

# Report on City of Philadelphia Internal Control FY2019

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.

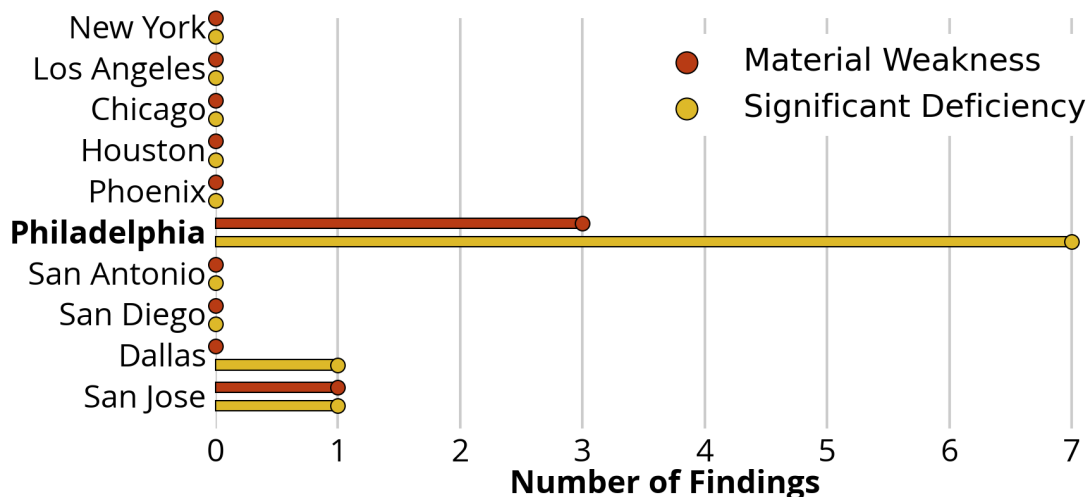
## WHY IS THIS IMPORTANT?

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 2019

When comparing Philadelphia's internal control findings to those of the other top ten largest cities, Philadelphia stands out for all the wrong reasons and has for the last two years. Philadelphia's three material weaknesses and seven significant deficiencies are stark. The next closest city is San Jose, California, with one material weakness and one significant deficiency. Overall, only one other city has a material weakness and only two other cities have significant deficiencies.

### 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.

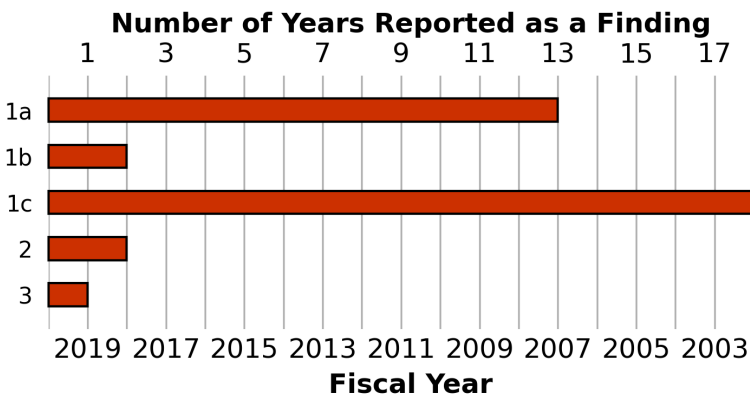


# FY2019 Findings

In the Fiscal Year 2019 internal control report, the Controller's Office identified three material weaknesses and seven significant deficiencies. Many of the City's internal control findings have been reported year after year without remedy. Each of this year's findings is listed in the charts below, which also shows the length of time each finding has been reported.

## FY 2019 Internal Control Findings Over Time: Material Weaknesses

- 1. Inadequate Staffing Levels, Lack of Technological Investment, and Insufficient Oversight**
  - a. Significant Financial Statement Errors
  - b. Late Submission of the Aviation Fund Financial Statements
  - c. Late Receipt of Component Unit Financial Reports
- 2. Late Submission of the Single Audit Reporting Package**
- 3. Breakdowns in the Functionality and Controls of the OnePhilly System**



## Details on Key Findings

Finance accountants failed to identify \$213M in errors during the preparation of the CAFR. Errors in the CAFR submitted to the Controller's Office have been a finding since FY07.

Finance accountants provided the SEFA to the Controller's Office for audit just three days before its submission deadline to the federal government. A finding last year too, the City's continued failure to meet this filing requirement could affect future federal funding.

The City launched OnePhilly, a new system for HR, Benefits, Payroll and Time and Attendance, in FY19. Our review found multiple breakdowns in its functionality, as well as that individual employee pay may be inaccurate or unauthorized.

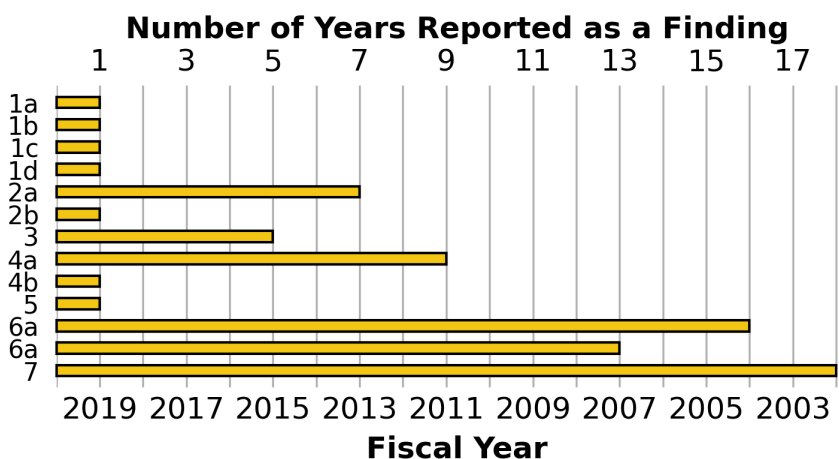
## Update on Prior Year Findings

The Treasurer's Office bank reconciliation procedures have been an issue for years. In FY17, it resulted in a \$33M variance, meaning the City's bank book didn't match the City's accounts. By FY18, the variance was reduced to \$529K. However, the City could not identify the remaining variance and as a result, the remaining \$529K had to be written off, or deducted, from the City's General Fund. While the variance has been resolved, the Treasurer's Office bank reconciliation procedures still needs improved.

The City resolved very few findings from previous years. However, the Revenue department deserves credit for successfully improving its monitoring of tax account adjustments. Completely resolving this finding after four years of issues.

## FY 2019 Internal Control Findings Over Time: Significant Deficiencies

- 1. Deficiencies in OnePhilly System's IT General Controls**
  - a. Monitoring of Third Parties Was Not Formally Documented
  - b. Authorization and Review of Elevated Access Not Formalized in Writing
  - c. Password Configurations Were Not in Compliance with City Requirements
  - d. Go-Live Approval Documentation Was Not Maintained
- 2. OIT's IT General Controls Require Strengthening**
  - a. Deficiencies in Change Management Procedures
  - b. Inadequate Segregation of Duties
- 3. Treasurer's Bank Reconciliation Procedures Still Require Improvement**
- 4. Failure of Departments to Properly Approve Biweekly Payrolls**
  - a. Failure to Segregate Payroll Duties
  - b. Failure of Departments to Properly Approve Biweekly Payrolls in OnePhilly
- 5. Accounts Payable Reporting Needs Improvement**
- 6. Capital Asset Control Deficiencies**
  - a. Lack of a Comprehensive Capital Asset System
  - b. Failure to Inventory Real Property Assets
- 7. Standard Accounting Procedures Require Updating**



Read the full report on [Controller.phila.gov](http://Controller.phila.gov).

