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? __x__ yes ____ no
Significant deficiency(ies) identified? __x__ yes ___ none reported

Noncompliance material to financial statements noted? ____ yes __x__ no

Federal Awards:
Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) __x__ yes ___ no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
93.090	Guardianship Assistance (SPLC)
93.268	Immunization Cooperative Agreements
93.558	Temporary Assistance for Needy Families
93.648	Child Welfare Research Training or Demonstration
93.658	Foster Care_Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.914	HIV Emergency Relief Project Grants
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities_Health Department Based

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

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

Finding No.		Page	Questioned Cost
Section II - Financial Audit Material Weakness:			
2015-001	Monitoring Inadequate Staffing and Lack of Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors	X	
2015-002	Monitoring Inadequate Management Oversight Resulted in Misstated Year-End Receivables	X	
2015-003	Control Activities Untimely Review Procedures in the Philadelphia Water Department Increase Risk of Financial Statement Errors	X	
2015-004	Information and Communication Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR	X	
Section III - Financial Audit Significant Deficiencies:			
2015-005	Payroll Control Activities Allowing Unauthorized Individuals to Approve Bi-Weekly Payrolls Increases Risk for Improprieties	X	
2015-006	Payroll Control Activities Failure to Segregate Payroll Duties Could Allow Fraud to Occur	X	
2015-007	Expenditure Control Activities Unauthorized Expenditure Sign-offs Could Lead to Irregularities	X	
2015-008	Capital Asset Control Activities Lack of a Comprehensive Capital Asset System Hampered Reporting Process	X	
2015-009	Capital Asset Control Activities Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records	X	
2015-010	Cash Control Activities Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Allow for Irregularities	X	

Finding No.		Page	Questioned Cost
2015-018	Reporting Children and Youth Programs Foster Care_Title IV-E – CFDA #93.658 Guardianship Assistance (SPLC) – CFDA #93.090 Adoption Assistance – CFDA #93.659 Temporary Assistance for Needy Families – CFDA #93.558 Child Welfare Research Training or Demonstration – CFDA #93.648	X	
2015-019	Reporting Children and Youth Programs Guardianship Assistance (SPLC) – CFDA #93.090 Foster Care_Title IV-E – CFDA #93.658 Adoption Assistance – CFDA #93.659	X	
2015-020	Reporting Children and Youth Programs Act 148 – Pennsylvania Department of Human Services	X	$261,629
2015-021	Subrecipient Monitoring Children and Youth Programs Act 148 – Pennsylvania Department of Human Services	X	$19,114
2015-022	Subrecipient Monitoring Immunization Cooperative Agreements – CFDA #93.268 HIV Emergency Relief Project Grants – CFDA #93.914 HIV Care Formula Grants – CFDA #93.917 HIV Prevention Activities_Health Department Based – CFDA #93.940	X	
2015-023	Reporting Social Services Block Grant – CFDA #93.667 Combined Homeless Assistance Programs (HAP)	X	$56,771

2015-001 MONITORING

Inadequate Staffing and Lack of Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Condition: Errors exceeding $1.0 billion were not detected by accountants in the Office of the Director of Finance (Finance Office) during preparation of the city's fiscal year 2015 Comprehensive Annual Financial Report (CAFR).

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

Effect: Because Finance Office accountants agreed with and corrected most of the errors we identified, the city's publically issued fiscal year 2015 CAFR can be relied upon for informative decision making.

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

- Finance and other city agencies, such as the Department of Revenue (Revenue Department), have continued to be operating with a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by nearly 28 percent (from 64 full-time employees in fiscal year 2000 to 46 in fiscal year 2015). Likewise, since fiscal year 2008, the Collections Division of the Revenue Department, responsible for processing revenue receipts and preparing financial reports on all revenue and receivable activity, lost 32 percent of its accounting positions.

- Accountants in the Finance Office lacked a comprehensive financial reporting system to prepare the CAFR. Instead, accountants produce the CAFR using numerous Excel, Lotus 1-2-3, and Word files with various links between the files. Using multiple linked files creates a cumbersome process which can adversely affect the accuracy and completeness of the report.

Recommendations: Without sufficient staff and a comprehensive financial reporting system to prepare and review information needed for the CAFR, the risk increases that significant errors can occur and not be timely discovered and corrected. Therefore, we again recommend that Finance Office management:

- Either hire more accountants, or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR.

- Provide adequate funding to all city agencies currently experiencing difficulty in accumulating and providing timely, accurate, and complete financial data to the Finance Office for inclusion in the CAFR.

Grantee Response: The Accounting Bureau (Accounting) is committed to producing an accurate and well-prepared CAFR. You noted in your report that staff reductions have made the task of completing the CAFR more difficult. We believe the loss of institutional knowledge has presented a challenge, as opposed to any reduction in the quantity of staff. Despite the loss of experience, Finance believes we have a core of dedicated individuals presently in place to accomplish our mission, and we have made progress in our succession planning efforts. Additionally, we will continue to work with other departments within the Finance group on succession planning efforts.

As noted in last year's response, Accounting re-organized to address succession planning and to improve and balance the responsibilities among its various units. This realignment results in cross training of key staff and enables Accounting to better manage the workload with existing resources. Further, to address management challenges resulting from employee retirements, Accounting is currently documenting staff functions and duties to assist managers in supervising staff accountants. This should strengthen internal controls and ensure duties are being completed in a timely fashion. By thoroughly understanding all of the functions and duties to be performed, Accounting managers and supervisors will be able to assign more tasks to the appropriate staff accountants, ultimately including them more in the year end process and facilitating better CAFR production. We will continue to critique the errors and adjustments resulting from the FY2015 CAFR audit with the entire accounting staff and fully expect to produce improved financial statements in the upcoming fiscal year.

2015-002 MONITORING

Inadequate Management Oversight Resulted in Misstated Year-End Receivables

Condition: Revenue Department management did not detect over $250 million of errors in the department's calculations of accounts receivable and related accounts.[1] As in prior years, the majority of the errors ($198 million) involved the Emergency Medical Services (EMS) receivables.[2]

Criteria: Section 6-200 of the Philadelphia Home Rule Charter specifies that the Revenue Department is responsible for the collection of all monies payable and due to the city. When revenue is collected by other city agencies with regularity and in sufficient volume, employees of those agencies are to act as agents for the Revenue Department[3] to facilitate accountability. The Revenue Department is then responsible for the accurate accounting of city revenue and receivables, and estimating amounts deemed uncollectible at year-end, for inclusion in the CAFRs of the School District of Philadelphia and the city.

Effect: Because Finance Office accountants corrected most of the errors we identified in the Revenue Department's calculations, the accounts receivable and related accounts reported in the city's fiscal year 2015 CAFR were materially accurate.

Cause: As we have commented for the last several audits, the Revenue Department still needs better oversight of the receivable reporting function. We observed (1) an inadequate managerial review, (2) insufficient communication with the Fire Department regarding the EMS receivable calculation, and (3) failure to formalize written procedures for the receivable reporting function. In particular, we noted:

- Inadequate managerial reviews occurred because of a turnover in supervisory personnel within the Revenue Department's Financial Reporting Unit (FRU). This unit is responsible for calculating the receivable amounts reported in the CAFR. Given the significant undetected errors in the accounts receivable calculation, the new supervisory personnel did not appear to have been adequately trained to perform their duties effectively.

- FRU's failure to communicate with the Fire Department regarding the EMS receivable calculation significantly contributed to the error in that receivable. We observed that the Fire Department reported the correct EMS receivable amount to the FRU. However, in arriving at the EMS receivable amount reported to the Finance Office for inclusion in the CAFR, the FRU incorrectly deducted a $198 million receivable write-off that had not been approved by the Accounts Review Panel.[4] FRU personnel should have conferred with Fire Department accountants before making such a significant adjustment to the EMS receivables.

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[1] Related accounts included the allowance for doubtful accounts, deferred inflows of resources, and overpayment of taxes.
[2] EMS fees are charged for ambulance transport and other medical services provided to citizens and visitors of the city.
[3] The Philadelphia Home Rule Charter, Section 6-204.
[4] The Accounts Review Panel, which was established in 1966 by Bill No. 1938, is responsible for approving all write-offs of city receivables. No receivables are to be written off without first being approved by the Accounts Review Panel.

- The procedural manual outlining functions to be performed by the FRU was still considered a draft and had not been formally approved and finalized by management.

Recommendations: If the Revenue Department's oversight of city receivables does not improve, there will continue to be an increased risk of financial statement errors. To improve oversight over city receivables, we again recommend that Revenue Department management:

- Formally approve and finalize written procedures for the FRU to provide guidance on: (1) accurately establishing year-end receivable balances; (2) performing an independent review of related activity; and (3) annually updating the estimated basis for determining uncollectible accounts receivable amounts.

- Provide adequate training to employees performing new duties.

- Work closely with the Fire Department to accurately report the year-end EMS receivables and allowance for doubtful accounts.

Grantee Response: Revenue is committed to working closely with departments that manage agency receivables to provide better guidance and to ensure uncollectible receivables are calculated accurately. They will continue working to finalize written procedures regarding the recording of year-end receivables, performing independent reviews and updating the estimated basis for determining uncollectible accounts receivable amounts. Additionally, they will make every attempt to communicate the required procedures to other departments and work closely with them to ensure accurate reporting. As necessary to achieve these goals, Revenue will use additional staff and ensure they are adequately trained.

2015-003 CONTROL ACTIVITIES

Untimely Review Procedures in the Philadelphia Water Department Increase Risk of Financial Statement Errors

Condition: Previously, we recommended the Philadelphia Water Department (PWD) provide the Finance Office with detailed and organized support for the Water Fund financial statements. In response, on October 19, 2015, the PWD submitted a draft compilation package which supported the preliminary Water Fund financial statements but was incomplete due to certain information not yet being available. On January 27, 2016, approximately one month before the city's CAFR was issued, PWD presented an updated compilation which contained most of the support for the Water Fund statements. We believe that sufficient improvement was made to consider this condition resolved.

Despite the above noted improvement, the completed checklist documenting PWD management's review of the Water Fund financial statements was not submitted to the Finance Office until March 2, 2016, six days after the CAFR was finalized and we issued our opinion. In comparison, the Division of Aviation (DOA) presented its completed management review checklist to the Finance Office on January 19, 2016. Additionally, in a related matter, we again observed that the Finance Office and PWD were not utilizing the full accrual Water Fund established in the city's accounting system (FAMIS[5]) to post year-end journal entries to prepare the financial statements.

Criteria: PWD management should design and have in place appropriate procedures to *timely* review and document its quality control over the compilation of the Water Fund financial statements. PWD should also be using the full accrual Water Fund in FAMIS to post adjusting entries so as to provide a clear trail of adjustments between the modified and full accrual statements and decrease the risk of errors in the CAFR.

Effect: With no evidence of timely management review, there is an increased risk for undetected errors in reported Water Fund amounts.

Cause: PWD management informed us that they delayed submitting the review checklist until all required documentation was received from other city agencies and the compilation could be finalized. Such delays precluded PWD accountants from using the FAMIS full accrual Water Fund to post year-end entries.

Recommendations: To improve the timeliness of review procedures for the Water Fund financial statements, we continue to recommend that PWD and Finance Office management work together to establish an earlier deadline for the completion of the Water Fund compilation and checklist, as well as the submission of those items to the Finance Office. As part of this effort, PWD and Finance Office management should coordinate with other applicable city agencies to develop target dates for these agencies to provide the information that PWD needs.

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[5] **F**inancial **A**ccounting and **M**anagement **I**nformation **S**ystem.

Additionally, management and accountants of PWD must ensure that the following actions are completed by the established deadline:

- Perform the procedures, now detailed in the compilation checklist, to ensure the accuracy and completeness of the Water Fund financial statements. The checklist should be submitted to the Finance Office along with the Water Fund financial statements. It should include an assertion by management that the statements have been reviewed and approved, and that to the best of management's knowledge, are complete and free from material misstatement.

- Review and approve the Water Fund financial statements for accuracy and completeness.

Once the Finance Office has incorporated the Water Fund financial statements into the CAFR, a responsible PWD official should review the CAFR for accurate inclusion of the statements.

Lastly, we recommend that Finance Office management require that PWD accountants utilize the FAMIS full accrual Water Fund to post its year-end accrual adjustments.

Grantee Response: We appreciate the acknowledgment indicating resolution of the audit finding regarding the preparation and timely submission of a compilation package with detailed documentation that supports the Water Fund financial statements.

In accordance with the Controller's recommendation to improve the accuracy and completeness of the compilation package, PWD will:

- Improve its efforts to timely document the review of the compilation package by submitting a preliminary checklist along with the preliminary Water Fund financial statements to the Finance Office. This checklist will document PWD's review of the supporting documentation and will be submitted along with the compilation package at the time of the financial statement submission; and

- Review its current procedures and consult with key personnel in other city agencies to find ways to improve the timeliness of receipt of the supporting documentation for the preparation of the Water Fund statements.

PWD will work with the Finance Office to ensure there is review after the incorporation of the Water Fund schedules and exhibits into the city's CAFR. PWD will also coordinate with the Finance Office to receive guidance on utilizing the FAMIS full accrual Water Fund to post its year-end accrual adjustments.

2015-004 INFORMATION AND COMMUNICATION

Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

Condition: As we have reported for the last several years, late receipt of component unit financial reports continued to delay preparation and audit of the city's CAFR. Table 1 below shows that seven of the city's ten component units still did not submit their audited financial reports when due as requested by Finance Office accountants.

Table 1: Late Submission of Component Unit Financial Reports

COMPONENT UNIT	DUE DATE	DATE RECEIVED	DAYS LATE
Delaware River Waterfront Corporation	9/30/2015	12/07/2015	68
Pennsylvania Intergovernmental Cooperation Authority	9/30/2015	12/11/2015	72
Philadelphia Authority for Industrial Development	9/30/2015	11/06/2015	37
Philadelphia Gas Works	11/30/2015	1/28/2016	59
Philadelphia Municipal Authority	9/30/2015	2/05/2016	128
Philadelphia Redevelopment Authority	11/30/2015	2/13/2016	75
School District of Philadelphia	11/30/2015	2/19/2016	81

Note: Community Behavioral Health, the Community College of Philadelphia, and the Philadelphia Parking Authority submitted their financial reports timely.
Source: Prepared by the Office of the Controller

While the Philadelphia Municipal Authority's (PMA's) final report was submitted the latest at 128 days past the requested due date, it did not present as significant a reporting problem as some of the other late component units. This was because PMA had submitted a draft report to the city in October 2015, early enough to be included in the first draft of the CAFR.

The greater challenge to the timely completion of the CAFR came from the School District of Philadelphia and the Philadelphia Redevelopment Authority. Both these agencies submitted their reports very late (February 19, 2016 and February 13, 2016, respectively), leaving the Finance Office and the Controller's Office auditors little time to ensure they were accurately included in the city's CAFR.

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: Failure to receive component unit financial statements on time increases the chances 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 a component unit's 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. During the current year audit, we identified and Finance corrected misclassification errors relating to the component units totaling $456 million.

Cause: There is no incentive for component units to submit their final financial statements timely to the city and no consequences for those who do not meet the required deadline.

Recommendation: We again recommend that early in the CAFR preparation process, Finance Office accountants solicit the assistance of the mayor and/or other administrative officials, to secure the cooperation of all component unit management in the timely submission of their respective final financial reports to the city's Finance Office.

Grantee Response: We agree that the timely submission of all component unit reports is critical to the timely issuance and accuracy of the city's CAFR. Despite meetings with management and auditors of various component units concerning timely audit submission, we still experienced difficulty with timely receipt of final audit reports. Contributing to the delay this year was the implementation of GASB 68, requiring additional procedures to be performed by the City's actuary that were completed later than expected. Accounting did hold additional meetings with units that experienced difficulties to provide guidance and assist with problems (including GASB 68 issues) that were delaying the preparation of their financial reports. Accounting will continue to communicate with the component units and emphasize the importance of timely submissions. As appropriate, we will reach out to key administrative officials to secure the cooperation of all component unit management in the timely submission of their respective financial reports to our office.

2015-005 PAYROLL CONTROL ACTIVITIES

Allowing Unauthorized Individuals to Approve Bi-Weekly Payrolls Increases Risk for Improprieties

Condition: To its credit, starting in fiscal year 2015, the Finance Office's central payroll unit instituted a procedure to check whether authorized employees are approving payroll. Specifically, for each payroll period, the unit compared a report listing city agency officials who performed the executive-level approvals in the on-line payroll system to the official signature card files and addressed any discrepancies. However, as we have noted during the last several audits, unauthorized employees continued to approve the city's bi-weekly payrolls. The official payroll signature files maintained by the Finance Office were inconsistent with the approval privileges assigned within the city's on-line payroll system. The city's on-line payroll process consists of the following three steps: data entry of payroll transactions, supervisory review, and executive approval. Our comparison of the payroll signature files for 55 city agencies to individuals authorized in the on-line payroll system to perform executive-level approvals revealed:

- Thirteen agencies (24 percent) had employees designated in the payroll system as authorized executive-level approvers who were not listed as such on the official payroll signature files.

- Forty-two agencies (76 percent) had employees who were authorized as executive-level approvers, but not designated as such in the payroll system. Ninety of these individuals did not have access to the system.

We also observed three instances where an employee with only supervisory-level approval privileges performed the executive-level approval and another case where an individual who normally only posted payroll transactions applied the executive-level approval. Finance Office management asserted that, in an emergency situation where the usual executive-level approver is unavailable, a department may request temporary executive-level approval privileges for a designated individual. However, management was unable to provide documentation to support temporary authorizations for the four instances we found.

Criteria: To prevent irregularities, good internal control procedures dictate that only individuals who are properly authorized should be approving the bi-weekly payrolls. Additionally, signature authorization records should be appropriately updated as required by the city's Standard Accounting Procedure (SAP) No. E-0911 titled *Signature Authorization Cards*. This SAP requires the Finance Office to maintain a current signature file of employees authorized to enter executive-level approvals for their respective agency's payroll. The SAP also permits an agency head or deputy to temporarily delegate the executive-level approval to another administrative staff official when necessary due to the absence of the usual executive-level approver. This delegation should be documented on a temporary signature authorization card.

Effect: For seven of 55 city agencies, unauthorized employees approved approximately $1.5 million in payroll costs during fiscal year 2015. Although we found no improprieties, the city has exposed itself to a higher level of risk for such occurrences.

Cause: The city's central payroll unit in the Finance Office has not made it a priority to ensure consistency between all individuals with executive-level approval privileges in the payroll system and the city's official signature card files. Regarding the temporary delegation of executive-level approval, Finance Office management had neither formalized current documentation requirements for this process nor appropriately updated SAP No. E-0911. The payroll unit's director informed us that use of the temporary signature authorization card was not practical due to time constraints in processing payroll. Instead, the payroll unit required that an agency official send an e-mail to the payroll unit requesting the temporary authorization; however, payroll unit personnel did not retain these e-mails.

Recommendations: We recommend Finance Office management:

- Compare the complete list of executive-level approvers in the on-line payroll system to the signature authorization cards to ensure that all individuals are properly authorized and have appropriate on-line access to the system. Consider designing and implementing a practice that would require such a comparison to be performed on a periodic basis.

- Formalize current documentation requirements for temporary authorizations of executive-level approval privileges and revise SAP No. E-0911 accordingly.

Grantee Response: As noted in your report, Payroll, in conjunction with OIT, created a report that is automatically generated after each payroll cycle to check whether authorized employees are approving payroll. They use the report to compare officials who approved the on-line payroll to the signature card files and address any discrepancies in a timely manner. Due to the frequency of intra-departmental transfers and employees separating or retiring, there may be a slight lapse in time from when the signature card is signed and a User ID assigned, possibly resulting in the need for overlapping executive level signers or an authorized employee on a card not yet having system access. In these instances, a supervisory level employee not on the authorized signature card may have to sign off at executive level. Payroll typically asks for an e-mail to make this temporary change, which our Signature Authorization Card SAP permits. Unfortunately, during the migration of Outlook many of the archived e-mails were lost and could not be produced at the time of your audit.

2015-006 PAYROLL CONTROL ACTIVITIES

Failure to Segregate Payroll Duties Could Allow Fraud to Occur

Condition: During fiscal year 2015, duties concerning the data entry, review, and approval of bi-weekly payroll transactions were again not adequately segregated. Of 55 city agencies for 26 pay periods, we observed 366 occasions (26 percent), in which the same individual posted and approved the on-line payroll time records, applied both the supervisory and executive-level approvals, or performed all three duties. Employees in thirty-one of the agencies performed duplicate functions for more than two pay periods, with the City Commissioners Office, Department of Human Services, and Office of Property Assessment being the most recurrent among the larger departments. While there had been a slight improvement in this condition when compared to the previous year's findings,[6] a significant number of city agencies were still not adequately segregating payroll duties.

Criteria: Effective control procedures require that payroll entry, supervisory review, and executive-level approvals be performed by separate authorized employees.

Effect: Failure to segregate duties and the combination of multilevel reviews increase the risk of undetected errors and provide opportunities for a person to perpetrate and conceal irregularities during the process for preparing bi-weekly payroll. This situation may result in fraudulent payroll payments.

Cause: The city's current automated payroll system allows individuals with supervisory and executive-level approval capability to perform the work at their level, as well as the levels below them. Finance Office management asserted this system feature was intentional to ensure that payroll is processed in emergency situations that may occur when authorized individuals at all levels are not available to sign off on payroll.

Recommendation: We continue to recommend that the city's Finance Office remind city agencies of the importance of maintaining adequate segregation of duties for completing data entry, reviewing, and approving payroll each pay period. Since the city is in the process of modernizing its payroll system, we suggest the Finance Office ensure that the new system is designed to prevent one individual from performing two or more conflicting duties.

Grantee Response: Finance will continue to remind operating departments that the same employee should not be signing off on more than one level of payroll. However, as previously stated, in order to ensure that employees are paid on time, there will be instances where one person signs off at more than one level when all employees at all levels are not available to sign off. The city's OnePhilly initiative to replace the HR and Payroll systems is underway, and these types of control features are being reviewed for implementation as part of that project.

[6] The prior audit's testing disclosed 422 occasions during fiscal year 2014 (30 percent) in which these payroll functions were not separated. Also, we noted that for 35 of 55 departments, employees performed duplicate functions for more than two pay periods.

2015-007 EXPENDITURE CONTROL ACTIVITIES

Unauthorized Expenditure Sign-offs Could Lead to Irregularities

Condition: Our testing of expenditure approvals in the city's computerized accounting systems (i.e. FAMIS and ADPICS[7]) revealed 256 payment vouchers, totaling $2.5 million that were electronically approved by individuals who were not formally authorized to perform this function. Specifically, individuals in the PWD and the Sheriff's Office were not listed on their agencies' signature authorization cards, which represent the official record of employees designated to approve the purchase of goods and services on the city's behalf.

Additionally, for the Office of Innovation and Technology (OIT) and Procurement Department, two of the city agencies whose payment processing function is overseen by the Finance Office's Administrative Services Center (ASC),[8] we found 1,110 vouchers totaling $25.5 million, each of which was approved by a first level reviewer who was not listed on the agency's signature card[9] with final authorization then given by an ASC manager who did appear on the signature card. Our discussions with Finance Office management indicated that they only require the final approver for vouchers processed through the ASC to be listed on the signature card. However, neither the use of the ASC nor this specific requirement is discussed in the city's SAP No. E- 0911, *Signature Authorization Cards*.

In another related matter, voucher approval records in the city's accounting system had not been properly updated to reflect changes in the active status of certain city agencies. For example, $22 million of capital improvement expenditures were approved by a Department of Public Property (Public Property) deputy commissioner for transactions coded as initiated and approved by the Capital Programs Office (CPO). The CPO's functions and employees merged with Public Property several years ago.

Criteria: To prevent irregularities, good internal control procedures dictate that only individuals who are properly authorized should be approving payment vouchers. Moreover, records – both the signature authorization cards and the employee approval privileges in the city's accounting systems – should be appropriately updated each time personnel and/or organizational change occurs. The need for keeping signature files up-to-date is formally addressed in the current version of the city's SAP No. E- 0911.

Effect: While our sample testing of fiscal year 2015 expenditures did not reveal any irregularities, having unauthorized employees approve purchases could result in a misappropriation of funds.

Cause: In the case of the unauthorized PWD employee, the individual was removed from the agency's signature authorization card in February 2015. However, her approval privileges were not timely revoked, and she continued to approve vouchers. The Sheriff's Office employee never appeared on the agency's signature card but was granted voucher approval privileges in ADPICS.

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[7] **Ad**vanced **P**urchasing **I**nventory **C**ontrol **S**ystem

[8] ASC oversees payment processing and other administrative functions for six city agencies: OIT, Procurement Department, Finance Office, Treasurer's Office, Civil Service Commission, and Office of Human Resources.

[9] For the OIT vouchers, various OIT managers performed the first level review. For the Procurement Department vouchers, the first level reviewer was an ASC administrative technician.

Additionally, the use of the signature authorization cards has evolved over the years from its primary purpose to verify the authenticity of hand-written signatures on payment certifications to the Director of Finance and the City Controller, to its current function of providing an up-to-date record of all individuals authorized to electronically approve payments in the city's accounting systems. Consequently, the need to timely update these cards as situations require and revise SAP No. E-0911 to reflect current practices may not be afforded the same urgency as in the past. Also, voucher approval codes in FAMIS were not updated to reflect the transition of personnel from the now defunct CPO to Public Property.

Recommendation: To ensure that unauthorized individuals do not have access or approval capability within the city's accounting systems, we recommend that Finance Office management:

- Compare the signature card files to the list of employees authorized to approve vouchers in the city's accounting systems, identify discrepancies, and update the signature cards and/or approval privileges accordingly. Consider designing and implementing a practice that would require such a comparison to be performed on a periodic basis.

- Reinforce to all city agencies the requirement to prepare and submit new signature authorization cards to the Finance Office immediately upon authorized employees separating, transferring to another city agency, or changing job responsibilities. Upon receipt of a new signature card, responsible personnel in the Finance Office and Procurement Department should compare the new card to the previous one and promptly remove the on-line approval privileges of employees no longer listed on the card.

- Formalize current signature authorization card requirements and revise SAP No. E-0911 accordingly.

- Update FAMIS voucher approval codes to eliminate those relating to the CPO.

Grantee Response: To reinforce the process previously implemented**,** we will again instruct responsible personnel who monitor FAMIS and ADPICS access and approval authority to utilize OIT's bi-weekly list of terminated employees to revoke access codes in a timely manner for individuals separated from the city. In addition, in an effort to be more efficient, Finance will prepare an electronic log of employees authorized to approve vouchers (mirroring the signature cards) so that it is not necessary to repeatedly locate the paper signature cards to verify authorized signers.

You note specifically for the Office of Innovation and Technology (OIT) and Procurement that vouchers were "approved" by a first level reviewer not on the agency signature card. However, each of these vouchers received final approval from an employee in Finance's Administrative Services Center (ASC), which is responsible for processing/approving vouchers for a number of departments and are listed on the agency signature cards as authorized signers. Although the initiators/reviewers are in the voucher approval path, we do not believe they are required to be on the signature card as there are final approval levels above them that are required to indicate agency authorization. In compliance with SAP E-9011, the Finance employees who approve the vouchers are listed on the department's signature cards.

Additionally, we will work with Public Property to correct the coding related to the Capital Program Office, and we will reissue SAP E-0911 to reinforce to all city agencies the requirement to prepare and submit new signature authorization cards to Finance immediately when authorized employees separate or change job responsibilities.

2015-008 CAPITAL ASSET CONTROL ACTIVITIES

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Condition: The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Lotus 1-2-3 and Excel files that with FAMIS constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation expense and accumulated depreciation reported in the city's CAFR. Real property addresses are only available in FAMIS by user code, which is identified in an Excel file called the "Proof".

Criteria: Philadelphia's Home Rule Charter[10] requires management to maintain current and comprehensive records of all real property belonging to the city.

Effect: The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the CAFR and causes extensive audit effort. For example, we continued to find discrepancies between the "Proof" file and FAMIS – a $1.0 million difference for vehicle balances and a $6.4 million discrepancy in the accumulated depreciation balance for buildings. Also, we noted a $3.0 million variance between amounts on the "Proof" summary report and supporting "Proof" detail files. Lastly, $800,000 of computer equipment transferred from Governmental Activities to the Water Fund during fiscal year 2015 was not removed from the Finance Office's inventory file, resulting in an overstatement of the Governmental Activities' equipment balance.

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

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

Grantee Response: We agree it would be beneficial for the city to a have capital asset system. Unfortunately, resources have not been identified to fund either the system or the ongoing operating costs for staff that may be required to maintain the system, including maintaining accurate cost history records, accurate depreciation history, and providing a detailed inventory of the major systems in all of the buildings that the city owns. In the meantime, the current system will continue to be used. It should be noted the current methodology used by Accounting provides financial information that is accurate and auditable, even though it does not provide the level of detail that a capital asset system might provide. The auditor's finding cited variances totaling $11.2 million against total capital assets of $2.2 billion, not a material variance.

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[10] The Philadelphia Home Rule Charter, Section 6-501

2015-009 CAPITAL ASSET CONTROL ACTIVITIES

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

Condition: Except for the PWD and the DOA, which both periodically check the physical existence and condition of their real property assets, this year's audit again disclosed no evidence that the city's other real property assets had been recently inventoried. Also, while we previously recommended that the Finance Office compare the Philadelphia City Planning Commission's master database of city-owned facilities to the city's fixed asset ledger to identify any discrepancies, the Finance Office had not yet performed this comparison.

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

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

Cause: This issue has not been a priority for city management. The Finance Office, Procurement Department, and Public Property – the agency responsible for acquiring and maintaining the city's real property assets – have not coordinated with one another to develop a process for a periodic physical inventory of 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 for the use of elected officials every three years. This report should also be made available to the general public.

- Obtain the master list of city-owned facilities and compare it to Finance's records to identify any discrepancies and ensure completion and accuracy.

Grantee Response: We agree that there is no formal written process to document that a physical inventory is occurring and no one system/report where all of the data on property conditions is stored. However, we believe that a physical inventory of assets is being conducted as a matter of course by the departments and that information is the basis for their capital and maintenance budget requests. We will follow the Controller's recommendation and obtain City Planning's master list of city-owned facilities and compare to Finance's records to reveal any discrepancies. Additionally, OIT, City Planning, Public Property and others are working to develop an asset management tool (IWAMS) that will aid the respective departments in monitoring the costs associated with the facilities that they manage. It is our hope that this database will assist us in assessing the condition of the assets included in the database, along with helping to ensure our list of assets is complete and accurate. While this will aid in ensuring the list is complete and accurate, it will not assist in calculating depreciation and book value of the city owned capital assets. We will explore with OIT whether there is a depreciation module that could be implemented as part of that system.

2015-010 CASH CONTROL ACTIVITIES

Untimely Bank Reconciliation Process Could Jeopardize Accuracy of Financial Statements and Allow for Irregularities

Condition: The Treasurer's Office again did not timely reconcile its bank accounts, which held over $1.9 billion at June 30, 2015. For 69 of its 79 accounts (87 percent), the Treasurer's Office did not compare the city's accounting records against the bank's records to ensure that both sets of records were correct until more than two months after June 30th. In a number of instances, this process did not occur until more than six months after fiscal year-end and for some, not at all through the year. The current year's observations represent an even further deterioration from the previous year, when we reported that 67 percent of the Treasurer's bank accounts were not timely reconciled. Table 2 below summarizes our findings with respect to the Treasurer's untimely bank reconciliations.

Table 2: Summary of Treasurer's Untimely Bank Reconciliations

Month June 30, 2015 Reconciliation Was Prepared	# of Accounts	June 30, 2015 Bank Account Balance
Prepared Less Than Two Months After June 30th		
August 2015	2	$ 214,918
Prepared More Than Two Months After June 30th		
September 2015	41	885,819,423
October 2015	14	1,020,505,518
November 2015	-	-
December 2015	8	1,471,346
After December 2015	6	11,106,215
Subtotals – Prepared More Than Two Months After June 30th	**69**	**1,918,902,502**
No Reconciliation Prepared†	8	927,897
Totals for All Accounts	**79**	**$ 1,920,045,317**

†Two of the eight accounts were the city's payroll and general disbursement accounts, which have not been reconciled since September 2010 and April 2012, respectively.

Source: Prepared by the Office of the Controller from review of June 30, 2015 bank reconciliations provided by the Treasurer's Office

Criteria: Best practice, as well as the city's SAP No. 7.1.3.b require that book balances for city cash accounts be reconciled to the bank balances on a monthly basis.

Effect: The city is at an increased risk for undetected errors in reported cash balances and/or irregularities in account activity.

Cause: Given the worsening of this condition since the prior audit, it appears Treasurer's Office management

has not made the completion of the required bank reconciliation process a priority or allocated the necessary resources to perform this function effectively.

Recommendation: We continue to recommend that Treasurer's Office management devote the necessary time and resources to ensure that all required bank reconciliations are timely prepared on a monthly basis. Bank reconciliations for any unreconciled accounts must be brought up-to-date. Management should consider hiring an outside accounting firm to assist in this effort.

Grantee Response: The City Treasurer's Office (CTO) acknowledges the City Controller's findings regarding bank account reconciliations. Since your review, CTO has addressed staffing shortages and improved the processes that have contributed to this delay.

Through much of FY2015, the CTO was still working through staffing issues arising from the retirement of the department's accounting manager and a long serving accountant. There was also turnover of two other experienced accountants from the group (one of which was being trained to replace the accounting manager who retired). Since hiring a new accounting manager in January 2015 and addressing the turnover of accountants in the department, CTO has focused on completing the reconciliations in a timelier manner. During FY2016, there has been increased emphasis on improved quality of cash reconciliations, as well as more communication around deadlines to address the delay in reconciliations. CTO has found that prior year reconciliations had many outstanding items that required attention/resolution. The identification of, and need to balance/explain, these reconciling items resulted in overall delays in completing both prior and current reconciliations.

A significant effort will be required to address the delay in the payroll and general disbursement account reconciliations given the nature of these accounts, the period of time since they've been reconciled, and the number of transactions that occur in each. CTO has started preliminary work on the general disbursement account and is expecting a more focused and robust work effort to restart the account reconciliation process. CTO is anticipating that it will take more than a year to catch up on the balancing of these accounts and that additional time will be needed to rectify any open reconciling items that are identified during the account balancing process. Aside from this catch-up process, CTO anticipates that the majority of reconciliations will be completed and reviewed in a timely manner.

In recognition of the volume and importance of this work, CTO's fiscal year 2017 budget provides for an additional accountant. In addition, CTO is currently exploring the possibility of retaining a contract accountant to assist in bringing the reconciliations up to date.

2015-011 CASH CONTROL ACTIVITIES

Treasurer's Reconciliation Process Failed to Detect Shortages in City's Consolidated Cash Account

Condition: The Treasurer's bank reconciliation process failed to detect shortages in the city's consolidated cash account**.** Comparison of the Revenue Department's daily report of city collections, known as the Consolidated Summary of Deposits, to city bank account statements for twelve selected dates in fiscal year 2015 disclosed:

- Seven instances totaling $55,751 where the Consolidated Summary of Deposits reported a wire transfer from a city vendor's lockbox account[11] into the city's consolidated cash account for which there was no record of the monies ever being transferred.

- A case where the Consolidated Summary of Deposits reported an $18,063 transfer from the city's pension payroll deduction adjustment account to the consolidated cash account in December 2014. However, the actual transfer did not occur until October 2015, when Treasurer's accountants eventually detected the missing transfer.

Criteria: To ensure the accuracy of the city's reported revenue receipts and cash balances, it is essential that the Treasurer's Office reconcile all daily collections reported on the Consolidated Summary of Deposits to amounts deposited into the city's bank accounts.

Effect: The city's cash accounts are at an increased risk for undetected errors and fraud. In the case of the seven reported wire transfers for which there was no record to show that they ever occurred, the city's consolidated cash account was short by $55,751. Treasurer's personnel believed these monies still remained in the vendor's lockbox account; however, as of the end of our fieldwork, we were not provided with documentation to support that assertion.

Cause: The Treasurer's bank reconciliation process was deficient because it did not include a comparison of all reported collection amounts on the daily Consolidated Summary of Deposits to amounts deposited in the city's bank accounts. There was also a lack of communication and coordination between the Treasurer's Office and Revenue Department to ensure that Treasurer's accounting staff had an adequate understanding of the reported collection amounts on the Consolidated Summary of Deposits and their related responsibilities. Treasurer accounting personnel were responsible for directing the bank to transfer monies from the vendor's lockbox account to the consolidated cash account. However, in the case of the missing wire transfers noted by our testing, the Treasurer's accounting manager asserted that he was not aware of these wire transfers because they appeared on the Consolidated Summary of Deposits under a code that differed from the usual code the Revenue Department used to identify required wire transfers from the vendor's lockbox account.

[11] In certain cases where the city uses a vendor to collect revenues on its behalf, the monies are first deposited into a vendor's lockbox account before being transferred into the city's consolidated cash account.

Recommendations: We recommend management of the Treasurer's Office:

- Revise its bank reconciliation procedures to include a comparison of all reported collection amounts on the Consolidated Summary of Deposits to amounts deposited in the city's bank accounts. Treasurer's Office accountants must document this comparison and investigate all identified discrepancies between reported collections and bank deposits. The comparison should be reviewed by supervisory personnel, who should evidence their review by initialing and dating the comparison. Also, management should formalize this reconciliation procedure in writing to ensure that is consistently performed and documented.

- Work more closely with Revenue Department management so that Treasurer's accounting personnel gain an adequate understanding of reported collection amounts presented on the Consolidated Summary of Deposits and their related responsibilities.

Grantee Response: CTO agrees that these type of discrepancies require immediate attention. However, due to the volume of transactions that make up the activity in the ConCash account, it is possible that smaller transactions may remain on the outstanding reconciling items listing for longer than we might prefer.

At this point, the process has been reassigned to a dedicated accountant on the CTO team. Additionally, for at least the last six months, CTO has been working closely with Finance's Assistant Director of Accounting to reengineer the reconciliation process for the ConCash account. The result is that the assigned accountant will match all accounting entries for the 1CC08 TAG in FAMIS to the bank on at least a weekly basis. This will allow for identification and resolution of outstanding reconciling items sooner, such as those cited in your report where revenue was recognized ahead of the transfer/deposit into the Con Cash account.

During FY2017, CTO will work with the Revenue Department to gain a fuller understanding of their processes and accounting for revenues. CTO will also discuss automating cash transfers from the lockbox accounts to the ConCash account so that future revenues are moved in a timely manner and to ensure that revenue recognition follows the city's cash transfers, instead of the cash transfer following the revenue recognition.

2015-012 CASH CONTROL ACTIVITIES

Inadequate Oversight of Collateral Could Leave City Vulnerable to Losses

Condition: The Treasurer's Office again did not adequately monitor its banks to ensure that collateral to secure city deposits was in compliance with legal requirements. City deposits at two of the banks were under-collateralized for seven months during fiscal year 2015.[12] In total for these seven months, deposits exceeded collateral for the two banks by $225.9 million, with the most significant occurrence in February 2015 when deposits were under-collateralized by $79.8 million. Table 3 below summarizes the months in which deposits were under-collateralized.

Table 3: Summary of Under-Collateralized Deposits

Column A Month	Column B Deposits Less FDIC Coverage*	Column C Pledged Collateral	Column D Amount Under-Collateralized (Col. B – C)	Column E Percentage Under-Collateralized (Col. D/B)
		(Amounts in Millions of USD)		
July 2014	$ 125.9	$ 110.4	$ 15.5	12.3%
August 2014	407.3	352.4	54.9	13.5%
October 2014	435.2	402.7	32.5	7.5%
December 2014	247.8	239.4	8.4	3.4%
February 2015	347.4	267.6	79.8	23.0%
March 2015	326.4	321.9	4.5	1.4%
June 2015	367.9	337.6	30.3	8.2%
Totals	**$2,257.9**	**$2,032.0**	**$225.9**	**10.0%**

*Federal Deposit Insurance Corporation (FDIC) coverage limit of $250,000 per deposit type
Source: Prepared by the Office of the Controller from review of monthly collateral reports provided by the Treasurer's Office

Criteria: Philadelphia Code §19-201(4)(a) requires that banks or other financial institutions designated as city depositories must provide pledged collateral at amounts equal to or in excess of the deposited amounts. The pledged collateral must be held by the Federal Reserve Bank or the trust department of a commercial bank.

Effect: Inadequate collateralization of city deposits could leave the city vulnerable to loss during market recession or other unfavorable economic conditions.

Cause: Treasurer's Office management had not established written procedures to instruct staff on how and when to monitor the collateralization of city deposits. Although management asserted that they compared bank collateral reports to deposits at the end of each month, no support was provided to substantiate these reviews. In fact, when we requested the fiscal 2015 monthly bank collateral reports, it took approximately four months from the date of our initial request for the Treasurer's Office to supply all of the reports.

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[12] At one bank, deposits were under-collateralized for two months. At the second bank, deposits were under-collateralized for six months.

Recommendations: To ensure that city deposits are adequately protected, we continue to recommend that the Treasurer's Office:

- Develop and institute written procedures to instruct staff on how and when to perform collateral monitoring procedures.

- Review monthly collateralization reports on a timely basis and submit those reports to the Finance Office where they should then be promptly reviewed to identify any collateral shortages.

Grantee Response: We agree that it is important to review and monitor bank collateral reports on a timely basis. The City Treasurer's Office (CTO) believes the discrepancies cited in your report were related to timing issues. Collateral levels change daily based on the account balances. Collateral reports are compared to deposits at the end of each month. On certain days, matching of the deposit to collateral may be distorted as larger wires or deposits may come in later in the work day. In these cases, banks do not always have sufficient time to cover these deposits as financial markets where they purchase securities to collateralize deposits close before the banking day closes. These balances are corrected on the next business day following the close of the month.

As previously stated, CTO hired several new employees to backfill vacant positions, including those that have responsibility for the collateralization reporting/review. Also to better manage the process, CTO has requested OIT approval to implement a Treasury Management System, which would assist in building a portfolio of the collateral-backing deposits that can be market valued on demand, as well as display current bank account balances for the city's accounts to ensure the accounts are adequately collateralized at any point during a given period.

As recommended, CTO will develop a written Standard Operating Procedure prior to the close of FY2016 to document the collateral monitoring process. CTO will provide the Controller's Office with the document upon finalization.

2015-013 RECEIVABLE CONTROL ACTIVITIES

WRB Account Adjustment Procedures Improved But Further Enhancements Necessary to Improve Accountability

Condition: In response to previous recommendations we made regarding adjustments to water customer accounts in BASIS2, during the later part of fiscal year 2015 the Water Revenue Bureau (WRB) redesigned its review procedures. More specifically, we observed that it:

- Incorporated into its quarterly review process significant adjustment types, such as bill reversals, rebills, as well as balance and payment transfers.

- Required that individuals performing quarterly reviews pay particular attention to large dollar adjustments and instances of when WRB accountants perform multiple adjustments on the same customer account.

Despite the above improvements, for most of fiscal year 2015, WRB was again unable to demonstrate that its accountants performed regular reviews of adjustments made to customer accounts. These adjustments reduced customer receivable balances for the year by a total of $44.5 million. During fiscal year 2015, the WRB produced daily-adjustment worksheets and quarterly-adjustment reports to reflect adjustment activity posted to BASIS2. Our inspection of the quarterly-adjustment reports showed that only the fourth-quarter report demonstrated evidence of a comprehensive review. Since the enhancement of the quarterly review process only began on May 1, 2015, the other three quarterly reports displayed little evidence they had been examined. Also, our observations of selected fiscal year 2015 daily-adjustment worksheets revealed that accountants did not consistently document their review, often failing to initial and date the worksheets. WRB management asserted that improvements to the daily review process have been implemented in fiscal year 2016.

Criteria: WRB policies for reviewing the daily-adjustment worksheets and the quarterly-adjustment reports direct accountants in the WRB's Audit Unit to select adjustment transactions based on pre-established criteria, to timely review the adjustments, and to document that review by initialing and dating the transactions. The WRB expanded these procedures during the fourth quarter of fiscal year 2015 to require their accountants to make a notation in BASIS2 for each adjustment reviewed. Required information for this notation includes the purpose for reviewing the adjustment transaction, a description of the work performed during the review, the accountant's initials, and the review date. The accountant is also supposed to write the identifying number for the BASIS2 notation (referred to as the call number) next to the corresponding adjustment on the daily worksheets and quarterly reports.

Effect: Although our tests of selected BASIS2 adjustments disclosed no instances of inaccurate or improper activity, undetected errors or irregularities in water customer account balances might have a higher chance of occurring without regular application of the designed reviews.

Cause: WRB management did not consistently stress the importance of performing and properly documenting the independent review of adjustments.

Recommendation: To improve controls over adjustments made to water customer accounts in the BASIS2 billing system, we recommend that WRB management proactively stress to their accountants the importance of timely completing the daily and quarterly reviews of adjustments. Moreover, management needs to consistently reinforce the importance of accountability, reminding their accountants to initial and date the daily-adjustment worksheets and quarterly- adjustment reports, to make the required notations in BASIS2, and to place the related call numbers on the daily worksheets and quarterly reports.

Grantee Response: WRB continues to work diligently to identify and correct weaknesses in the BASIS2 system and improve controls over customer account adjustments. As you are aware, the enhanced review process recommended in the FY14 Controller's Report did not include changes to the daily worksheets. However, after successfully implementing the more comprehensive review of the quarterly reports in the 4th quarter of FY15, WRB believed it prudent and proactive to expand the review process of the daily worksheets, make required notations in BASIS2, and place the related call numbers on the daily worksheets. This effort was begun in earnest in September 2015. As such, it is not surprising you did not see evidence/documentation of the process for the period of your audit ending in June, 2015. We believe the daily and quarterly review process that is now in place establishes ample controls and provides additional approval protocols for adjustments while not impeding the production of timely and accurate bills.

2015-014 RECEIVABLE CONTROL ACTIVITIES

Lax Monitoring of Adjustments to Tax Accounts May Lead to Undetected Errors or Irregularities

Condition: Revenue Department accountants stopped performing daily reviews of adjustments made to taxpayer accounts, which on any given day can involve millions of dollars. Numerous Revenue Department employees have the ability to post payment and receivable adjustments directly to taxpayer accounts on Revenue's Taxpayer Inquiry and Payment System (TIPS). TIPS is the department's computerized accounting system, which is the source for taxes receivable reported in the CAFR. Examples of payment adjustments include transferring payments within a taxpayer's account (i.e. between tax years and/or tax types), transferring payments from one taxpayer account to another, changing the dollar amount of a payment, and creating a new payment on the system. Receivable adjustments involve increasing, decreasing, or entirely deleting a taxpayer's liability. While employees only had the ability to perform adjustments up to an authorized dollar limit and supervisory approval was required for adjustments exceeding the established limits, the effectiveness of these system security controls was lessened by the fact that employees could have very high dollar limits. For instance, we observed dollar limits as high as $10 million for non-supervisory personnel and $100 million for supervisory personnel.

Criteria: To ensure that adjustments made to taxpayer accounts are accurate and proper, there should be a regular review of daily payment and receivable adjustment activity in TIPS by an independent supervisor.

Effect: Although our tests of selected TIPS adjustments disclosed no instances of inaccurate or improper activity, taxpayer accounts are at a higher risk for undetected errors and irregularities. Consequently, there is an increased risk for misstatement of the taxes receivable reported in the city's CAFR.

Cause: In the middle of fiscal year 2015, the accounting supervisor responsible for reviewing the daily adjustment reports was transferred from the unit responsible for monitoring adjustments (the Accounting Control Unit) to another Revenue Department unit. When the supervisor was transferred, Revenue management failed to reassign this duty to another employee.

Recommendation: Revenue Department management should reinstitute the practice of regularly monitoring daily payment and receivable adjustment activity in TIPS. Supervisory personnel independent of the adjustment process should review the daily adjustment reports for patterns of irregular activity and test a sample of adjustments for accuracy and propriety. To evidence that these checks are performed, the supervisor should sign and date the adjustment reports upon completion of the reviews.

Grantee Response: Again, we are pleased that your testing found no instances of inaccurate or improper activity. However, to protect against errors or irregularities, the Revenue Department will reinstitute the practice of regularly monitoring adjustment activity in TIPS by sampling adjustments from the daily adjustment report, checking for accuracy and propriety, and looking for patterns of irregular activity. The adjustment report will then be signed and dated and completed at the Supervisory level as recommended.

2015-015 INFORMATION AND COMMUNICATION

Better Training and Oversight Are Necessary to Ensure Accurate Grant Reporting

Condition: For the past several years, the Grants Accounting and Administrative Unit (GAAU) of the Finance Office has provided an inaccurate Schedule of Financial Assistance (SFA) for audit. In particular, we observed that city agencies responsible for grants:

- *Misidentified federal awards by incorrectly recording the federal programs' Catalogue of Federal Domestic Assistance (CFDA) numbers, which the federal government uses to identify programs and the related compliance requirements.* Three examples follow*:*

    1. Airport Improvement Program at DOA – This grant had been selected for audit in fiscal year 2013. However, some expenditures relevant to the program had been recorded under an incorrect CFDA number. Despite acknowledging the error during the fiscal year 2013 audit, DOA grant personnel repeatedly made the same mistake for the fiscal years 2014 and 2015.

    2. Continuum of Care (CoC) Homeless Assistance Program at Office of Supportive Housing (OSH) – Beginning in fiscal year 2013, the federal government combined three previous programs — Supportive Housing Program, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy — into the CoC Program. All new funding should have been reported under the CoC's new CFDA number. However, our review of the SFA has determined that many grants are being reported under the old incorrect CFDA program numbers.

    3. Child Welfare Demonstration Project – Title IV-E Program at Philadelphia Department of Human Services (DHS) – Funding for this program was also being reported under an incorrect CFDA number. The reporting of this incorrect CFDA number occurred because (1) DHS failed to provide the GAAU staff with the required grant profile showing the CFDA number, and (2) the GAAU staff, although having been provided a copy of the award letter with the appropriate CFDA number, failed to identify and properly report the program in the SFA.

- *Misidentified federal program expenditures in the city's books and records.* We observed that fiscal year 2015 expenditures reported in the SFA for DHS' Adoption Assistance Program had significantly declined from prior years. Upon closer inspection, we discovered that the expenditures had been misapplied against the department's Foster Care Program. Moreover, our inquiries of responsible DHS personnel revealed the department had misreported expenditure activity associated with the Adoption Assistance Program in fiscal year 2014 as well.

- *Failed to identify all federal financial assistance received.* The Airport Checked Baggage Screening Program was not included in the SFA submitted for audit. We discovered the unreported program upon observing an amount due for the program on DOA's grant receivable report. Further inquiries revealed the DOA did not identify and report the grant activity to the GAAU.

Criteria: The United States Office of Management and Budget (OMB) Circular A-133 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.

Effect: Failure to accurately account and report on grant activity could result in sanctions against the city and possibly the withholding of future grant dollars.

Cause: Our observations suggest two major reasons for why inaccuracies are occurring in the preparation of the city's SFA. These include:

1. Staffs of the grantee departments are not adequately trained in the requirements of OMB Circular A-133.

2. The GAAU, because of insufficient staff, is unable to proactively enforce existing grant-related policies and procedures. This is especially so for policies and procedures involving the correct identification of grant CFDA numbers and the process for reconciling grant activity reflected in the accounting records to the city's SFA.

Recommendations: As in our fiscal year 2014 report, we again recommend that Finance Office management:

- Establish and maintain an aggressive continuing education program for all grant managers in city agencies.

- Proactively enforce existing grant-related policies and procedures.

Grantee Response: We agree it is important that departments are aware of recording/reporting requirements and the need to keep GAAU informed on all grant activity. GAAU will enforce its existing policies in compiling the grant profiles submitted by the Departments to ensure that complete and accurate grant profiles are being established, including proper identification of CFDA numbers and the reconciliation of grant accounting records to grant reimbursement requests. GAUU will be more diligent in their review process to ensure proper expenditure recording.

GAAU is planning to provide in-house grant training to operating departments. Additionally, GAAU will look into grant-related training opportunities that may be available, and will encourage city agencies to seek grant training offered by grantors or websites such as www.grants.gov.

The individual CFDA misidentification issues you noted were corrected and both the CFDA and misapplied expenditures will be properly reported on the FY2016 Schedule of Expenditures of Federal Awards (SEFA). More specifically, the misapplied expenditures in the Foster Care Program were brought to the attention of DHS, and the Airport is undertaking a review to confirm that all existing grants and CFDAs are correct and has committed to review FAMIS quarterly to confirm that all proper CFDA numbers are applied.

2015-016 INFORMATION AND COMMUNICATION

SAPs Require Updating to Ensure Consistent Application of Accounting Rules and Regulations Among City Agencies

Condition: The city's SAPs, which serve as the basis for the city's system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over two hundred (200) SAPs to provide city departments and agencies with guidance on how to handle various accounting related activities, including proper procedures for ensuring the accuracy of transactions and the safeguarding of assets. Over the years, as new technologies were adopted and daily practices were enhanced, the existing SAPs have not been updated accordingly. While, in August 2015, the Finance Office revised six SAPs pertaining to the maintenance of cash accounts, over 50 percent of the existing SAPs are more than half a century old.

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.[13] Also, in its best practices, the GFOA recommends that governments perform an on-going review, evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

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

Cause: Over the years, the Finance Office experienced staff reductions that have compromised its ability to conduct periodic reviews and updates to the SAPs.

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

Grantee Response: Accounting is committed to continually review and update the SAPs. On a limited basis, and to ensure that we are in compliance with any changes in accounting regulations or governmental regulations, these procedures are updated, especially in areas that have been cited in audit reports. In addition to those limited updates, we advised last year in our response that we were working on updates to a number of SAPs related to Cash Accounts, which are important for proper internal controls. Since that report, we are pleased to report that we have completed updates to the SAPs for: Petty Cash (4.1.1.d), Imprest Funds (4.1.1.e), Establishment of Agency Bank Accounts (Outside of the City Treasury) (4.1.1.g), Fund Reconciliation for Petty Cash and Imprest (7.1.3.a), Reconciliation of all Bank Accounts in all City Agencies(7.1.3.b), and Unclaimed Money (4.1.2.).

[13] The Philadelphia Home Rule Charter, Section 6-101.

We also expect to update the SAP related to Personal Property (E-72-002) effective July 1, 2016. Beginning in FY2017, it is our intention to retain an Accounting consultant to assist in performing a more comprehensive review and update of all of the SAPs.

2015-017 SUBRECIPIENT MONITORING
Children and Youth Programs
Foster Care_Title IV-E – CFDA #93.658
Guardianship Assistance (SPLC) – CFDA #93.090
Adoption Assistance – CFDA #93.659
Temporary Assistance for Needy Families – CFDA #93.558
Child Welfare Research Training or Demonstration – CFDA 93.648
Act 148 – Pennsylvania Department of Human Services

Condition: During various times of the award year, the Department of Human Services (DHS) failed to adequately perform monitoring procedures over their subrecipients for a number of its Children and Youth Programs. In certain instances, for example, DHS did not properly inform subrecipients of their award allocations between federal, state, and city funds at the time of the sub-award. Additionally, DHS could not provide evidence that it performed *during-the-award monitoring* for three of twenty-three subrecipients sampled. We also observed that DHS did not ensure that federal awards were used for authorized purposes. The Contracts and Audit Unit of the Office of the Deputy Managing Director for Health and Human Services[14], which assists DHS in monitoring subrecipients, often identified differences between expenditure amounts shown in subrecipient audit reports and the related grant amounts disbursed and recorded on the city's books and records. However, it frequently left these differences unresolved. We observed instances of when subrecipient audit reports indicated that grant expenditures were less than amounts disbursed by the city, but could find no evidence that the Contracts and Audit Unit followed up to determine whether these differences were due to timing or whether they were excess grant proceeds that subrecipients should return to the city. Table 1 below summarizes the conditions identified for each of the above programs, all of which are funded through the Pennsylvania Department of Human Services.

Table 1: Summary of Subrecipient Monitoring Conditions Identified by Program

	CFDA #	Failure to Inform Subrecipients of Award Allocations	No Evidence of Performing *During-the-Award Monitoring*	Unreconciled Differences Between Subrecipient Audit Reports and City Books and Records	Estimated Subrecipient Expenditures ($)
Foster Care_Title IV-E	93.658	√	√	√	794,979
Guardianship Assistance (SPLC)	93.090	√			5,025,221
Adoption Assistance	93.659	√		√	19,167,628
Temporary Assistance for Needy Families	93.558	√			25,134,941
Child Welfare Research Training or Demonstration	93.648	√	√		42,588,411
Act 148 – PA Department of Human Services	N/A	√	√	√	139,841,833

Source: Office of the Controller

Criteria: OMB Circular A-133, subpart D, paragraph .400 establishes pass-through entity responsibilities that include:

[14] This unit was previously known as the Health and Opportunity (H&O) Contracts and Audit Unit.

- Identifying federal awards made by informing each subrecipient of the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is Research and Development, and name of the federal agency[15];
- Monitoring the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; and
- Adjusting grant records where warranted based on the results of subrecipient audits.

Effect: Failure to effectively monitor grant subrecipients can result in noncompliance with terms and conditions of grants. It could, for example, lead to substandard program performance or performance goals that are not achieved. Moreover, when DHS fails to properly inform subrecipients of their award allocations, this failure could result in subrecipients reporting inaccurate and/or incomplete federal expenditures on their Schedule of Federal Expenditures and Awards (SEFA).

Cause: DHS' failure to adequately monitor subrecipients stem from a combination of internal policy and organizational changes, as well as some instances of poorly designed procedures. For example, DHS did not inform subrecipients of their award allocations because after Fiscal Year 2013, the department decided that the process of determining funding sources was too time consuming for the staff. DHS management believed it would be more efficient to provide revenue breakdowns at the end of the fiscal year only upon request by subrecipients.

In terms of monitoring subrecipient activity during the award period, the DHS unit responsible had been undergoing reorganization over the past two years. Current management of the unit was present only one month during fiscal year 2015 and was unable to locate records for the three subrecipients in question.

Finally, as to unresolved differences between expenditure amounts shown in subrecipient audit reports and the related grant amounts disbursed and recorded on the city's books and records, the Contracts and Audit Unit management made the conscience decision to investigate program differences only when the total of all combined grant awards (federal, state, and city) for a subrecipient exceeded one percent of the total grant amounts disbursed to the subrecipient. The Contracts and Audit Unit's practice did not include following up or inquiring about differences between reported federal and state dollars expended by the subrecipient and federal dollars disbursed by the city for individual federal and state programs, even when those individual program differences alone exceeded one percent.

Recommendations: We recommend that DHS take the following corrective actions:

- Identify all funding sources and CFDA information in award letters to subrecipients.
- Review the current recordkeeping system and, where necessary, make improvements to ensure that all documentation prepared for compliance with subrecipients monitoring are maintained so they can be made available upon request.
- Reevaluate the current process for handling differences between expenditure amounts reported in subrecipient audit reports and related grant amounts disbursed and recorded on the city's books and

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15 When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

records. The decision to follow-up and inquire about differences between the subrecipient's books and records and those of the city should be driven primarily by the amount of federal and state dollars spent, as monitoring subrecipient activity is a key pass-through entity responsibility under Single Audit regulations.

Grantee's Response:

- Effective Fiscal Year 2017, DHS Contracts Unit began inclusion of funding sources on award letters sent out to subrecipients.
- DHS is in the process of reviewing and improving its recordkeeping system with the goal of ensuring that all documentation prepared for compliance with subrecipient monitoring is maintained so it can be made available upon request.
- DHS regularly follows up on variances between subrecipient audit reports and City records. Often, the differences are accounted for in the form of timing issues or the fact that funding is based on child eligibility while revenue fluctuates and is adjusted depending on how many children are placed. The Audit Unit will work to ensure that the correspondence and supporting documentation is present for future external review.

Contact Person: Christopher Simi, Deputy Commissioner, Department of Human Services, (215) 683-6060

2015-018 REPORTING
Children and Youth Programs
Foster Care_Title IV-E – CFDA #93.658
Guardianship Assistance (SPLC) – CFDA #93.090
Adoption Assistance – CFDA #93.659
Temporary Assistance for Needy Families – CFDA #93.558
Child Welfare Research Training or Demonstration – CFDA #93.648

Condition: The city's Department of Human Services (DHS) and the Contracts and Audit Unit of the Deputy Managing Director for Health and Human Services failed to follow internal controls designed to present accurate disclosures of federal program amounts provided to subrecipients in the Schedule of Federal Expenditures (SEFA). Footnote disclosures of governmental funding awarded to subrecipients presented in the preliminary SEFA prepared by the city's Finance Office (Finance) indicated that only $138.6 million of federal funds had been paid to subrecipients instead of more appropriately $206.4 million, as substantiated in the city's accounting records. Our review of the records indicated payments had been unallocated by funding source. After a series of meetings between Finance, DHS, the Contracts and Audit Unit, and the Controller's Office, Finance agreed to correct the footnote disclosures. Funding provided to the subrecipients for operations of the city's DHS programs is received through the Pennsylvania Department of Human Services (PaDHS).

Criteria: OMB Circular A-133, subpart D, paragraph .310(b)(5) states that to extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.

Effect: The inability to correctly identify amounts paid to subrecipients from federal sources can result in noncompliance with federal reporting requirements.

Cause: Despite policies and procedures being in place to ensure accurate reporting of subrecipient payments, DHS and the Contracts and Audit Unit failed to follow those procedures. The Contracts and Audit Unit did not properly update its subrecipient database to account for DHS funding changes during the year. Additionally, the Contracts and Audit Unit failed to properly identify and separate payments between federal, state, and county funds within the database as it has historically done in past years. This database is used to prepare the required footnote for the SEFA.

Recommendation: Finance needs to provide more oversight of DHS and the Contracts and Audit Unit to ensure responsible individuals within these two agencies are performing the tasks required for accurately reporting on the use of federal grant funds.

Grantee's Response: Finance and DHS have collaborated in recent years to improve coordination between the two departments. The implementation of monthly meetings between the two sides allows for more frequent and open communication about the status of revenues and expenditures as well as how they need to be categorized for reporting purposes. Additionally, the DHS Audit and Budget Units will work closely, and meet on a quarterly basis, to identify and ensure accurate breakout of current-year funding sources of subrecipient expenditure totals.

Contact Person: Christopher Simi, Deputy Commissioner, Department of Human Services, (215) 683-6060

2015-019. REPORTING
Children and Youth Programs
Guardianship Assistance (SPLC) – CFDA #93.090
Foster Care_Title IV-E – CFDA #93.658
Adoption Assistance – CFDA #93.659

Condition: In spite of the Department of Human Services (DHS) only billing the state $796,410 for one of its Foster Care awards, the city's Finance Office (Finance) reported $1,800,042 of federal expenditures applicable to the award in the Schedule of Expenditures of Federal Awards (SEFA). Funding for these programs is received through the Pennsylvania Department of Human Services (PaDHS).

Criteria: OMB Circular A-133 Section 310 (b) (3) requires that the SEFA provide total federal awards expended for each individual federal program.

Effect: The city's SEFA is effectively overstated by $1,003,632 in expenditures for the Foster Care grants and cumulatively overstated by $7,809,962 in award amounts for clustered Title IV-E programs referred to in the subsequent paragraph. Expenditures involving these three programs as invoiced to the PaDHS for Act 148 matched the amended award amount.

Cause: The errors occurred as a result of changes in award amounts granted to DHS. More specifically, PaDHS originally issued an award amount of $33,134,281 to DHS as a cluster of Title IV-E programs that included: Adoption Assistance, Guardianship Assistance (SPLC), and Foster Care. Subsequently, PaDHS reduced the award amount to $25,324,319 to prevent overspending in administrative expenditures. As a result, DHS reduced the total expenditures amount submitted on the Act 148 invoice up to the amount of the reduction in the award amount. Even though staff of the DHS and Finance met monthly, this reduction to federal award and billed expenditures amounts were not communicated to Finance. Consequently, Finance inadvertently misreported the federal award and expenditure amounts in the SEFA.

Recommendation: We recommend Finance and DHS maintain continuous open lines of communication to talk about and take action on issues that affect preparation of the SEFA.

Grantee's Response: Finance and DHS have collaborated in recent years to improve coordination between the two departments. Specifically regarding the SEFA, Finance and DHS have implemented a new process in recent months to memorialize a process between the two departments. For the FY16 SEFA, DHS and Finance are scheduling a number of preparatory meetings to reduce inconsistencies and errors at the outset. This process, along with more open informal communication, will minimize confusion on both sides, allowing for a more accurate preparation of the SEFA.

Contact Person: Marcia Dixon, Director of Budget and Finance, Department of Human Services, (215) 683-6063

2015-020. REPORTING
Children and Youth Programs
Act 148 – Pennsylvania Department of Human Services

Condition: The Department of Human Services (DHS) overstated expenditures by $356,613 in its fiscal year 2015 Act 148 County Children and Youth Social Service Programs Fiscal Summary submitted to the Pennsylvania Department of Human Services (PaDHS). DHS failed to offset $136,613 in client-generated revenues and included expenditures totaling $220,000, which were funded with a Human Services Development Fund (HSDF) grant. At the time of audit, DHS had not adjusted its Fiscal Summary to the state. Funding for this program is received through the Pennsylvania Department of Human Services.

Criteria: Pennsylvania Code section 3140.46 of Title 55 stipulates that payments to counties by the PaDHS be provided only on the costs remaining after other appropriate funding sources and client-generated revenues have been exhausted. Such funding sources and client-generated revenue amounts should be reported on Form CY 348.

Effect: Because DHS is reimbursed a percentage of the expenditures it reports to the PaDHS, we calculated that the $356,613 overstatement in expenditures caused it to improperly receive an additional $261,629 in Act 148 reimbursements, which represent known questioned costs.

Cause: Errors in the preparation of the Fiscal Summary appeared to be due to insufficient review procedures compounded with inadequate staff.

Recommendation: DHS' fiscal unit, which is responsible for proper reporting, should establish procedures to ensure that all offsets against reimbursable expenditures are identified, that is, all program income received and all expenditures reimbursed by the HSDF grant are properly included on Form CY 348. The procedures established should ensure that the form is adequately reviewed. Additionally, DHS should evaluate its staff size and fill all vacancies deemed necessary.

Grantee's Response: The Department of Human Services did not overstate its expenditures by $356,613. DHS understated the program income in the 3rd quarter of Fiscal Year 2015 by $356,600. DHS included expenditures for the HSDF grant in the FY 15 Act 148 final invoice submission. According to OCYF Bulletin 3140-14-02 (Fiscal Year 2014/2015 Act 148 Invoicing & Medicaid Invoicing Procedures for County Child Welfare Services), the County is allowed to include expenditures for HSDF if they are used to offset child welfare expenditures. DHS will revise the FY 15 Act 148 invoice to reflect the additional program income. DHS has evaluated its staffing in recent years and is endeavoring to fill all vacancies that must be filled.

Contact Person: Marcia Dixon, Director of Budget and Finance, Department of Human Services, (215) 683-6063

Auditor's Comments on Grantee's Response: The Act 148 County Children and Youth Social Service Programs Fiscal Summary requires that expenditures are offset by client-generated revenues and revenues received from other grants in the program income column. Program income was understated in the Fiscal Summary, therefore, the net expenditures billed on the invoice were overstated.

2015-021. SUBRECIPIENT MONITORING
Children and Youth Programs
Act 148 – PA Department of Human Services

Condition: The Department of Human Services (DHS) failed to recover funds advanced to a subrecipient. The advance amount over and above what was actually expended was reflected on the 4th quarter Act 148 invoice, but never recovered. Funding for this program is passed through the Pennsylvania Department of Human Services.

Criteria: OMB A-133 Compliance Supplement states that, "Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity." Entities must minimize the time between the receipt of funds and the spending of those funds received. Additionally, Pa. Code Title 55, Section 3140.45 requires that amounts presented on the 4th quarter Act 148 cumulative invoice be only for actual expenditures.

Effect: DHS effectively billed the state for expenditures that were not incurred. Based on our calculation, the amount billed for the state share of expenditures on the Act 148 invoice was overstated by $19,114, which represents known questioned costs.

Cause: DHS typically advances funds to approved subrecipients to reduce their out-of-pocket expenses at the beginning of the program. It subsequently collects these advances by reducing future subrecipient billings. DHS applied this particular advance over multiple encumbrance documents for one subrecipient. Because DHS used multiple encumbrance documents for one advance, its staff, which was experiencing turnover, had difficulty tracking activities related to the advance.

Recommendation: We recommend that DHS request repayment of the unrecovered advance from the subrecipient. Also, DHS should strengthen its procedures to track all advances and ensure that they are recovered through subrecipient payments during the contact period.

Grantee's Response:

- DHS acknowledges the cumbersome process in which advances are recovered.
- UAC's advance was distributed across 20 M-documents.
- In some instances invoices had no expenses for some of the M-docs.
- DHS recovered all funds in question in FY16.
- Since FY15, DHS has severely curtailed the practice of advance payments, except in extreme circumstances approved by the Commissioner.
- The accounting mechanism will be examined to determine whether a simpler method can be employed in the future.

Contact Person: Carolyn Pownall, Accounts Payable Administrator, Department of Human Services, (215) 683-6056

2015-022. SUBRECIPIENT MONITORING
Immunization Cooperative Agreements – CFDA #93.268
HIV Emergency Relief Project Grants – CFDA #93.914
HIV Care Formula Grants – CFDA #93.917
HIV Prevention Activities_Health Department Based – CFDA #93.940

Condition: As in the prior year, monitoring procedures of the Department of Public Health (DPH) over subrecipients did not ensure that federal awards were used for authorized purposes. Differences between expenditure amounts shown in subrecipient audit reports and grant expenditures recorded in the city's books and records that were identified by the Contracts and Audit Unit of the Office of the Deputy Managing Director for Health and Human Services , which assists DPH in monitoring subrecipients, were often left unresolved.

Criteria: OMB Circular A-133, subpart D, paragraph .400 (d) establishes pass-through entity responsibilities including appropriately identifying federal awards and ensuring awards are used for authorized purposes.

Effect: Failure to effectively monitor grant subrecipients can result in noncompliance with terms and conditions of grants. Management's failure to facilitate a match of amounts funded to amounts audited resulted in the inability to identify the nature of all reconciling items. Over a period of time unidentified differences could become significant enough to warrant intervention.

Cause: The Contracts and Audit Unit did not always investigate program differences between reported federal dollars expended by the subrecipient and federal dollars disbursed by the city for individual federal programs. Moreover, reconciling subrecipient audit reports to the city's books and records was complicated because DPH grant personnel failed to provide HHS with total authorized grant expenditures by award.

Recommendation: DPH should reevaluate its procedures regarding the identification of differences between expenditure amounts reported in subrecipient audit reports and expenditure amounts recorded on the books and records of the city. Providing total authorized grant expenditures by award to the HHS would help identify any variance between the subrecipients' audited expenditures and the amounts of DPH grant funded expenditures. Subsequently, the HHS can reconcile each award to the grant expenditure activity reported on each subrecipient's Schedule of Expenditures of Federal Award and efficiently identify variances for follow-up.

Grantee's Response: The Department of Public Health has agreed to provide authorized expenditures by award to HHS upon request. The department expects that this, in conjunction with existing internal monitoring procedures, will result in improved transparency for stakeholders moving forward.

Contact Person: Sami Jarrah, Chief Operating Officer and Deputy Commissioner, Department of Public Health, (215) 686-5207

2015-023. REPORTING
Social Services Block Grant – CFDA 93.667
Combined Homeless Assistance Programs (HAP)

Condition: The Office of Homeless Services (OHS)[16] inappropriately reported to the Pennsylvania Department of Human Services (PaDHS) a net overage of $45,945 in grant expenditures for the Combined Homeless Assistance Programs (HAP). A significant portion of the overage - $56,771 - was attributable to unallowable Case Management expenditures of the Social Services Block Grant (SSBG) reported in the Schedule of Expenditures of Federal Awards (SEFA). This amount was offset by a net total of $10,826 in reported and unreported expenditures for the following HAP programs: Administration, Bridge Housing, PENNFREE Bridge Housing, program income, and the state portion of Case Management and Bridge Housing. Funding for the HAP is received through the PaDHS.

Criteria: OMB Circular A-133 Section exempts SSBG from the provisions of the OMB cost principle circulars and their successor guidance in 2 CFR part 200, subpart E. State cost principles requirements apply to this program (including their subrecipients). Moreover, according to HAP instructions and requirements of the PaDHS, amounts reported must reflect actual expenditures. Any unexpended funds must then be used against the next incoming cash advance.

Cause: The city reported expenditures without adequately reviewing its general ledger for actual HAP expenditures incurred.

Effect: The city incorrectly reported $7,972,489 of total expenditures for the HAP instead of $7,926,543 on the PaDHS County Report of Income and Expenditures. The city also misstated its Case Management expenditures within the total HAP reported expenditures under the SSBG by reporting $1,463,520 instead of $1,406,749 in the SEFA. The overstated Case Management expenditures of $56,771 are considered to be known questioned costs.

Recommendation: We recommend that OHS adequately review the city general ledger to identify actual expenditures and report only these amounts to the PaDHS.

Grantee's Response: When the PaDHS County Report was submitted to the State OHS had not received all of the final billings from all of our HAP funded providers, leading the agency to report combined expenditures and encumbrances. Going forward, OHS will ensure that all final HAP expenditures have been reported accurately to us prior to the submission of the SEFA.

Contact Person: Roberta Cancellier, Deputy Director, Office of Homeless Services, (215) 686-7105.

[16] Previously known as the Office of Supportive Housing (OSH).