



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, 2022, 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, 2023. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Notes I.15 and III.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, Nicole Hines Limited Partnership, and St. Rita Place Senior Housing L.P.) were not audited in accordance with *Government Auditing Standards*.

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

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying 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 combination of deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002 through 2022-009 to be significant deficiencies.

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Report on Compliance and Other Matters

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

City of Philadelphia, Pennsylvania's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Philadelphia, Pennsylvania's written response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's written response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response. We have also included our comments to the City of Philadelphia, Pennsylvania's 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, 2023



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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

Opinion on Each Major Federal Program

We have audited the City of Philadelphia, Pennsylvania's compliance with the types of compliance requirements identified as subject to audit 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, 2022. The City of Philadelphia, Pennsylvania's major federal and DHS programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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 major federal and DHS programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. Our responsibilities under those standards, the Uniform Guidance, and the DHS Single Audit Supplement are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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We are required to be independent of the City of Philadelphia, Pennsylvania and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and DHS program. Our audit does not provide a legal determination of the City of Philadelphia, Pennsylvania's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The City of Philadelphia, Pennsylvania's basic financial statements include the operations of the School District of Philadelphia, Community College of Philadelphia, Philadelphia Redevelopment Authority, Philadelphia Authority for Industrial Development, and Philadelphia Housing Authority, which expended a total of \$1,678,686,290 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, 2022. Our compliance audit, described in the Opinion on Each Major Federal Program, does not include the operations of these component units because they had separate audits performed in accordance with the *Uniform Guidance*.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Philadelphia, Pennsylvania's federal and DHS programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Philadelphia, Pennsylvania's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, *Uniform Guidance*, and *DHS Single Audit Supplement* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Philadelphia, Pennsylvania's compliance with the requirements of each major federal and DHS program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, *Uniform Guidance*, and the *DHS Single Audit Supplement*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Philadelphia, Pennsylvania's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

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- Obtain an understanding of the City of Philadelphia, Pennsylvania's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and DHS Single Audit Supplement, but not for the purpose of expressing an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and the DHS Single Audit Supplement and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-010, 2022-011, 2022-012, and 2022-013, and 2022-014. Our opinion on each major federal and DHS program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Philadelphia, Pennsylvania's response to the noncompliance findings identified in our compliance audit 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or DHS program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-010 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or DHS program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to 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 2022-011 and 2022-012 to be significant deficiencies.

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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Philadelphia, Pennsylvania's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's response was not subjected to other 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, 2022, 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, 2023, 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, CPA
Acting City Controller
Philadelphia, Pennsylvania
November 8, 2023

CITY OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2022

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:

Unmodified

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>
Highway Planning and Construction	20.205
Coronavirus Relief Fund	21.019
Emergency Rental Assistance Program	21.023
Coronavirus State and Local Fiscal Recovery Funds	21.027
Drinking Water State Revolving Fund	66.468
Special Education-Grants for Infants and Families	84.181
Guardianship Assistance	93.090
Immunization Cooperative Agreements	93.268
Temporary Assistance for Needy Families	93.558
Foster Care Title IV-E	93.658
Adoption Assistance	93.659
Medical Assistance Program	93.778
HIV Prevention Activities Health Department Based	93.940
Block Grants for Community Mental Health Services	93.958

Dollar threshold used to distinguish between Type A and Type B programs: \$3,405,982

Auditee qualified as low-risk auditee? yes no

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Schedule of Findings and Questioned Costs – June 30, 2022

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Cost</u>
<u>Section II - Financial Audit Material Weakness</u>			
2022-001	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	
<u>Section III - Financial Audit Significant Deficiencies</u>			
2022-002	OIT's Access Controls and Segregation of Duties for Key Financial Systems Require Strengthening	X	
2022-003	PRISM's Initial User Access Approvals Were Not Documented, and Periodic User Access Review Was Not Performed	X	
2022-004	One Philly System's Access Controls and Segregation of Duties Need Improvement	X	
2022-005	ACIS System's Password Configurations Did Not Meet OIT Requirements	X	
2022-006	Treasurer's Bank Reconciliation Procedures Still Require Improvement	X	
2022-007	Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors	X	
2022-008	Capital Asset Control Deficiencies Increase Risk of Reporting Errors	X	
2022-009	SAP's 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>			
2022-010	Reporting - Material Weakness and Compliance Finding Assistance Listing 93.268 Immunization Cooperative Agreements Assistance Listing 93.940 HIV Prevention Activities Health Department Based	X	
2022-011	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Assistance Listing 93.558 Temporary Assistance for Needy Families	X	
2022-012	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Assistance Listing 93.558 Temporary Assistance for Needy Families Assistance Listing 93.658 Foster Care Title IV-E Act 148 Pennsylvania Department of Human Services	X	

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Schedule of Findings and Questioned Costs – June 30, 2022

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Cost</u>
2022-013	Special Tests and Provisions - Compliance Finding Assistance Listing 93.090 Guardianship Assistance Assistance Listing 93.645 Stephanie Tubbs Jones Child Welfare Services Program Assistance Listing 93.658 Foster Care Title IV-E Assistance Listing 93.659 Adoption Assistance Assistance Listing 93.778 Medical Assistance Program Assistance Listing 93.556 MaryLee Allen Promoting Safe and Stable Families Program Act 148 Pennsylvania Department of Human Services	X	\$1,375,744
2022-014	Reporting - Compliance Finding Assistance Listing 21.023 Emergency Rental Assistance Program	X	\$471,948

2022-001 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 continued to delay preparation and audit of the ACFR;
- Late receipt of financial reports for component units and the Fairmount Park Trust Funds still delayed preparation and audit of the ACFR; and
- Untimely preparation of the SEFA resulted 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 \$1.1 billion during preparation of the city’s fiscal year 2022 ACFR submitted for audit and did not provide certain financial statement information and finalized footnotes until very late in the audit process. Examples of undetected errors included:

¹Financial Accounting and Management Information System

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

- Various accounts in the Grants Revenue Fund – due from other governmental units, unearned revenue, deferred inflows of resources, and revenue from other governments – were misstated by a total of \$1.0 billion due to errors made in computing grants receivable and advance balances for the Department of Behavioral Health and Intellectual Disability Services (DBHIDS) on the fund schedule prepared by the Finance Office’s Grants Accounting and Administrative Unit (GAAU).
- Grants Revenue Fund expenditures were understated by \$27.9 million because Finance Office accountants did not correct ACFR reported amounts to reflect expenditure adjustments reported by various departments on their FAMIS expenditure reconciliations.
- Inventory for Governmental Activities was overstated by \$17.7 million due to an error that the Department of Streets made in its inventory calculation.

Finance Office accountants did not provide financial statements and footnotes reflecting the new lease accounting and reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, until very late in the audit. Financial statements for the General Fund and Governmental Activities were not updated to include the GASB Statement No. 87 adjustments until February 8, 2023. Even later were the updated Aviation and Water Funds’ financial statements, which were not revised to include the GASB Statement No. 87 activity until February 16, 2023, just over one week before we issued the opinion. We also did not receive a substantially completed set of ACFR footnotes reflecting the new lease disclosure requirements until February 16, 2023.

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 2022 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 a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by 25 percent (from 64 full-time employees in fiscal year 2000 to 48 in fiscal year 2022). 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. No progress has been made on the compilation since fiscal year 2021, and the Finance Office was again unable to fully implement that plan for the fiscal year 2022 ACFR. Previously, we reported the accounting firm assisted the Finance Office with the preparation of a review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of the fund financial statements. However, we continued to note the checklist has not been updated to include guidelines for review of the full accrual government-wide financial statements. While the prior audit noted that a draft of those guidelines had been created, Finance Office accounting management informed us that they had not updated and finalized the draft for fiscal year 2022. Also, the accounting firm assisted with the implementation of the new GASB requirements for lease accounting and Internal Revenue Code Section 457 deferred compensation plans.

Despite the accounting firm's assistance, Finance Office accountants were very late in implementing the new GASB Statement No. 87 lease requirements. Although this pronouncement was issued in June 2017 and its required implementation had been delayed from fiscal year 2021 to fiscal year 2022 because of the COVID-19 pandemic, the lease management software used for the implementation was not purchased until September 2022, more than two months after the fiscal year-end. A complete set of the lease accounting entries and footnote disclosures generated by the software was not provided until February 2, 2023.³

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 2023 ACFR, management follow through with its plan to use the accounting firm to assist with the preparation of the compilation package with detailed

³ The software generated separate accounting entries and footnote disclosures for each of the city's lease agreements which were then combined by Finance Office accountants into the consolidated lease footnote disclosures included in the city's ACFR.

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) continues to be committed to producing a timely, accurate and well-prepared ACFR and to improving the City's financial reporting. We continue to actively work on implementing staff retention and training strategies; we added an additional senior level position to increase the accounting team's capacity, and budgeted to expand staffing in the upcoming year, including IT system support staff for the new system implementation, and through our continued focus on training, required senior accountants to attend the national Government Finance Officers Association (GFOA) conference to ensure the accounting team 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 our 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 increasing efficiencies.

The Accounting Bureau works with departments to eliminate errors and makes corrections to any erroneous reporting identified during the year end reporting process. The team will work to bolster our year end journal process to avoid any errors similar to the DBHIDS journal entry (highlighted by the Controller's Office) which resulted in a \$19M net advanced revenue receivable overstatement that was corrected in the published version of the ACFR. Furthermore, GAAU continues to urge departments to provide adequate support to enable accurate posting of expenditure transfers. GAAU will continue to request timely and accurate FAMIS reconciliations with the appropriate support to continue to improve the accuracy of our financial reports.

The Accounting Bureau is fully committed to the timely and accurate implementation of all GASB regulatory requirements. We successfully implemented GASB 84 during the FY21 ACFR audit and re-shifted available resources to work on the GASB 87 implementation as soon as possible. Given the complexity of GASB 87, the Accounting Bureau carefully selected the lease management software that would best meet the city's needs. Unfortunately, the substantial changes needed in both the reporting and the disclosure requirements negatively impacted the implementation timeline. The accounting team is already working on reducing the implementation timeline for GASB 96.

We acknowledge that a new comprehensive financial reporting system will improve the ACFR preparation process and have begun planning for the implementation of this 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 42 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, “The team will work to bolster our year end journal process to avoid any errors similar to the DBHIDS journal entry (highlighted by the Controller’s Office) which resulted in a \$19M net advanced revenue receivable overstatement that was corrected in the published version of the ACFR.”

What management refers to as a \$19 million net advanced revenue receivable overstatement consisted of the following material financial statement account errors in the Grants Revenue Fund: a \$512.5 million overstatement of due from other governmental units; a \$512.5 million overstatement of deferred inflows of resources, a \$493.8 million overstatement of unearned revenue, and a \$493.8 million understatement of revenue from other governments.

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 \$1.1 billion of ACFR errors cited in the report occurred because the city’s controls over the financial reporting process failed to prevent or detect and timely correct the misstatements. The errors were identified after the Finance Office should have already completed its financial statement review procedures and finalized the statements.

Late Submission of Aviation Fund Financial Statements Continued 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 2022, there was improvement in this condition, as the Division of Aviation (DOA) started providing sections of the compilation on November 23, 2022, and then supplied the initial Aviation Fund statements and more than half of the compilation by December 5, 2022, 15 days earlier than the previous year. Despite this progress, significant sections of the compilation were not provided until January 13, 2023. Also, the DOA did

not submit updated versions of the Aviation Fund financial statements and compilation that included adjustments for the implementation of the GASB Statement No. 87 lease requirements until February 7, 2023. This late submission contributed to the final adjusted Aviation Fund amounts not being included in the city's ACFR until February 16, 2023, only nine days before we issued the opinion.

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

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

Cause: In preparing the city's ACFR, Finance Office accountants must collect, analyze, and summarize financial information from numerous sources, including the DOA. Additionally, the DOA must wait for information from the Finance Office before it can finalize its financial statements and the supporting compilation. The Finance Office and the DOA have not established mutually agreed upon target dates for key information that would allow for the timely completion of the Aviation Fund financial statements and therefore, earlier inclusion in the preliminary ACFR. Lastly, a significant contributing factor to the delay in completing the Aviation Fund financial statements was the Finance Office's very late implementation of GASB Statement No. 87.

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. The DOA worked with the Office of the Director of Finance to create a timelier submission schedule that saw more than 50% of the schedules submitted two weeks earlier than the prior year. Due to the complex nature of certain calculations, there was once again a delay in providing final balances for select accounts that were necessary for the DOA compilation calculations, which again extended the timeline for the submission of some final balances beyond early December. However, once the necessary finalized numbers were received, within one business day, the DOA completed, reviewed, and submitted its financial statement compilation. The Office of the Director of Finance and DOA will continue to develop a schedule that is in line with the Controller's Office target deadlines/submission dates. In addition, now that DOA has successfully implemented the new GASB 87 requirements, and learned the new lease management software, DebtBook, there should be a reduction in the time it takes to prepare and submit these reports moving forward. 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 Financial Reports for Component Units and Fairmount Park Trust Funds Still Delayed Preparation and Audit of ACFR

Condition: Over the last several years, we have reported that the late receipt of component unit financial reports continued to delay preparation and audit of the city’s ACFR. For the fiscal year ended June 30, 2022, four of the city’s 10 component units and the Fairmount Park Trust Funds (FPTF)⁴ did not submit their final reports by the due dates requested by Finance Office accountants. See Table 1 below.

Table 1: Late Submission of Financial Reports			
<u>COMPONENT UNITS</u>	<u>DUE DATE</u>	<u>DATE RECEIVED</u>	<u>DAYS LATE</u>
Philadelphia Parking Authority	11/30/2022	12/19/2022	19
School District of Philadelphia	1/15/2023	2/14/2023	30
Philadelphia Redevelopment Authority	12/31/2022	2/10/2023	41
Philadelphia Municipal Authority	12/31/2022	2/14/2023	45
<u>GOVERNMENTAL FUNDS</u>			
Fairmount Park Trust Funds	12/31/2022	2/21/2023	52

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, Philadelphia Gas Works, Philadelphia Housing Authority, and the Philadelphia Authority for Industrial Development 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 included the Philadelphia Redevelopment Authority (on February 10, 2023), the School District of Philadelphia (on February 14, 2023), and the Philadelphia Municipal Authority (on February 14, 2023). Similarly, the financial report for the FPTF, which are independently audited governmental funds, was not received by the Finance Office until February 21, 2023.

Additionally, the June 30, 2022, audited financial reports for the Delaware River Waterfront Corporation (DRWC) and the Philadelphia Housing Development Corporation (PHDC), both assessed as excluded component units⁵, were not received by the city’s Finance Office until February 24, 2023, one day before we issued our opinion on the city’s ACFR. Without a final and timely audit report, Finance Office accountants

⁴ The FPTF are reported as the Parks and Recreation Departmental and Permanent Funds, two non-major governmental funds. The commissioner of the city’s Department of Parks and Recreation is the trustee responsible for administering the FPTF.

⁵ 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.

could only use updated, but unaudited, versions of DRWC's and PHDC's financial statements to support their initial materiality evaluation that excluded DRWC and PHDC from being reported as discretely presented component units.

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 to 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), PPA (Philadelphia Parking Authority), PRA (Philadelphia Redevelopment Authority), SDP (School District of Philadelphia), and FPTF (Fairmount Park Trust Funds), respectively. Each had valid reasons for their delay. PMA experienced delays due to the GASB 87 implementation. PMA anticipates an early submission next year. PPA submitted their audited report late, but it was submitted by December 19th, and therefore should not have impacted the audit. PPA will continue to work diligently towards meeting financial statements submission deadlines. PRA audited financial statements were again delayed due to staff shortages in their Finance unit but expects to see improvement for FY23. The SDP was delayed due to

their audit being delayed. FPTF financial statements were submitted late due to staffing issues experienced by both their auditor and internally. 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, “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.”

We disagree with management’s assertion. In the fiscal year 2021 Report on Internal Control and On Compliance and Other Matters, it was disclosed that four component units did not submit their final reports by the due dates requested by Finance Office accountants. In the current year’s report, it was again noted that four component units did not submit their final reports by the requested due dates.

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

According to the SDP’s management, the resignation of several key individuals who had been involved in the SDP’s financial statement preparation process caused delays in the SDP’s ability to complete its financial report.

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

Condition: Because the city expends more than \$750,000 of federal awards, Office of Management and Budget’s (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant activities to be performed each year. The Finance Office’s GAAU is responsible for preparing the SEFA, which serves as the primary basis that the auditors use to determine which programs will be tested. For the fiscal year ending June 30, 2022, a preliminary SEFA was not prepared and provided for audit until March 8, 2023, which was only 23 days prior to the required deadline of March 31st to submit the reporting package.

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

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

Effect: Non-compliance with the reporting requirements is a violation of federal 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. Similar to the prior year's timeline, GAAU sent out the fiscal year 2022 requests for these reconciliations in November 2022, whereas the fiscal year 2020 requests went out in the September following fiscal year-end. Multiple follow-ups as well as untimely and inaccurate responses from the departments further delayed the preparation and submission of an accurate SEFA for audit. Additionally, the SAP does not provide enforcement measures to ensure compliance with the procedures.

Recommendations: 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.

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, we understand the need to timely complete our audits, and to submit 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 Finance acknowledges GAAU needs to continue all efforts to improve the SEFA submission timeline, and the Controller's Office needs to ensure its audits are completed in a timelier manner, Finance also requests that the Controller's Office continue to work with Grants Accounting and departments to determine an appropriate timeline for the Single Audit to ensure compliance with federal regulations. Finance management has also begun carrying out enforcement measures to ensure department compliance, where appropriate.

Auditor's Comments on Agency's Response: Regarding the untimely preparation of the SEFA which has resulted in the late submission of the Single Audit reporting package, in its response, management states, "While Finance acknowledges GAAU needs to continue all efforts to improve the SEFA submission timeline, and the Controller's Office needs to ensure its audits are completed in a timelier manner, Finance also requests that the Controller's Office continue to work with Grants Accounting and departments to determine an appropriate timeline for the Single Audit to ensure compliance with federal regulations."

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. Additionally, the city is also considered to be a high-risk auditee requiring increased audit coverage of federal programs. As stated in the report, for the fiscal year ending June 30, 2022, GAAU did not provide the preliminary SEFA for audit until March 8, 2023, which was only 23 days prior to the required deadline of March 31st to submit the SAR. Clearly, this is not a reasonable timeframe to plan and perform the

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

2022-002 OIT'S ACCESS CONTROLS AND SEGREGATION OF DUTIES FOR KEY FINANCIAL SYSTEMS REQUIRE STRENGTHENING

Condition: We conducted, with the assistance of a consultant, a review of the OIT's general information technology (IT) controls over key financial-related applications.⁶ This review noted the following weaknesses in OIT's access controls and segregation of duties (SoD) for key financial-related applications which collectively are considered to be a significant deficiency:⁷

- As noted in the prior year report, OIT was still unable to provide documented evidence that user access reviews (UARs) were performed for certain key financial-related applications. Specifically, the documentation provided by OIT consisted only of the active or terminated user listings from the applications, which showed no evidence of the review being performed. Furthermore, no documentation was presented to evidence that management reviewed and approved users' access privileges and assigned roles, including consideration of SoD conflicts.
- OIT did not always maintain documentation for the authorization of new user access. For some sampled new users, OIT was unable to provide the new user access forms. Also, some of the new user access forms were missing pertinent approval information, including management's signature, the manager's name, the date of approval, the supervisor's name, and the reason for the request.
- As disclosed in the prior year report, OIT had still not completed the draft policy to formally document the process for the notification of employee terminations to OIT's Support Center and IT Administrators. Furthermore, OIT could not provide all sampled termination forms.
- Certain non-IT employees had system administrator access to a key financial-related application, creating an SoD risk. Management was unable to provide any supporting documentation or an exemption waiver as justification for this system administrator access. Management stated that they are working with the OIT compliance officer to formally document an exemption waiver for risk acceptance for this access.
- As noted in the prior year report, OIT still did not properly segregate the duties of two employees who continued to have database administrator access as well as system administrator access within a key financial-related application. According to the related department's IT Director, the department's IT group receives database administrator support from the central OIT database administrator group, and they have not further segregated duties since this audit finding. The department's IT Director stated that OIT management needs to determine further SoD between

⁶ The key financial-related applications included in the review were the Financial Accounting Management Information System (FAMIS), Advanced Purchasing Inventory Control System (ADPICS), Basis2 (water billing system), PHLContracts (request for contract procurement system), and Automated Contract Information System (ACIS).

⁷ Due to computer security concerns, certain details for this finding have been excluded from this report, which is publicly available. We issued a separate report which contained the detailed finding and was only distributed to city management. Also, the consultant's review noted other observations with lesser impact which are reported as other conditions under finding numbers 2022-013 and 2022-016 in this report.

the database administrators and system administrators, but he could not provide any details or a timeline for remediation.

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

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

Cause: A formalized process by OIT to perform UARs had not been established. Also, OIT management had not prioritized the completion of the draft policy for the notification of employee terminations to OIT’s Support Center and IT Administrators. Additionally, OIT management did not provide adequate oversight of the documentation of access rights and revocation of access to ensure all access documentation had been adequately prepared and included with management approval.

For the non-IT personnel, initial elevated access may have been required for these individuals since they are members of the application’s management team and provide administrative support to the application. In the two cases of inappropriate database and system administrator access discussed above, OIT management did not exercise sufficient oversight of assigned system access rights to ensure that duties were adequately segregated or, if SoD was not feasible, that there was monitoring of the employees’ activities.

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

- Establish and document a formal process to perform UARs, which include a review of user access permissions that consider SoD conflicts. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness.
 - Validate and ensure current processing procedures for user access provisioning and deprovisioning are appropriate. Established procedures should include formal documentation requirements for
-

authorization of new user access and terminations, including retention of onboarding and offboarding tickets so they are available for later review and audit.

- Work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit.
- For the non-IT employees with system administrator access to a key financial-related application, revoke this access and restrict system administrator access to IT personnel only. If this solution is not feasible, OIT should prepare an exemption waiver as justification for the system administrator access and perform monitoring and review of activity to ensure only authorized transactions are performed.
- Separate the system administrator function from the database administrator function for the two OIT employees who have database administrator and system administrator access within the key financial-related application. If that solution is not feasible, OIT should prepare an exemption waiver as justification for the access and monitor the activities of the employees to ensure they are authorized and appropriate.

Views of the Responsible Officials: OIT is committed to improving access controls and segregation of duties over key financial-related applications. OIT is already in the process of documenting, reviewing, and updating access control procedures for enterprise systems in the Access Control Policy, with an estimated completion date of Q1 FY24, followed by implementation and process improvements. This should address the control weaknesses identified for user access reviews, segregation of duties, provisioning and deprovisioning, and termination notification. The segregation of duties concerns identified for a key financial-related application will be addressed through reduction of permissions when possible. Where permissions cannot be reduced, OIT will work with the business owners of the system to prepare an exemption waiver or to document risk acceptance with acceptable compensating controls.

2022-003 PRISM'S INITIAL USER ACCESS APPROVALS WERE NOT DOCUMENTED, AND PERIODIC USER ACCESS REVIEW WAS NOT PERFORMED

Condition: We engaged an independent accounting firm to conduct an assessment of the IT application and general controls of the city's new tax system – the Philadelphia Revenue Information System Management (PRISM) application – which was initially implemented in November 2021 with its second go-live occurring in October 2022. This assessment found the following deficiencies in the PRISM application's access controls:⁸

- The PRISM team was unable to provide new user tickets as evidence for the initial onboarding of 25 sampled users.
- As of January 2023, the PRISM team had not performed a current UAR of the PRISM system users.

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

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

Cause: Management stated that they used a different approach for the initial addition of users to PRISM rather than creating new user tickets. Instead, the PRISM team downloaded user records from the prior Taxpayer Inquiry and Payment System (TIPS), met with applicable supervisors to determine these users' roles, and then converted that information into PRISM security roles for those users. With the system implementation being done in two phases and a different approach being utilized for onboarding of users during implementation, the PRISM team had not yet performed and formally documented a UAR.

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

- Formally document new user access requests and approvals of those requests through the use of new user tickets.
- Complete the UAR of all PRISM users and their assigned roles and system privileges, including management sign-off.

Views of the Responsible Officials: During the implementation phases, we deployed a different process to onboard new users that involved engaging management to review and approve users. We communicated during the audit that post implementation there is now a formal ticketing process in place, and we also have a process in place for UAR to be conducted periodically.

⁸ While this condition was considered a significant deficiency, the assessment of PRISM IT controls noted another finding with lesser impact that was reported as an other condition under finding number 2022-014 in this report.

**2022-004 ONEPHILLY SYSTEM’S ACCESS CONTROLS AND SEGREGATION OF DUTIES
NEED IMPROVEMENT**

Condition: We conducted, with the assistance of a consultant, an assessment of the OnePhilly system’s IT general controls.⁹ This assessment noted the following weaknesses in the OnePhilly system’s access controls and SoD:¹⁰

- Prior audits noted deficiencies in the OnePhilly UAR. The current year’s evaluation of the OnePhilly UAR for sampled departments found that the results were missing the following pertinent control information: the details pertaining to the scope of the review; an assessment of specific user roles and security permissions to identify and remove SoD breakdowns; any exceptions identified; and management signoff. OnePhilly management stated that the scope of the UAR included approximately 54 city departments, but current management procedures did not require receipt of UAR confirmation responses from all in-scope departments.
- Duties were not adequately segregated in several instances, with domain administrator and system administrator access maintained by nine non-IT personnel and at least two IT developers who were city contractors. Domain administrator access in the OnePhilly system allows users to grant, remove, or modify Oracle user responsibilities. These users can create and deactivate Oracle user accounts, change passwords, and assign responsibilities. System administrator access allows users to perform system administrative activities.
- The OnePhilly SoD Policy and supporting role-based SoD matrix were not reviewed and approved on an annual basis. The SoD Policy was initially created and last reviewed on June 29, 2021.

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

Effect: There is a risk that over time access rights will not be updated due to oversights or aligned with expected access right entitlements. There may be users with access not commensurate with their job responsibilities. In addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.

Cause: In certain instances, the OnePhilly team accepted negative confirmation for the recertification process, but this approach would not cover a review of user roles and security permissions assigned. Initial elevated

⁹ The OnePhilly system handles the human resources, benefits, time and attendance, and payroll functions for the city.

¹⁰ While this condition was considered a significant deficiency, the assessment of OnePhilly IT general controls noted another finding with lesser impact that was reported as an other condition under finding number 2022-015 in this report.

access may have been required for these nine non-IT individuals since they are members of the Payroll and Human Resources team and provide support to the application. The SoD Policy did not appear to have any changes which could have caused the current year review and approval to not be performed, and it was an apparent oversight that the OnePhilly team did not document the review.

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

- Perform and document a formal UAR and recertification process including all city departments. The UAR should include all OnePhilly system users in addition to Oracle system and domain administrators and be performed on at least a quarterly basis. Each department's review should evidence whether users' access roles and permissions are appropriate or require revisions. The review should include signoff and approval from each designated department manager. All results should be retained for subsequent review and audit.
- Review and re-evaluate domain administrator and system administrator access to the application. Privileged access should be restricted to IT personnel only. If it is necessary to provide privileged access to non-IT personnel, then management should monitor the activities of these employees to ensure they are authorized and appropriate.
- Review and approve both the SoD Policy and supporting matrixes on at least an annual basis.

Views of the Responsible Officials: The OnePhilly team has worked tirelessly to bolster controls and has done a tremendous job stabilizing the OnePhilly system since its implementation in 2019. We have implemented many controls, including periodic UAR, which are required across all departments. We provided evidence during the audit of the various types of UAR outcomes, which demonstrated an assessment of specific user roles and security permissions to identify and remove SoD breakdowns, identify any exceptions, and obtain management signoff.

We also provided evidence that the OnePhilly SoD Policy and supporting role-based SoD matrix were reviewed and approved on an annual basis, but for the audit period in question, the SoD matrix was updated but no changes were needed upon review of the OnePhilly SoD policy, and therefore, no signoff was completed. Moving forward, the OnePhilly team will sign off and note any changes or “no changes” to the OnePhilly SoD policy. Finally, we disagree with the Controller’s finding regarding non-IT personnel: The OnePhilly Team has IT personnel that are embedded in the team and are not a part of the City’s OIT team. The Controller’s Office and its contracted auditing firm suggested that OIT personnel can only exist on the city’s OIT team, but that is not the case for OnePhilly. The demanding needs of the application require a dedicated IT team, and that dedicated team exists within the OnePhilly Team. All City IT personnel, regardless of their department, are required to follow all applicable OIT policies and procedures.

Auditor’s Comments on Agency’s Response: In its response, management states, “We provided evidence during the audit of the various types of UAR (user access reviews) outcomes, which demonstrated an assessment of specific user roles and security permissions to identify and remove SoD breakdowns, identify

any exceptions, and obtain management signoff. We also provided evidence that the OnePhilly SoD Policy and supporting role-based SoD matrix were reviewed and approved on an annual basis, but for the audit period in question, the SoD matrix was updated but no changes were needed upon review of the OnePhilly SoD policy, and therefore, no signoff was completed.”

The documentation that the OnePhilly team provided our consultant for sampled departments’ UARs did not clearly evidence that specific user roles and permissions were considered and evaluated to identify and remove SoD breakdowns. Also, the results provided by the OnePhilly team did not evidence management signoff. Additionally, as part of audit fieldwork in January 2023, the OnePhilly team provided our consultant with a copy of the Segregation of Duties Policy (SoD) version 1.0, which was created and last updated on June 29, 2021, and the SoD matrix version 1.5 dated February 16, 2022. As noted in the report, both the SoD Policy and SoD matrix received during audit fieldwork had not been reviewed and approved by management on an annual basis.

In its response, management states, “Finally, we disagree with the Controller’s finding regarding non-IT personnel: The OnePhilly Team has IT personnel that are embedded in the team and are not a part of the City’s OIT team. The Controller’s Office and its contracted auditing firm suggested that OIT personnel can only exist on the city’s OIT team, but that is not the case for OnePhilly. The demanding needs of the application require a dedicated IT team, and that dedicated team exists within the OnePhilly Team.”

Management’s response does not address our recommendation. As stated in the report, management should review and re-evaluate domain administrator and system administrator access to the application. Privileged access should be restricted to IT personnel only. If it is necessary to provide privileged access to non-IT personnel, then management should monitor and review the activities of these employees to ensure they are authorized and appropriate. Also, domain and system administrator access should be segregated for the IT developers where possible to maintain proper segregation of duties responsibilities. As noted in the report, duties were not adequately segregated in several instances, with domain administrator and system administrator access maintained by nine non-IT personnel and at least two IT developers who were city contractors.

2022-005 ACIS SYSTEM'S PASSWORD CONFIGURATIONS DID NOT MEET OIT REQUIREMENTS

Condition: As discussed in the report, we engaged an independent accounting firm to conduct a review of general IT controls over key financial-related applications, including ACIS which is the city's system for professional services contracts. The assessment noted that the ACIS system's password parameter settings contained certain inadequate password configurations that did not meet OIT's password requirements.¹¹

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

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

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

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

Views of the Responsible Officials: OIT is working with the ACIS team to enable password configuration settings that match the OIT password requirements where possible, and to establish an exemption waiver or to document risk acceptance with acceptable compensating controls where the legacy system does not support modern password requirements.

¹¹ Due to computer security concerns, certain details for this finding have been excluded from this report, which is publicly available. We issued a separate report which contained the detailed finding and was only distributed to city management.

2022-006 TREASURER’S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior audit, we reported that 50 of 69 bank reconciliations prepared by the Office of the City Treasurer (Treasurer) contained numerous long outstanding reconciling items. Also, we noted that the Treasurer was not in compliance with Pennsylvania’s Disposition of Abandoned and Unclaimed Property Act (escheat act), failing to escheat long outstanding vendor and payroll checks. Our current year audit noted that these deficiencies still existed in the Treasurer’s bank reconciliation procedures, while other previously identified deficiencies have been remediated. Specifically, the following was noted:

- Treasurer personnel were still not timely in their investigation and resolution of reconciling items. Current year testing of all 65 bank reconciliations disclosed 36 reconciliations with long outstanding reconciling items. As shown in Table 2 below, as of June 30, 2022, there were 829 bank reconciling items over 90 days old with a net total dollar amount of \$34.1 million and 1,279 book reconciling items over 90 days old with a net total dollar amount of \$56.3 million.
- Our testing again noted noncompliance with the Pennsylvania escheat act. There remained \$11 million in outstanding vendor checks for calendar years 2013 to 2019 and \$1.7 million in outstanding payroll checks for calendar years 2017 through 2020 that have not been escheated to the state. Treasurer personnel informed us that they were working to address the escheatment backlog by (1) canceling the escheatable vendor checks for fiscal years 2013 through 2018 so the funds can be moved to the city’s Unclaimed Monies Fund for eventual escheatment to the state and (2) contacting payees for unclaimed payroll checks.

Table 2: Reconciling Items Over 90 Days as of June 30, 2022						
Bank Balance Reconciling Items						
	Additions to Bank Balance		Reductions to Bank Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2020	78	\$ 3,316,004	165	(\$ 2,828,455)	243	\$ 487,549
FY 2020	29	13,560,891	185	(18,040,502)	214	(4,479,611)
FY 2021	23	56,415,608	130	(45,387,992)	153	11,027,616
FY 2022 ¹²	151	90,958,078	68	(63,898,589)	219	27,059,489
All Fiscal Years	<u>281</u>	<u>\$ 164,250,581</u>	<u>548</u>	<u>(\$ 130,155,538)</u>	<u>829</u>	<u>\$ 34,095,043</u>

¹² Amounts for fiscal year 2022 include reconciling items through March 31, 2022.

Table 2 (Continued): Reconciling Items Over 90 Days as of June 30, 2022						
Book Balance Reconciling Items						
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
Prior to FY 2020	242	\$ 87,944,515	219	(\$ 76,492,680)	461	\$ 11,451,835
FY 2020	160	61,207,209	98	(55,144,394)	258	6,062,815
FY 2021	151	94,364,518	74	(80,318,104)	225	14,046,414
FY 2022	261	69,468,552	74	(44,684,408)	335	24,784,144
All Fiscal Years	<u>814</u>	<u>\$ 312,984,794</u>	<u>465</u>	<u>(\$ 256,639,586)</u>	<u>1,279</u>	<u>\$ 56,345,208</u>

Source: Prepared by the Office of the Controller based upon the June 30, 2022 bank reconciliations provided by the Treasurer's Office

Our current year review disclosed that the following previously reported conditions have been corrected:

- The prior audit noted that all Treasurer bank reconciliations did not evidence approval by administrative officials (either the City Treasurer, First Deputy City Treasurer, Deputy Treasurer, or Assistant Treasurer), as required by the Treasurer's *Bank Reconciliation Policy*. During the current audit, we found that 63 of 65 bank reconciliations selected for testing were signed and approved by an administrative official. Based upon the results of our testing, we believe that sufficient improvement has been made to consider this condition resolved.
- Previous audits have reported ongoing problems with reconciling revenue activity for the Department of Public Health (DPH), noting variances between DPH's recorded collections and the amounts transferred daily to the consolidated cash account. In fiscal year 2022, the Treasurer, working with the Department of Revenue (Revenue), implemented a revised process for handling DPH receipts. The Treasurer discontinued the daily transfer of the DPH account's entire cash balance to the consolidated cash account. Instead, DPH revenue receipts are now separately reported on Revenue's daily collections report which enables the Treasurer to initiate manual transfers of the identified receipts from DPH's account to the consolidated cash account. As a result, recorded collections now match the related transfers. Based upon the improvements made to the process for DPH revenue receipts, we consider this condition resolved.

Criteria: 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*, revised on January 2022, any reconciling items must be resolved within 90 business days of the reconciled month.

SAP No. 4.1.2, *Unclaimed Monies*, instructs city departments to remit all checks outstanding for over one year to the city's Unclaimed Monies Fund, which is administered by the Finance Office who is then responsible for

remitting amounts to the state in accordance with the escheat act. The Pennsylvania escheat act requires that property that remains unclaimed by the owner for a specified dormancy period (depending on property type) be remitted to the Pennsylvania Treasury. The dormancy period is two years for unclaimed wages/payroll and three years for all other unclaimed property types.

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

Cause: Treasurer management failed to take adequate steps to ensure that all reconciling items were promptly investigated and resolved within 90 days in accordance with the *Bank Reconciliation Policy*. Regarding the long outstanding checks, Treasurer management has not completed the escheatment process.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management investigate and resolve all reconciling differences between the Treasurer account book and bank balances within the 90-day requirement of the Treasurer's *Bank Reconciliation Policy*.

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

Views of the Responsible Officials: Thank you for highlighting the corrections of previously reported conditions, including evidence of approval by administrative officials (either the City Treasurer, First Deputy City Treasurer, Deputy Treasurer, or Assistant Treasurer) – testing revealed approvals on substantially all of our bank reconciliations; and the implementation of a revised process for handling DPH receipts that has eliminated previously reported issues with reconciling DPH revenue activity. We are happy that these conditions are closed. Thank you also for acknowledging the improvement in the timeliness of monthly and fiscal year end bank account reconciliations.

The Treasurer's Office is committed to continuing to improve the reconciliation of legacy variances and to timely address current year variances. From FY21 to FY22, we reduced the number of bank accounts with long outstanding issues by 36 percent and the dollar value of long outstanding variances across all accounts through thorough and consistent research. We acknowledge the finding that more work needs to be done to continue to reduce the number and dollar amount of current and prior year variances. Our accounting staff will continue their efforts, cross training, and collaboration with required departments to further reduce bank reconciliation variances within the 90-day period stated in the bank reconciliation policy.

Regarding the escheatment finding, the Treasurer’s Office completed the escheatment process in April 2023 to send \$7,554,453.91 in eligible general disbursement funds to the City’s unclaimed fund which was then transferred to the Commonwealth of Pennsylvania. This escheatment submission addresses the legacy backlog for calendar years 2013 to 2018. The Treasurer’s Office is now reviewing the eligible calendar year 2019 and 2020 general disbursement and 2017 to 2020 payroll checks. This review includes communication with Finance and departments that originally issued the checks to ensure an accurate escheatment submission.

Auditor’s Comments on Agency’s Response: Regarding the finding that the Treasurer’s bank reconciliation procedures still require improvement, in its response, management states the following: “From FY21 to FY22, we reduced the number of bank accounts with long outstanding issues by 36 percent and the dollar value of long outstanding variances across all accounts through thorough and consistent research.”

We disagree with management’s assertion that the number of bank accounts with long outstanding issues decreased by 36 percent from fiscal year 2021 to fiscal year 2022. The fiscal year 2021 Report on Internal Control and On Compliance and Other Matters, disclosed that 50 bank reconciliations had long outstanding reconciling items. The current year report noted that 36 reconciliations had long outstanding reconciling items, which represents a decrease of 28 percent from the prior year.

2022-007 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

Condition: We previously reported that the Finance Office along with city departments failed to timely identify and close out remaining balances for certain completed grants. GAAU personnel employ a manual process to enter grant expenditures from the city’s accounting system into the SEFA through a fund schedule, which is adjusted based on grant reconciliations and closeout reports provided by the departments responsible for grants. The prior year report disclosed that the fund schedule contained \$26.9 million in accounts receivable and \$45.7 million in advances for inactive grants that expired three or more years ago. The current audit found that this condition has worsened. Specifically, our review of the seven departments with the largest accounts receivable and advance balances on the fund schedule identified \$66.7 million in accounts receivable and \$88.5 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 1999 to 2019.¹³

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.

Recommendations: 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

¹³ The seven departments selected for testing based on the largest dollar amounts of outstanding accounts receivable 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, Department of Human Services (DHS), Office of Homeless Services, and First Judicial District of Pennsylvania. The \$66.7 million of accounts receivable and \$88.5 million of advances include inactive grants with an award expiration date of June 30, 2019 and prior for all departments except DHS. Since DHS’ grants for fiscal years 2017 through 2019 were still being reconciled with the grantor agency, only balances with an award expiration date of June 30, 2016 and prior were included.

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.

Views of the Responsible Officials: We agree with the finding. GAAU will continue to reinforce SAP No. G-1-1 requirements with city departments. We will continue to request city departments to provide final reports and Statements of Account Balances as prescribed in the SAP. 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.

2022-008 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

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

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Condition: The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Excel files, that together with FAMIS, constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation expense and accumulated depreciation reported in the city’s 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 Charter¹⁴ requires management to maintain current and comprehensive records of all real property belonging to the city.

Effect: The use of multiple files creates a burdensome and onerous process that could affect the accuracy and completeness of capital asset amounts reported in the ACFR and causes extensive audit effort.

Cause: While Finance Office management 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.

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

Condition: Except for the Philadelphia Water Department (PWD) and the 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 the prior year report, Finance Office management stated that they had met with the OIT’s Geographic Information System (GIS) unit concerning the objective of reconciling the fixed asset ledger to the Integrated Workplace Asset

¹⁴ The Philadelphia Home Rule Charter, Section 6-501

Management System¹⁵ (IWAMS). Also, this response indicated that the GIS unit performed a review of the fixed asset ledger during fiscal year 2021, reconciling it to IWAMS and noting some unreconciled items that would be addressed by the Finance Office. When we followed up on this matter during the current audit, Finance Office management informed us that no further progress was made on this project during fiscal year 2022, and they were unable to provide us with a completed reconciliation.

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

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

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

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 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

Views of the Responsible Officials: Finance management will continue to meet with the GIS unit concerning our objective of reconciling the fixed asset ledger to IWAMS.

¹⁵ 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.

2022-009 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

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

In fiscal year 2022, the Finance Office applied for and was awarded \$250,000 from the Operations Transformation Fund (OTF)¹⁶ to support its SAP update project. The Finance Office used the OTF award to fund consultant support, which includes performing outreach to control and process owners throughout the city, working with relevant staff in city departments to update the SAPs, and ensuring that the updated draft SAPs obtain the appropriate sign-off from Finance Office management. During our current year follow-up, we were provided with an updated project tracking schedule as of February 24, 2023, which listed all active SAPs, indicated the status of each SAP’s update (not started, in progress, or complete), and provided new target deadlines for completing updates for all SAPs by September 2023. Since February 2020, 10 SAPs have been completed, with the most recent being SAP No. 4.1.3, *Gift and SEPTA Card Management Procedures*, which was a new SAP issued in December 2022. Also, according to the project tracking schedule, there were 60 SAPs for which the update was in progress, with seven of them near completion and in the final stages of the update process.

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

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

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 the continued efforts being made by Finance to update SAPs across the city, including onboarding consultant support to prioritize working meetings with Control Owners. We agree with your recommendation to continue the update of the city's SAPs and where applicable to identify SAPs as obsolete. We believe that the increased Citywide engagement with control and process owners is effective, and we will continue to have working meetings with stakeholders to facilitate the update of SAPs. Management will continue to prioritize this initiative.

CITY OF PHILADELPHIA

Federal and PA. Department of Human Services Findings and Questioned Costs – June 30, 2022

2022-010 REPORTING – MATERIAL WEAKNESS AND COMPLIANCE FINDING

Assistance Listing 93.268 Immunization Cooperative Agreements

Assistance Listing 93.940 HIV Prevention Activities Health Department Based

Condition: The city’s Department of Public Health (DPH) submitted special reports for the Federal Funding Accountability and Transparency Act (FFATA) that were inaccurate for both the Immunization Cooperative Agreements (Assistance Listing 93.268) and the HIV Prevention Activities Health Department Based (Assistance Listing 93.940) programs. This condition was reported as finding number 2021-010 in the prior year report. Please see Tables 3 and 4 below for details.

Table 3: Assistance Listing 93.268 - Immunization Cooperative Agreements				
Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
<u>2</u>	<u>0</u>	<u>2</u>	<u>2</u>	<u>0</u>
Dollar Amount of Tested Transactions	Subaward Amount Not Reported	Report Amount Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$7,512,069	0	\$7,512,069	(\$2,981,213)	0

Table 4: 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>8</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>0</u>
Dollar Amount of Tested Transactions	Subaward Amount Not Reported	Report Amount Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$4,758,755	\$80,000	\$4,678,755	(\$3,078,576)	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).

CITY OF PHILADELPHIA

Federal and PA. Department of Human Services Findings and Questioned Costs – June 30, 2022

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 in how to complete the FFATA reports. Also, DPH management indicated that the source documentation used to prepare the reports did not contain all applicable subaward information.

Recommendation: DPH should strengthen its procedures to ensure that its FFATA reports are accurate and timely submitted, and that the source documentation used in the preparation of the reports contains all applicable subaward information.

Views of the Responsible Officials and Corrective Action Plan: The Department of Public Health will strengthen procedures to ensure the accuracy and submission of FFATA reports. The Division of Disease Control (DDC) acknowledges the discrepancy within the submitted FFATA report for Immunization Cooperative Agreements Grant Program (ALN 93.268). DDC will implement appropriate review and preparation for all FFATA reporting by querying the necessary systems to gather and identify all pertinent information regarding contracts and amounts.

The Division of HIV Health's FFATA reports were late due to employee turnover and attempts to obtain information from providers. The Division of HIV Health is researching the fact that expenditure information for the FFATA reports included only six month of awards and not the full twelve months, as well as the fact that a subaward was not included in the source document used in preparation of the FFATA report.

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

Kathleen Brady, Director/ Medical Director, Division of HIV Health, Philadelphia Department of Public Health, 215-685-4778

2022-011 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY & COMPLIANCE FINDING

Assistance Listing 93.558 Temporary Assistance for Needy Families

Condition: Two out of two subrecipients selected for testing did not have one or more required elements defined in §2CFR 200.332 (a)(1) & (2) in their subrecipient agreements with the Mayor’s Office of Community Empowerment and Opportunity. For one subrecipient, the contract did not contain specific language indicating the Federal assistance listing number or title. For the other subrecipient, the contract did not have the federal compliance language to ensure subrecipient’s compliance with federal statutes, regulations, and the terms of the federal award. The funding source for this program is the PA Department of Human Services.

Criteria: §2CFR 200.332 (a)(1) & (2) state that the pass-through entity must ensure every subaward is clearly identified to the subrecipient by including assistance listing numbers and titles, and the 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 Federal award.

Effect: Failure to provide all the required subaward information may result in noncompliance at the subrecipient level.

Cause: The Mayor’s Office of Community Empowerment and Opportunity failed to include the required elements in the subrecipient agreements.

Recommendation: We recommend that 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.

Views of the Responsible Officials and Corrective Action Plan:

Contact Person: Allison Elliott, Director of Finance, Mayor’s Office of Community Empowerment and Opportunity, 215-685-3626

Management agrees with the finding and recommendation. Starting from FY2024, MOCEO will include a Notice of Award document for all subrecipients contracts. This document will contain the necessary OMB required information to clearly identify award details for the subrecipient.

2022-012 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Children and Youth Programs

Assistance Listing 93.558 Temporary Assistance for Needy Families

Assistance Listing 93.658 Foster Care – Title IV-E

Act 148 Pennsylvania Department of Human Services

Condition: For all 32 sampled Department of Human Services (DHS) subrecipients, the subaward letters sent by DHS to its subrecipients did not identify either the federal program names or the assistance listing numbers. The programs are funded through the Pennsylvania Department of Human Services.

Criteria: Per the OMB’s Uniform Guidance 2 CFR section 200.332 (a)(1), the pass-through entity must ensure every subaward is clearly identified to the subrecipient as a subaward and includes certain required information at the time of the subaward. Required information includes the federal award identification, such as the assistance listing number and title, to ensure that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award

Effect: Failure to provide all required subaward information to subrecipients may result in noncompliance at the subrecipient level.

Cause: DHS failed to include the required elements in the subaward letters sent to subrecipients.

Recommendation: DHS management should modify the subaward letters sent to subrecipients to include the federal program names and assistance listing numbers so that all required award information is communicated to subrecipients at the time of subaward.

Views of the Responsible Officials and Corrective Action Plan:

Contact Person: Landuleni Shipanga, Controller, Department of Human Services, 215-683-6366.

Effective 10/13/23, DHS has been preparing FY24 funding allocation letters that will be sent to provider agencies immediately. Going forward, the funding allocation letters will go out at the beginning of the contract fiscal year.

2022-013 SPECIAL TESTS – COMPLIANCE FINDING

Children and Youth Programs

Assistance Listing 93.090 Guardianship Assistance

Assistance Listing 93.645 Stephanie Tubbs Jones Child Welfare Services Program

Assistance Listing 93.658 Foster Care Title IV-E

Assistance Listing 93.659 Adoption Assistance

Assistance Listing 93.778 Medical Assistance Program

Assistance Listing 93.556 MaryLee Allen Promoting Safe and Stable Families Program

Act 148 Pennsylvania Department of Human Services

Condition: The Department of Human Services (DHS) reported salaries and benefits costs that exceeded maximum allowable amounts by \$1,721,868 on its fiscal 2022 County Children and Youth Social Service Programs’ Fiscal Summary. The programs are funded through the Pennsylvania Department of Human Services (PA DHS).

Criteria: The PA Code, Title 55, Chapter 3170, section 3170.41 through 3170.43 provides for PA DHS to reimburse salaries up to the limit of the county civil service personnel compensation plan, or where applicable up to the limit of Commonwealth compensation levels. The Commonwealth will not participate in costs which exceed the maximum salary levels.

Effect: The fiscal 2022 County Children and Youth Social Services Programs’ Fiscal Summary included ineligible expenditures of \$1,721,868. Because DHS is reimbursed a percentage of the expenditures it reports to PA DHS, we determined that ineligible costs had resulted in excess reimbursement of \$1,375,744. This amount represents questioned costs distributed to the following programs listed in the Table 5 below:

Table 5: Ineligible Salaries and Benefits Costs	
Funding Source	Questioned Costs
ALN #93.090	\$ 13,378
ALN #93.645	8,058
ALN #93.658	189,788
ALN #93.659	123,818
ALN #93.778	822
ALN #93.556	561
PA DHS – Act 148	1,039,319
Total	\$1,375,744

Source: Office of the Controller

Cause: DHS does not have adequate procedures in place to ensure that salaries and benefits requested for reimbursement do not exceed the maximum allowable amount per the Commonwealth Compensation Plan.

Recommendation: DHS should revise its procedures to ensure that amounts requested for reimbursement do not exceed the maximum allowable amount per the Commonwealth Compensation Plan.

Views of the Responsible Officials and Corrective Action Plan:

Contact Person: Landuleni Shipanga, Controller, Department of Human Services, 215-683-6366.

CITY OF PHILADELPHIA

Federal and PA. Department of Human Services Findings and Questioned Costs – June 30, 2022

After a recent discussion with the [PA] Office of Children, Youth, and Families (OCYF), DHS was informed that compensation plans for FY21 and FY22 were on file and under review. However, approval was pending. OCYF explained that the State reviews plans on a calendar-year basis. However, city pay plans change during a July-June fiscal year. Therefore, the possibility of overages can occur because of salary increases or other personnel changes. The process is that once the new compensation plan is received, the reviewing authority would flag any items that are in excess of the existing approved rates. At that time, DHS would be permitted to submit a waiver for the items in question.

2022-014 REPORTING – COMPLIANCE FINDING

Assistance Listing 21.023 Emergency Rental Assistance Program (ERAP)

Condition: The Department of Planning and Development’s Division of Housing and Community Development (DHCD) and the Office of the Director of Finance’s Grants Office (Grants Office) were unable to provide documentation to support expenditure amounts reported on the state January 2022 ERAP1 and ERAP2 monthly reports. Specifically, the January 2022 ERAP1 and ERAP2 reports included total unsupported expenditures of \$199,813 and \$272,135, respectively. See Tables 6 and 7 below for a breakdown by reporting category. The funding source for this program is the U.S. Department of the Treasury (Treasury) and the Pennsylvania Department of Human Services.

Table 6: Unsupported Expenditure Amounts on State January 2022 ERAP1 Monthly Report			
Category	Amount Per ERAP1 Report	Amount Per Supporting Document Provided	Unsupported Amount
Utility Assistance - Arrears Paid	\$ 4,199	\$ 235	\$ 3,964
Administrative Paid - Personnel	173,807	-	173,807
Administrative Paid - Operating	22,042	-	22,042
Total	\$ 200,048	\$ 235	\$ 199,813

Table 7: Unsupported Expenditure Amounts on State January 2022 ERAP2 Monthly Report			
Category	Amount Per ERAP2 Report	Amount Per Supporting Document Provided	Unsupported Amount
Utility Assistance - Arrears Paid	\$ 2,132	\$ -	\$ 2,132
Other Expenses Related to Housing - Arrears Paid	56,182	34,718	21,464
Administrative Paid - Personnel	184,358	-	184,358
Administrative Paid - Operating	64,181	-	64,181
Total	\$ 306,853	\$ 34,718	\$ 272,135

Source: Office of the Controller

Criteria: Per the Treasury’s ERAP1 and ERAP2 grantee award terms, recipients shall maintain records and financial documents sufficient to support compliance with applicable guidance regarding the eligible uses of funds. Additionally, per the Treasury’s ERAP Reporting Guidance, ERAP recipients should gather and maintain required information such as amounts paid directly or indirectly to tenants, landlords, and utility/home energy providers; amounts obligated to subrecipients and contractors; and administrative expenses. Recipients should also gather required information from their subrecipients and contractors, as

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applicable. In preparing monthly reports, ERAP recipients must review the information entered or submitted to the online reporting forms for errors and completeness.

Effect: Failure to properly reconcile and support reported expenditures can result in questioned costs and noncompliance for the program. The total unsupported expenditures of \$471,948 are considered to be known questioned costs. Also, federal grantors will not have complete and accurate information to make fiscal decisions on future federal awards.

Cause: DHCD and the Grants Office did not maintain sufficient supporting records for certain expenditure amounts included in the state January 2022 ERAP1 and ERAP2 monthly reports.

Recommendation: DHCD and the Grants Office should properly maintain records and financial documents and ensure all reported expenditures are fully reconciled to supporting records as part of their reporting process.

Views of the Responsible Officials and Corrective Action Plan: We disagree with the finding regarding spending reported to the Commonwealth of Pennsylvania. Prior to April 2022, reporting to the state was generated from a reporting dashboard within the Quickbase database. Internal controls checking these reports against raw data revealed an issue with the programming of the dashboard, and beginning in April 2022, reports were generated using raw data downloaded from the portal. Once this issue was detected and resolved, PHDC and the City sent updated and corrected reporting to the Commonwealth, along with a statement detailing our shift in methodology. This shift, and the corrected reports, were accepted by the Commonwealth, as shown in the email chains that were provided to the Controller's Office. The data underlying the original ERA1 and ERA2 January 2022 reports cited in the finding cannot be re-created since the errors have now been permanently corrected.

Auditor's Comments on Agency's Response: Regarding the corrected reports provided via email chains with the Commonwealth to our office, we have the following comment:

Only one email chain provided had an attached "updated historical check" for ERAP1, submitted to the Commonwealth in July 2022. The historical check included a line item for the month in question, January 2022, but was still reporting the amounts of \$173,807 and \$22,042 for the Administrative Paid categories (See Table 6). These amounts remain unsubstantiated per our audit testing. Additionally, no corrected reports or updated historical checks were provided via these email chains to address the discrepancies noted for ERAP2 (See Table 7).

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