

Report on City of Philadelphia Internal Control FY2018

OFFICE OF THE CITY CONTROLLER

Each year, the Office of the City Controller audits the City of Philadelphia's basic financial statements. As part of that audit, the Controller's Office reviews the City's internal controls over financial reporting. Once the review is complete, the Controller's Office compiles its findings into a report on internal control and on compliance and other matters, identifying material weaknesses, significant deficiencies, issues of non-compliance and other conditions, and making recommendations to address the findings.

WHAT ARE MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES?

A **material weakness** is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A **significant deficiency** is less severe than a material weakness, yet important enough to merit attention.

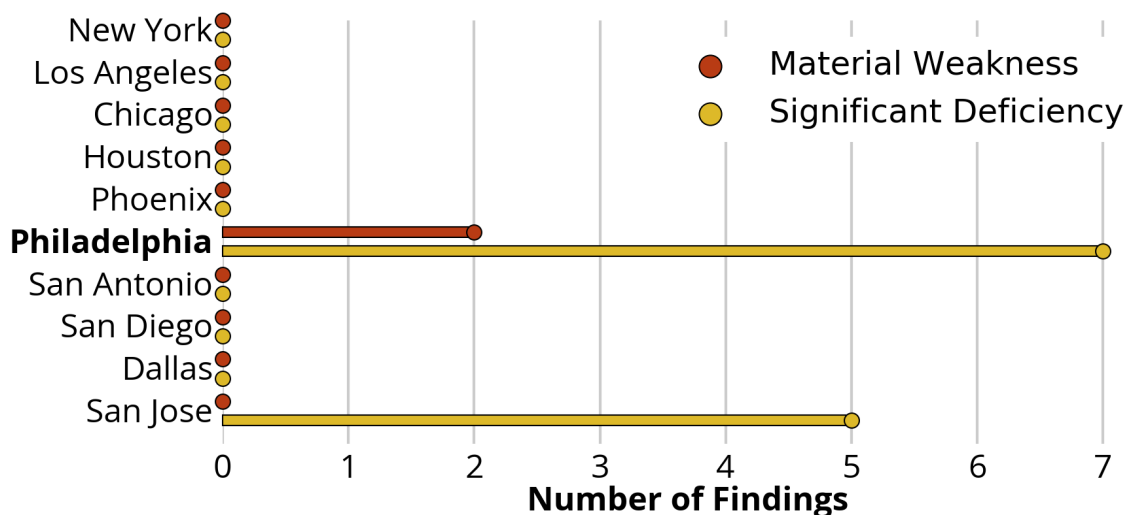
WHY IS THIS IMPORTANT?

If a material misstatement occurred on the City's financial statements, the statements would be considered an ineffective tool for assessing the City's financial health and may have far reaching consequences. Weaknesses in internal controls also create an environment ripe for fraud, abuse and waste.

Philly's Internal Control Findings Compared to the Other Top Ten Largest Cities 2018

When comparing Philadelphia's internal control findings to those of the other top ten largest cities, Philadelphia stands out as having the most material weaknesses and significant deficiencies. This was also the case in FY17. Note below that Phoenix and San Antonio, both of which had findings in FY17, remedied their findings and have no material weaknesses or significant deficiencies in FY18.

Internal Control Findings: Top Ten Largest Cities



Source: Latest audit filed on the Federal Audit Clearinghouse

The Office of the City Controller's mission is to promote the effective and efficient operation of Philadelphia government by identifying cost savings, recommending best practices and modernization, and exposing fraud and mismanagement.



FY2018 Findings

In the Fiscal Year 2018 internal control report, the Controller's Office identified two material weaknesses and seven significant deficiencies.

MATERIAL WEAKNESSES

- Inadequate staffing levels, lack of technological investment, and insufficient oversight have led to undetected material misstatements (1a, 1b, 1c).
- Untimely and inaccurate preparation of Schedule of Expenditures of Federal Awards resulted in late submission of the Single Audit to the Federal Audit Clearing House (2).

SIGNIFICANT DEFICIENCIES

- While improved, remaining deficiencies in Treasurer's office bank reconciliation procedures still create potential for undetected errors and irregularities (1a, 1b).
- Failure to close out prior year grant activity increases risk of reporting errors (2).
- Failure to segregate payroll duties (3).
- Capital asset control deficiencies increase risk of reporting errors (4a, 4b).
- Failure to timely transfer funds between bank accounts could result in significant reporting errors (5).
- Lax monitoring of adjustments to tax accounts may lead to undetected errors or irregularities (6).
- SAPs require updating to ensure accurate and consistent application of accounting rules and regulations (7).

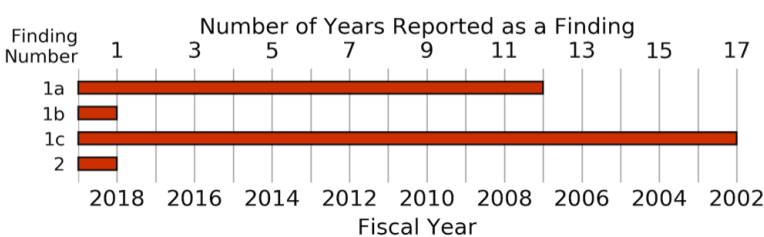
FY17 Findings Compared to FY18 Findings

The Controller's Office identified two material weaknesses and eight significant deficiencies in the City's internal control over financial reporting in its FY17 report. Over the past year, the City has made some progress, such as improvements to the Treasurer's Office bank reconciliations that resulted in this finding being changed to a significant deficiency. However, the vast majority of findings were not remedied. Only one of 10 material weaknesses and significant deficiencies was fully resolved within the year. Additionally, a new material weakness - late submission of the Schedule of Expenditures of Federal Awards - and a new significant deficiency was also identified in FY18's report. The lack of a concerted effort or plan to fix all of the material weaknesses and significant deficiencies, many of which are longstanding (see below), continues to put taxpayer money at risk.

Findings Over Time

Many of the City's internal control findings have been reported year after year without remedy. Each of this year's findings in the list above is labeled to match the chart below, which shows the length of time each finding has been reported.

Material Weaknesses



Significant Deficiencies

