303519.04]: As of April 2024, OnePhilly began a monthly user access validation process. On the 5th of each month a report (COP: Employee Security Access Report) is sent from OnePhilly to all departmental Human Resources (HR) teams. The report contains the list of the employees with OnePhilly responsibilities assigned to them. After the completion of the report review, the HR Manager can approve or reject the report on the dashboard based on the accuracy of the data. The approvals or rejections must be recorded on the dashboard to provide an audit trail and a reflection of the HR Managers involvement in the process.

If the HR Manager rejects the report, they must also place a comment on the dashboard stating why. If the reason is because an employee's responsibilities are incorrect, the HR Manager must submit a New SoD to correct the users accessible in the system.

The HR Manager will also need to submit a new SoD so that the corrections can be made to the employee's access. OnePhilly will have a very limited amount of time to complete the request on the SoD and inform the HR Manager of the correction. Once the correction has been reviewed, and a new report has been generated with the information on the Dashboard, the HR Managers will be able to approve the report.

[300422.05] and [300422.06]: As of April 2024, the OnePhilly Director receives a weekly report (ADMIN Responsibility) from the OnePhilly system that lists all the employees with ADMIN responsibilities. This report is reviewed, and any corrections are immediately documented on an SoD form and updated.

Employees are not allowed to directly request any modifications to their system access. All ADMIN system access must be requested by the employee's supervisor and approved by the OnePhilly Director.

2023-005 TREASURER'S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management 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].

Additionally, the Treasurer and Finance Office management should continue to work together to ensure that all escheatable amounts are reported and paid 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].

Management's View: The Treasurer's Office appreciates the acknowledgement of our efforts made to improve bank reconciliations to date. From FY22 to FY23, we reduced the number of bank accounts with outstanding variances from 55% of accounts tested to 41% of accounts tested. We agree that additional actions are needed to timely resolve reconciling differences between the account and bank balances. To address this, CTO re-engaged fiscal staff from various departments in the process of reviewing unidentified reconciling items on a monthly basis to more timely address such items. CTO accountants also scheduled working sessions throughout FY23 and FY24 with the Accounting Bureau to further improve the CTO accountants' analytical abilities and familiarity with system reports to help research variances more quickly.

To address the escheatment recommendation, CTO continued its escheatment research and noticing efforts to complete the escheatment submission for legacy and current eligible Payroll and General Disbursement checks in FY24. CTO will continue this annual process to remain current on escheatment going forward.

2023-006 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

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

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

Management's View: We agree with this finding. GAAU will send updated lists of grants that need to be updated to departments, on a quarterly basis. GAAU will continue to reinforce the requirements of SAP No G 1-1 with departments. In addition to ongoing monitoring, GAAU provided citywide training on Grant Closeout Procedures, and has implemented a standard Grant Closeout Form and Grant Closeout Checklist to assist departments in complying with the requirements of the SAP.

2023-007 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Recommendation: To improve the accounting and reporting of the city's capital assets, we continue to recommend that Finance Office management utilize the available 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].

Management's View: We agree that the Office of the Director 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

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].

Management's View: We agree with the finding. Finance Office management will work with the departments responsible for maintaining real property assets to ensure a physical inventory of all real property assets is completed on a cyclical basis to determine actual existence and condition.

2023-008 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

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].

Management's view: Thank you for acknowledging the continued efforts being made by Finance to update SAPs across the city. We agree with your recommendation to continue the update of the city's SAPs and where applicable to identify SAPs as obsolete. We believe that the increased Citywide engagement with control and process owners is effective, and we will continue to have working meetings with stakeholders to facilitate the update of SAPs.

2023-009 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES AND UNDETECTED ERRORS

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

Management's view: We agree with the finding. Finance will enhance the payroll Authorized Signer Update process to include confirmation that Level 2 signers are listed on the department's most recent signature card with the authority to approve payroll.

2023-010 WHILE IMPROVEMENT WAS NOTED, CITY'S ACCOUNTING SYSTEM WAS NOT FULLY UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES

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

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Water and Aviation Funds up to date through fiscal year 2023 for the upcoming fiscal year 2024 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02].

Management's View: PWD and DOA will be required to utilize the new accounting system for recording their year-end full accrual adjustments. In FY23 entries were posted to bring the balances in the FAMIS full accrual Aviation Fund up to date. This will continue to allow DOA to use FAMIS balances as their opening balances. Finance will continue to evaluate the need to post entries in the full accrual Water Fund. Both PWD and DOA continue to engage outside accounting firms to prepare compilations to support their financial statements. We believe that not posting the entries into FAMIS does not affect the accuracy of our financial statements.

2023-011 WHILE IMPROVEMENT WAS NOTED, LATE SUBMISSION OF AVIATION FUND FINANCIAL STATEMENTS CONTINUES TO DELAY PREPARATION AND AUDIT OF ACFR

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

Management's View: Finance Office and DOA will continue to work together to establish an appropriate deadline for the completion of the Aviation Fund financial statements and the supporting compilation.

2023-012 CERTAIN OTHER GENERAL IT CONTROLS FOR OIT STILL NEED IMPROVEMENT

Recommendations: OIT management should perform disaster recovery testing at least annually. The disaster recovery testing results should be submitted for review and approval by senior management. We also recommend that management review and approve the Enterprise Management Disaster Recovery Plan on an annual basis [300422.08].

OIT management should update its Change Management SOP 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].

Management's View: OIT anticipates publishing the Contingency Planning Policy aligned with NIST (800-53 rev 5) in FY24 Q4. Disaster recovery (DR) testing will be performed as part of a Cybersecurity Tabletop exercise planned for FY24 Q4. Additionally, OIT is investing over \$5 million in improving DR options for critical systems and applications. Associated work will include improving documentation tied to DR and using the new solutions for DR purposes.

OIT has finalized the updated Change Management SOP pending senior stakeholder approval. It is now on an annual review cycle. The updated Change Management SOP provides end-to-end governance on how the change management program should operate, including documentation standards for end user testing and information for how approvals for all change types should be documented in the service ticket.

OIT will also release a new change management tool in Fall 2024 that will implement a required field in the change request form for change requesters to document the end-user-testing steps in the change request which must be validated before the change request can be approved. All change approvers including the Change Advisory Board members will be required to review the steps before approving the ticket.

2023-013 DISASTER RECOVERY TESTING HAD NOT BEEN PERFORMED FOR PRISM

Recommendation: Revenue IT management should perform a full failover disaster recovery test that specifically addresses PRISM at least annually. The results of the testing should be documented and retained for review and audit [300422.09].

Management's View: We agree with the finding and are partnering with OIT and our tax system vendor to create a plan and schedule for conducting Disaster Recovery tests annually starting in the first half of FY25.

2023-014 ONEPHILLY PHYSICAL SECURITY POLICY WAS NOT RECENTLY REVIEWED

Recommendations: OnePhilly management should request the assistance of its third-party vendor in obtaining the current Physical Security Policy and Physical Access Control documents [300422.10].

Management's View: We agree with the finding and will work with our third-party vendor to obtain the current Physical Security Policy and Physical Access Control documents.

2023-015 CERTAIN GENERAL IT CONTROLS FOR PHLCONTRACTS STILL REQUIRE STRENGTHENING

Recommendations: Procurement Department management should request the assistance of their third-party vendor in reviewing and updating the disaster recovery and contingency plan documents. In addition, management should also ensure that the vendor provides evidence that the application's disaster recovery plan is successfully tested at least annually [300422.11].

Management's View: The Procurement Department has taken the recommendation under advisement and will continue to discuss the reviewing and updating of the disaster recovery and contingency plan documents with our vendor, Periscope.

2023-016 ACIS SYSTEM'S PASSWORD CONFIGURATIONS DID NOT MEET OIT REQUIREMENTS

Recommendation: OIT management should ensure that ACIS password configuration settings are updated to meet OIT's password requirements. If this solution is not feasible, management should prepare an exemption waiver as justification for the ACIS non-compliant password configuration settings [300422.07].

Management's View: OIT management agrees that ACIS password configuration settings should meet OIT's password requirements. ACIS Password Configuration was updated to align with the current OIT Password Standard and is pending OIT's closure of the proposed Risk Acceptance as remediated.

AUDITOR'S COMMENTS ON AGENCY RESPONSE

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

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

In its response on page 31, management states, "Finance will continue to evaluate the need to post entries in the full accrual Water Fund. Both PWD and DOA continue to engage outside accounting firms to prepare compilations to support their financial statements. We believe that not posting entries into FAMIS does not affect the accuracy of our financial statements."

We disagree with management's assertion that entering Water and Aviation Fund modified to full accrual statement adjusting entries into FAMIS does not affect the accuracy of their financial statements. FAMIS is the official accounting system of record, and the compilation data should be considered supporting documentation for properly and timely completed FAMIS entries. Bypassing FAMIS and entering this data directly from the compilations into the city's ACFR weakens the accounting and audit trail by excluding this information from FAMIS inquiry screens and reports intended to support the complete, accurate, and efficient preparation of the ACFR.