



CITY OF PHILADELPHIA

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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements, and have issued our report thereon dated February 24, 2024. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing a change in accounting principle, discussed in Notes I.15 and III.9 to the basic financial statements. Our report also includes a reference to other auditors who audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

Primary Government

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

Component Units

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

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

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

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying 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 2023-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002 through 2023-008 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 report. The City of Philadelphia, Pennsylvania's written response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



CHARLES EDACHERIL, CPA
Deputy City Controller



CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
February 24, 2024



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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 programs for the year ended June 30, 2023. The City of Philadelphia, Pennsylvania's major federal 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 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, 2023.

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 DHS Single Audit Supplement are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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 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 \$1,273,308,441 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, 2023. 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 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 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.

- 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 2023-009, 2023-010, 2023-011, and 2023-012. 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be 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 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 program will not be prevented, or detected and corrected, on a timely basis. *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 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 2023-009, 2023-010, and 2023-011 to be significant deficiencies.

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, 2023, 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 24, 2024, which contained unmodified opinions on those financial statements. Our audit was performed 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
Deputy City Controller



CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
November 08, 2024

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor’s Results

CITY OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2023

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>
Child Nutrition Program Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
Community Development Block Grant	14.218
Home Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
Continuum of Care Program	14.267
Emergency Rental Assistance Program	21.023
Coronavirus State and Local Fiscal Recovery Funds	21.027
Child Support Enforcement	93.563
Clean Water State Revolving Fund	66.458
Water Infrastructure Finance and Innovation	66.958
Immunization Cooperative Agreements Grant Program	93.268
Community Services Block Grant	93.569
Opioid Response Grants	93.788
HIV Prevention Activities Health Department Based	93.940
Block Grants for Prevention and Treatment for Substance Abuse	93.959
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977

Dollar threshold used to distinguish between Type A and Type B programs: \$3,315,993

Auditee qualified as low-risk auditee? yes no

CITY OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2023

<u>Finding No.</u>		<u>Page</u>	<u>Questioned Cost</u>
<u>Section II - Financial Audit Material Weakness</u>			
2023-001	Lack of Technological Investment and Insufficient Oversight Increased the Risk for Undetected Material Misstatements and Led to Untimely Financial Reporting	X	
<u>Section III - Financial Audit Significant Deficiencies</u>			
2023-002	OIT's Access Controls and Segregation of Duties for Key Financial Systems Require Strengthening	X	
2023-003	PRISM's User Access Approvals Were Not Documented, and Periodic User Access Review Was Not Performed	X	
2023-004	One Philly System's Access Controls and Segregation of Duties Need Improvement	X	
2023-005	Treasurer's Bank Reconciliation Procedures Still Require Improvement	X	
2023-006	Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors	X	
2023-007	Capital Asset Control Deficiencies Increase Risk of Reporting Errors	X	
2023-008	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>			
2023-009	Subrecipient Monitoring – Significant Deficiency and Compliance Finding AL 14.239 Home Investment Partnerships Program AL 93.569 Community Services Block Grant	X	
2023-010	Matching, Level of Effort, and Earmarking – Significant Deficiency and Compliance Finding AL 14.267 Continuum of Care Program	X	
2023-011	Special Tests and Provisions – Rent Reasonableness – Significant Deficiency and Compliance Finding AL 14.267 Continuum of Care Program	X	

CITY OF PHILADELPHIA

Schedule of Findings and Questioned Costs – June 30, 2023

<u>Finding</u> <u>No.</u>		<u>Page</u>	<u>Questioned</u> <u>Cost</u>
2023-012	Period of Performance – Compliance Finding AL 14.267 Continuum of Care Program	X	\$63,816

Schedule of Findings and Questioned Costs

Section II - Financial Audit Material Weaknesses

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

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

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

Each of these conditions is discussed in more detail below.

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

Condition: The Finance Office failed to detect errors totaling \$31.7 million³ during preparation of the city’s fiscal year 2023 ACFR submitted for audit and did not provide certain financial statement information and finalized footnotes until very late in the audit process. An example of an undetected error was an \$18.9 million misstatement of reported grant expenditures (an \$18.9 million understatement of Grants Revenue Fund expenditures and an \$18.9 overstatement of General Fund expenditures) because certain departments’ FAMIS expenditure reconciliations, which reconcile FAMIS expenditures to amounts billed to grantors, were not obtained and reviewed timely.

¹Financial Accounting and Management Information System

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

³As part of our audit procedures, we analyzed these uncorrected ACFR errors and determined the total was immaterial to the city’s publicly issued fiscal year 2023 financial statements and therefore the financial statements can be relied upon for informative decision making.

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

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

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

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

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

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

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

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

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

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

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

Views of the Responsible Officials: We acknowledge that a new comprehensive financial reporting system will improve the ACFR preparation process and have begun the implementation of this system through our OPAL project.

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

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

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

Condition: The late submission of the Water Fund financial statements and supporting compilation contributed to the city’s inability to timely prepare the preliminary ACFR. For fiscal year 2023, while the Philadelphia Water Department (PWD) submitted the initial Water Fund financial statements and approximately half of the compilation by November 17, 2023, significant sections of the compilation were not provided until either mid-December 2023, or mid-February 2023. Further, the Water Fund financial statements were not finalized until

February 22, 2024, and the PWD did not submit the final compilation until February 23, 2024, one day prior to the issuance of the final ACFR and our audit opinion.

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

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

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

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

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

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

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

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

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

Source: Prepared by the Office of the City Controller.

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation: We recommend that GAAU allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes. 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 SEFA to our auditors with the goal of completing the audit and submitting an accurate Single Audit Reporting package to the Federal Audit Clearinghouse by the required deadline.

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

Schedule of Findings and Questioned Costs

Section III - Financial Audit Significant Deficiencies

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

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

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

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

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

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

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

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

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

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

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

- Establish and document a formal process to perform UARs, which include a review of user access permissions that consider SoD conflicts per OIT’s Access Control Policy. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness.
- Validate and ensure current processing procedures for user access provisioning and deprovisioning are appropriate per OIT’s Access Control Policy. Established procedures should include formal documentation requirements for authorization of new user access and terminations, including retention of onboarding and offboarding tickets so they are available for later review and audit.
- 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

¹¹ While this condition was considered a significant deficiency, the assessment of PRISM IT controls noted another finding with lesser impact that was reported as an other condition under finding number 2023-013 in the FY 2023 City of Philadelphia Report on Internal Control and on Compliance and Other Matters.

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

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

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

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

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

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

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

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

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

¹³ While this condition was considered a significant deficiency, there was another finding with lesser impact that was reported as an other condition under finding number 2023-014 in the FY 2023 City of Philadelphia Report on Internal Control and on Compliance and Other Matters.

addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.

Cause: OnePhilly management did not provide adequate oversight over the UAR process and SoD to ensure that the performance of UARs was formally documented, duties were adequately segregated, and the SoD matrixes were reviewed and approved on an annual basis per the city's policies.

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

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

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

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

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

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

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

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

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

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

Table 2: Reconciling Items Over 90 Days as of June 30, 2023						
Bank Balance Reconciling Items						
Date of Reconciling Item (Fiscal Year =FY)	Additions to Bank Balance		Reductions to Bank Balance		Net Activity	
	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2020	48	\$ 2,541,658	159	(\$2,262,254)	207	\$279,404
FY 2020	19	7,914,190	181	(17,996,613)	200	(10,082,423)
FY 2021	23	56,415,608	123	(44,713,752)	146	11,701,856
FY 2022	43	85,372,474	74	(69,294,310)	117	16,078,164
FY 2023 ¹⁴	6	8,303,412	51	(51,828,365)	57	(43,524,953)
All Fiscal Years	<u>139</u>	<u>\$ 160,547,342</u>	<u>588</u>	<u>(\$ 186,095,294)</u>	<u>727</u>	<u>(\$ 25,547,952)</u>
Book Balance Reconciling Items						
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	150	\$ 83,956,848	167	(\$ 78,459,226)	317	\$ 5,497,622
FY 2020	76	56,817,901	70	(54,375,616)	146	2,442,285
FY 2021	93	91,801,246	56	(79,710,671)	149	12,090,575
FY 2022	66	65,386,613	61	(48,274,762)	127	17,111,851
FY 2023 ^{Error!} Bookmark not defined. ³	168	78,568,273	56	(63,891,015)	224	14,677,258
All Fiscal Years	<u>553</u>	<u>\$ 376,530,881</u>	<u>410</u>	<u>(\$ 324,711,290)</u>	<u>963</u>	<u>\$51,819,591</u>

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

- While improvement was noted, our testing still disclosed noncompliance with the Pennsylvania escheat act. In fiscal year 2023, the Treasurer escheated to the state \$7.6 million related to vendor

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

checks for calendar years 2013 through 2018. However, there remained \$2.2 million in outstanding vendor checks for calendar years 2013 to 2019 and \$1.6 million in outstanding payroll checks for calendar years 2017 through 2020 that have not been escheated to the state. According to the Treasurer, the remaining outstanding checks will be escheated to the state during fiscal year 2024.

Criteria: Standard Accounting Procedure (SAP) No. 7.1.3.b, *Reconciliation of All Bank Accounts in All City Agencies*, requires that monthly reconciliations of city bank accounts readily identify all of the specific transactions comprising the differences between book and bank balances to allow city agencies to investigate 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 continue to work together to ensure that all escheatable amounts are reported and paid to the Pennsylvania Treasury. In the future, the Treasurer should comply with SAP No. 4.1.2 in remitting all checks outstanding over one year to the city's Unclaimed Monies Fund, and the Finance Office should send all unclaimed monies due to the Pennsylvania Treasury in accordance with the state escheat act.

Views of the Responsible Officials: The Treasurer's Office appreciates the acknowledgement of our efforts made to improve bank reconciliations to date. From FY22 to FY23, we reduced the number of bank accounts with outstanding variances from 55% of accounts tested to 41% of accounts tested. We agree that additional

actions are needed to timely resolve reconciling differences between the account and bank balances. To address this, CTO re-engaged fiscal staff from various departments in the process of reviewing unidentified reconciling items on a monthly basis to more timely address such items. CTO accountants also scheduled working sessions throughout FY23 and FY24 with the Accounting Bureau to further improve the CTO accountants' analytical abilities and familiarity with system reports to help research variances more quickly.

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

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

Condition: As previously reported, the Finance Office along with city departments did not timely identify and close out remaining balances for certain completed grants. GAAU personnel employ a manual process to enter grant expenditures from the city’s accounting system into the SEFA through a fund schedule, which is adjusted based on grant reconciliations and closeout reports provided by the departments responsible for grants. The prior year report disclosed that the fund schedule contained \$66.7 million in accounts receivable and \$88.5 million in advances for inactive grants that expired three or more years ago. The current audit found that this condition has worsened. Specifically, our review of the six departments¹ with the largest accounts receivable and advance balances on the fund schedule identified \$89.8 million in accounts receivable and \$150.9 million in advances for grants that had no current year activity and the grant award date expired three or more years ago, ranging from fiscal years 1998 to 2020.

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

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

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

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

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

Views of the Responsible Officials: We agree with this finding. GAAU will send updated lists of grants that need to be updated to departments, on a quarterly basis. GAAU will continue to reinforce the requirements of SAP No G 1-1 with departments. In addition to ongoing monitoring, GAAU provided citywide training on

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Grant Closeout Procedures, and has implemented a standard Grant Closeout Form and Grant Closeout Checklist to assist departments in complying with the requirements of the SAP.

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

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

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

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

Criteria: Philadelphia’s Home Rule Charter¹⁵ requires management to maintain current and comprehensive records of all real property belonging to the city.

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

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

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

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

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

Condition: Except for the PWD and the Department of Aviation (DOA), which both periodically check the physical existence and condition of their real property assets, this year’s audit again disclosed no evidence that the city’s other real property assets had been recently inventoried.

¹⁵ The Philadelphia Home Rule Charter, Section 6-501

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.

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

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

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

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

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

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

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

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. 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.

Schedule of Findings and Questioned Costs

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

2023-009 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

**Assistance Listing 14.239 Home Investment Partnerships Program
Assistance Listing 93.569 Community Services Block Grant**

Condition: The Office of Homeless Services (OHS) contracted with one subrecipient to provide services for both the Home Investment Partnerships Program (HOME) and Community Services Block Grant (CSBG). OHS did not perform a risk assessment to determine the appropriate monitoring of this subrecipient as required under 2 CFR §200.331(b). Funding for HOME is received from the U.S. Department of Housing and Urban Development. Funding for CSBG is received from the U.S. Department of Health and Human Services and passed through the PA Department of Community and Economic Development.

Criteria: OMB’s Uniform Guidance 2 CFR §200.331(b) states that all pass-through entities must evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations and the terms and conditions of the subaward for the purpose of determining the appropriate subrecipient monitoring to ensure proper accountability and compliance with program requirements.

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

Cause: OHS had not implemented policies and procedures to ensure the performance of risk assessments for all subrecipients.

Recommendation: OHS should implement policies and procedures to ensure the performance of risk assessments for all subrecipients to determine the appropriate level of subrecipient monitoring.

Views of the Responsible Officials and Corrective Action Plan:

OHS is in the process of finalizing a risk assessment and a RA policy and procedure to ensure that the RAs are completed timely and inform our monitoring plan. Both will be in compliance with OMB’s Uniform Guidance 2 CFR §200.331(b). PHMC will be the first subrecipient that will be tested. We will provide that risk assessment to your office and our partners at DHCD when it is completed. It is the goal to have this RA finalized and all grant funded program providers assessed for risk by 12/31/2024.

Contact Person: Jerome R. Hill, Director of Compliance, Office of Homeless Services, 215-686-0371, 215-520-3556

2023-010 MATCHING, LEVEL OF EFFORT, AND EARMARKING – SIGNIFICANT DEFICIENCY & COMPLIANCE FINDING

Assistance Listing 14.267 Continuum of Care Program

Condition: For one out of six grant agreements tested, the Office of Homeless Services (OHS) was unable to provide complete supporting documentation for matching amounts. The grant agreement was passed through to subrecipients via six grant allocations, and OHS could not provide the supporting documentation for matching amounts for two out of the six grant allocations. Funding for this program is received from the U.S. Department of Housing and Urban Development.

Criteria: Per 24 CFR 578.73(a) and (c)(3), the recipient or subrecipient must match all grant funds, except for leasing funds, with no less than 25 percent of funds or in-kind contributions from other sources. Before grant execution, services to be provided by a third party must be documented by a memorandum of understanding (MOU) between the recipient or subrecipient and the third party that will provide the services.

Effect: Failing to properly maintain matching documentation could result in OHS being non-compliant with federal regulations.

Cause: OHS did not have written policies and procedures in place for the maintenance of matching documentation.

Recommendation: We recommend that OHS create written policies and procedures for the maintenance of matching documentation and ensure they are implemented.

Views of the Responsible Officials and Corrective Action Plan:

OHS acknowledges the finding and agrees with the need to develop a corrective action plan. Given that this will require collaboration across multiple units, we are unable to provide a specific timeline for a comprehensive and accurate response at this moment. However, I will take immediate steps to initiate the necessary discussions. It is important to note that the prevailing, though incorrect, understanding within our team was that when a match involves cash, the primary source of verification occurs during the filing of the Annual Performance Report (APR).

Contact Person: Jerome R. Hill, Director of Compliance, Office of Homeless Services, 215-686-0371, 215-520-3556

2023-011 SPECIAL TESTS AND PROVISIONS – RENT REASONABLENESS - SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING

Assistance Listing 14.267 Continuum of Care Program

Condition: For three out of 25 sampled units receiving rental assistance, the Office of Homeless Services (OHS) did not ensure that contract rents being paid were comparable with those paid for unassisted units. For these three units, OHS only included Continuum of Care (CoC) Program assisted units in their rental comparability analyses. Funding for this program is received from the U.S. Department of Housing and Urban Development.

Criteria: Per 24 CFR 578.51(g), the recipient must determine whether the rent charged for the unit receiving rental assistance is reasonable in relation to rents being charged for comparable unassisted units, taking into account the location, size, type, quality, amenities, facilities, and management and maintenance of each unit. Reasonable rent must not exceed rents currently being charged by the same owner for comparable unassisted units.

Effect: OHS is not in compliance with 24 CFR 578.51(g). Additionally, by relying solely on assisted units, they may have established rent rates that do not accurately reflect the broader market.

Cause: OHS does not have written policies and procedures in place that clearly communicate the rent reasonableness requirements internally or to their providers.

Recommendation: We recommend that OHS create written policies and procedures that clearly communicate rent reasonableness requirements internally and to their providers.

Views of the Responsible Officials and Corrective Action Plan:

OHS will make the needed changes to all Rent Reasonable policies, standard operating procedures, housing standards, scopes of service, and monitoring tools to reflect the requirement above. Additionally, this will be communicated to internal staff and the provider community, especially those that have been allowed to complete their own rent reasonable assessments. It is also a possibility that we will no longer allow the Providers to conduct the rent reasonable verification themselves. This has yet to be determined.

Contact Person: Jerome R. Hill, Director of Compliance, Office of Homeless Services, 215-686-037, 215-520-3556

2023-012 PERIOD OF PERFORMANCE – COMPLIANCE FINDING

Assistance Listing 14.267 Continuum of Care Program

Condition: For two out of 51 tested transactions, the Office of Homeless Services (OHS) charged to the grant a total of \$63,816 in expenditures that were incurred after the established period of performance. Also, an additional three expenditure transactions were not liquidated within 120 calendar days after the end date of the period of performance; however, we are not questioning costs related to these transactions, as they are otherwise in compliance with period of performance regulations. Funding for this program is received from the U.S. Department of Housing and Urban Development.

Criteria: Per 2 CFR section 200.403(h), costs must be incurred during the approved budget period. Also, per 2 CFR section 200.344(b), unless the federal awarding agency or pass-through entity authorizes an extension, a non-federal entity must liquidate all financial obligations incurred under the federal award no later than 120 calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award.

Effect: Failure to incur expenditures and liquidate financial obligations within the required time period can result in noncompliance for the program as well as questioned costs and repayment obligations. Total expenditures of \$63,816 incurred after the period of performance are considered to be known questioned costs.

Cause: For most of the transactions noted in the condition, period of performance issues were the result of the timing of vendor invoice submissions. Additionally, OHS expenditure review procedures did not detect the noncompliance.

Recommendation: We recommend that OHS improve the efficiency of communications with their vendors to stress the importance of timely invoice submissions. OHS should also strengthen expenditure review procedures to detect future noncompliance.

Views of the Responsible Officials and Corrective Action Plan:

OHS agrees with the issues outlined, which stem from the delayed processing of invoices and untimely payments. These challenges are largely the result of longstanding issues with over-allocations and the need to catch up on processing a backlog of documents. We appreciate you bringing this to our attention, as it provides an opportunity to refine our procedures and put in place measures to prevent these issues from recurring in the future. This feedback will be valuable as we work to improve our processes and enhance our ability to manage workloads more effectively.

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