

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

CITY OF PHILADELPHIA

FISCAL YEAR 2024



City Controller
Christy Brady, CPA

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





CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

June 10, 2025

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

Dear Mayor Parker,

In accordance with the Philadelphia Home Rule Charter, the Office of the Controller conducted an audit of the basic financial statements of the City of Philadelphia, Pennsylvania (city) as of and for the fiscal year ended June 30, 2024, and has issued its Independent Auditor's Report dated February 24, 2025.

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

Attached is our report on Internal Control over Financial Reporting and on Compliance and Other Matters dated February 24th, 2025. The findings and recommendations contained in the report were discussed with management. We have included management's written response to the findings and recommendations and our comments on that response as part of the report. We believe that, if implemented by management, the recommendations will improve the city's internal control over financial reporting.

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

Respectfully submitted,

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

CHRISTY BRADY, CPA
City Controller

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



CITY OF PHILADELPHIA

FISCAL YEAR 2024

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller (Controller's Office) audited the City of Philadelphia's (city's) basic financial statements as of and for the fiscal year ended June 30, 2024, for the purpose of opining on its fair presentation. As part of this audit, we reviewed the city's internal control over financial reporting to help us plan and perform the examination. We also examined compliance with certain provisions of laws, regulations, contracts, and grant agreements to identify any noncompliance that could have a direct and material effect on financial statement amounts.

What the Controller's Office Found

The Controller's Office found that the city's financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and issued a separate report that accompanies the city's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024. The audit procedures used to arrive at our conclusion regarding these financial statements led us to identify matters involving the city's internal control over financial reporting that require management's attention. Some of the more important matters include:

- Inadequate oversight and review procedures over the city's financial reporting process, and the lack of a comprehensive financial reporting system, continued and led to the Finance Office providing certain financial statements, footnotes, and component unit reports for the audit extremely late.
- Untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA) resulted in the late submission of the single audit reporting package to the Federal Audit Clearinghouse.

Despite these concerns, the audit noted that the Office of the Treasurer made significant progress in addressing its longstanding escheatment backlog by forwarding \$2 million in unclaimed checks to the state. Individuals and businesses can now more easily search for and file claims to recover these funds.

What the Controller's Office Recommends

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

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

CITY OF PHILADELPHIA

FISCAL 2024



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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2024, 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, 2025. Our report includes a reference to other auditors who audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

Primary Government

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

Component Units

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

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

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Philadelphia Parking Authority (PPA) were not audited in accordance with *Government Auditing Standards*. Also, the reported amounts for the Philadelphia Housing Authority (PHA) include PHA's blended component units (Philly Seeds, Inc., Cambridge Plaza, L.P., Suffolk Manor Apartments, L.P., Richard Allen Phase III, L.P., Cambridge Plaza II, L.P., Mt. Olivet, L.P., Tasker I, L.P., Lucien E. Blackwell Homes Phase III, L.P., Mill Creek Phase I, L.P., Cambridge III, L.P., Germantown House, L.P., and Uni-Penn Housing Partnership IV) and discretely presented component units (Blumberg Apartments Phase I LP, Blumberg Senior Apartments LP, Blumberg Apartments Phase III LP, Harrison Senior Tower LP, Lucien E. Blackwell Homes Phase II, L.P., Ludlow Scattered Sites Phase III, L.P., Mantua Phase I, L.P., Marshall Shepard Village, L.P., Nellie Reynolds Gardens, L.P., Norris Apartments, L.P., North Central CNI Phase II, LP, North Central CNI Phase III, LP, Paschall Phase I, L.P., Paschall Phase II, L.P., Queen Lane Apartments, L.P., Sharswood Phase 4a, L.P., Sharswood Phase 6a, L.P., Strawberry Mansion, LP, Tasker II, L.P., Warnock Phase I, L.P., Warnock Phase II, L.P., 1301 North 8th Limited Partnership, 1920 East Orleans Limited Partnership, Allegheny West Plaza LLC, Liberty52 L.P., Neumann North, L.P., NewCourtland Apartments at Allegheny L.P., NewCourtland Apartments at Henry Ave 1B LP, NewCourtland Apartments at Henry Ave LP, Raymond Rosen Associates, L.P., Ridge Avenue Housing, L.P., Spring Garden Housing Limited Partnership, St. Anthony's Senior Residences Associates, L.P., Uni-Penn Housing Partnership I, and West Mill Place L.P) were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the PPA and PHA or that are reported on separately by those auditors who audited the financial statements of the PPA and PHA.

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

Report on Internal Control Over Financial Reporting

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying report as items 2024-001 and 2024-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2024-003 to 2024-010 to be significant deficiencies.

Report on Compliance and Other Matters

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

Other Conditions

We noted certain other conditions that represent deficiencies in internal control described in the accompanying report as items 2024-011 to 2024-017. Also, during our fiscal year 2024 examination of the financial affairs of city departments, we identified other internal control and compliance deficiencies which will be communicated to management in a separate report.

City of Philadelphia, Pennsylvania's Response to Findings

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

Purpose of this Report

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

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

Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Charles Edacheril". The script is cursive and fluid.

CHARLES EDACHERIL, CPA
Deputy City Controller

A handwritten signature in black ink that reads "Christy Brady". The script is cursive and fluid.

CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
February 24, 2025

CONTENTS

Page

MATERIAL WEAKNESSES

2024-001	Lack of Technological Investment and Insufficient Oversight Increased the Risk for Undetected Misstatements and Led to Untimely Financial Reporting.....	1
	The Lack of a Comprehensive Financial Reporting System Has Compromised the Timely and Accurate Preparation of the ACFR.....	1
	Late Receipt of Financial Reports for Component Units and Fairmount Park Trust Funds Still Delayed Preparation and Audit of ACFR.....	3
2024-002	Untimely Preparation of the Schedule of Expenditures of Federal Awards Contributed to the Late Submission of the Single Audit Reporting Package to the Financial Reporting Federal Audit Clearinghouse	4

SIGNIFICANT DEFICIENCIES

2024-003	OIT's Access Controls and Segregation of Duties for Key Financial Systems Require Strengthening.....	6
2024-004	ACIS' User Access Controls Still Require Strengthening	7
2024-005	PRISM's User Access Approvals Were Not Documented, and Periodic User Access Review Was Not Performed	9
2024-006	OnePhilly System's Access Controls Need Improvement	10
2024-007	Treasurer's Bank Reconciliation Procedures Still Require Improvement.....	12
2024-008	Failure to Close Out Prior Year Grant Activity Increases Risk of Reporting Errors.....	14
2024-009	Capital Asset Control Deficiencies Increase Risk of Reporting Errors	15
	Lack of a Comprehensive Capital Asset System Hampered Reporting Process.....	15
	Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records.....	16
2024-010	SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations.....	17

OTHER CONDITIONS

2024-011	Failure of Departments to Properly Approve Biweekly Payrolls Increases Risk for Improprieties and Undetected Errors.....	19
2024-012	City's Accounting System was Not Fully Utilized for Posting Enterprise Funds' Monthly and Year-End Journal Entries	20
2024-013	Late Submission of Aviation Fund Financial Statements Continues to Delay Preparation and Audit of ACFR... ..	21
2024-014	Certain Other General IT Controls for OIT Still Need Improvement.....	22
2024-015	Disaster Recovery Testing Had Not Been Performed for PRISM.....	23
2024-016	OnePhilly Physical Security Policy Was Still Not Reviewed	24

2024-017	Certain General IT Controls for PHLContracts Still Requires Strengthening	25
----------	---	----

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

ACIS System's Password Configurations Corrected.....	26
--	----

Improvement Made in the Timely Submission of Water Fund Statements.....	26
---	----

RESPONSE TO AUDITOR'S REPORT

Rob Dubow, Director of Finance.....	27
-------------------------------------	----

AUDITOR'S COMMENTS ON AGENCY RESPONSE	39
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MATERIAL WEAKNESSES

2024-001 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). To complete this task, 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 two 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. More specifically, we observed that:

- The Finance Office's lack of a comprehensive financial reporting system has compromised the timely and accurate preparation of the ACFR;
- Late receipt of component unit and fiduciary fund financial reports again delayed preparation and audit of the ACFR

Each of these conditions is discussed in more detail below.

The Lack of a Comprehensive Financial Reporting System Has Compromised the Timely and Accurate Preparation of the ACFR

Condition: The Finance Office failed to detect errors totaling \$69.2 million³ during preparation of the city's fiscal year 2024 ACFR submitted for audit and did not provide certain financial statement information and finalized footnotes until very late in the audit process. Examples of undetected errors included:

- Reported grant expenditures were misstated by \$10.6 million (a \$10.6 million understatement of Grants Revenue Fund expenditures and a \$10.6 overstatement of General Fund expenditures) because Finance Office accountants did not correct ACFR reported amounts to reflect expenditure adjustments reported by the First Judicial District on its FAMIS expenditure reconciliation.
- Accounts Payable for the General Fund were overstated by \$25.1 million due to the inclusion of multiple payable transactions that lacked sufficient documentation to substantiate their validity.

Finance Office accountants did not provide financial statements and footnotes reflecting the fully updated lease and subscription-based information technology arrangements (SBITA) accounting and reporting

¹Financial Accounting and Management Information System

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

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

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 8, 2025. The updated Aviation and Water Funds' financial statements were also not revised to include the GASB Statement No. 87 activity until February 8, 2025. Additionally, we did not receive a completed set of ACFR footnotes reflecting the capital assets, lease, and SBITA disclosure requirements until February 19, 2025, less than a week before we issued the audit opinion.

In our prior year report, we also noted that Finance Office accountants did not allow themselves sufficient time to analyze new accounting standards when issued. This affected the Finance Office's ability to provide a timely evaluation of the standards' effects on the city's ACFR and subsequently perform the necessary procedures to ensure earlier preparation and submission of the related accounting entries and footnote disclosures for audit purposes. In fiscal year 2024, there was significant improvement in this condition, as Finance Office accountants appropriately and timely implemented the two new GASB pronouncements, Statement No. 99, *Omnibus 2022* and Statement No. 100, *Accounting Changes and Error Corrections – an amendment to GASB Statement No. 62*. Due to this improvement, we consider this condition resolved [500123.01].

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 an accounting firm to help with the preparation and review of the ACFR. The accounting firm assisted with the analysis and implementation of the new GASB pronouncements, the enhancement of the capital asset records, and the development of detailed real property files by user code, which included both historical costs and net book value. However, despite this assistance, significant delays were still observed in the completion of the ACFR footnotes, particularly those related to capital assets, leases, and SBITAs.

Previously, we reported that 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, which limited its effectiveness. Although the fiscal year 2021 audit noted that a draft of those guidelines had been created, Finance Office accounting

management informed us through fiscal year 2023 that the draft had not been updated and finalized. In fiscal year 2024, Finance Office management finalized the checklist. Due to this finalization of the checklist, we consider this condition resolved [500119.01].

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 [500107.01]. The Finance Office, in conjunction with the Office of the Chief Administrative Officer and Office of Innovation and Technology (OIT), have continued a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS.

We also recommend that the Finance Office allocate adequate resources to ensure timely preparation and submission of ACFR financial statements and footnote disclosures for audit purposes [500124.01].

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

Condition: For many 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, 2024, three of the city's 10 component units and the Fairmount Park Trust Funds (FPTF)⁴ 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	10/31/2024	1/31/2025	92
Philadelphia Redevelopment Authority	12/31/2024	1/18/2025	18
School District of Philadelphia	1/15/2025	2/18/2025	34
<u>GOVERNMENTAL FUNDS</u>			
Fairmount Park Trust Funds	12/31/2024	1/22/2025	22

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, Philadelphia Gas Works, Philadelphia Housing Authority, and the Philadelphia Municipal Authority submitted their financial reports timely. While the Philadelphia Parking Authority financial report was due 11/29/2024, it was received on 1/3/2025, which is considered early enough in the report preparation and audit process to be excluded from the above lateness chart.

Source: Prepared by the Office of the City Controller.

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

The submission of required financial reports very late in the audit process remains the greatest challenge to the timely completion of the ACFR, leaving Finance Office accountants and Controller's Office auditors with little time to ensure that the financial reports are accurately included in, or excluded⁵ from, the city's ACFR.

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 fail to meet the required deadline.

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

2024-002 UNTIMELY PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS CONTRIBUTED TO THE LATE SUBMISSION OF THE SINGLE AUDIT REPORTING PACKAGE TO THE FEDERAL AUDIT CLEARINGHOUSE

Condition: The City was unable to complete and submit its required single audit⁶ by the deadline due to delays caused by city departments failing to provide timely and accurate financial information. Because the city expends federal awards greater than \$750,000, 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 by March 31st. The Finance Office's Grants Accounting and Administrative Unit (GAAU) is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA), which serves as the primary basis that the auditors use to determine which programs will be tested. For the fiscal year ending June 30, 2024, GAAU prepared and provided a

⁵ Per the city's interpretation of GASB 14, paragraph 131, which is consistent with prior years, an organization that may otherwise qualify as a component unit (i.e. the city is financially accountable to the organization because it can impose its will or has a financial benefit or burden relationship with the organization) can be excluded from reporting requirements if the nature and significance of the organization's relationship with the city is such that exclusion would NOT cause the city's financial statements to be misleading or incomplete.

⁶ A single audit is a comprehensive audit of the city's financial statements and its expenditures of federal and state grant awards.

preliminary SEFA on December 2, 2024, which was two months earlier than the previous year⁷, but it was incomplete. Between December 2024 and February 2025, GAAU made multiple changes to the SEFA due to errors and updates. As a result of these continued revisions, there was still insufficient time for the completion of the single audit and submission of the reporting package by the required deadline.

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.

OMB Uniform Guidance sets forth the city’s grant responsibilities, which include maintaining an accurate record of all federal awards received, expended, and identified by the federal program under which grant amounts were received.

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.

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. GAAU sent out the fiscal year 2024 requests for these reconciliations in August and September 2024, slightly earlier than the fiscal year 2023 requests, which went out in October 2023. However, 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. Specifically, several departments did not respond promptly to the Finance Office’s requests for expenditure reconciliations, which are essential for preparing the SEFA.

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

⁷ The fiscal year 2023 SEFA was provided for audit on February 6, 2024.

SIGNIFICANT DEFICIENCIES

2024-003 OIT'S ACCESS CONTROLS AND SEGREGATION OF DUTIES FOR KEY FINANCIAL SYSTEMS STILL REQUIRE STRENGTHENING

Condition: In our fiscal year 2023 audit, we again reported that there were weaknesses in OIT's general information technology (IT) controls over several of the city's key financial-related applications⁸. These weaknesses included segregation of duties related to these applications, as well as OIT's inability to properly document user access controls and User Access Reviews (UARs).⁹ During our current year review of OIT's general IT controls, we found that many of these prior conditions still exist. Specifically, we noted that OIT:

- was still unable to provide documented evidence that UARs were performed for certain key financial-related applications in accordance with the *OIT Access Control Policy*. While current active user listings were provided for the FAMIS application, the listings did not reflect users during fiscal year 2024 and they showed no evidence of a formal review, which would have also included proper segregation of duties and authorizations for privileged users. OIT is now working with the other city departments to verify active FAMIS users.
- continues to be inconsistent in maintaining documentation for the authorization of new user access and the deactivation of access for terminated users. We found that OIT was still unable to provide on-boarding documentation, which includes management approval, for ten of the fifteen samples tested. Additionally, they could not provide off-boarding documentation for six of the seven users we sampled whose access rights were not removed immediately upon termination, or in an otherwise timely manner.
- continues to follow policies that were not officially approved by management. This includes the *Access Control Policy Version 2.0* and the *Terminated and Inactive User Notification and Removal* policy for the city's mainframe system.

Criteria: OIT's *Access Control Policy* states that information owners are responsible for performing a documented review of standard user access and execution rights, at least annually. They are also responsible for a documented review of privileged¹⁰ and administrative user accounts at least every 6 months. 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. The *Access Control Policy* also requires that OIT establish policies and procedures for managing access rights which includes revocation of access.

Effect: There is a risk that over time access rights will not be updated timely or when necessary. 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. Additionally,

⁸ During the fiscal year 2022 audit, we engaged an independent accounting firm to perform this evaluation of 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 information technology security concerns certain details for this finding have been excluded from this report, which is publicly available.

¹⁰ Privileged accounts are typically described as system administrators for multiple types of systems.

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. Lastly, without a formalized termination policy in place, there may be inconsistency in how employee terminations are performed across city departments. This could lead to terminated employees retaining access to sensitive information, which poses an added security risk.

Cause: OIT has not established a formalized process to perform the UARs. They are also in the process of replacing the ticketing system used for onboarding and offboarding system access rights. 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, nor provided adequate oversight of the documentation of access rights and revocation of access to ensure all access documentation had been adequately prepared and approved by management.

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

- Establish and document a formal process to perform UARs, which include: (1) a review of user access permissions that consider proper segregation of duties. (2) an annual review of standard user and execution rights and (3) a bi-annual review of privileged and administrative user access. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness [300416.05].
- Establish a formal process for granting new system access and the revocation of access for employee terminations and departures. The process should be documented, reviewed and approved by management. Revocations and account manager notification should be prompt and immediate. Also, the OIT team should maintain onboarding and offboarding documentation for a retention period of at least three years, so they are available for audit. Lastly, we recommend validating and ensuring that the new ticketing system procedures appropriately align with OIT's Access Control Policy [300422.01].
- Work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].

2024-004 ACIS' USER ACCESS CONTROLS STILL REQUIRE STRENGTHENING

Condition: During our prior year audit, we again reviewed findings first identified during the fiscal year 2022 evaluation of general IT controls over the Procurement Department's Automated Contract Information System

(ACIS)¹¹. We found that the following weaknesses over access controls and segregation of duties continued into fiscal years 2023 and 2024. Collectively, these findings are considered to be a significant deficiency.

- The Procurement Department did not perform UARs for ACIS in accordance with OIT's *Access Control Policy*.
- For fiscal year 2024, we noted that two ACIS users, who are not part of the Procurement Department's IT unit, possess both executive level and administrator system access, creating a segregation of duties risk. While this is an improvement from the prior year, which identified three employees having both access privileges, management was still unable to provide supporting documentation or an exemption waiver as justification for the two employees maintaining these incompatible functions.

Criteria: According to OIT's Access Control Policy information owners are responsible for performing a documented review of standard user access and execution rights, at least annually, and a documented review of privileged and administrative user accounts at least every 6 months. Since the Procurement Department is the information owner for ACIS, they are responsible for performing this review. The policy also requires that the department (Procurement) restrict privileged accounts on the information system (ACIS) to a limited number of authorized individuals with a need to perform administrative duties.

Effect: If user access isn't reviewed regularly, there's a risk of outdated or inappropriate access to ACIS remaining in place. This could allow unauthorized users to make changes to the system or access sensitive data. Incompatible roles may allow someone to bypass controls and make undetected changes.

Cause: The Procurement Department has not established a formalized process to perform timely UARs. Additionally, Procurement management did not exercise sufficient oversight of assigned system access rights to ensure that duties were adequately segregated or, if segregation of duties was not feasible, that there was monitoring of the employees' activities.

Recommendations: To improve user access controls over ACIS, we recommend that Procurement management:

- Establish and document a formal process to perform UARs. [300424.01].
- Revoke system administrator access for the two ACIS users, who are not part of the Procurement Department's IT unit, and restrict system administrator access to IT personnel only. If the employees' duties affect the feasibility of this solution, ACIS IT management should obtain an exemption waiver from OIT as justification for the employees having both system administrator and executive level access. Procurement Department's IT unit should then perform monitoring and periodic activity reviews to ensure that only authorized transactions are performed [300422.02].

¹¹ During the fiscal year 2022 audit, we engaged an independent accounting firm to perform this evaluation of the OIT's general IT controls, which included the ACIS system.

2024-005 PRISM'S USER ACCESS APPROVALS WERE NOT DOCUMENTED, AND PERIODIC USER ACCESS REVIEW WAS NOT PERFORMED

Condition: During our prior year audit, we reported that system access deficiencies were again found within the city's newly acquired tax system, PRISM¹². We noted that the PRISM team was unable to provide the documentation required for the authorization of new system users and had not performed a current UAR of the PRISM application. Our current year testing again found that these weaknesses, which collectively are considered to be a significant deficiency¹³, continued to exist within PRISM's access controls. Specifically, we found that:

- Although the PRISM team showed improvement in creating the user tickets required for authorizing and onboarding new users, they were still unable to provide this documentation for three of the 11 new system users we sampled.
- The PRISM team could not provide user tickets for three sampled users who no longer required application access during fiscal year 2024. One of the users, who separated from the city on February 6, 2024, retained access until May 17, 2024, or 101 days after separation. While the PRISM application automatically deactivates the access of employees after 120 consecutive days of inactivity, this function should not be the primary means to control access security.
- While components¹⁴ necessary to perform the UAR already exist within PRISM, the PRISM team still had not performed a current UAR of system users.

Criteria: OIT's *Access Control Policy* recommends a documented approval process for user access to systems and data. OIT and city departments must provide approval for requests to create information system accounts. The policy also requires that OIT and city departments create, enable, modify, disable, and remove information system accounts in accordance with documented agency account management procedures. To that point, the Department of Revenue (Revenue)'s Onboarding and Offboarding policy specifically requires the creation and submission of approved system tickets to add and deactivate user access.

OIT's *Access Control Policy* also states that information owners are responsible for performing a documented review of standard user access and execution rights, at least annually, and a documented review of privileged¹⁵ and administrative user accounts at least every six months.

Effect: Unauthorized users may gain inappropriate and prolonged access to system resources, which could increase opportunities to perform unauthorized transactions.

¹² PRISM is an acronym for Philadelphia Revenue Information System Management (PRISM) application, which was fully implemented by the city in October 2022. During the fiscal year 2022 audit, we engaged an independent accounting firm to perform the initial IT application and general controls evaluation of PRISM.

¹³ 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 2024-015 in this report.

¹⁴ Components include role based security matrices, user security summaries, and the PRISM security guide.

¹⁵ Privileged accounts are typically described as system administrators for multiple types of systems.

Cause: PRISM IT management stated that the three sampled employees missing new user tickets were city external users (i.e. employees from departments other than Revenue) and the external user security ticket system did not launch until the end of February 2024. For the three separated users, management relied upon the “auto-cease” function within PRISM to automatically deactivate their access after 120 days of inactivity. Additionally, PRISM management has not developed and implemented written procedures to complete periodic UARs.

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

- Require the utilization of user tickets for all onboarding and offboarding access requests. Specifically, management should require supervisory approval before providing system access to new hires or deactivating access for internal and external users. [300422.03]
- Develop formal written procedures for performing periodic UARs and ensure that the PRISM team completes UAR for all system users. The review should also address assigned roles, system privileges and management approvals in accordance with OIT’s *Access Control Policy* [300422.04]. Management should also establish specific dates to perform and document UAR for standard user access (at least annually), and for privileged and administrative users (at least every 6 months) [300424.02].
- Encourage the PRISM team to incorporate the OnePhilly system’s active employee list, which is currently available to all departments, to identify separated employees and automatically deactivate their system access. Management could also use the OnePhilly list to verify active city users and determine their appropriate access levels [300424.03].

2024-006 ONEPHILLY SYSTEM’S ACCESS CONTROLS NEED IMPROVEMENT

Condition: During our fiscal year 2024 audit, we continued to follow-up on weaknesses first reported in fiscal year 2022 concerning the assessment of the OnePhilly system’s general IT controls.¹⁶ The following deficiencies remained within the system’s access controls and segregation of duties, which collectively are considered to be a significant deficiency.¹⁷

- While improvements were noted during our current review, the OnePhilly team still did not provide documentation supporting the performance of a UAR as required by city policies. We noted that a new monthly user access recertification process was introduced in February 2024, and fully implemented in April 2024. As part of this new process, the OnePhilly system automatically generates a reminder on the fifth of each month, including a current user report (Employee Security Access Summary), that

¹⁶ 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.

¹⁷ While this condition was considered a significant deficiency, there was another finding with lesser impact that was reported as a other condition under finding number 2024-016 in this report.

departments can compare against their internal records. If discrepancies are found, departments have the option to reject the list and request necessary user additions or removals within the system. While the creation of this new process represents a significant improvement, the OnePhilly team still does perform a formal review of the recertification process.

- We also noted that duties within the OnePhilly system were still not adequately segregated. Of the 23 users tested with elevated, or privileged, access, we noted the following:
 - two employees had database, system, and domain administrator access;
 - two employees had both database and domain administrator access;
 - three employees had database and system administrator access;
 - one employee had domain and system administrator access.

Domain administrator access in the OnePhilly system allows users to grant, remove, or modify user responsibilities. These users can create and deactivate 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 *Segregation of Duties Policy* was not updated in fiscal year 2024, with the last update issued on March 10th, 2023. Additionally, the latest Segregation of Duties Role Matrix, dated December 23, 2024, was not finalized, contained several inconsistencies, and showed no evidence of review or approval. The Role Matrix details the functions and roles that are restricted to specific user groups.

Criteria: OIT’s *Access Control Policy*, states that information owners are responsible for performing a documented review of standard user access and execution rights, at least annually. This section also requires that the department restrict privileged accounts on the information system to a limited number of authorized individuals with a need to perform administrative duties. The OnePhilly *Segregation of Duties Policy* states that segregation of duties 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. Additionally, industry standards require that IT policies and procedures should be reviewed at least annually and more frequent reviews may be necessary depending on the nature of the policies and any changes in the organization or its environment.

Effect: There is a risk that, over time, access rights may not be properly updated or aligned with expected access rights privileges, which could result in users having access that is not comparable with their job responsibilities. Furthermore, users could have access to conflicting roles, responsibilities, and permissions within the system, that could bypass established system controls.

Cause: OnePhilly management did not provide adequate oversight over user access controls to ensure that the performance of UARs was formally documented, duties were adequately segregated, and segregation of duties matrices were reviewed and approved on an annual basis per the city’s policies.

Recommendations: In accordance with the city’s policies, to improve user access controls and ensure proper segregation of duties 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 system and domain administrators and be performed at least every six months. Each department's review should evidence whether users' access roles and permissions are appropriate or require revisions. The review should include signoff and approval from each designated department manager. All results should be retained for subsequent review and audit [303519.04].
- Re-evaluate and restrict privileged access to those who perform multiple functions to minimize the risk of unauthorized transactions. If it is deemed necessary for certain users to have more than one administrative function, then management should provide documented justification with management’s approval and monitor the activities of these employees to ensure they are appropriate for the circumstances [300422.05].
- Implement a system that preserves the segregation of duties, instead of consolidating all privileged access into one IT group. This approach should:
 - clearly define and document the roles and responsibilities for domain administrators, system administrators, and database administrators [300424.04].
 - implement appropriate access controls and permissions necessary to limit user access to only the resources necessary for each role [300424.05].
 - regularly review and document the privileged access to identify any deviations or unauthorized access to the OnePhilly application [300424.06].
- Review and approve both the *Segregation of Duties Policy* and the supporting matrices periodically or on an annual basis. The OnePhilly team should also thoroughly review the Segregation of Duties Roles Matrix to ensure it provides adequate guidance, ensures the checks and balances, clearly documents the appropriate approval authority, and retains the revision history [300422.06].

2024-007 TREASURER’S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior year audit, we reported that 28 of 68 bank reconciliations prepared by the Office of the City Treasurer (Treasurer) contained numerous long outstanding reconciling items. We also noted that the Treasurer was not in compliance with Pennsylvania’s Disposition of Abandoned and Unclaimed Property Act (escheat act), when it failed to timely remit long outstanding vendor and payroll checks to the state. Our current year testing found that although there was significant improvement in the escheat act remittances, deficiencies still exist within the Treasurer’s bank reconciliation procedures.

While Treasurer personnel have made progress in decreasing the number of long outstanding items affecting both the bank and book reconciliations, continued effort is still needed to resolve this finding. As of June 30, 2024, we identified 17 of 69 reconciliations still showing long outstanding reconciling items. As shown in

Table 2 below, there were 364 bank reconciling items over 90 days old with a net total dollar amount of \$3.1 million and 417 book reconciling items over 90 days old with a net total dollar amount of \$4.8 million.

Table 2: Reconciling Items Over 90 Days as of June 30, 2024						
Bank Balance Reconciling Items						
	Additions to Bank Balance		Reductions to Bank Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2021	60	\$3,705,169	74	(\$21,324,366)	134	(\$17,619,197)
FY 2021	10	54,921,865	14	(43,562,595)	24	11,359,270
FY 2022	13	69,220,664	25	(69,185,068)	38	35,596
FY 2023	41	59,202,338	34	(55,503,075)	75	3,699,263
FY 2024 ¹⁸	60	51,515,452	33	(52,076,295)	93	(560,843)
All Fiscal Years	<u>184</u>	<u>\$238,565,488</u>	<u>180</u>	<u>(\$241,651,399)</u>	<u>364</u>	<u>(\$3,085,911)</u>
Book Balance Reconciling Items						
	Additions to Book Balance		Reductions to Book Balance		Net Activity	
Date of Reconciling Item (Fiscal Year =FY)	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2021	63	\$6,161,741	25	(\$4,248,907)	88	\$1,912,834
FY 2021	8	139,806	2	(961)	10	138,845
FY 2022	13	150,524	12	(234,556)	25	(84,032)
FY 2023	100	4,861,084	22	(289,483)	122	4,571,601
FY 2024 ¹⁸	110	9,532,108	62	(11,300,335)	172	(1,768,227)
All Fiscal Years	<u>294</u>	<u>\$20,845,263</u>	<u>123</u>	<u>(\$16,074,242)</u>	<u>417</u>	<u>\$4,771,021</u>

Source: Prepared by the Office of the Controller based upon the June 30, 2024 bank reconciliations provided by the Treasurer's Office

However, the Treasurer made significant progress in addressing its escheatment backlog in fiscal year 2024, including the escheatment of \$1.5 million in general disbursement (vendor) checks, \$162,000 in election checks, and \$378,000 in payroll checks to the state. Balances of only \$63,000 in outstanding general disbursement checks for calendar years 2013 to 2020, and \$291,000 in outstanding payroll checks for calendar years 2017 through 2021 remained unremitted as of June 30, 2024. Due to this progress, we consider this finding resolved [500117.05].

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 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 in January 2022, any reconciling items must be resolved within 90 business days of the reconciled month.

¹⁸ Amounts for Fiscal 2024 include reconciling items through March 31, 2024.

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. Furthermore, 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.

Cause: Treasurer management did not take adequate steps to ensure that all reconciling items were promptly investigated and resolved within 90 days in accordance with the *Bank Reconciliation Policy*.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management investigate and resolve all reconciling differences between the Treasurer book and bank account balances within the 90-day requirement specified by the Treasurer's *Bank Reconciliation Policy* [500119.02].

2024-008 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

Condition: Over the last several years, we have reported that the Finance Office, along with city departments, did not timely identify and close out remaining balances for certain completed grants. Personnel in the GAAU use a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule. This schedule is adjusted based on grant reconciliations and closeout reports provided by the departments responsible for the grants. The prior year report disclosed that the fund schedule contained \$89.8 million in accounts receivable and \$150.9 million in advances for inactive grants that expired three or more years ago.

The current year audit found that while the amounts reported for this condition have decreased, inactive grants with outstanding balances continue to be a significant problem. Specifically, our review of the four departments¹⁹ with the largest accounts receivable and advance²⁰ totals on the fund schedule identified \$50.6 million in accounts receivable and \$109.8 million in advances for grants that had no current year activity and award dates that expired between fiscal years 1999 to 2021.

Criteria: The city's SAP No. G 1-1 – *Grant Closeouts* provides uniform procedures 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. This SAP 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.

¹⁹ The four departments selected for testing based on the largest dollar amounts of outstanding accounts receivable and advance balances were the Managing Director's Office, Department of Human Services, Office of Homeless Services, and First Judicial District of Pennsylvania.

²⁰ An advance represents grant funds received by the city before the related expenditures are incurred.

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

Cause: For fiscal year 2024, GAAU issued two requests, one in April and another in August, for city departments to close out their grants. Despite this, city departments repeatedly failed to respond promptly or properly identify and close out completed grants. Furthermore, both GAAU and city departments did not adequately discharge their responsibility to effectively monitor grant activity and failed to coordinate with each other, resulting in significant delays in identifying and closing out completed grants in a timely manner.

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

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

2024-009 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 effectively 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 spreadsheets accumulate the cost of capital assets and work in progress, while other spreadsheets 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." During fiscal year 2024, the Finance Office worked with city departments to include additional information, such as book value, accumulated depreciation, and net book value in the city's fixed asset schedule. While we commend the Finance Office's efforts to improve the completeness of the fixed asset records, this action still does not result in the single, comprehensive database necessary to manage the city's extensive real property assets.

Criteria: Philadelphia’s Home Rule Charter²¹ requires management to maintain current and comprehensive records of all real property belonging to the city.

Effect: The reliance on multiple files creates a cumbersome and inefficient process that significantly undermines the accuracy and completeness of capital asset amounts reported in the ACFR, leading to excessive audit effort and increased risk of error.

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

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

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

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

Criteria: SAP No. E-7201, *Real Property Perpetual Inventory*, specifies that the Procurement Department shall physically inspect all city-owned real property on a cyclical basis and check against the inventory listing to determine actual existence, condition and propriety of use. Additionally, the 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 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: The Finance Office, Procurement Department, and Public Property, the agency responsible for acquiring and maintaining the city’s real property assets, have not developed a coordinated process for physically inventorying all city-owned real property.

Recommendations: We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical

²¹ The Philadelphia Home Rule Charter, Section 6-501

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 [500106.04].

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

2024-010 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Condition: The city's Standard Accounting Procedures (SAPs), are a set of formal guidelines designed to ensure accountability, accuracy, and compliance with applicable laws, regulations, and accounting standards. These procedures cover various aspects of financial operations, including cash handling, bank account management, and financial reporting. The Finance Office is responsible for establishing, maintaining, and overseeing adherence to SAPs across all city departments and agencies, however these procedures continue to be long outdated and fail to reflect the automated processes and practices currently in use. Over the years, as new technologies were adopted and daily practices were enhanced, the existing SAPs have not been updated accordingly, with more than 66 percent now being at least half a century old.

In fiscal year 2024, the Finance Office continued to utilize the Operations Transformation Fund (OTF)²² to support its SAP update project²³. The Finance Office used the OTF award to first hire a consultant in September 2022 to work with relevant staff in city departments throughout the city, to assist in updating the SAPs. As of March 2025, the Finance Office reported that all 171 SAPs remained active, with updates in progress for 126, including three payroll-related procedures pending publication. Twelve SAPs may be rescinded after review. Only 10 SAPs have been completed since February 2020, the latest issued in December 2022.

The Finance Office informed us that they are currently engaged in the configuration and testing of OPAL, a new accounting system anticipated to be launched by July 2026. As of fiscal year 2025, the Finance Office and the consultant have collaborated to continue updating relevant SAPs to include them in a new comprehensive accounting manual, which will reflect the new business processes necessitated by the implementation of OPAL.

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.

²² 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.

²³ The SAP update project is an ongoing Finance Office effort to modernize outdated and mostly manual accounting policies and processes with present-day computerized practices and technology driven procedures.

Effect: With most SAPs now outdated and no longer reflective of the city's current automated processes, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting error, financial misstatements, and the misappropriation of assets.

Cause: The Finance Office has faced resource shortages over the years, which hindered its ability to conduct periodic reviews and updates to the SAPs.

Recommendation: We recommend that the Finance Office continue reviewing and updating 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 or recommended for the city's accounting environment. Once this initial update is completed, the Finance Office should develop a schedule for periodically evaluating and updating the SAPs in the future [50102.16].

OTHER CONDITIONS

2024-011 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES AND UNDETECTED ERRORS

Condition: Since fiscal year 2019, we have reported that departments did not properly submit biweekly payroll on time by the payroll closing deadline. Additionally, we found that the executive-level approvals were provided by employees who were not officially authorized to do so. In fiscal year 2023, we reported 112 instances (or 8.9 percent of all payrolls processed) where departments missed the deadline for submitting payroll with proper approvals. None of those instances had the executive-level approver listed on a signature authorization card - the city's official record of who is authorized to approve payroll transactions. Although departments were updating approval responsibilities in the OnePhilly payroll system, they were not updating their signature authorization cards to match. While the timeliness of payroll submissions has improved, the issue with unauthorized executive-level approvals still exists.

The electronic payroll approval process, implemented in mid-September 2020, requires departments to electronically review and approve payroll by both supervisory and executive-level employees before the closing date of each biweekly pay period. In order to approve payroll, employees must be listed on the department's approved signature authorization card, as well as submit an Authorized Signer Update Form to the Finance Office's Central Payroll Unit.

In fiscal year 2024, there were 149 instances (or 11.7 percent of all payrolls processed²⁴) where unauthorized employees provided executive-level approval. None of these individuals were listed on the signature authorization cards.

In fiscal year 2024, however, we noted a significant improvement concerning the late submission of payroll. We identified only six instances of lateness throughout the year across all departments. As a result of this improvement, we consider this part of the condition resolved.

Criteria: To prevent irregularities, good internal control procedures dictate that only individuals who are properly authorized should be approving the bi-weekly payrolls. Additionally, signature authorization records should be appropriately updated as required by the city's Standard Accounting Procedure (SAP) No. E-0911 titled *Signature Authorization Cards*. This SAP requires the Finance Office to maintain a current signature file of employees authorized to enter executive-level approvals for their respective department's payroll.

Effect: Failure to ensure that payroll is reviewed and timely approved by properly authorized individuals increases the risk of undetected errors and improprieties.

Cause: Finance's Central Payroll Unit did not ensure that departments updated their signature authorization cards when change were made to the executive-level payroll approvers in the OnePhilly system. While the Central Payroll Unit provides instructions through bi-weekly payroll closing emails, the electronic payroll approval training guides, and the Authorized Signer Update Form, these documents do not clearly state that departments also need to update their signature authorization cards.

²⁴ Total payrolls submitted for fiscal year 2024 equaled 1,274. This was determined by multiplying 26 payroll periods by the 49 city departments.

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

2024-012 CITY'S ACCOUNTING SYSTEM WAS NOT FULLY UTILIZED FOR POSTING ENTERPRISE FUNDS' MONTHLY AND YEAR-END JOURNAL ENTRIES

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

In fiscal year 2024, no progress was made in addressing this issue. Our audit revealed that the Finance Office did not record any entries in FAMIS to capture fiscal year 2024 activity or the resulting ending balances in the full accrual Aviation and Water Funds. Additionally, for the full accrual Water Fund, the most recent entries posted in FAMIS were those recording the fiscal year 2022 ending balances. Auditors also noted that the entries previously posted to the FAMIS full accrual Water and Aviation Funds were merely adjustments to reflect a change in balance for each account, rather than the actual monthly and year-end accrual adjustments.

Criteria: The Finance Office, PWD, and DOA should be using the full accrual Water and Aviation Funds in FAMIS to post adjusting entries to ensure compliance with financial reporting standards as required under generally accepted accounting principles (GAAP) and to provide a clear trail of adjustments between the FAMIS cash basis records and full accrual statements and decrease the risk of errors in the ACFR.

Effect: By failing to record monthly and year-end accrual adjustments in FAMIS, the Finance Office, PWD, and DOA are not fully complying with the accrual basis of accounting as required under GAAP. These monthly and year-end adjustments must be properly recorded in the city's accounting system to ensure compliance with financial reporting standards and to support the preparation of accurate, auditable financial statements. Moreover, reliance on off-system records lacks transparency and accountability and increases the risk of errors in compiling the city's ACFR.

Cause: Previously, accountants in the Finance Office have stated that more urgent priorities have prevented them from collaborating with the PWD and DOA to fully utilize the accrual-based Water and Aviation Funds in FAMIS. As a result, accountants from the PWD and DOA, with the assistance of consultants, produce a compilation package containing detailed support for the financial statements, including year-end adjusting journal entries.

Recommendations: As the city moves forward with replacing its financial accounting systems²⁵, we continue to recommend that Finance Office management include a process for the PWD and DOA to record their monthly and year-end accrual adjustments in the new accounting system. [500119.06].

²⁵ The city is continuing a project to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project.

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Aviation Funds, as well as the PWD's Water Funds, up to date through fiscal year 2024 for the upcoming fiscal year 2025 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02].

2024-013 LATE SUBMISSION OF AVIATION FUND FINANCIAL STATEMENTS CONTINUES TO DELAY PREPARATION AND AUDIT OF ACFR

Condition: We previously reported that the delayed submission of the Aviation Fund financial statements and supporting compilation contributed to the city's inability to timely prepare the preliminary ACFR. While more than half of the compilation was available during November and December 2023, updated versions of the financial statements and GASB No. 87 (GASB 87) footnote disclosures were still submitted to auditors and the Finance Office very late in the audit, which caused ACFR adjustments up until the week of our opinion.

For fiscal year 2024, this condition continued without significant improvement. The DOA delivered some of the initial sections of the Aviation compilation as early as November 8, 2024, between one and six days earlier than provided in fiscal year 2023. The DOA also provided over half of the compilation by December 23, 2024, which was generally consistent with the timing of the previous year's submissions. However, the DOA's inability to timely provide updated versions of the Aviation Fund financial statements and the remaining sections of the compilation continued to cause delays in the preparation of the final ACFR. The compilation was not complete until January 30, 2025, which resulted in the Finance Office not updating the ACFR financial statements until February 8, 2025. Additionally, the required Aviation GASB87 footnote disclosures were not included in the ACFR until February 15, 2025, just nine days before the release of our fiscal year 2024 audit opinion.

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

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

Cause: In preparing the city's ACFR, Finance Office accountants must gather, analyze, and summarize financial data from various sources, including the DOA. Additionally, the DOA must wait for information from the Finance Office before it can finalize its financial statements and supporting compilation. However, the Finance Office and the DOA have not established mutually agreed-upon target dates for key information, which has contributed to delays in completing the Aviation Fund financial statements and therefore earlier inclusion in the preliminary ACFR.

Recommendation: To improve the timeliness of its financial reporting, we recommend that the Finance Office and the DOA work together to establish earlier deadlines for shared financial information that currently impact the Finance Office and the DOA's ability to timely finalize the ACFR. The Finance Office and the DOA should

also establish mutually agreed-upon deadlines for the completion of the Aviation Fund financial statements and the supporting compilation [500118.04].

2024-014 CERTAIN OTHER GENERAL IT CONTROLS FOR OIT STILL NEED IMPROVEMENT

In addition to the significant deficiency discussed on pages 6 and 7 of this report, we once again noted findings relating to OIT's general IT controls over key financial-related applications that were not corrected during fiscal year 2024. The results of our current audit again found the following deficiencies:

- OIT again did not perform disaster recovery testing or update their current disaster recovery plan during fiscal year 2024.
- OIT's Change Management Standard Operating Procedure did not specifically address details of the Change Advisory Board approval process and documentation standards for end-user testing.

Each of these conditions is discussed in more detail below.

Disaster Recovery Testing and Plan Update Was Not Performed by OIT

Condition: During the current fiscal year, OIT still did not perform disaster recovery testing as previously recommended. While OIT provided auditors with documented test results from fiscal year 2023 and fiscal year 2025, they could not provide evidence of testing in fiscal year 2024, and the city's mainframe system failed both tests. The results showed that in one test, the mainframe and its operating systems and databases could not be restored as scheduled and anticipated. The other test showed significant issues with recovery and restoration. Additionally, OIT's disaster recovery plan was not adequately updated in fiscal year 2024.

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

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

Cause: OIT management did not prioritize effectively scheduling testing dates with their vendor.

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

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

Condition: While OIT updated its Change Management Policy in July 2023, the policy was not reviewed and approved during fiscal year 2024. Additionally, the policy was still not updated to address the change ticket approval process and documentation standards for end-user testing, as recommended by OIT's Change Advisory Board²⁶.

Criteria: Change management procedures should establish clear performance and documentation standards for end-user testing and required approvals to ensure that requested application changes are adequately tested and properly approved before migration to production.

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

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

Recommendations: OIT management should update its Change Management operating procedures to include (1) documentation standards for end-user testing and (2) information relating to how approvals for all change types should be documented in the service ticket [300413.05]. The Change Management Policy should also be reviewed and approved annually [300424.07].

2024-015 DISASTER RECOVERY TESTING HAD NOT BEEN COMPLETED FOR PRISM

Condition: We previously reported that disaster recovery testing had not been performed on the city's tax system, PRISM, since its implementation in October 2022. During fiscal year 2024, PRISM management engaged the services of a software consulting firm to prepare a disaster recovery plan that included four key testing components. Our review of the recovery plan found that while the consultants were able to start testing midway into fiscal year 2025, they only completed two of the four components. The consultants successfully performed a hard failover test, which evaluated PRISM's ability to connect to a back-up system in the event of an unexpected system failure, and a data verification soft test, which checked the quality and completeness of the data after a system malfunction. However, PRISM management could not provide evidence that a disaster recovery connectivity test and an application soft test were performed. These components would have examined PRISM's ability to restore applications and data after an unexpected system failure and assess PRISM's reliability and performance under disaster conditions. Without the benefits of a complete disaster recovery test, management still cannot ensure that PRISM operations could withstand a significant or catastrophic interruption of service.

²⁶ The Change Advisory Board (CAB) is an OIT internal body used to support OIT's change management approval process. The board includes 12 members from OIT's senior IT management. Requests for changes are presented to the board for approval who meet once a week.

Criteria: The GFOA recommends that every government formally establish written policies and procedures for minimizing disruptions resulting from failures or inaccessibility of computers and other advanced technologies following a disaster. It also recommends that these written policies and procedures be reviewed and thoroughly tested annually.

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

Cause: The PRISM team did not thoroughly review the disaster recovery plan and coordinate sensitive timing requirements with the software consultant prior to the start of testing. PRISM management informed us that complete disaster recovery testing would require the PRISM team to shut down the system at a time that's not only suitable for them but for all internal and external users, as well.

Recommendations: Revenue management should ensure that PRISM disaster recovery testing is completed at least annually [300422.09]. Management should also review the disaster recovery plan to ensure that all critical testing components are covered and timing concerns addressed accordingly [300424.08].

2024-016 ONEPHILLY PHYSICAL SECURITY POLICY WAS STILL NOT REVIEWED

Condition: Our previous review of the OnePhilly system's general IT controls noted that OnePhilly management did not provide sufficient documentation to show they had properly reviewed and approved the third-party vendor's Physical Security Policy and Physical Access Control documents, which were last updated in April 2021. During our fiscal year 2024 audit, we found that while the Physical Security Policy and Physical Access Control documents were updated after the fiscal year ended, the document lacked clarity on whether the OnePhilly system is hosted, and it did not indicate whether OnePhilly management had reviewed and approved the documents.²⁷

Criteria: Physical security documents are vital to organizations so that they have a proactive plan to safeguard the system's information from unauthorized access, misuse, and technical hazards. The National Institute of Standards and Technology²⁸ (NIST) Special Publication 800-53 entitled *Security and Privacy Controls for Information Systems and Organizations* provides guidance on various aspects of physical security for information systems. The guidance includes establishing emergency response plans, conducting security assessments, and regularly reviewing and updating policies to address evolving threats.

Effect: OnePhilly management did not exercise sufficient oversight of the system's physical environment. As a result, in the event of a physical security breach, the system may be unable to adequately safeguard customer information and ensure the continuity of required services.

²⁷ In addition to the other condition reported above, the current audit noted a significant deficiency in OnePhilly's access controls, which is discussed on pages 10 to 12 of this report.

²⁸ NIST is a non-regulatory agency within the U.S. Department of Commerce. Its mission includes developing and disseminating standards, guidelines, and best practices for reducing cybersecurity risks.

Cause: There is no formalized process by OnePhilly management to perform a periodic review of OnePhilly's third-party vendor. As a result, OnePhilly management did not provide adequate oversight of the system's actual environment.

Recommendations: The OnePhilly team should request the assistance of its third-party vendor to obtain a timely Physical Security Policy and Physical Access Control documents [300422.10]. OnePhilly management should also perform and formally document an annual review of the Physical Security Policy [300424.09]. Finally, we recommend that the OnePhilly team identify and document where the City's payroll system is physically hosted in the cloud [300424.10].

2024-017 CERTAIN GENERAL IT CONTROLS FOR PHLCONTRACTS STILL REQUIRES STRENGTHENING

Condition: In our fiscal year 2023 report, we commented that improvements were needed in the Procurement Department's assessment of general IT controls over PHLContracts, the city's e-Procurement system for managing various city contracts. Specifically, we reported that the Procurement Department did not have a change management policy²⁹ for PHLContracts nor did they show evidence that their disaster recovery and business contingency plans for the system were periodically reviewed.

During our current year audit, we found that the Procurement Department:

- reviewed the disaster recovery and business continuity plans of PHLContracts third-party vendor, which resulted in revisions to the plans in fiscal year 2024. Based upon these actions, we consider this prior condition resolved [300422.11].
- still did not have a change management policy in place that would address requested modifications to the PHLContracts application. We first reported on this finding in our fiscal 2022 report³⁰.

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

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

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

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

²⁹ A change management policy acts as a guide to facilitate changes to software via requests, review, and approval processes.

³⁰ During the fiscal year 2022 audit, we engaged an independent accounting firm to perform an evaluation of the general IT controls over key financial-related applications, including PHLContracts.

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

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

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

ACIS SYSTEM'S PASSWORD CONFIGURATIONS CORRECTED

In prior year audits, we reported that the password parameter settings for the ACIS did not meet the Office of Innovation and Technology's (OIT's) password requirements. ACIS is the city's system for professional services contracts. While some improvements were made during fiscal year 2023, there were still certain password configurations that did not meet OIT standards. During the current year audit, we observed that the ACIS system password configurations now meet the OIT requirements, and the finding has now been resolved [300422.07].

IMPROVEMENT MADE IN THE TIMELY SUBMISSION OF WATER FUND STATEMENTS

In the previous fiscal year, we reported that the late submission of the Water Fund financial statements and the supporting compilation contributed to the city's inability to timely prepare the preliminary ACFR. Although the Philadelphia Water Department (PWD) timely provided several parts of the compilation to the city's Finance Office, significant sections were not submitted until very late in the fiscal year 2023 audit. Furthermore, the PWD did not submit the final Water Fund financial statements and the final compilation until days prior to the issuance of the final ACFR and our audit opinion.

During the fiscal year 2024 audit, PWD management made significant improvement in their ability to provide the Water Fund financial statements and supporting compilation to the Finance Office in a timely manner. They submitted many of the compilation sections earlier than in the prior year, which allowed Finance Office accountants more time to adequately review the documentation before including the data in the city's ACFR. Based on this improvement, we consider this finding resolved [500123.02].

RESPONSE TO AUDITOR'S REPORT



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ROB DUBOW
Director of Finance

2024-001 LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT INCREASED THE RISK FOR UNDETECTED MISSTATEMENTS AND LED TO UNTIMELY FINANCIAL REPORTING.

The Lack of a Comprehensive Financial Reporting System Has Compromised the Timely and Accurate Preparation of the ACFR

Recommendations: Without a comprehensive financial reporting system to prepare and review information needed for the ACFR, the risk increases that significant errors can occur and not be timely discovered and corrected. We continue to recommend that Finance Office management invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's ACFR [500107.01]. The Finance Office, in conjunction with the Office of the Chief Administrative Officer and Office of Innovation and Technology (OIT), have continued a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS.

We also recommend that the Finance Office allocate adequate resources to ensure timely preparation and submission of ACFR financial statements and footnote disclosures for audit purposes [500124.01].

Management View: The Office of the Director of Finance acknowledges that a modern ERP system will improve the ACFR preparation process and have begun the implementation of this system through our OPAL project. The anticipated go-live date of the new ERP system on July 1, 2026. Management also believes staffing increases, our continued engagement with an accounting firm to assist with ACFR preparation, and the procurement of software to assist with lease and SBITA accounting, that adequate resources have been allocated to ensure timely preparation and submission of the ACFR.

Contact Information: Christopher Kennedy, Director of Accounting, Office of The Director of Finance, (215) 686-7019

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

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

Management View: The Office of the Director of Finance agrees 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 to address recurring delays in the submission of financial reports. In FY24, accounting began following up with component units as early as August, more than six months prior to the end of the audit.

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.

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2024-002 UNTIMELY PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS CONTRIBUTED TO THE LATE SUBMISSION OF THE SINGLE AUDIT REPORTING PACKAGE TO THE FINANCIAL REPORTING FEDERAL AUDIT CLEARINGHOUSE

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

Management View: The Office of the Director of Finance acknowledges the importance of submitting a timely and accurate SEFA to our auditors, ensuring the completion and submission of an accurate Single Audit Reporting package to the Federal Audit Clearinghouse prior to the Federal deadline.

Each year, GAAU remains committed to accelerating the SEFA submission timeline. For the FY23 audit, the SEFA was finalized and uploaded to the Federal Audit Clearinghouse (FAC) on November 21, 2024, subsequent to completion on November 8, 2024. Despite efforts to submit a preliminary FY24 SEFA on December 2, 2024, auditors indicated this document could not be used to initiate the audit process because certain adjustments had not yet been booked, since GAAU had not received all required departmental reconciliations.

Recognizing the critical link between FAMIS reconciliations and SEFA accuracy, GAAU continues to engage departments, emphasizing the importance of timely FAMIS expenditure reconciliations. Additionally, GAAU provides training to departmental staff as needed to ensure compliance with established deadlines. To help enforce compliance, GAAU restricts spending on grant funded activity for departments who do not adhere to the requirements of SAP G 3-1 Expenditure Reconciliation.

GAAU will continue its ongoing collaboration with the Controller's Office to ensure the audit is completed in a timely manner. Changes to our timeline such as reviewing accounts payable weekly instead of monthly and accelerating our deadline for the submission of fourth quarter FAMIS reconciliations by departments have been made to meet the FAC deadline for the FY 26 Schedule of Expenditures of Federal Awards.

Contact Information: Shantae Thorpe, Grants Accounting Manager, Office of The Director of Finance, (215) 686-5629

2024-003 OIT'S ACCESS CONTROLS AND SEGREGATION OF DUTIES FOR KEY FINANCIAL SYSTEMS REQUIRE STRENGTHENING

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

- Establish and document a formal process to perform UARs, which include: (1) a review of user access permissions that consider proper segregation of duties, (2) an annual review of standard user and execution rights and (3) a bi-annual review of privileged and administrative user access. In addition, OIT should work with the process owners of each financial application to complete the reviews of all system users and their associated access rights for appropriateness [300416.05].
- Establish a formal process for granting new system access and the revocation of access for employee terminations and departures. The process should be documented, reviewed and approved by management. Revocations and account manager notification should be prompt and immediate. Also, the OIT team should maintain onboarding and offboarding

documentation for a retention period of at least three years, so they are available for audit. Lastly, we recommend validating and ensuring that the new ticketing system procedures appropriately align with OIT's Access Control Policy [300422.01].

- Work with the Office of Human Resources and/or the OnePhilly team to establish a formally documented process for the notification of employee terminations to OIT's Support Center and IT Administrators. Established procedures should include formal documentation requirements for notifications, including retention of those notifications so they are available for later review and audit [300416.07].

Management View: As part of OIT's ongoing commitment to strengthening internal controls and enhancing user access management, several key improvements are being implemented across systems and processes. These initiatives are aimed at improving the efficiency, accuracy, and oversight of user access reviews, onboarding/offboarding workflows, policy alignment, and audit capabilities. The following outlines the specific actions OIT is taking to address control requirements and align with best practices in access management and policy governance.

- OIT is revising the procedure used for the FAMIS User Access Review to improve response and reporting of review of users, Separation of Duties and privileged and administrator user access. OIT will be employing this revised procedure for ADPICS User Access Review. OIT is implementing that revised procedure in Q4FY25 including configuration in TDX/GRC and related tools. OIT will be operating with the improved procedure/process/tools in FY26 in collaboration with the business and information owners for these systems to confirm all users and user access for appropriateness.
- OIT launched the new ticketing system TeamDynamix at the beginning of FY25 with an improved onboarding/offboarding workflow. OIT is implementing a revised policy/procedure in Q4FY25 for continuous improvement. This includes updated configuration in the TDX ITSM and related tools, including updates to the AD audit tools to retain audit logs for longer time periods and improve validation of access granted/removed through the user management lifecycle processes. OIT will be operating in the new policy/process/tools in FY26, including performing periodic validation that process improvements are leading to improved access management.
- Access Control Policy v2.0 was approved and signed by OIT CIO and published on 4/1/2025 with an effective date of 4/30/2025. Termination and notification procedures for both Active Directory and mainframe systems will be updated to align with the Access Control Policy and records retention schedules. OIT is establishing the LogicGate GRC as the system of record for policies, standards, procedures, and plans to ensure that documentation is consolidated and aligned with controls established in top-level policy.

Contact Information: Nicole Cook, Compliance Officer, Office of Innovation and Technology, (267) 432-1643

2024-004 ACIS' USER ACCESS CONTROLS STILL REQUIRE STRENGTHENING

Recommendations: To improve user access controls over ACIS, we recommend that Procurement management:

- Establish and document a formal process to perform UARs. [300424.01].
- Revoke system administrator access for the two ACIS users, who are not part of the Procurement Department's IT unit, and restrict system administrator access to IT personnel only. If the employees' duties affect the feasibility of this solution, ACIS IT management should obtain an exemption waiver from OIT as justification for the employees having both system administrator and executive level access. Procurement Department's IT unit should then perform monitoring and periodic activity reviews to ensure that only authorized transactions are performed [300422.02].

Management View: The Procurement Department has taken the recommendations under advisement and provides further:

- In the first quarter of Calendar Year 2025, Procurement established, began to document, and implemented a UAR process for each of the City Departments that utilize ACIS. This process will be run annually and will be documented further.
- The ACIS System Administrator function is a core component of the duties of each of the three members of the Contract Legislation Unit ("CLU") within Procurement. OIT has been aware of and has permitted the two non-OIT employees of the CLU to maintain and exercise ACIS System Administrator privileges. OIT and Procurement CLU continue to work to finalize written documentation of this waiver. As explained on December 18, 2024, the CLU has a written SOD policy in place which provides in pertinent part that no one who serves as a System Administrator may also serve in the business roles of Department Authorized Signer or Encumbrance Approver. As explained further on December 18, 2024, the "executive level" access titled "ACIS Executive Management" provides no special business access; rather this access simply allows these members to obtain a set of ACIS system reports which are broader than a normal user could obtain. There are four reports open to anyone with ACIS access, allowing users to retrieve conformance data solely for their department. "The Executive Management group designation allows its members to run those reports for any department and "all" departments. The reports are one-way in that they simply pull existing information and provide no option for manipulation of the underlying data."

Contact Information: LaShawnda N. Tompkins, MBA, Deputy Procurement Commissioner, Procurement Department, (215) 686-4760

2024-005 PRISM'S USER ACCESS APPROVALS WERE NOT DOCUMENTED, AND PERIODIC USER ACCESS REVIEW WAS NOT PERFORMED

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

- Require the utilization of user tickets for all onboarding and offboarding access requests. Specifically, management should require supervisory approval before providing system access to new hires or deactivating access for internal and external users. [300422.03].
- Develop formal written procedures for performing periodic UARs and ensure that the PRISM team completes UAR for all system users. The review should also address assigned roles, system privileges and management approvals in accordance with OIT's Access Control Policy [300422.04]. Management should also establish specific dates to perform and document UAR for standard user access (at least annually), and for privileged and administrative users (at least every 6 months) [300424.02].
- Encourage the PRISM team to incorporate the OnePhilly system's active employee list, which is currently available to all departments, to identify separated employees and automatically deactivate their system access. Management could also use the OnePhilly list to verify active city users and determine their appropriate access levels [300424.03].

Management View: PRISM leadership concurs with the findings, as the PRISM security ticketing process was still being developed in early FY24. Since then, the Department has made significant progress toward addressing the issue and has taken the following actions to improve user access controls, though implementation efforts are still underway.

- The PRISM team has developed and implemented formal written user access procedures. These procedures require user tickets for onboarding/offboarding and supervisory approval for all system user requests. Previously, external users did not have access to submit user access tickets, which is why alternative documentation for these three external users was

temporarily used in place of tickets. The external user ticketing system launched at the end of February 2024, resolving the access limitation.

- In FY24, Revenue implemented the PRISM user access summary report, which tracks all user activity within PRISM. The Department is finalizing a formal written User Access Review and Browsing policy. This policy will document the user access roles & privileges, establish review procedures and frequencies, and outline subsequent disciplinary action guidelines.
- The Department of Revenue is actively working with internal Human Resources and IT staff to identify solutions to enhance the user access deactivation process, which may include using OnePhilly lists.

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2024-006 ONEPHILLY SYSTEM'S ACCESS CONTROLS NEED IMPROVEMENT

Recommendations: In accordance with the city's policies, to improve user access controls and ensure proper segregation of duties 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 system and domain administrators and be performed at least every six months. Each department's review should evidence whether users' access roles and permissions are appropriate or require revisions. The review should include signoff and approval from each designated department manager. All results should be retained for subsequent review and audit [303519.04].
- Re-evaluate and restrict privileged access to those who perform multiple functions to minimize the risk of unauthorized transactions. If it is deemed necessary for certain users to have more than one administrative function, then management should provide documented justification with management's approval and monitor the activities of these employees to ensure they are appropriate for the circumstances [300422.05].
- Implement a system that preserves the segregation of duties, instead of consolidating all privileged access into one IT group. This approach should:
 - Clearly define and document the roles and responsibilities for domain administrators, system administrators, and database administrators [300424.04].
 - Implement appropriate access controls and permissions necessary to limit user access to only the resources necessary for each role [300424.05].
 - Regularly review and document the privileged access to identify any deviations or unauthorized access to the OnePhilly application [300424.06].
- Review and approve both the Segregation of Duties Policy and the supporting matrices periodically or on an annual basis. The OnePhilly team should also thoroughly review the Segregation of Duties Roles Matrix to ensure it provides adequate guidance, ensures the checks and balances, clearly documents the appropriate approval authority, and retains the revision history [300422.06].

Management View: The OnePhilly system has implemented several robust access control measures to address and mitigate risks related to user access, particularly concerning employee lifecycle events. The following controls are in place to ensure appropriate access provisioning and timely deprovisioning:

- **Access for Active Employees:** System access is granted only upon receipt of a Segregation of Duties (SOD) form submitted by the departmental HR Manager through the OnePhilly ticketing system.
- **Employee Transfers:** When an employee transfers to another department, all role-based access is automatically revoked following completion of the HR transaction in the system. The employee retains access only to COP HR Employee Self Service. Access to new department roles is reinstated only upon the submission of a new SOD form by the receiving department's HR Manager.
- **Employee Terminations:** Upon completion of the HR termination transaction in the system, all system access for the employee is automatically deactivated, except for limited access to COP HR Employee Self Service.
- **Post-Termination Access:** Former employees retain access solely to COP HR Employee Self Service until the conclusion of the tax season in which their final compensation was processed. This limited access allows them to retrieve tax documents such as W-2s. After the tax filing deadline, access is fully revoked.

In addition to the above, OnePhilly has implemented a departmental validation and review process to further strengthen access oversight:

- The COP Employee Security Access Dashboard provides departments with a real-time view of access assigned to employees. This dashboard was demonstrated to the Controller's Office during recent meetings.
- Designated departmental reviewers, typically HR Managers, receive a monthly email notification containing a copy of the access report and a reminder to review and validate the access records.
- Reviewers log into OnePhilly, access the dashboard, and either approve or reject access listings for their department. When access adjustments are needed, SOD forms must be submitted accordingly.
- OnePhilly documents all departmental responses and formally closes the monthly review cycle based on received submissions.

While OnePhilly cannot directly enforce departmental compliance, it has established a continuous monitoring and communication process, including recurring reminders and audit-ready documentation, to promote accountability and adherence to access control procedures.

Contact Information: Shipra Jha, Director of OnePhilly, Office of The Director of Finance, (215) 380-4248

2024-007 TREASURER'S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management investigate and resolve all reconciling differences between the Treasurer book and bank account balances within the 90-day requirement specified by the Treasurer's Bank Reconciliation Policy [500119.02].

Management View: The Treasurer's Office appreciates the acknowledgement of our efforts made to improve bank reconciliations to date. From FY23 to FY24, we reduced the number of bank accounts with outstanding variances from 41% of accounts tested to 25% of accounts tested. We agree that further actions are needed to timely resolve reconciling differences between the account and bank balances. To address this, CTO continues to re-engage fiscal staff from various departments in the process of reviewing unidentified reconciling items on a monthly basis to

more timely address such items. Additionally, CTO accountants continued to schedule working sessions throughout FY23 and FY24 with the Accounting Bureau to further improve their analytical abilities and how to utilize system reports to research variances more quickly.

Contact Information: Sarah Cho JD,MBA, Chief of Staff, City Treasurer's Office, (215) 686-2145

2024-008 FAILURE TO CLOSE OUT PRIOR YEAR GRANT ACTIVITY INCREASES RISK OF REPORTING ERRORS

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

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

Management View: The Grants Accounting and Administrative Unit (GAAU) acknowledges the critical importance of timely and accurate grant closeouts to ensure the accuracy of the City's accounting records and mitigate the risk of reporting errors. In line with SAP No. G-1-1, GAAU is responsible for monitoring grant expenditure activity in FAMIS at least twice annually to identify inactive grants for closeout. GAAU has consistently fulfilled this responsibility and has sent communications to all departments regarding inactive grants during both the 3rd and 4th quarters.

GAAU will continue to emphasize to the departments the significance of grant closeouts and their impact on financial reporting. GAAU will continue collaborating with departments to enhance grant closeout processes and improve the accuracy of financial reporting across the City.

Contact Information: Shantae Thorpe, Grants Accounting Manager, Office of The Director of Finance, (215) 686-5629

2024-009 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

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

Management View: In fiscal year 2024, the Accounting Bureau updated the Excel files used to track real property assets to include all relevant information related to individual assets. The new file contains the historical cost, the useful life of the asset, the current and accumulated depreciation, and the net book value of the asset. Management continues to make it a priority to improve the internal tracking of real property assets as we continue to implement our new ERP system with a modern capital asset management system.

Contact Information: Christopher Kennedy, Director of Accounting, Office of The Director of Finance, (215) 686-7019

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

Recommendations: We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort [500106.04].
- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the public [500109.02].

Management View: The Office of the Director of Finance respectfully disagrees that an inventory of real property assets was not performed. In FY24, Finance Office accountants sent lists of all real property assets to the individuals responsible for maintaining assets at each of the departments. The individuals responsible at each department were instructed to identify any changes that were required to their department's asset listing. Finance office accountants then updated accounting records appropriately based on feedback from the departments. For FY25, the spreadsheet that is sent to the departments has been updated to collect information regarding the use and condition of each asset. While management sees the benefit the plain language report could provide to stakeholders, management will continue to leverage limited resources to continue to improve the processes currently in place.

Contact Information: Christopher Kennedy, Director of Accounting, Office of The Director of Finance, (215) 686-7019

2024-010 SAPS REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Recommendation: We recommend that the Finance Office continue reviewing and updating 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 or recommended for the city's accounting environment. Once this initial update is completed, the Finance Office should develop a schedule for periodically evaluating and updating the SAPs in the future [50102.16].

Management View: The Office of the Director of Finance acknowledges the recommendation and is actively addressing it through the development of a comprehensive Accounting Manual that will replace the outdated Standard Accounting Procedures (SAPs). This initiative is part of a broader effort to modernize and align financial policies and procedures with current automated processes, industry best practices, and the City's evolving accounting environment.

The new Accounting Manual will consolidate relevant guidance, incorporate recent system enhancements, and provide clear, standardized procedures for financial operations. As part of this process, all existing SAPs are being reviewed to determine their relevance. Procedures that are no longer applicable will be formally rescinded, and those requiring updates will be revised accordingly.

Once the Accounting Manual is finalized and implemented, The Office of the Director of Finance will establish a formal schedule for its periodic review and revision. This will ensure that procedures remain current, effective, and aligned with changes in technology, regulations, and operational needs.

Contact Information: Alyssa Arjun, Director of Internal Controls and Compliance, Office of The Director of Finance, (215) 760-0765

2024-011 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES AND UNDETECTED ERRORS

Recommendation: To improve the departmental payroll approval process, we recommend that the Central Payroll Unit establish procedures to ensure departments promptly update signature authorization cards when executive-level changes are requested within the OnePhilly system.

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

Management View: The Office of the Director of Finance acknowledges the auditor's findings and remains committed to addressing the underlying issues. The current procedure includes ongoing reminders to departments, which are communicated through payroll emails and reinforced during periodic monthly meetings.

In addition to maintaining these efforts, Finance is actively exploring opportunities to enhance the existing process. This includes evaluating the development of a streamlined, single-process solution aimed at reducing the administrative burden (primarily involving the need for departments to update signature authorization cards promptly whenever there are changes within the OnePhilly system. While this requires some coordination and documentation, these updates are essential to maintain appropriate payroll approvals, mitigate the risk of undetected errors or improprieties), and address the current challenges more effectively. These improvements will support greater compliance, efficiency, and consistency across departments.

Contact Information: Valerie D. Hayes, Deputy Finance Director for Payroll, Office of The Director of Finance, (215) 686-6177

2024-012 CITY'S ACCOUNTING SYSTEM WAS NOT FULLY UTILIZED FOR POSTING ENTERPRISE FUNDS' MONTHLY AND YEAR-END JOURNAL ENTRIES

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

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Aviation Funds, as well as the PWD's Water Funds, up to date through fiscal year 2024 for the upcoming fiscal year 2025 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02]

Management View: The Office of the Director of Finance respectfully disagrees with the assertion that by failing to record monthly and year-end accrual adjustments in FAMIS, we are not fully complying with the accrual basis of accounting as required under GAAP. PWD and DOA statements are prepared with the assistance of consultants in full compliance with GAAP. The consultants prepare compilation reports in support of the financial statements that provide clear audit trails of all adjustments between FAMIS and the financial statements. We continue to believe that PWD and DOA not posting entries into FAMIS does not affect the accuracy of our financial statements.

Contact Information: Christopher Kennedy, Director of Accounting, Office of The Director of Finance, (215) 686-7019

2024-013 LATE SUBMISSION OF AVIATION FUND FINANCIAL STATEMENTS CONTINUES TO DELAY PREPARATION AND AUDIT OF ACFR

Recommendation: To improve the timeliness of its financial reporting, we recommend that the Finance Office and the DOA work together to establish earlier deadlines for shared financial information that currently impact the Finance Office and the DOA's ability to timely finalize the ACFR. The Finance Office and the DOA should also establish mutually agreed-upon deadlines for the completion of the Aviation Fund financial statements and the supporting compilation [500118.04].

Management View: The Office of the Director of Finance, in collaboration with the Division of Aviation (DOA), remains committed to strengthening the timeliness and accuracy of the Aviation Fund financial statements. Both offices will continue to work jointly to establish a clearly defined

and achievable deadline for the completion of the financial statements and the accompanying compilation report. This coordinated approach will support improved audit readiness and ensure compliance with reporting requirements.

Contact Information: Konstantinos 'Gus' Tsakos, CPA, Vice President of Audit & Compliance, Department of Aviation, (215) 863-3823

2024-014 CERTAIN OTHER GENERAL IT CONTROLS FOR OIT STILL NEED IMPROVEMENT

Disaster Recovery Testing and Plan Update Was Not Performed by OIT

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

Management View: While the Disaster Recovery (DR) testing occurred less than annually—approximately 22 months apart—OIT acknowledges this gap and has addressed the issue for FY25 and beyond. Notably, a similar low-risk observation was noted in the Pensions Internal Controls Audit, as the Pensions MOIS system operates on the same platform. In response, OIT will conduct DR testing for Enterprise Management mainframe systems on a fiscal year basis going forward, rather than by calendar year. Additionally, OIT will require formal, documented review and sign-off of both the DR test results and the Enterprise Management Disaster Recovery Plan by senior management responsible for Continuity of Operations Planning. This review and approval process will be managed within the LogicGate GRC tool beginning in Q1 of FY26.

Contact Information: Nicole Cook, Compliance Officer, Office of Innovation and Technology, (267) 432-1643

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

Recommendations: OIT management should update its Change Management operating procedures to include (1) documentation standards for end-user testing and (2) information relating to how approvals for all change types should be documented in the service ticket [300413.05]. The Change Management Policy should also be reviewed and approved annually [300424.07].

Management View: OIT completed a review of its Change Management Process and is in the review process for the updated Change Management SOP incorporating significant process improvements. Included in the updated Change Management SOP are updated end-user testing documentation standards, improved definitions of roles and responsibilities for approvers, and required approvals for standard, normal and emergency changes. This SOP is currently in the review process and the target date for approval by OIT CIO and CTO is 5/31/2025. It will have an annual review cycle. The Change Management ticketing process for OIT moved to OIT's current ITSM, Team Dynamix (TDX), in FY25. Enhancements to the TDX change request ticketing process to incorporate a standardized end-user testing template, Change Advisory Board approvals and Emergency Change Approvals in the automated Change Request process were completed in April 2025. Training staff on the new SOP, ticketing system changes, and process changes are in planning and will be fully completed by 12/30/2025.

Contact Information: Nicole Cook, Compliance Officer, Office of Innovation and Technology, (267) 432-1643

2024-015 DISASTER RECOVERY TESTING HAD NOT BEEN PERFORMED FOR PRISM

Recommendations: Revenue management should ensure that PRISM disaster recovery testing is completed at least annually [300422.09]. Management should also review the disaster recovery plan to ensure that all critical testing components are covered and timing concerns addressed accordingly [300424.08].

Management View: A full Disaster Recovery (DR) test will be performed on the weekend of June 7, 2025. Upon completion, a full report will be prepared and available for review. The Disaster Recovery test requires a full shutdown of the PRISM Production database and the Philadelphia Tax Center (PTC).

The following groups will coordinate and participate in the Disaster Recovery process:

- Department of Revenue (DOR)
- OIT
- Fast Hosting Services (FHS) (Contracted PRISM vendor)

Scheduling a full PRISM (DR) test is particularly challenging due to the Philadelphia Tax Center's continuous, high-volume usage throughout the year. There are critical periods throughout the year, such as filing and payment processing deadlines, when uninterrupted system access is essential to maintain customer service and ensure continuous revenue collection. A full DR test carries inherent business risks, including the potential for extended system downtime if connectivity is not restored as planned. This presents a significant risk to revenue production and could disrupt essential services to taxpayers.

Given the coordination required, associated costs, and the operational risks involved, the Department of Revenue will be conducting a full PRISM disaster recovery test once every two years instead of annually. Every year, the Department performs quarterly, smaller-scale recovery exercises that validate the key components of the disaster recovery plan without requiring a full system shutdown. These ongoing tests help ensure preparedness while minimizing risk to business continuity.

Contact Information: Kathleen McColgan, Revenue Commissioner, Revenue Department, (215) 686-6400
Peter Donnelly, Director of PRISM, Revenue Department, (215) 686-6558

2024-016 ONEPHILLY PHYSICAL SECURITY POLICY WAS STILL NOT REVIEWED

Recommendations: The OnePhilly team should request the assistance of its third-party vendor to obtain a timely Physical Security Policy and Physical Access Control documents [300422.10]. OnePhilly management should also perform and formally document an annual review of the Physical Security Policy [300424.09].

Finally, we recommend that the OnePhilly team identify and document where the City's payroll system is physically hosted in the cloud [300424.10].

Management View: The OnePhilly system currently operates as a cloud-based solution, following a comprehensive upgrade from its prior infrastructure configuration. As part of the audit review process, relevant Oracle documentation pertaining to the cloud-hosted environment was presented to the audit team to demonstrate the security, infrastructure management, and control protocols applicable to the upgraded system.

We acknowledge that the request for documentation reflected expectations based on historical practices when Ciber Technology served as the Managed Services Vendor and the system was hosted on physical servers. Given the transition to a cloud-hosted model managed by Oracle, the nature and format of infrastructure documentation have inherently changed to align with cloud service standards.

To address the audit team's request, we also provided supporting documentation from Tata Consultancy Services (TCS), which outlines the managed infrastructure services relevant to the OnePhilly system under the current operational model. This documentation was intended to satisfy the auditor's request for comparable infrastructure information and aligns with the governance expectations for cloud-based environments.

Based on the evidence provided, OnePhilly believes no further action is necessary at this time and considers this request to be closed due to the submission and review of all requested documentation sent to the Controllers.

Contact Information: Shipra Jha, Director of OnePhilly, Office of The Director of Finance, (215) 380-4248

2024-017 CERTAIN GENERAL IT CONTROLS FOR PHLCONTRACTS STILL REQUIRES STRENGTHENING

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

Management View: The Procurement Department has taken the recommendation into consideration. We will evaluate the Change Management Policy with our vendor, Periscope. This evaluation will take into consideration the lifetime horizon of the soon-to-be replaced PHLContracts system.

Contact Information: LaShawnda N. Tompkins, MBA, Deputy Procurement Commissioner, Procurement Department, (215) 686-4760

AUDITOR'S COMMENTS ON AGENCY RESPONSE

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

- OnePhilly System's Access Controls Need Improvement
- Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records
- City's Accounting System Was Not Fully Utilized for Posting Enterprise Funds' Monthly and Year-End Journal Entries
- OnePhilly Physical Security Policy Was Still Not Reviewed

OnePhilly System's Access Controls Need Improvement

In its response on pages 31 and 32, management states, "The OnePhilly system has implemented several robust access control measures to address and mitigate risks related to user access, particularly concerning employee lifecycle events. The following controls are in place to ensure appropriate access provisioning and timely deprovisioning: **Access for Active Employees:** System access is granted only upon receipt of a Segregation of Duties (SOD) form submitted by the departmental HR Manager through the OnePhilly ticketing system. **Employee Transfers:** When an employee transfers to another department, all role-based access is automatically revoked following completion of the HR transaction in the system. The employee retains access only to COP HR Employee Self Service. Access to new department roles is reinstated only upon the submission of a new SOD form by the receiving department's HR Manager. **Employee Terminations:** Upon completion of the HR termination transaction in the system, all system access for the employee is automatically deactivated, except for limited access to COP HR Employee Self Service. **Post-Termination Access:** Former employees retain access solely to COP HR Employee Self Service until the conclusion of the tax season in which their final compensation was processed. This limited access allows them to retrieve tax documents such as W-2s. After the tax filing deadline, access is fully revoked."

Access provisioning and deprovisioning activities were not within the scope of our review of OnePhilly's access controls. The primary objective of our review was to follow up on the control weaknesses first reported on in fiscal year 2022 related specifically to how OnePhilly's management team consolidated and reviewed each department's User Access Review and Segregation of Duties (SoD) among the OnePhilly system administrators. During our audit procedures, we met with OnePhilly's management team, on January 6, 2025, to review the access management dashboard. We requested documented evidence demonstrating monthly departmental Oracle User Access Reviews. We selected two departments for the month of May and June 2024 for sample testing but still had not received any documentation by the end of our field work in February 2025. Additionally, we requested an updated Segregation of Duties (SoD) matrix to verify documented roles and responsibilities across domain, system, and database administrator functions. Our intention was to obtain evidence indicating the date of access reviews and the consolidated approval records, not only for end-user

departments but also for OnePhilly's system administrators, including help desk users. The OnePhilly Team also failed to provide these requested documents.

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

In its response on page 34, management states, "The Office of the Director of Finance respectfully disagrees that an inventory of real property assets was not performed. In FY 24, Finance Office accountants sent lists of all real property assets to the individuals responsible for maintaining assets at each of the departments. The individuals responsible at each department were instructed to identify any changes that were required to their department's asset listing. Finance office accountants then updated accounting records appropriately based on feedback from departments."

The Finance office's limited and alternative methods of inventory taking procedures with individual departments do not fully adhere to the requirements of SAP No. E-7201, *Real Property Perpetual Inventory*, which requires that the Procurement Department lead the physical inspection of all city-owned property. The Procurement Department's taking of the required inventory, with the assistance of the Finance office and Public Property, would ensure a level of expertise, centralization, standardization, and completeness that decreases the potential for city-owned property to be absent from, or incorrectly recorded in, the city's inventory records.

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

In its response on page 35, management states, "The Office of Finance respectfully disagrees with the assertion that by failing to record monthly and year-end accrual adjustments in FAMIS, we are not fully complying with the accrual basis of accounting as required under GAAP. PWD and DOA statements are prepared with the assistance of consultants in full compliance with GAAP. The consultants prepare compilation reports in support of the financial statements that provide clear audit trails of all adjustments between FAMIS and the financial statements. We continue to believe that PWD and DOA not posting entries into FAMIS does not affect the accuracy of our financial statements."

The Finance office's failure to record monthly and year-end PWD and DOA accrual adjustments in FAMIS eliminates the ability to utilize the system to produce financial statements that comply with the full accrual basis of accounting, as required by GAAP. FAMIS is the official accounting system of record, and the compilation data should be considered supporting documentation for properly and timely completed FAMIS entries. Bypassing FAMIS and entering this data directly from the compilations into the city's ACFR weakens the accounting and audit trail by excluding this information from FAMIS inquiry screens and reports intended to support the complete, accurate, and efficient preparation of the full accrual basis sections of the ACFR.

OnePhilly Physical Security Policy Was Still Not Reviewed

In its response on pages 37 and 38, management states the following regarding the OnePhilly Physical Security Policy not being recently reviewed: "The OnePhilly system currently operates as a cloud-based solution, following a comprehensive upgrade from its prior infrastructure configuration. As part of the audit review

process, relevant Oracle documentation pertaining to the cloud-hosted environment was presented to the audit team to demonstrate the security, infrastructure management, and control protocols applicable to the upgraded system. We acknowledge that the request for documentation reflected expectations based on historical practices when Ciber Technology served as the Managed Services Vendor and the system was hosted on physical servers. Given the transition to a cloud-hosted model managed by Oracle, the nature and format of infrastructure documentation have inherently changed to align with cloud service standards. To address the audit team's request, we also provided supporting documentation from Tata Consultancy Services (TCS), which outlines the managed infrastructure services relevant to the OnePhilly system under the current operational model. This documentation was intended to satisfy the auditor's request for comparable infrastructure information and aligns with the governance expectations for cloud-based environments. Based on the evidence provided, OnePhilly believes no further action is necessary at this time and considers this request to be closed due to the submission and review of all requested documentation sent to the Controllers."

The supporting documents from TCS were provided well beyond the audit period on April 2, 2025. Upon review, the supporting document provided titled "CoP.dox" was last updated on November 17, 2022, rendering the document and the information it provided outdated and unreliable. In addition, there were no indications that a formal review of the document had been performed by the One Philly Team. To ensure appropriate oversight, we recommend that updated documentation be obtained confirming the current cloud-hosting environment – specifically, the primary and secondary host sites, as per the provided support documentation. We also continue to recommend that the OnePhilly management team perform an annual review of the document.