



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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CHARLES EDACHERIL
Acting City Controller

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

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

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

Primary Government

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

Component Units

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

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

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

Internal Control Over Financial Reporting

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

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

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

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

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Compliance and Other Matters

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

City of Philadelphia, Pennsylvania's Response to Findings

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

Purpose of this Report

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



CHARLES EDACHERIL, CPA
Acting City Controller
Philadelphia, Pennsylvania
February 25, 2022



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CHARLES EDACHERIL
Acting City Controller

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Philadelphia, Pennsylvania's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Pennsylvania Department of Human Services (DHS) Single Audit Supplement* that could have a direct and material effect on each of the City of Philadelphia, Pennsylvania's major federal and DHS programs for the year ended June 30, 2021. The City of Philadelphia, Pennsylvania's major federal programs and DHS programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Philadelphia, Pennsylvania's basic financial statements include the operations of the School District of Philadelphia, Community College of Philadelphia, Philadelphia Redevelopment Authority, Philadelphia Authority for Industrial Development, and Philadelphia Housing Authority, which expended \$1,054,618,470 in federal awards which is not included in the City of Philadelphia, Pennsylvania's Schedule of Expenditures of Federal Awards for the year ended June 30, 2021. Our audit, described below, did not include the operations of these component units because they had separate audits performed in accordance with the *Uniform Guidance*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Philadelphia,

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

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

Basis for Qualified Opinion on Assistance Listing 21.023 Emergency Rental Assistance Program

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Philadelphia, Pennsylvania did not comply with requirements regarding Assistance Listing 21.023 Emergency Rental Assistance Program as described in finding number 2021-009 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the City of Philadelphia, Pennsylvania to comply with the requirements applicable to that program.

Qualified Opinion on Assistance Listing 21.023 Emergency Rental Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Philadelphia, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Assistance Listing 21.023 Emergency Rental Assistance Program for the year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Philadelphia, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs and DHS programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and the DHS Single Audit Supplement and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2020-009, 2021-010,

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2021-011 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, 2021-018, 2021-019, 2021-020, and 2021-021. Our opinion on each major federal and DHS program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or DHS program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or DHS program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2021-009, 2021-010, and 2021-011 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or DHS program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2021-

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012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, 2021-019, 2021-020, and 2021-021 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. We issued our report thereon dated February 25, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Charles Edacheril

CHARLES EDACHERIL, CPA
Acting City Controller
Philadelphia, Pennsylvania
February 27, 2023

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor’s Results

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Schedule of Findings and Questioned Costs – June 30, 2021

Section I – Summary of Auditor’s Results:

Financial Statements:

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number(s)</u>
Emergency Solutions Grant	14.231
Coronavirus Emergency Supplemental Funding Program	16.034
Airport Improvement Program & COVID-19 Airports Program	20.106
Coronavirus Relief Fund	21.019
Emergency Rental Assistance Program	21.023
Injury Prevention and Control Research and State and Community Based Programs	93.136
Family Planning Services	93.217
Health Center Program Cluster:	
Health Center Program	93.224
Grants for New and Expanded Services under the Health Center Program	93.527
Immunization Cooperative Agreements Grant Program	93.268
Epidemiology & Laboratory Capacity for Infectious Diseases	93.323
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498
Social Services Block Grant	93.667
HIV Emergency Relief Project Grants	93.914
HIV Prevention Activities - Health Department Based	93.940
Disaster Grants – Public Assistance	97.036

CITY OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2021

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

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

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Costs</u>
<u>Section II - Financial Audit Material Weaknesses:</u>			
2021-001	Inadequate Staffing Levels, Lack of Technological Investment and Insufficient Oversight Led to Undetected Material Misstatements and Untimely Preparation of the Schedule of Expenditures of Federal Awards	X	
2021-002	Breakdowns in the Functionality and Application IT Controls of the OnePhilly System Continue to Increase the Risk for Material Payroll Errors	X	
<u>Section III - Financial Audit Significant Deficiencies</u>			
2021-003	OIT’s IT General Controls Require Strengthening	X	
2021-004	Treasurer’s Bank Reconciliation Procedures Still Require Improvement.	X	
2021-005	Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors	X	
2021-006	Accounts Payable Reporting Still Needs Improvement	X	
2021-007	Capital Asset Control Deficiencies Increase Risk of Reporting Errors	X	
2021-008	SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations	X	
<u>Section IV – Federal and PA. Department of Human Services Findings and Questioned Costs</u>			
2021-009	Subrecipient Monitoring – Material Weakness and Compliance Finding Assistance Listing 21.023 Emergency Rental Assistance Program	X	
2021-010	Reporting – Material Weakness and Compliance Finding Assistance Listing 93.268 Immunization Cooperative Agreements Grant Program Assistance Listing 93.940 HIV Prevention Activities – Health Department Based	X	
2021-011	Special Tests and Provisions – Material Weakness and Compliance Finding Assistance Listing 93.268 Immunization Cooperative Agreements Grant Program	X	

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Schedule of Findings and Questioned Costs – June 30, 2021

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Costs</u>
2021-012	Activities Allowed and Unallowed & Allowable Costs and Cost Principles – Significant Deficiency and Compliance Finding Assistance Listing 14.231 Emergency Solutions Grant	X	\$66,516
2021-013	Special Tests and Provisions – Significant Deficiency and Compliance Finding Assistance Listing 14.231 Emergency Solutions Grant Program	X	
2021-014	Reporting – Significant Deficiency and Compliance Finding Assistance Listing 93.268 Immunization Cooperative Agreements Grant Program Assistance Listing 93.914 HIV Emergency Relief Project Grants Assistance Listing 93.940 HIV Prevention Activities – Health Department Based Assistance Listing 93.224 Health Center Program Assistance Listing 93.527 Grants for New and Expanded Services under the Health Center Program	X	
2021-015	Subrecipient Monitoring – Significant Deficiency and Compliance Finding Assistance Listing 21.019 Coronavirus Relief Fund	X	
2021-016	Procurement – Significant Deficiency and Compliance Finding Assistance Listing 93.940 HIV Prevention Activities – Health Department Based	X	
2021-017	SEFA Reporting – Significant Deficiency Assistance Listing 93.224 Health Center Program Assistance Listing 93.527 Grants for New and Expanded Services under the Health Center Program Assistance Listing 93.354 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response Assistance Listing 93.914 HIV Emergency Relief Project Grants Assistance Listing 93.940 HIV Prevention Activities – Health Department Based	X	
2021-018	Activities Allowed and Unallowed & Allowable Costs and Cost Principles – Compliance Finding Assistance Listing 97.036 Disaster Grants – Public Assistance	X	\$83,240

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Schedule of Findings and Questioned Costs – June 30, 2021

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Costs</u>
2021-019	Subrecipient Monitoring – Significant Deficiency and Compliance Finding Assistance Listing 93.354 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	X	
2021-020	Reporting – Significant Deficiency and Compliance Finding Assistance Listing 93.136 Injury Prevention and Control Research and State and Community Based Programs Assistance Listing 93.224 Health Center Program Assistance Listing 93.527 Grants for New and Expanded Services Under the Health Center Program	X	
2021-021	Subrecipient Monitoring – Significant Deficiency and Compliance Finding Assistance Listing 93.323 Epidemiology & Laboratory Capacity for Infectious Diseases	X	

Schedule of Findings and Questioned Costs

Section II - Financial Audit Material Weaknesses

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

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

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

Each of these conditions is discussed in more detail below.

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

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

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

¹Financial Accounting and Management Information System

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

Capital Funds due to weaknesses in the payables identification and recording process, as discussed in more detail.

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

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

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

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

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

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

During the current audit, we observed that the Finance Office continued to work with the accounting firm they have worked with in prior years to help with the preparation and review of the ACFR. The initial plan (as it had also been since fiscal year 2017) was for the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the financial statements.

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

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

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

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

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

efficiencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.

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

The four Component Units and the fiduciary fund that did not provide submissions by the due dates are PMA (Philadelphia Municipal Authority), PAID (Philadelphia Authority for Industrial Development), PRA (Philadelphia Redevelopment Authority), SDP (School District of Philadelphia), and FPTF (Fairmount Park Trust Funds), respectively. Each provided valid reasons for their delay. A late legal judgement created the delay for PMA as additional time was needed to review the potential impact to the financial statements. PMA anticipates an early submission next year. PAID submitted their audited report late due to COVID-19 related staff and logistical challenges. PAID will work diligently towards and make every effort to meet the FY22 financial statements submission deadline. PRA audited financial statements were delayed due to staff shortages in their Finance unit. The SDP was delayed due to their audit. FPTF financial statements were submitted late due to unexpected early retirement of key personnel and staff turnover that delayed the completion of their audit. The Accounting Bureau will continue to work with the Component Units and the fiduciary fund management to ensure timely submission of audited financial statements; and will continue to engage me as needed.

Auditor’s Comments on Agency’s Response: In its response, management states the following with regard to the late receipt of School District of Philadelphia’s (SDP) financial report, “SDP was delayed due to their audit.”

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

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

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

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

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

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

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

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

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

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

Auditor’s Comments on Agency’s Response: Regarding management’s statements concerning the untimely preparation of the SEFA which may result in the late submission of the Single Audit reporting package, we have the following comments:

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

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

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still not provided the fiscal year SEFA for audit. This is not a reasonable timeframe to plan and perform the audit, issue an opinion, and then allow the city to complete and submit the SAR to the FAC by the extended due date.

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

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

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

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

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

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

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

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

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

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

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

Views of the Responsible Officials: The OnePhilly team continues to dedicate resources to system enhancements and the resolution of system issues. In the past year, the team has made significant progress as is evident by the findings resolved in this report and from the conditions noted as corrected, including: 1) Changes made to employee timecards by the OnePhilly team or Central Payroll Teams are supported with documented authorization or approval; 2) The OnePhilly team has reduced the overall number of issues causing inaccurate accrual of leave and corrected the outstanding accrual defect identified in 2019; 3) Overpayments and Underpayments in the Overpaid/Underpaid reports are adequately explained and documentation of

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corrections are available; and 4) Supervisory and executive approvals are now performed electronically. These are just a few of the many enhancements implemented during FY21. Shortly after Go-Live, there were 1,680 defects and enhancements logged, however the team has worked to resolve issues and implement enhancements. That work has been effective. At the time of this writing, there are only approximately 149 tickets open, with the majority (94 of these) being enhancements and not defects. This represents a 91% decline in defects and enhancements since Go-Live.

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

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

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

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

personally identifiable information (PII) of employees that are not in their department. OnePhilly team continues to work with Oracle developers to restrict the Missing Timecard view of Timekeepers.

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

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

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

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

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

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

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

and personally identifiable information (PII) of employees that are not in their department. OnePhilly team continues to work with Oracle developers to restrict the Missing Timecard view of Timekeepers.”

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

Schedule of Findings and Questioned Costs

Section III - Financial Audit Significant Deficiencies

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

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

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

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

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

Effect: Inadequate compliance with established procedures to perform end-user testing and management approval increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment. Additionally, with the combination of (a) systems administrator access

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

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

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

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

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

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

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

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

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

Table 2: Reconciling Items Over 90 Days as of June 30, 2021

Bank Balance Reconciling Items						
	Additions to Bank Balance		Reductions to Bank Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2019	82	\$3,261,039	97	(\$9,623,964)	179	(\$6,362,925)
FY 2019	23	586,031	70	(1,438,754)	93	(852,723)
FY 2020	34	15,914,373	222	(19,499,663)	256	(3,585,290)
FY 2021 ⁹	46	44,811,993	98	(46,807,537)	144	(1,995,544)
All Fiscal Years	<u>185</u>	<u>\$64,573,436</u>	<u>487</u>	<u>(\$77,369,918)</u>	<u>672</u>	<u>(\$12,796,482)</u>
Book Balance Reconciling Items						
	Additions to Book Balance		Reductions to Book Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2019	227	\$ 107,597,760	169	(\$123,983,904)	396	(\$16,386,144)

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

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Book Balance Reconciling Items (Continued)						
Date of Reconciling Item (Fiscal Year =FY)	Additions to Book Balance		Reductions to Book Balance		Net Activity	
	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
FY 2019	124	60,438,242	101	(40,826,637)	225	19,611,605
FY 2020	197	126,099,316	109	(202,771,016)	306	(76,671,700)
FY 2021 ⁹	294	134,096,627	59	(145,715,518)	353	(11,618,891)
All Fiscal Years	842	\$428,231,945	438	(\$513,297,075)	1,280	(\$85,065,130)

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

- Ongoing problems with reconciling revenue activity for the Department of Public Health (DPH) had not been corrected and the variance has significantly increased. Previous audits have noted variances between DPH’s recorded collections and the amounts transferred daily to the consolidated cash account. As of June 30, 2021, there was a \$15.9 million variance between DPH’s recorded collections and actual transfers compared to \$7.9 million variance reported in the prior year. The Treasurer informed us that they implemented a revised process for handling DPH revenue receipts. However, the current year audit disclosed that the process had not been fully implemented.
- Our testing still noted noncompliance with the Pennsylvania escheat act. There remains \$10.8 million in outstanding vendor checks for calendar years 2013 to 2018 and \$1.5 million in outstanding payroll checks for calendar years 2016 through 2019 that have not been escheated to the state. Treasurer personnel informed us they have engaged an outside accounting firm to assist in addressing the legacy escheatment backlog.

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

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

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

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

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

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

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

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

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

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

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

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

Cause: While GAAU sends annual reminders to departments to identify grants with award dates that expired three years ago, to be written off to the General Fund or to return the unused funds to the grantor, the departments do not always properly respond and timely identify and close out completed grants. Additionally, GAAU does not follow up on these requests.

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

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

Views of the Responsible Officials: We agree with the finding. However, we must note that a significant portion of the total \$45.7 million Advance Revenue balance was related to the Child Support Enforcement program. Upon further review of the balance with officials from the First Judicial District of Pennsylvania

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

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(FJD), it was determined that a contributing factor to the deficiency was the result of a failure by FJD to accurately administer its allowable budgetary expenditures under the Child Support Enforcement program. This caused the Advance Revenue balance for the fiscal years tested to be significantly overstated. This is supported by Exhibit A-1 (d) in the SEFA for the fiscal years tested. The FJD will be submitting a reconciliation to the Accounting Bureau and the Budget Department for review, to determine if the excess revenue is eligible to spend under the Child Support Enforcement program. Moving forward, this reconciliation will be required to be submitted annually to avoid this issue.

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

2021-006 ACCOUNTS PAYABLE REPORTING STILL NEEDS IMPROVEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Extend the cut-off date in the memorandum to departments to review accounts payables in the subsequent fiscal year to an appropriate later date to enable them to more accurately and completely report accounts payable to the Finance Office.

- Collaborate with departments that face unique and substantial challenges to properly reporting accounts payables to the Finance Office to develop processes to ensure sufficient and appropriate reporting going forward. Reinforce the accounts payable reporting requirements to all departments as well as the importance of providing complete and accurate accounts payable information to the Finance Office for inclusion into the ACFR.

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

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

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

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

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

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

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

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

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

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

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

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

¹³ The Philadelphia Home Rule Charter, Section 6-501

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Views of the Responsible Officials: Thank you for acknowledging our efforts to update SAPs during FY21, including the prioritization of working meetings with Control Owners, and the strides we made to identify

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SAPs that are obsolete. We agree with your recommendation to continue the update of the city's SAPs. We believe that the increased Citywide engagement with control and process owners is effective, and we will continue to have working meetings with stakeholders to facilitate the update of SAPs. Management will continue to prioritize this initiative.

Schedule of Findings and Questioned Costs

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

2021-009 SUBRECIPIENT MONITORING – MATERIAL WEAKNESS AND COMPLIANCE FINDING

Assistance Listing 21.023 Emergency Rental Assistance Program (ERAP)

Condition: For the two subawards selected for testing, we noted that an evaluation of each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring was not performed. Additionally, there was no subrecipient monitoring performed. The funding source for this program is the U.S. Department of Treasury and the Pennsylvania Department of Human Services.

Criteria: 2 CFR section 200.332(b) states that a pass-through entity (the city) must evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. In addition, 2 CFR section 200.332(d) states that a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that the subaward performance goals are achieved. Furthermore, 2 CFR section 200.332(e) states that the pass-through entity, depending upon the risk assessment conducted in accordance with 2 CFR section 200.332(b), should ensure proper accountability and compliance with program requirements and achievement of performance goals.

Effect: Failure to perform risk assessments, monitoring plans, and program monitoring increases the risk of noncompliance with federal statutes, regulations, and/or the terms and conditions of the federal award. Subawards may not have been used for authorized purposes or performance goals may have not been achieved, which can lead to payback of federal awards.

Cause: The Department of Planning & Development’s (DPD’s) Division of Housing and Community Development (DHCD) appropriated ERAP funding in response to the COVID-19 pandemic and due to the emergent nature of spending, the DPD’s DHCD failed in the operation of effectively designed controls over subrecipient monitoring.

Recommendations: We recommend that management ensure that evaluations of each subrecipient’s risk of noncompliance be performed prior to a subaward, and a monitoring plan be executed in a timely manner. In addition, documentation to support the subrecipient monitoring activities should be maintained.

Views of the Responsible Officials and Corrective Action Plan: DHCD has internal controls in place for both the ongoing and comprehensive monitoring of its nearly 100 subrecipient organizations. These policies and procedures are outlined in the Uniform Program Management Systems (UPMS) manual that was forwarded to you and your staff. As discussed, ongoing oversight is performed by DHCD's Fiscal and Contract Management units through the review/approval process of invoices and reports. In addition, DHCD's Monitoring Unit creates an Annual Monitoring Plan (AMP) at the beginning of each calendar year that includes list of subrecipients to undergo a comprehensive monitoring. The 2021 Annual Monitoring Plan was forwarded to you which included PHDC’s contract for \$11M in CDBG-CV funding. As discussed, DHCD received the first allocation of coronavirus resources through the Federal Department of Housing and Urban

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Federal and PA. Department of Human Services Findings and Questioned Costs – June 30, 2021

Development (HUD) CDBG-CV program in May 2020. DHCD contracted with PHDC to manage \$11M of CDBG-CV for the first phase of rental assistance launched in June 2020. The Monitoring Unit is finalizing that comprehensive review. It was noted that the City's fourth phase of rental assistance – U.S. Department of Treasury Emergency Rental Assistance Program (ERAP) funding through a DHCD contract with PHDC -- was launched in April 2021.

Summary of the monitoring and reporting activities of the ERAP program that DHCD, PHDC, and Office of Recovery and Grants (ORG) implemented starting in July 2021 (FY22).

Policies and procedures: PHDC developed ERAP policies and procedures (P&P) as the program began in April 2021. The Office of Recovery and Grants contracted with Tetra Tech to provide technical assistance, including to PHDC to ensure that the policies and procedures complied with state and federal award requirements. The policies and procedures document was updated throughout the program as it evolved and was provided to DHCD.

Reporting: PHDC has worked closely with the Office of Recovery and Grants to comply with all ERA reporting requirements. ORG submits all federal ERAP reports through Treasury's portal, as PHDC does not have access. For state ERAP reports, PHDC provides the data for review by ORG staff and then PHDC submits via email using the Excel templates provided by PA DHS. It should be noted when ERAP launched in Spring 2021, Treasury had not yet released reporting guidelines. Once reporting requirements were released by Treasury and PA DHS, PHDC worked together with DHCD and the Office of Recovery and Grants to review the reporting requirements, develop a plan for report review and submission. TetraTech, a City consultant, staff provided guidance and report review support during most of 2021 and the beginning of 2022. All of the reports were submitted, reviewed, and accepted by the PA DHS on their due dates.

Monitoring and Oversight

The ERAP program has been monitored at a variety of levels since its inception. In addition to DHCD monitoring, we received Emergency Rental Assistance Program Monitoring report from PHA DHS on January 16, 2023. Their monitoring report involved a review of: 1)PHDC and DHCD monitoring/compliance procedures and controls; and 2) a sampling of 60 applications. **They identified Philadelphia's monitoring and oversight as a program strength.**

At the end of FY22, PHDC contracted Mercadien to do an Agreed-Upon Procedures Report (AUP). They reviewed the Policy and Procedures document, sampled 100 applications, and reviewed them for consistency with the policies and procedures. The final report is forthcoming.

Finally, all of DHCD's contracts are vetted by a Contract Review Committee comprised of DHCD Legal, Monitoring/Audit and Contract Administration staff before a contract negotiation is completed. This Committee meets weekly to evaluate the subrecipients internal controls; past performance; open audit findings or issues; program delivery capacity; and quality/timeliness of submitting required reports. DHCD is creating a risk-assessment checklist to formally document that these areas were examined prior to finalizing the contract award.

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Auditor’s Comments on Agency’s Response: Regarding managements statements concerning the occurrence of subrecipient monitoring of the ERAP program, we have the following comment:

The Controller’s Office auditors requested supporting documentation evidencing subrecipient monitoring activities for FY 2021 for the two subrecipients tested, which accounted for over 98% of program expenditures, and no supporting documentation was provided for either of the two subawards selected for testing.

Contact Person: Melissa Long, Director, Division of Housing and Community Development (DHCD), 215-686-9789 & Paul Cesario, Deputy Director of Finance, Department of Planning & Development (DPD), 215-686-9735

2021-010 REPORTING – MATERIAL WEAKNESS AND COMPLIANCE FINDING

**Assistance Listing 93.268 Immunization Cooperative Agreements Grant Program
Assistance Listing 93.940 HIV Prevention Activities - Health Department Based**

Condition: The city’s Department Public Health (DPH) submitted special reports for the Federal Funding Accountability and Transparency Act (FFATA) that were inaccurate for both the Immunization Cooperative Agreements Grant Program (Assistance Listing 93.268) and the HIV Prevention Activities (Assistance Listing 93.940). Please see Tables 4 and 5 below for details:

Table 4: Assistance Listing 93.268 - Immunization Cooperative Agreements Grant Program				
Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
<u>4</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>0</u>
Dollar Amount of Tested Transactions	Subaward Amount not reported	Report Amount not timely	Subaward amount incorrect	Subaward missing key elements
\$14,453,103	\$500,000	\$13,953,103	(10,441,545)	0

Table 5 Assistance Listing 93.940 - HIV Prevention Activities - Health Department Based				
Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
<u>14</u>	<u>2</u>	<u>12</u>	<u>12</u>	<u>0</u>
Dollar Amount of Tested Transactions	Subaward Amount not reported	Report Amount not timely	Subaward amount incorrect	Subaward missing key elements
\$5,118,908	\$665,000	\$4,453,908	(\$613,320)	0

Criteria: 2 CFR Part 170 specifies that recipients of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

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Effect: Federal grantors may not have complete and accurate information to make fiscal decisions on federal awards. The public will not have the information on federal awards (federal financial assistance and expenditures).

Cause: DPH did not have a systematic process in place to report subawards made under the federal program in accordance with FFATA. Consequently, the responsible employees were not properly trained how to complete the FFATA reports.

Recommendation: DPH should ensure that registration is completed as soon as possible, that written policies and procedures are developed so all the required filings are completed as required, and that its staff has proper training to prepare the FFATA reports.

Views of the Responsible Officials and Corrective Action: Plan: PDPH acknowledges the Controller's Office finding. The Philadelphia Department of Public Health will ensure Federal Funding and Transparency Act (FFATA) reporting is completed in the required timeframe. At the start of fiscal year 2023, Health Fiscal began to implement a systematic process to report subawards in accordance with FFATA. The department, with information provided by the Grants Accounting and Administration Unit, identifies and disseminates qualifying transactions by division. The division reporting administrator, who has received training through Health Fiscal, is responsible for completing the required filings. The division reporting administrator obtains the required data, including the UEI#, CFDA# and description of service and then files the required information in the FFATA reporting system. Health Fiscal will develop a written policy to reflect this procedure.

Contact Person: Ryan Taylor, Chief Operating Officer and Deputy Commissioner, Philadelphia Public Health Department (215) 686-5207

2021-011 SPECIAL TESTS AND PROVISIONS – MATERIAL WEAKNESS AND COMPLIANCE FINDING

Assistance Listing 93.268 Immunization Cooperative Agreements

Condition: The city’s DPH failed to provide oversight of program enrolled providers to ensure that proper control and accountability was maintained for vaccines, vaccines were properly safeguarded, and Vaccine for Children (VFC) program-eligibility screening was conducted for FY 2021. The funding for this program is U.S. Department of Health and Human Services.

Criteria: Per 2 CFR Part 200, Appendix XI Compliance Supplement, Assistance listing 93.268 Immunization Cooperative Agreements, specified effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s(b)(2)(A)(i) through (A)(iv), regardless of the child’s parent’s ability to pay (42 USC 1396s(c)(2)(C)(iii)). A record of vaccine administered shall be made in each person’s permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25).

Effect: Vaccines can be improperly safeguarded and wasted. Additionally, inappropriate records of vaccines administered can result in health issues to vaccine recipients.

Cause: According to DPH personnel, some doctor’s offices were closed, or would not allow outsiders in due to the Covid pandemic, and virtual visits were not available soon enough to conduct the mandated monitoring. Additionally, Licensed nurses were pulled from their normal daily activities to administer the COVID 19 vaccine around the city of Philadelphia at locations such as the Philadelphia Convention Center and Esperanza Community Vaccination Center.

Recommendation: We recommend that DPH develops alternate methods to ensure program compliance or request a waiver from the grantor should a similar event occur in the future.

Views of the Responsible Officials and Corrective Action Plan: The Philadelphia Department of Public Health (PDPH) acknowledges the Controller’s Office finding. As recommended by the Controller’s Office, should a similar event occur in the future, PDPH will develop alternate methods to oversee accountability for vaccine storage and safeguarding. Please note this compliance challenge occurred in the context of the COVID-19 pandemic, which necessitated an unprecedented response that focused on rapid and equitable distribution of life-saving vaccines.

Contact Person: Amber Tirmal, Immunization Program Manager, Division of Disease Control
Philadelphia Department of Public Health, 215-685-6650

2021-012 ACTIVITIES ALLOWED AND UNALLOWED & ALLOWABLE COSTS AND COST PRINCIPLES – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 14.231 Emergency Solutions Grant

Condition: The Office of Homeless Services (OHS) did not have an internal control system in place to track grant payroll distributions. During our testing of payroll expenditures, we noted that one of the two sampled employees worked on multiple programs, however, their entire fiscal year 2021 salary was charged to the Emergency Solutions Grant (ESG). OHS could only estimate the amount of time the employee may have worked on non-ESG program activities, resulting in questioned costs of \$66,516. This funding was received from the Department of Housing and Urban Development.

Criteria: 2 CFR 200.430(i)(1)(i) & (vii) state that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; and support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award, or a federal award and non-federal award.

Effect: Failure to adequately track grant payroll distributions can result in overstatement of payroll related expenditures and noncompliance with federal guidelines. Because of the lack of control procedures to accurately track grant payroll distributions, the employee's payroll charged to the grant could not be substantiated and resulted in questioned costs of \$66,516.

Cause: OHS normally has staff work solely on their assigned grant. However, due to a decrease in funding in other grants, they had staff split time between their original assignments and the Emergency Solutions Grant and did not document the payroll distribution among the various activities.

Recommendations: We recommend that OHS design and implement a process to adequately document payroll distributions when employees are working on more than one grant.

Views of the Responsible Officials and Corrective Action Plan: OHS strives to not utilize the ESG funding source for OHS staff wages. This was a one off allocation due to the decrease of our traditional budget and the large influx of funds from the one time ESG-CV grant. If in the future OHS needs to apply an employee's wages to a grant, we will be sure that employee only works on projects and assignments related to that funding source.

Contact Person: Jerome Hill, Director of Compliance (215) 520-3556, and Peter Curran, Deputy for Finance, Contract and Asset Management (215) 686-7197

**2021-013 SPECIAL TESTS AND PROVISIONS – PAYMENTS TO SUBRECIPIENTS IN 30 DAYS
- SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING**

Assistance Listing 14.231 - Emergency Solutions Grant Program

Condition: In our testing of the sampled expenditure population, we noted that the Office of Homeless Services (OHS) failed to pay 34 out of 53 subrecipient invoices within the required 30-day period. The funding for this program was received from the US Department of Housing and Urban Development and the PA Department of Community and Economic Development.

Criteria: 24 CFR 576.203(c) requires that the recipient pay each subrecipient for allowable costs within 30 days after receiving the subrecipient's complete payment request.

Effect: Failure to make timely payments to subrecipients could lead to noncompliance and affect program services at the subrecipient level.

Cause: Due to the pandemic and shift to remote work, OHS utilized their Mainstay system to receive payment requests from subrecipients during fiscal year 2021. Some subrecipients who were not yet utilizing the system to submit invoices were submitting them through email or the postal service. The combination of the shift in working environment, new procedures, and various methods of invoice receipt led to untimely payments.

Recommendations: We recommend that OHS management strengthen its current policies and procedures for processing the invoices to ensure that all subrecipient invoices are reviewed and paid timely.

Views of the Responsible Officials and Corrective Action Plan: Now that the response to the pandemic has become more stable in regard to staff levels and work conditions and with subrecipient participation in our new Mainstay invoicing system at nearly 99%, we will see a natural decline in late payments. In addition, OHS is creating an internal tracking system with reports to further mitigate late payments.

Contact Person: Jerome Hill, Director of Compliance (215) 520-3556 and Peter Curran Deputy for Finance, Contract and Asset Management (215) 686-7189

2021-014 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

- Assistance Listing 93.268 Immunization Grants**
- Assistance Listing 93.914 HIV Emergency Relief Project Grants**
- Assistance Listing 93.940 HIV Prevention Activities**
- Assistance Listing 93.224/93.527 Health Center Program Cluster**

Condition: GAAU did not accurately disclose the total payments to subrecipients in the preliminary SEFA provided for audit. Our review of records indicated that subrecipient expenditures for the major programs listed below in Table 6 were understated by \$12.2 million. GAAU concurred with our findings and corrected the amounts reported for subrecipient expenditures. This condition was reported as finding number 2020-013 in the prior year report.

Table 6: Summary of the Subrecipient Expenditure Variances by Major Program				
	Assistance Listing Number	Amount Per Auditee (\$)	Amount Per Auditor (\$)	Difference Overstated/ (Understated) (\$)
Immunization Grants	93.268	300,990	3,989,237	(3,688,247)
HIV Emergency Relief Project Grants	93.914	15,716,645	21,017,845	(5,301,200)
HIV Prevention Activities	93.940	2,471,402	4,564,714	(2,093,312)
Health Center Program Cluster	93.224/93.527	3,566	1,167,776	(1,164,210)
Total		18,492,603	30,739,572	(12,246,969)

Source: Office of the Controller

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

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

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

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

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Views of the Responsible Officials and Corrective Action Plan: GAAU will continue to reinforce compliance with the prescribed municipal policy Standard Accounting Procedure G 5-1 Subrecipient Monitoring that is intended to assist city departments with compliance with 2 CFR 200.510(b)(4).

In FY 2022, GAAU implemented the digitized Grants Profile form. The requirements for subrecipient and contractor determinations are incorporated on this form. Identifying the subrecipients at the outset of the grant will enable the departments to ensure proper accountability and compliance with program requirements and achievement of performance goals. This new form will also provide additional support when preparing subrecipients expenditures for the SEFA.

Departments have noted that there are instances where subrecipients may experience an administrative burden and are unable to provide Departments with invoices in a timely fashion. Depending on the reporting requirements of the grantor, prime recipients may be allowed to report these subrecipient expenditures in subsequent reporting periods in a manner that clearly identifies the related accounting period. In instances of delayed invoicing, reporting the expenditure in the current period with a footnote, if allowed by the grantor requirements, may provide the most relevant and reliable SEFA reporting information.

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

Contact Person: Shantae Thorpe, Accounting Manager, Finance (215) 686-5629

2021-015 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 21.019 Coronavirus Relief Fund

Condition: For the three subawards selected for testing, we noted that the information required by 2 CFR section 200.332(a) was not provided to subrecipients at the time of the subaward, and applicable federal regulations were not identified. Additionally, an evaluation of each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring was not performed. The funding source for this program is the U.S. Department of Treasury.

Criteria: 2 CFR section 200.332(a) states that a pass-through entity (the city) must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required award information so that the federal award is used in accordance with federal statutes, regulations and the terms and conditions of the federal award. In addition, 2 CFR section 200.332(b) states that pass-through entities must evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

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

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

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

Views of the Responsible Officials and Corrective Action Plan: As the finding notes, this issue was not related to normal operations, but only affected subrecipients of Coronavirus Relief Fund grant funds. This was due to the unprecedented nature of the pandemic and its impacts on every level of City operations. The public health emergency created the need for speedy response from the City on a wide variety of issues, with funds sometimes being released before a grant to reimburse the City was identified.

As the finding itself notes, as soon as the funding was identified to be from a Federal award, the City did reach out to impacted departments, which then performed the necessary subaward monitoring procedures on a regular basis.

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Nonetheless, we recognize this as an opportunity to strengthen our internal processes and controls. To that end, we have taken and propose to take the following corrective actions:

- Re-staff the Office of Recovery and Grants (ORG) within the budget department and bring it back to full staffing. This will provide the capacity to assist departments in developing and enacting their subrecipient processes throughout the life cycle of applicable grants.
- ORG has developed and is offering recurring training sessions for operational departments and fiscal officers on subrecipient monitoring. So far this was presented to the HHS cluster and will be offered to more departments as ORG rebuilds its staff and re-establishes its calendar now that it has moved to Finance/Budget.
- ORG is working to develop a new process for identifying, evaluating, and monitoring subrecipients throughout the life cycle of a grant, including utilizing the CFR guidelines to develop a questionnaire for departments to aid them to determine if their grant will include subrecipients, and guide them through the overall subrecipient monitoring process.

Contact Person: Dan Gasiewski, Chief Grants Compliance Officer, Office of the Director of Finance

2021-016 PROCUREMENT – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

ASSISTANCE LISTING 93.940 HIV Prevention Activities Health Department Based

Condition: The Procurement Department failed to perform cost or price analyses before receiving bids or proposals for two out of four sampled contracts (170674, 1920133) and failed to negotiate profit for one sole source contract (208774). Funding for this program is from U.S. Department of Health and Human Services.

Criteria: Uniform Guidance 2CFR §200.324 states that, (a) the non-federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications, and the non-federal entity must make independent estimates before receiving bids or proposals, and (b) The non-federal entity must negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed.

Effect: Failure to perform the required costs analyses and profit negotiations could lead to noncompliance with post award procurement requirements and could result in the inefficient use of grant funds.

Cause: Procurement requirements may not be properly communicated to the employees responsible for performing them.

Recommendation: We recommend that management ensure that all procurement requirements are communicated to responsible employees so that cost or price analyses and profit negotiations are performed before receiving bids or proposals.

Views of the Responsible Officials and Corrective Action Plan: This finding is misplaced. City departments in receipt of federal grant funds are responsible for compliance with the conditions of the grant and the appropriate expenditure of funds to maintain grant eligibility. Those departments must complete cost and price analyses before requisitions for goods and services are forwarded to the City Procurement Department for any action. The Procurement Department follows the Philadelphia Home Rule Charter and Philadelphia Code in soliciting the market with contract opportunities. Competitively bid contracts are awarded to the lowest responsive and responsible bidder, in accordance with §8-200 of the Charter, while non-competitively bid contracts are awarded to the vendor that best satisfies the criteria established by the department utilizing the contract, in compliance with §17-1400 of the Philadelphia Code. The Procurement Department recommends that a record of compliance with grant requirements is retained by the responsible department(s) and will work with the Office of the Director of Finance and the Law Department to ensure that such requirements are re-communicated to the appropriate staff within those departments utilizing federal grant dollars.

Contact Person: LaShawnda N. Tompkins, Deputy Commissioner of Administration, City of Philadelphia Procurement Department 215-686-4760

2021-017 SEFA REPORTING – SIGNIFICANT DEFICIENCY

Assistance Listing 93.224 & 93.527 Health Center Program & Grants for New and Expanded Services under the Health Center Program Cluster
Assistance Listing 93.354 Public Health Emergency Response
Assistance Listing 93.914 HIV Emergency Relief Projects
Assistance Listing 93.940 HIV Prevention Activities

Condition: In our review of the fiscal year (FY) 2021 SEFA, we noted that GAAU improperly reported prior period expenditures for four grant programs in the current year SEFA. Specifically, we noted expenditures for the programs in Table 7 below, occurred in FY 2020, but were not included in the year end accounts payable accrual or reported in the FY 2020 SEFA. Instead, GAAU inappropriately reported those expenditures in the FY 2021 SEFA. The funding for those programs is received from the U.S. Department of Health and Human Services.

Program Name	Assistance Listing #	Prior Period Expenditures Amount
Health Center Program & Grants for New and Expanded Services under the Health Center Program	93.224/93.527	\$249,813
Public Health Emergency Response	93.354	\$506,698
HIV Emergency Relief Projects	93.914	\$2,041,807
HIV Prevention Activities	93.940	\$432,947
Total		\$3,231,265

Source: Office of the Controller

Criteria: OMB’s Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.510(b) specifies that the grantee must prepare a SEFA for the period covered by the financial statements which must include the total federal awards expended as determined in accordance with §200.502 Basis for Determining federal awards expended. OMB’s Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.502(a) specifies that the determination of when a federal award is expended must be based on when the activity related to the federal award occurs. Additionally, the city’s financial statements are prepared on the modified accrual basis and follow Generally Accepted Accounting Principles (GAAP). GAAP requires that governments report a liability in the period in which it is incurred. Accordingly, governmental entities should record expenditures when a

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liability is incurred, or when the activity related to a federal award occurs, and not based on when the invoice is received.

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

Cause: In our FY 2021 audit of the city's ACFR, we noted that the city's Finance Office (Finance) procedures for computing year-end accounts payable balances included weaknesses that increased the risk for unrecorded payables. Specifically, our review noted that Finance requested departments to provide them with a list of fiscal year 2021 invoices not yet vouchered or submitted for processing as of September 3, 2021. Based upon the results of our testing, it appears that Finance's early-September cut-off date for the review and identification of payables was too early to detect all significant accounts payable. This condition also caused GAAU to improperly include expenditures for services provided in FY 2020 in the FY 2021 SEFA.

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

Views of the Responsible Officials and Corrective Action Plan: Although we agree that some expenditures related to the prior year were recorded in the FY21 SEFA, we do not believe the errors were material in relation to the basic financial statements. Further, we do not believe the inclusion of these expenditures had any effect on the major program determination, nor did they affect our compliance with any federal grant compliance requirements.

We agree that we prepare our financial statements in accordance with Generally Accepted Accounting Principles, and our financial statements, as presented, are materially accurate.

For FY 2022, we have extended our search for unrecorded liabilities to seven months after the fiscal year. Since the risk for unrecorded liabilities decreases as we move further away from the end of the fiscal year, we reviewed only transactions we believed may have a material effect on the financial statements.

Contact Person: Shantae Thorpe, Accounting Manager, Finance (215)-686-5629

2021-018 ACTIVITIES ALLOWED AND UNALLOWED & ALLOWABLE COSTS AND COST PRINCIPLES – COMPLIANCE FINDING

Assistance Listing 97.036 Disaster Grants Public Assistance

Condition: In our testing of the sampled expenditure population, we noted that five out of 115 invoices prepared by the Office of Recovery Grants inappropriately charged subcontractor markups (or cost-plus-percentage-of-cost) to the grant, totaling \$83,240. While the other goods and services on these invoices were allowable, the subcontractor markups are explicitly unallowable per FEMA guidance. The dollar amounts of the subcontractor markups as they relate to the city’s project worksheets are summarized in Table 8 below. The funding for this program was received from the Department of Homeland Security.

Table 8: Questioned Costs by Project Worksheet Number

Project Worksheet	City Index Code	Amount
4506DR-PA-PW#371	105975	\$34,326
4506DR-PA-PW#418	105976	\$48,914
Total		\$83,240

Source: Office of the Controller

Criteria: The FEMA Policy FP 104-009-2 states that FEMA does not reimburse the increased cost associated with the percentage on a cost-plus-percentage-of-cost calculation. This is based on 2 CFR 200.323(d), which states that cost plus a percentage of cost method of contracting must not be used.

Effect: The Office of Recovery Grants is out of compliance with FEMA guidelines and regulations. The oversight also resulted in questioned costs of \$83,240 being reported on the SEFA.

Cause: Expenditures charged to the grant, in most cases, originated from the Coronavirus Relief Fund and were later transferred when FEMA funding became available. Subcontractor mark-up charges were allowable under the Coronavirus Relief Fund, therefore, the Office of Recovery and Grants had to begin conducting reviews of the original invoices to detect unallowable costs after these expenditures were transferred. This is still an ongoing process.

Recommendations: We recommend that the Office of Recovery Grants improve their process for reviewing invoices in order to detect unallowable costs in a more timely manner.

Views of the Responsible Officials and Corrective Action Plan: The COVID Recovery Fund grant specifically lifted the CFR requirement that contractor fees be a flat fee, rather than “cost plus percentage.” Since this was the first grant awarded, many payments for costs which were eventually moved to FEMA grants (issued later) were made using the guidelines for CRF. Later payments were sometimes made directly to the FEMA index codes, sometimes including costs which were later removed.

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As part of our grant review process, TetraTech and the Office of Recovery and Grants are already reviewing the original invoices for all of the charges being made to FEMA grants. Some administrative and “cost plus percentage” markups were moved to CRF funding as we prepared our final report on that grant in October of 2022, and other ineligible costs, if any, discovered from that point on will be moved to the general fund.

Additionally, all FEMA projects remain open, as the federal government has not yet declared an end to the COVID emergency. Therefore, all of the costs as they appear on FEMA index codes at the end of FY21 should be viewed as representing a “point in time” and not as our final determination of grant eligibility. We have a process in place to look out for this and other potentially unallowable costs before final submission, so that we can have confidence that the costs we submit to FEMA in the final project submissions will be found eligible.

Contact Person: Dan Gasiewski, Chief Grants Compliance Officer, Office of the Director of Finance

2021-019 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 93.354 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis

Condition: One of two Department of Public Health (DPH) subrecipients sampled, did not have language in its contract that identified the award as a subaward nor did the contract specify the federal compliance requirements to ensure the subrecipient’s compliance with federal statutes, regulations, and the terms of the federal award. Funding for this program is from the U.S. Department of Health & Human Services.

Criteria: Per the OMB’s Uniform Guidance, the pass-through entity must clearly identify to the subrecipient the award as a subaward at the time of subaward (or subsequent subaward modification by providing the information described in 2 CFR section 200.332(a)(1), all requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award and any additional requirements that the pass-through entity imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award.

Effect: Subrecipient was not informed of its subaward leading to inaccurate reporting of federal expenditures by the subrecipient. In addition, there was a greater risk of non-compliance with the statutes, regulations, terms, and conditions of the federal award with the services performed by the subrecipient.

Cause: Failure to identify vendors as subrecipients during the procurement process.

Recommendations: As vendors are procured for a federal grant award, there should be an in-depth analysis to determine whether they are a subrecipient. Once designated as a subrecipient, the department should then ensure that the necessary federal compliance requirements are included in the subrecipient’s agreement.

Views of the Responsible Officials and Corrective Action Plan: The Philadelphia Department of Public Health (PDPH) acknowledges the Office of the City Controller’s finding. PDPH maintains a process to identify subrecipients during the contracting process. The individual responsible for the contract in question is no longer with PDPH and therefore unavailable to provide input regarding this finding. Contracts with subrecipients include all necessary federal compliance language.

Contact Person: Jessica Caum, Program Manager, Bioterrorism and Public Health Preparedness Program (215) 685-6731, William Marks, Budget Officer DPH (215) 685-5272

2021-020 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 93.136 Injury Prevention and Control Research and State Community Based Programs

Health Center Program Cluster: - Assistance Listing 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care For The Homeless, and Public Housing Primary Care), and Assistance Listing 93.527 Grants For New and Expanded Services Under the Health Center Program

Condition: During our test for compliance with the Federal Funding Accountability and Transparency Act (FFATA), we noted that the city’s DPH did not have a process in place to report subawards made under the federal programs in accordance with the Federal Funding Accountability and Transparency Act (FFATA). Consequently, auditors could not test for reporting compliance for these grant programs. Funding for these programs is from the Department of health and Human Services.

Criteria: Per the OMB’s Uniform Guidance 2 CFR Part 170, the prime recipient of a federal award must report information regarding first-tier subawards of \$30,000 or more utilizing the FFATA Subaward Reporting System (FSRS), and states that the subawards reporting requirement applies to all types of first tier subawards.

Effect: Federal grantors may not have complete and accurate information to make fiscal decisions on federal awards. Additionally, there could be a lack of transparency and accountability to the public on how federal dollars are spent.

Cause: DPH did not have a systematic process in place to report subawards made under the Federal program in accordance with FFATA. Specifically, FFATA reports are not yet being submitted by Ambulatory Health Services (AHS). The unit is currently coordinating with the fiscal unit to register a designee under the Unique Entity ID number in FFATA to complete the yearly reporting for any qualifying awards.

Recommendation: DPH should ensure that registration is completed as soon as possible, that written policies and procedures are developed so all the required filings are completed as required, and that its staff has proper training to prepare the FFATA report.

Views of the Responsible Officials and Corrective Action Plan: PDPH acknowledges the Controller’s Office finding. The Philadelphia Department of Public Health will ensure Federal Funding and Transparency Act (FFATA) reporting is completed in the required timeframe. At the start of fiscal year 2023, Health Fiscal began to implement a systematic process to report subawards in accordance with FFATA. The Department, with information provided by the Grants Accounting and Administration Unit, identifies and disseminates qualifying transactions by division. The division reporting administrator, who has received training through Health Fiscal, is responsible for completing the required filings. The division reporting administrator obtains the required data, including the UEI#, CFDA# and description of service and then files the required information in the FFATA reporting system. Health Fiscal will develop a written policy to reflect this procedure.

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Contact Person: Yvonne Claudio, Sr. Admin/Clinical Informatics, HRSA Grants Project Director (215) 685-6769, William H. Marks, Budget Officer, PDH (215) 685-5272, Steven Benson, CFO Ambulatory Health Services (215) 685-6792, and Ryan Taylor, COO, Deputy Commissioner (215) 686-5207

2021-021 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases

Condition: The Department of Public Health (DPH) failed to provide documentation evidencing program monitoring of its subrecipient agencies during fiscal year 2021. During the audit we obtained evidence that DPH identified the subaward and applicable requirements in the scope of work section of the contracts including requirements for quarterly narrative reports. However, no evidence of subrecipient monitoring was provided. This program is funded by the U.S. Department of Health and Human Services.

Criteria: Per 2 CFR section 200.332(d) of the OMB’s Uniform Guidance, the pass-through entity must monitor the activities of the subrecipient to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward and the subaward performance goals are achieved. Pass-through entity monitoring must include:

- 1) Reviewing financial and performance reports required by the pass-through entity.
- 2) Following up and ensuring that the subrecipient takes timely and appropriate actions on all deficiencies pertaining to the federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

Effect: DPH, as a pass-through entity, is responsible for oversight of subrecipient operations to assure that performance expectations are being achieved. The lack of monitoring of its subawards may result in subrecipients failing to comply with program requirements or meet performance goals without being detected.

Cause: DPH management did not respond to the auditor’s multiple requests for monitoring reports.

Recommendations: We recommend that DPH management ensure that subrecipients are properly monitored and records are maintained and made available for audit.

Views of the Responsible Officials and Corrective Action Plan: The auditor requested documentation of monitoring of three partner organizations. As detailed in the scope of work agreements, those organizations performed services including staffing, procuring supplies and equipment in an emergent situation, and creating vendor agreements. The following monitoring activities, as listed below, occurred for those services:

- o For staffing, PDPH directly supervised the staff.
- o For procurement, PDPH had access to the organization’s procurement system. Invoices were reconciled with supporting documentation.
- o For contracting, PDPH participated in the development and execution of the agreements.

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After the auditor completed their review, PDPH identified detailed reports from one of the vendors from which documentation was requested. The narrative reports provide evidence of monitoring in alignment with the scope of work. Please see enclosed zip files for the documentation.

Auditor’s Comments on Agency’s Response: Regarding management’s statements concerning the failure to provide evidence of subrecipient monitoring for the Epidemiology and Laboratory Capacity for Infectious Diseases program, we have the following comments:

The zip file provided by Ryan Taylor addressed Dimagi, one of the three (3) subrecipients selected for testing. That subrecipient was identified by PDPH as a vendor. Finance reached out to PDPH for additional information but did not receive a response. Therefore, the decision was made to continue to include Dimagi as a subrecipient on the SEFA. The contract with Dimagi did not identify them as a subaward, but as a vendor to provide “Computer and Information Services: Implementation Services”. The documents in the zip file were implantation reports for the software module they were building for PDPH.

There was no information at all provided for the other two subrecipients selected for testing. Both programs were identified as subawards with specific program monitoring and reporting requirements on a quarterly basis. Despite repeated requests for evidence of the monitoring process and the quarterly reports, no documentation was provided.

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