



# CITY OF PHILADELPHIA

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CHRISTY BRADY  
City Controller

CHARLES EDACHERIL  
Deputy City Controller

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 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

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This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Philadelphia Parking Authority (PPA) were not audited in accordance with *Government Auditing Standards*. Also, the reported amounts for the Philadelphia Housing Authority (PHA) include PHA's 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 Schedule of Findings and Questioned Costs, we

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identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

### **City of Philadelphia, Pennsylvania's Response to Findings**

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

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



CHARLES EDACHERIL, CPA  
Deputy City Controller



CHRISTY BRADY, CPA  
City Controller

Philadelphia, Pennsylvania  
February 24, 2025



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

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

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited the City of Philadelphia, Pennsylvania's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Pennsylvania Department of Human Services (DHS) Single Audit Supplement* that could have a direct and material effect on each of the City of Philadelphia, Pennsylvania's major federal programs for the year ended June 30, 2024. The City of Philadelphia, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Philadelphia, Pennsylvania complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and DHS programs for the year ended June 30, 2024.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the DHS Single Audit Supplement. Our responsibilities under those standards, the Uniform Guidance, and DHS Single Audit Supplement are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

*Other Matter – Federal Expenditures Not Included in the Compliance Audit*

The City of Philadelphia, Pennsylvania's basic financial statements include the operations of the School District of Philadelphia, Community College of Philadelphia, Philadelphia Redevelopment Authority, Philadelphia Authority for Industrial Development, and Philadelphia Housing Authority, which expended a total of \$1,621,431,110 in federal awards which is not included in the City of Philadelphia, Pennsylvania's Schedule of Expenditures of Federal Awards for the year ended June 30, 2024. Our compliance audit, described in the Opinion on Each Major Federal Program section, did not include the operations of these component units because they had separate audits performed in accordance with the Uniform Guidance.

*Responsibilities of Management for Compliance*

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

*Auditor's Responsibilities for the Audit of Compliance*

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

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

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



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

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

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and the DHS Single Audit Supplement and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2024-011, 2024-012, 2024-013, 2024-014, 2024-015, 2024-016, 2024-17, and 2024-018. Our opinion on each major federal and DHS program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Philadelphia, Pennsylvania's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Philadelphia, Pennsylvania's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2024-011, 2024-012, 2024-013, and 2024-014 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2024-015,

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2024-016, 2024-17, and 2024-018 to be significant deficiencies.

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements. We issued our report thereon dated February 24, 2025, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CHARLES EDACHERIL, CPA  
Deputy City Controller



CHRISTY BRADY, CPA  
City Controller

Philadelphia, Pennsylvania  
December 11, 2025



# **Schedule of Findings and Questioned Costs**

## **Section I – Summary of Auditor’s Results**

## **CITY OF PHILADELPHIA**

### **Schedule of Findings and Questioned Costs – June 30, 2024**

#### **Section I – Summary of Auditor’s Results:**

##### *Financial Statements:*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☒ yes ☐ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

##### *Federal Awards:*

Internal control over major programs:

Material weakness(es) identified? ☒ yes ☐ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

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

Unmodified

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

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing</u>
Emergency Solutions Grant Program	14.231
Airport Improvement Program	20.106
Coronavirus State and Local Fiscal Recovery Funds	21.027
Injury Prevention and Control Research and State and Community Based Programs	93.136
Health Center Program Cluster:	
Health Center Program	93.224
Grants for New and Expanded Services under the Health Center Program	93.527
Epidemiology & Laboratory Capacity for Infectious Diseases	93.323
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354
Social Services Block Grant	93.667
HIV Emergency Relief Project Grants	93.914
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036
Homeland Security Preparedness Technical Assistance Program	97.067
Staffing for Adequate Fire and Emergency Response	97.083

Dollar threshold used to distinguish between Type A and Type B programs: \$3,654,310

Auditee qualified as low-risk auditee? ☐ yes ☒ no

**CITY OF PHILADELPHIA*****Schedule of Findings and Questioned Costs – June 30, 2024***

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<u>Finding No.</u>		<u>Page</u>	<u>Questioned Cost</u>
<u>Section II - Financial Audit Material Weaknesses:</u>			
2024-001	Lack of Technological Investment and Insufficient Oversight Increased the Risk for Undetected Misstatements and Led to Untimely Financial Reporting.	37-41	
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	42-43	
<u>Section III - Financial Audit Significant Deficiencies:</u>			
2024-003	OIT's Access Controls and Segregation of Duties for Key Financial Systems Require Strengthening	45-47	
2024-004	ACIS' User Access Controls Still Require Strengthening	48-49	
2024-005	PRISM's User Access Approvals Were Not Documented, and Periodic User Access Review Was Not Performed	50-52	
2024-006	OnePhilly System's Access Controls need Improvement	53-56	
2024-007	Treasurer's Bank Reconciliation Procedures Still Require Improvement	57-58	
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<u>Section IV – Federal and PA Department of Human Services Findings and Questioned Costs</u>			
2024-011	Special Tests and Provisions- Material Weakness and Compliance Finding Assistance Listing 14.231 Emergency Solutions Grant Program	67	
2024-012	Period of Performance – Material Weakness and Compliance Finding Assistance Listing 14.231 Emergency Solutions Grant Program	68-69	\$228,594

**CITY OF PHILADELPHIA*****Schedule of Findings and Questioned Costs – June 30, 2024***

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<u>Finding No.</u>		<u>Page</u>	<u>Questioned Cost</u>
2024-013	Reporting – Material Weakness and Compliance Finding Assistance Listing 93.136 Injury Prevention and Control Research and State and Community Based Programs Assistance Listing 93.323 Epidemiology & Laboratory Capacity for Infectious Diseases Assistance Listing 93.354 Emergency Response: Public Health Crisis Response	70-71	
2024-014	Reporting – Material Weakness and Compliance Finding Assistance Listing 97.083 Staffing for Adequate Fire and Emergency Response	72	
2024-015	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Assistance Listing 93.136 Injury Prevention and Control Research and State and Community Based Programs	73-74	
2024-016	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Assistance Listing 93.323 Epidemiology & Laboratory Capacity for Infectious Diseases	75-76	
2024-017	Subrecipient Monitoring - Significant Deficiency and Compliance Finding Assistance Listing 93.914 HIV Emergency Relief Project Grants	77-78	
2024-018	Reporting – Significant Deficiency and Compliance Finding Assistance Listing 14.231 Emergency Solutions Grants Program Assistance Listing 93.224 & 93.527 Health Center Program & Grants for New and Expanded Services under the Health Center Program Assistance Listing 93.354 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response Assistance Listing 93.667 Social Services Block Grant Assistance Listing 93.914 HIV Emergency Relief Project Grants	79-80	

# **Schedule of Findings and Questioned Costs**

## **Section II - Financial Audit 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 (FAMIS<sup>1</sup>), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.<sup>2</sup> 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 million<sup>3</sup> 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

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<sup>1</sup>Financial Accounting and Management Information System

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

<sup>3</sup>As 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.

**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.

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

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.

**Views of the Responsible Officials:** 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 Person:** 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**

**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)<sup>4</sup> again did not submit their final reports by the due dates requested by Finance Office accountants. See Table 1 below.

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<sup>4</sup> 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.

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.

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 excluded<sup>5</sup> 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.

<sup>5</sup> 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.

**Views of the Responsible Officials:** 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.

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

**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 audit<sup>6</sup> 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 preliminary SEFA on December 2, 2024, which was two months earlier than the previous year<sup>7</sup>, 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.

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<sup>6</sup> A single audit is a comprehensive audit of the city’s financial statements and its expenditures of federal and state grant awards.

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

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

**Views of the Responsible Officials:** 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 Person:** Shantae Thorpe, Grants Accounting Manager, Office of The Director of Finance, (215) 686-5629



# **Schedule of Findings and Questioned Costs**

## **Section III - Financial Audit 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 applications<sup>8</sup>. 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).<sup>9</sup> 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 privileged<sup>10</sup> 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, users may have incompatible access roles, responsibilities, and permissions

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<sup>8</sup> 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).

<sup>9</sup> Due to information technology security concerns certain details for this finding have been excluded from this report, which is publicly available.

<sup>10</sup> Privileged accounts are typically described as system administrators for multiple types of systems.

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.
- 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.
- 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.

**Views of the Responsible Officials:** 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 Person:** Nicole Cook, Compliance Officer, Office of Innovation and Technology, (267) 432-1643

## **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)<sup>11</sup>. 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.
- 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

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<sup>11</sup> 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.

executive level access. Procurement Department's IT unit should then perform monitoring and periodic activity reviews to ensure that only authorized transactions are performed.

**Views of the Responsible Officials:** 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 Person:** 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**

**Condition:** During our prior year audit, we reported that system access deficiencies were again found within the city's newly acquired tax system, PRISM<sup>12</sup>. 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 deficiency<sup>13</sup>, 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 components<sup>14</sup> 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 privileged<sup>15</sup> 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.

**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

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<sup>12</sup> PRISM is an acronym for **P**hiladelphia **R**evenue **I**nformation **S**ystem **M**anagement (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.

<sup>13</sup> 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.

<sup>14</sup> Components include role based security matrices, user security summaries, and the PRISM security guide.

<sup>15</sup> Privileged accounts are typically described as system administrators for multiple types of systems.

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.
- 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).
- 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.

**Views of the Responsible Officials:** 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.

**Contact Person:** Kathleen McColgan, Revenue Commissioner, Revenue Department, (215) 686-6400

Peter Donnelly, Director of PRISM, Revenue Department, (215) 686-6558

**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.<sup>16</sup> The following deficiencies remained within the system’s access controls and segregation of duties, which collectively are considered to be a significant deficiency.<sup>17</sup>

- 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 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

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<sup>16</sup> 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.

<sup>17</sup> 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.

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.
- 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.
- 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.
  - implement appropriate access controls and permissions necessary to limit user access to only the resources necessary for each role.
  - regularly review and document the privileged access to identify any deviations or unauthorized access to the OnePhilly application.
- 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.

**Views of the Responsible Officials:** 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 Person:** Shipra Jha, Director of OnePhilly, Office of The Director of Finance, (215) 380-4248

**Auditor’s Comments on Agency’s Response:** In its response, 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.

## 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 <sup>18</sup>	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 <sup>18</sup>	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

<sup>18</sup> Amounts for Fiscal 2024 include reconciling items through March 31, 2024.

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.

**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.

**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*.

**Views of the Responsible Officials:** 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 Person:** 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**

**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 departments<sup>19</sup> with the largest accounts receivable and advance<sup>20</sup> 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.

**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.
- Reinforce SAP No. G 1-1 requirements with both city departments and GAAU. Management

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<sup>19</sup> 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.

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

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.

**Views of the Responsible Officials:** 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 Person:** 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**

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 Charter<sup>21</sup> 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.

**Views of the Responsible Officials:** 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

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<sup>21</sup> The Philadelphia Home Rule Charter, Section 6-501

property assets as we continue to implement our new ERP system with a modern capital asset management system.

**Contact Person:** 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**

**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 inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort.
- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the public.

**Views of the Responsible Officials:** 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 Person:** Christopher Kennedy, Director of Accounting, Office of The Director of Finance, (215) 686-7019

**Auditor’s Comments on Agency’s Response:** In its response, 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.



**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)<sup>22</sup> to support its SAP update project<sup>23</sup>. 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.

**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.

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<sup>22</sup> 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.

<sup>23</sup> 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.

**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.

**Views of the Responsible Officials:** 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 Person:** Alyssa Arjun, Director of Internal Controls and Compliance, Office of The Director of Finance, (215) 760-0765

# **Schedule of Findings and Questioned Costs**

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

**2024-011 SPECIAL TESTS AND PROVISIONS – SUBRECIPIENT PAYMENTS - MATERIAL WEAKNESS AND COMPLIANCE FINDING**

**Assistance Listing 14.231 Emergency Solutions Grants Program**

**Condition:** During our testing of subrecipient expenditures, we noted that the Office of Homeless Services (OHS) failed to pay 19 out of 33 subrecipient invoices within 30 days of receiving the subrecipient's payment request, with nine of these 19 invoices paid more than 60 days after receipt of the request. Funding for the Emergency Solutions Grants Program is received directly from the U.S. Department of Housing and Urban Development (HUD) and passed through the PA Department of Community and Economic Development.

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

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

**Cause:** There are often significant delays between when invoices are received and when vouchers are processed in the city's accounting system, FAMIS.

**Recommendation:** OHS management should strengthen its policies and procedures for processing invoices to ensure that all subrecipient invoices are reviewed and paid timely.

**Views of the Responsible Officials and Corrective Action Plan:**

The Office of Homeless Services acknowledges the finding. The delays in processing invoices were due to heightened fiscal oversight implemented after it was determined that the Office had exceeded its budget allocation. As a result, all invoices for OHS-contracted services were subject to additional layers of review beyond the standard OHS and Finance approval process. These invoices were routed to the Managing Director's Office before payment authorization, which extended the normal processing timelines.

To prevent recurrence, the Office of Homeless Services will strengthen its invoice-processing policies and procedures to ensure timely review and payment of all subrecipient invoices, consistent with applicable federal requirements. Now that the enhanced review protocols are no longer in effect, OHS will reestablish standard review timelines and reinforce internal expectations for prompt processing. OHS will also provide guidance to fiscal staff on escalation procedures should future budgetary reviews impact invoice timeliness. These corrective actions will support improved compliance and reduce the likelihood of processing delays.

**Contact Person:** Jerome Hill, Director of Compliance, OHS, 215-686-0371

**2024-012 PERIOD OF PERFORMANCE – MATERIAL WEAKNESS AND COMPLIANCE FINDING****Assistance Listing 14.231 Emergency Solutions Grants Program**

**Condition:** During our audit of the Emergency Solutions Grant program, we found that the Office of Homeless Services (OHS) had charged the program for ten expenditures beyond the 120 day deadline<sup>24</sup> established for the period of performance. Funding for this program was received directly from the U.S. Department of Housing and Urban Development and through the Commonwealth of Pennsylvania Department of Community and Economic Development. See Table 3 below:

Table 3: Detail of Expenditure beyond Period of Performance Ending Date					
Award Number	Number of Expenditures	Total Expenditure Amount	Expenditure Date	Period of Performance Ending Date	Days after Period of Performance Ending Date
E-21-MC-0012	6	\$172,852	1/29/2024	8/10/2023	172
E-21-MC-0012	1	\$28,898	2/22/2024	8/10/2023	196
E-21-MC-0012	1	\$7,519	3/21/2024	8/10/2023	224
C000074191	1	\$19,324	1/29/2024	1/8/2022	751
Total	9	\$228,594			

**Criteria:** 2 CFR Part 200.344 states that the recipient must liquidate all financial obligations incurred under the federal award no later than 120 calendar days after the conclusion of the period of performance. A subrecipient must liquidate all financial obligations incurred under a subaward no later than 90 calendar days after the conclusion of the period of performance of the subaward (or an earlier date as agreed upon by the pass-through entity and subrecipient). Additionally, the recipient or subrecipient must promptly refund any unobligated funds that the federal agency or pass-through entity paid and that are not authorized to be retained.

**Effect:** Expenditures totaling \$228,594, which we consider to be questioned costs, were improperly reported in the SEFA. Additionally, the city may have to reimburse the federal agency for any expenditure that was charged to the federal grant beyond the deadline established for the period of performance.

**Cause:** OHS did not appropriately liquidate all financial obligations by the deadline established for the period of performance.

**Recommendation:** We recommend that OHS review all financial obligations at the end of the period of performance and timely liquidate any remaining obligations in accordance with 2 CFR 200.344.

**Views of the Responsible Officials and Corrective Action Plan:**

<sup>24</sup> For subawards, the deadline for liquidating obligations is 90 days after the conclusion of the period of performance. Award number C000074191 meets this requirement as the city received funding from the Pennsylvania Department of Community and Economic Development.

The Office of Homeless Services acknowledges the finding. The delay in liquidating obligations resulted from internal control procedures that appropriately identified a potential contract concern involving the Resources for Human Development. In accordance with established financial oversight protocols, the Finance Department placed a temporary hold on related payments pending further review. Once the review was concluded, the payments were released. Additionally, limitations within the FAMIS system, specifically its inability to retain original voucher creation dates after rejection and resubmission, contributed to the appearance of delayed liquidation.

To prevent recurrence, the Office of Homeless Services will strengthen its closeout procedures to ensure timely review and liquidation of all obligations in accordance with 2 CFR § 200.344. The Office will also initiate earlier coordination with the Finance Department when payment holds arise and reinforce staff training on grant closeout and escalation protocols. These corrective actions will enhance compliance and reduce the likelihood of future delays.

**Contact Person:** Jerome Hill, Director of Compliance, OHS, 215-686-0371

## 2024-013 REPORTING – MATERIAL WEAKNESS AND COMPLIANCE FINDING

**Assistance Listing 93.136 Injury Prevention and Control Research and State/Community Based Programs****Assistance Listing 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases Program****Assistance Listing 93.354 Public Health Emergency Response Program**

**Condition:** The city’s Department of Public Health (DPH) acts as a pass-through entity for several of the grants it receives from the federal government. For three grants we tested, DPH could not provide evidence showing that subawards given to subrecipient entities were accurately and/or timely reported to the Federal Subaward Reporting System (FSRS)<sup>25</sup>, as required by the Federal Funding Accountability and Transparency Act (FFATA). For the Injury Prevention and Control Research and State/Community Based Program (ALN 93.136) and the Epidemiology and Lab Capacity Program (ALN 93.323), DPH could not provide evidence that sampled subawards were reported at all. For the Public Health Emergency Response Program (ALN 93.354), none of the six subawards were reported timely, with submission dates ranging from 20 months to two years after the subaward date. Information submitted for four of these entities also reported inaccurate subaward amounts. Please see Table 4 below for details.

Table 4: Finding Summary			
<b>ALN 93.136 – Injury Prevention and Control Research and State/Community Based Programs</b>	<b>Transactions Tested</b>	<b>Subaward Not Reported</b>	
	7	7	
	<b>Dollar Amount of Tested Transactions</b>	<b>Subaward Amount Not Reported</b>	
	\$65,754,723	\$65,754,723	
<b>ALN 93.323 – Epidemiology and Laboratory Capacity for Infectious Diseases Program</b>	<b>Transactions Tested</b>	<b>Subaward Not Reported</b>	
	3	3	
	<b>Dollar Amount of Tested Transactions</b>	<b>Subaward Amount Not Reported</b>	
	\$47,008,216	\$47,008,216	
<b>ALN 93.354 – Public Health Emergency Response Program</b>	<b>Transactions Tested</b>	<b>Report Not Timely</b>	<b>Subaward Amount Incorrect</b>
	6	6	4
	<b>Dollar Amount of Tested Transactions</b>	<b>Amount Not Reported Timely</b>	<b>Subaward Amount Incorrect</b>
	\$3,769,355	\$3,769,355	(\$3,526,055) <sup>26</sup>

<sup>25</sup> As of March 8, 2025, the FSRS was discontinued and all subaward data (such as subawardee name, subaward amount, subaward project description, etc.) is now submitted to and reported on the System for Award Management (SAM.gov) website.

<sup>26</sup> This represents that the subaward on the FSRS website was understated by \$3,526,055.

**Criteria:** 2 CFR Part 170 specified that recipients of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the FSRS. Additionally, 2 CFR Part 170 – Appendix A states that the subaward information be reported no later than the end of the month following the month in which the subaward was issued.

**Effect:** Federal grantors may not have complete and accurate information to make fiscal decisions on federal awards.

**Cause:** DPH did not have a systematic process in place for reporting subawards into the FSRS system.

**Recommendation:** DPH should prepare written policies and procedures to ensure that its FFATA reporting is performed accurately and submitted timely, and that the source documentation, used for reporting purposes, contains all applicable subaward information.

**Views of the Responsible Officials and Corrective Action Plan:**

**ALN 93.136 – Injury Prevention and Control Research and State/Community Based Programs**

PDPH acknowledges that Federal Funding Accountability and Transparency Act (FFATA) reporting requirements were not consistently met during the audit period due to limited staff capacity and lack of clearly defined procedures for subaward reporting. In response, SUPHR will establish procedures to ensure timely and accurate FFATA reporting in accordance with federal requirements. These procedures include designating responsible staff, assigning appropriate SAM.gov access roles, and providing orientation and training on subaward reporting processes. Standardized documentation and retention practices will also be implemented to ensure proper recordkeeping and verification of all submissions. SUPHR is committed to maintaining compliance with FFATA requirements going forward and will continue to monitor adherence through routine oversight by the grants management team. Initial implementation of corrective measures will begin upon receipt of an approved Year 3 budget from the Centers of Disease Control.

**ALN 93.323 – Epidemiology and Lab Capacity Program**

PDPH acknowledges the error that occurred with FFATA reporting with respect to its incomplete reporting. This grant had previously been connected in the FSRS.gov system to a PDPH division that was created during the COVID pandemic that no longer exists. Although the grant was listed under the Division of Disease Control by FY24, the FFATA was overlooked and not completed. The Division of Disease Control will work toward implementing additional internal controls to support accurate and timely FFATA reporting going forward.

**ALN 93.354 – Public Health Emergency Response**

PDPH acknowledges that errors occurred with FFATA reporting with respect to both the timing of the reporting and the amounts of subawards reported. The Division of Disease Control will work toward implementing additional internal controls to support accurate and timely FFATA reporting going forward.

**Contact Persons:** Daniel Teixeira da Silva, Director, Division of Substance Use Prevention and Harm Reduction (SUPHR), 267-760-0307

Jessica Caum, Public Health Preparedness Program Manager, Philadelphia Department of Public Health, 215-685-6731



**2024-014 REPORTING – MATERIAL WEAKNESS AND COMPLIANCE FINDING**

**Assistance Listing 97.083 Staffing for Adequate Fire and Emergency**

**Condition:** The Philadelphia Fire Department (PFD) submitted a semi-annual Federal Financial Report (FFR reported on form SF-425) that was inaccurate for federal awards received under the Staffing for Adequate Fire and Emergency Response (SAFER) program. Our review of the semi-annual SF-425 submitted for the reporting period ended June 30, 2024, disclosed that the amounts reported for “Federal share of expenditures”, “Total Federal Share”, and “Unobligated balance of Federal funds” were incorrect. The “Federal share of expenditures” was overstated by \$19,237,509 which resulted in the “Total Federal share” being overstated and the “Unobligated balance of Federal funds” being understated by the same amount. Funding for this program is received from the U.S. Department of Homeland Security and administered by the Federal Emergency Management Agency (FEMA).

**Criteria:** OMB’s Uniform Guidance, Title 2, Part 200, Subpart D, paragraph 200.302 (b)(2) specifies that the recipient must disclose accurate, current, and complete financial results.

**Effect:** The SF-425 report tracks the status of financial data for this federal award. Failure to properly report accurate information on the SF-425 report leads to noncompliance with reporting requirements. Also, federal grantors will not have complete and accurate information to make fiscal decisions on future federal awards.

**Cause:** The Fire Department has not provided the proper training for its staff to prepare the SF-425 report.

**Recommendation:** PFD should ensure their staff has proper training to prepare the SF-425 report and submit a revised report to FEMA.

**Views of the Responsible Officials and Corrective Action Plan:**

This finding pertains to a single Federal Financial Report (FFR) for period ending June 30th, 2024. This was the first and only FFR for this grant that the Philadelphia Fire Department prepared independently. The report was subsequently reviewed, approved, and accepted by FEMA. All subsequent and future FFRs have been submitted through the FEMA GO portal, where FEMA pre-populates the digital worksheet with the relevant figures. It should be noted that these pre-populated amounts align with PFD reimbursement requests for each reporting period, rather than the city’s total expenditures on salaries and benefits during the same period.

Upon notification of the discrepancy by the Controller’s office, PFD promptly contacted both FEMA and the City’s Grants office to seek clarification and guidance. Due to the federal government shutdown, FEMA has not yet responded. PFD will re-engage FEMA once normal operations resume, and if warranted will submit a revised FFR.

PFD emphasizes that the discrepancy identified on the single FFR does not impact the available grant funding.

**Contact Person:** Kelly Collins, Deputy Commissioner, Fire, 215-906-8976

**2024-015 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING**

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

**Condition:** The City’s Department of Public Health (DPH) did not perform risk assessments or monitor the performance of the eight subrecipients tested for this program. Specifically, DPH did not evaluate the risk of fraud and non-compliance or review the financial and performance reports for these eight entities, Funding for this program is received from the U.S. Department of Health and Human Services.

**Criteria:** OMB’s Uniform Guidance 2 CFR Part 200.332(c) states that the pass-through entity is responsible for evaluating each subrecipient’s fraud risk and risk of noncompliance with a subaward to determine the appropriate subrecipient monitoring. 2 CFR Part 200.332(f) further states that depending on the pass-through entity’s assessment of the risk posed by the subrecipient, the pass-through entity may need to provide training and technical assistance on program matters, perform site visits to review program operations, or arrange for other agreed-upon procedures, to ensure compliance with program requirements and achievement of performance goals. Finally, 2 CFR Part 200.332(e) requires the pass-through entity to monitor the activities of subrecipients by reviewing the financial and performance reports of subrecipients to ensure that the entities comply with federal statutes, regulations, and the terms and conditions of their subawards.

**Effect:** Failure to perform risk assessments and review the financial and performance reports of subrecipients resulted in noncompliance with subrecipient monitoring requirements set forth in the Uniform Guidance. Without these reviews, DPH may not adequately determine the appropriate level of monitoring needed to ensure that subrecipients comply with program requirements, federal regulations, and other requirements of their subawards. This noncompliance could also lead to the city having to pay back federal awards.

**Cause:** DPH incurred significant staff turnover.

**Recommendation:** DPH should strengthen its policies and procedures to ensure that risk assessments and required monitoring procedures are performed for all subrecipients. Additionally, for subrecipients determined to be high-risk, DPH should provide training and technical assistance, perform site visits, and/or apply other agreed-upon procedures to help ensure that subrecipients are properly accountable for subawards and comply with program requirements.

**Views of the Responsible Officials and Corrective Action Plan:**

The Philadelphia Department of Public Health (PDPH) acknowledges the findings of the Office of the City Controllers. PDPH confirms that risk assessments and related monitoring documentation for all subrecipients were not consistently completed or retained during the audit period, primarily due to staff turnover and limited administrative capacity within the grants management function.

To address this, the Division of Substance Use Prevention and Harm Reduction (SUPHR) has initiated corrective measures to strengthen compliance with the requirements of 2 CFR 200.332. These measures include implementation of standardized tools and procedures to ensure that subrecipient risk assessments,

monitoring activities, and the review of financial and performance reports are conducted in a consistent, timely, and well-documented manner. Implementation of these improvements will enhance internal controls, ensure appropriate oversight of subrecipients, and promote full compliance with federal regulations. The Department anticipates that tools and standard operating procedures will be finalized by December 19, 2025, with full implementation of corrective actions by March 3, 2026.

**Contact Person:** Daniel Teixeira da Silva, Director, Division of Substance Use Prevention and Harm Reduction (SUPHR) 267-760-0307

**2024-016 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING**

**Assistance Listing 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases Program**

**Condition:** The city’s Department of Public Health (DPH) did not perform risk assessments or monitor the performance of three subrecipient entities tested for this program. Specifically, DPH did not evaluate the risk of fraud and non-compliance or review the financial and performance reports for these three entities. Funding for this program is received from the U.S. Department of Health and Human Services.

**Criteria:** OMB’s Uniform Guidance 2 CFR Part 200.331(a) states that a subaward recipient may be considered a subrecipient of the pass-through agency if the recipient 1) determines who is eligible to receive federal assistance, 2) has its performance measured in relation to whether the objectives of a federal program were met, and 3) has responsibility for programmatic decision-making.

OMB’s Uniform Guidance 2 CFR Part 200.332(c) states that the pass-through entity is responsible for evaluating each subrecipient’s fraud risk and risk of noncompliance with a subaward to determine the appropriate subrecipient monitoring. 2 CFR Part 200.332(f) further states that depending on the pass-through entity’s assessment of the risk posed by the subrecipient, the pass-through entity may need to provide training and technical assistance on program matters, perform site visits to review program operations, or arrange for other agreed-upon procedures, to ensure compliance with program requirements and achievement of performance goals. Finally, 2 CFR Part 200.332(e) requires the pass-through entity to monitor the activities of subrecipients by reviewing the financial and performance reports of subrecipients to ensure that the entities comply with federal statutes, regulations, and the terms and conditions of their subawards.

**Effect:** Failure to perform risk assessments and review financial and performance reports for subrecipients resulted in noncompliance with subrecipient monitoring requirements set forth in the Uniform Guidance. Without these reviews, DPH may not adequately determine the appropriate level of monitoring needed to ensure that subrecipients comply with program requirements, federal regulations, and other requirements of their subawards. This noncompliance could also lead to the city having to pay back federal awards.

**Cause:** DPH management misclassified these three entities as contractors, rather than subrecipients. For purposes of the Epidemiology and Laboratory Capacity Program, contracts between DPH and the three entities in question specifically state that each of the entities would serve as subrecipients for grant funding awarded through the contracts. Subawards were used to hire additional staff for DPH’s COVID-19 Containment Program, for duties that included determining who is eligible to receive federal assistance, achieving the objectives established by the program, making programmatic decisions, and adhering to all applicable federal program compliance requirements.

**Recommendation:** DPH management should reevaluate the criteria used to determine whether subaward recipients are classified as subrecipients or contractors. Additionally, management should

ensure that risk assessments and required monitoring procedures are performed for all entities classified as subrecipients.

**Views of the Responsible Officials and Corrective Action Plan:**

The Philadelphia Department of Public Health (PDPH) acknowledges the Office of the City Controller's finding. PDPH maintains a process to identify subrecipients during the contracting process. Contracts with subrecipients include federal compliance language. The three entities identified in this finding, including Concilio, Urban Affairs Coalition (UAC), and Public Health Management Corporation (PHMC), should have been classified as vendors and not subrecipients. These entities were not responsible for programmatic decision-making. This error has been corrected in subsequent contracts. Despite the misclassification, appropriate vendor monitoring was conducted, including supervision of staff hiring and monitoring and reconciliation of monthly invoice packages.

**Contact Person:** Jessica Caum, Director, Department of Public Health, 215-685-6731

Naomi Mirowitz, Performance and Compliance Officer, Department of Public Health, 215-964-5050

**2024-017 SUBRECIPIENT MONITORING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING**

**Assistance Listing 93.914 HIV Emergency Relief Project Grants**

**Condition:** The Office of Health and Human Services' (HHS) Audit Unit failed to issue a management decision for audit findings related to two subrecipients of the city, who each had audit findings reported in their respective single audits. The fiscal year 2023 single audit of Bebashi and the fiscal year 2024 single audit of The Children's Hospital of Pennsylvania had a significant deficiency reported under the HIV Emergency Relief Program (ALN 93.914) in the Internal Controls over Major Programs section of the Schedule of Findings and Questioned Costs. Funding for HIV Emergency Relief program is received directly from the U.S. Department of Health and Human Services.

**Criteria:** 2 CFR section 200.332(e) states that the pass-through entity must issue a management decision for audit findings pertaining only to the federal award provided to the subrecipient from the pass-through entity as required by 2 CFR 200.521.

**Effect:** The management decision serves to confirm the audit findings and outline a corrective action plan for the subrecipient. Failure to issue a management decision could lead to unresolved findings at the subrecipient level.

**Cause:** HHS incorrectly relies on the auditing firms that perform subrecipient single audits to issue a management decision per 2 CFR section 200.312(e).

**Recommendation:** We recommend that HHS management modifies and/or strengthens its current policies and procedures to ensure that a management decision letter will be issued for audit findings relating to any federal awards that were provided to subrecipients.

**Views of the Responsible Officials and Corrective Action Plan:**

HHS acknowledges the Controller's finding that management decision letters were not issued for specific subrecipient audit findings under ALN 93.914, as required under 2 CFR 200.332(e) and 200.521.

While the formal letters were not issued, HHS did review the audit findings, obtained and evaluated the subrecipients' corrective action plans and confirmed that no questioned costs or additional risks remained. These steps ensured that the underlying corrective actions were completed.

To strengthen documentation and ensure consistency across all federal programs, HHS will adopt the following corrective measures:

1. Standard management Decision Template
  - HHS will adopt a simple, uniform management decision template and clear steps for documenting decisions within the required federal timelines.
2. Central Location for Documentation
  - HHS will store all management decision letters and related materials in one designated shared location to ensure accessibility and consistent record-keeping.
3. Brief Staff Guidance
  - HHS will provide concise written guidance to staff outlining:

- When a management decision is required,
- How to complete it using the template, and
- What documentation must be retained?

These corrective actions will ensure consistent compliance with federal requirements while supporting the City's long-term goal of standardizing financial processes across departments.

**Contact Person:** Landuleni Shipanga, Controller, City of Philadelphia Office of Children and Families, 215-683-6366



**2024-018 REPORTING – SIGNIFICANT DEFICIENCY AND COMPLIANCE FINDING****Assistance Listing 14.231 Emergency Solutions Grants Program****Assistance Listing 93.224 & 93.527 Health Center Program & Grants for New and Expanded Services under the Health Center Program****Assistance Listing 93.354 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response****Assistance Listing 93.667 Social Services Block Grant****Assistance Listing 93.914 HIV Emergency Relief Project Grants**

**Condition:** In our review of the fiscal year (FY) 2024 SEFA, we noted that GAAU improperly reported prior period expenditures for six grant programs in the current year SEFA. Specifically, we noted expenditures for the programs in Table 5 below, occurred in FY 2023, but were not included in the year end accounts payable accrual or reported in the FY 2023 SEFA. Instead, GAAU inappropriately reported those expenditures in the FY 2024 SEFA.

<b>Table 5: Summary of Prior Period Expenditures by Major Program</b>		
<b>Program name</b>	<b>Assistance Listing #</b>	<b>Prior Period Expenditures Amount</b>
Emergency Solutions Grant Program	14.231	\$311,742
Health Center Program & Grants for New and Expanded Services under the Health Center Program	93.224/93.527	\$820,991
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	\$895,907
Grants for New and Expanded Services under the Health Center Program	93.527	\$282,002
Social Services Block Grant	93.667	\$569,221
HIV Emergency Relief Project Grants	93.914	\$1,875,142

**Criteria:** OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.510(b) specifies that the grantee must prepare a SEFA for the period covered by the financial statements which must include the total federal awards expended as determined in accordance with 200.502 Basis for Determining federal awards expended. OMB's Uniform Guidance, Title 2, Part 200, Subpart F, paragraph 200.502(a) specifies that the determination of when a federal award is expended must be based on when the activity related to the federal award occurs. Additionally, the city's financial statements are prepared on the modified accrual basis and follow Generally Accepted Accounting Principles (GAAP). GAAP requires that governments report a liability in the period in which it is incurred. Accordingly, governmental entities should record expenditures when a liability is incurred, or when the activity related to a federal award occurs and not based on when the invoice is received.

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

**Cause:** Finance provides the departments with a list of payables and a list of open encumbrances with a cut-off date of September. The departments are required to review any pending invoices, open encumbrances, and payables for any payables that need to be recorded. During the audit, the departments did not perform a thorough review of their pending invoices and open encumbrances, so Finance was unable to detect significant payables.

**Recommendation:** Finance should improve its accounts payable process by following GAAP and the accrual basis of accounting by recording expenditures in the fiscal year they occur. All other city departments should review pending invoices and unliquidated encumbrances and follow up with contractors and subrecipients to ensure that the invoices are processed within the cut-off date for accounts payable.

**Views of the Responsible Officials and Corrective Action Plan:**

Although we acknowledge that certain prior-year expenditures were recorded in the FY24 SEFA, we do not believe these errors were material to the basic financial statements. In addition, we do not believe that including these expenditures affected the determination of major programs or our compliance with any federal grant requirements. We confirm that our financial statements are prepared in accordance with Generally Accepted Accounting Principles and that, as presented, they are materially accurate.

For FY 2025, we expanded our search for unrecorded liabilities to include activity through seven months after year-end. Because the risk of unrecorded liabilities declines as we move further from fiscal year-end, we focused our review on transactions that could reasonably have a material impact on the financial statements. We will work closely with all departments to ensure that any outstanding obligations that have not yet been vouchered are identified and addressed.

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