



OFFICE OF THE CONTROLLER

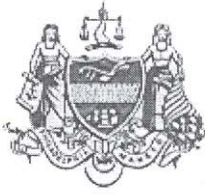
CITY OF PHILADELPHIA PENNSYLVANIA

**CITY COMMISSIONERS
OFFICE**

AUDITOR'S REPORT

FISCAL 2005

**Alan Butkovitz
City Controller**



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ
City Controller

ALBERT F. SCAPEROTTO
Deputy City Controller

June 18, 2007

Honorable Margaret Tartaglione, Chairwoman
City Commissioners
City Hall, Room 130
Philadelphia, PA 19107

We have examined the financial affairs and operations of the City Commissioners Office for fiscal 2005 pursuant to the requirements of Section 6-400 (c) and (d) of the Philadelphia Home Rule Charter. A synopsis of the results of our work is provided in the executive summary to the report.

We discussed our findings and recommendations with your staff at an exit conference. However, you did not accept our offer to submit a written response to our comments for inclusion as part of the report. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years. We believe that, if implemented by management, these recommendations will improve internal controls and the effectiveness and efficiency of your agency's operations.

We would like to express our thanks to you and your staff for the courtesy and cooperation displayed toward us during the conduct of our work.

Very truly yours,

ALAN BUTKOVITZ
City Controller

cc: Honorable John F. Street, Mayor
Honorable Anna C. Verna, President
and Honorable Members of City Council
Honorable City Commissioners
Members of the Mayor's Cabinet



CITY COMMISSIONERS OFFICE

EXECUTIVE SUMMARY

Why The Controller's Office Conducted the Examination

Pursuant to the requirements of Section 6-400 (c) and (d) of the Philadelphia Home Rule Charter, we examined the financial affairs of the City Commissioners Office as part of our audit of the City of Philadelphia's basic financial statements. The focus of our examination was limited to determining if management had suitably designed and placed in operation internal controls and complied with any laws and regulations related to its revenue, payroll, other expenditure, and personal property activity.

What The Controller's Office Found

The City Commissioners purchased new voting machines in 2002. During the May 2006 primary election, approximately 200 (6%) of the voting machines malfunctioned. The manufacturer of the machines has issued specific instructions for this process which may not have been followed in all cases when preparing the machines for the May 2006 primary election. Preparing and following a checklist when setting-up the machines should help to avoid reoccurrence of this situation.

Under the State Ethics Act, and other state and local regulations, certain officials and their employees who meet the criteria are required to file annual financial disclosure forms. Four key employees of the City Commissioners Office failed to file the required forms.

Some of the other significant deficiencies we observed are listed below. If management does not take required corrective action, then asset misappropriation and/or abuse could occur and not be timely detected.

- The petty cash fund is still susceptible to fraud and abuse because of the absence of a reconciliation process, the lack of separation of duties, and the circumvention of petty cash spending limits by splitting invoices. For example, we noted that the custodian instructed a vendor to split a \$2,604.94 order for imaging supplies into six invoices in increments of \$500.00 each.
- Personal property assets remain at risk because the same individual controls the record keeping, performs the annual counts, and approves disposals.
- Asset certifications have not been submitted to the Controller's Office for the last five fiscal years.
- No attendance or leave records are maintained for non-civil service (exempt) employees.
- Revenue receipts are still not deposited timely and not reconciled to the city's on-line FAMIS accounting system.

What The Controller's Office Recommends

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

CONTENTS

Page

INTRODUCTION

Background.....1

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS2**

FINDINGS AND RECOMMENDATIONS

Two Hundred Voting Machines Malfunctioned During the May 2006
Primary Election4

Key Employees Neglected to File Financial Disclosure Forms4

STATUS OF PRIOR YEAR FINDINGS

Petty Cash Fund Controls5

Personal Property Controls5

Annual Asset Certification6

Payroll Documentation6

Inventory Exemption Request.....6

Accountability Over Revenue Receipts7

INTRODUCTION

BACKGROUND

Powers and Duties

The City Commissioners Office was originally created as a county office under Article 9, Section 4 of the State Constitution. The City Commissioners Office became part of city government by way of the 1951 City-County Consolidation Amendment to the State Constitution. In addition, the 1963 amendment to the First Class City Home Rule Act gave City Council the power to pass legislation with regard to operations of the City Commissioners Office. These enactments were further enabled by the 1965 City-County Consolidation Ordinance of City Council. These enactments assigned the City Commissioners Office the responsibility of voter registration and conducting local elections.

Management

The City Commissioners are elected every four years by the citizens of the City and County of Philadelphia, and they are members of the County Board of Elections. There are three City Commissioners, one of whom is the Chairperson.

The City Commissioners currently direct a staff of approximately 90 full-time employees, most of whom are appointed through civil service procedures.

Financial Resources

Management has responsibility for establishing and maintaining controls to safeguard the financial resources for which it is accountable. Safeguarding controls are designed to (1) prevent or timely detect unauthorized acquisition, use, or disposition of assets; (2) ensure the reliability of financial reporting; and (3) to comply with applicable laws and regulations. During fiscal 2005, management of the City Commissioners was accountable for the following appropriations, revenues and assets:

Appropriations:

General Fund	\$ 7,960,206
--------------	--------------

Revenues:

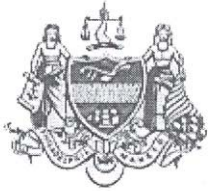
Locally Generated Non-Tax	\$ 18,000
---------------------------	-----------

Assets

Petty Cash ¹	\$ 5,000
Personal Property Items ²	\$15,193,526

¹ Petty Cash amount reflects the department's authorized amount.

² Personal Property balance as of fiscal year end 06-30-05



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ
City Controller

ALBERT F. SCAPEROTTO
Deputy City Controller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We annually audit the basic financial statements of the City of Philadelphia, Pennsylvania as of and for its June 30 fiscal year end and issue a report thereon. Those statements include financial transactions of various city departments and agencies. We conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we consider the City of Philadelphia's centralized and departmental internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the City Commissioners Office's (City Commissioners) internal control over financial reporting was limited to determining if its internal control components for revenue, payroll, other expenditure activity, and personal property, were suitably designed and placed in operation during fiscal 2005, and would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the City Commissioners internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the City Commissioners internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philadelphia's basic financial statements are free of material misstatement, we perform centralized and departmental tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Our consideration of the City Commissioners compliance with certain provisions of laws, regulations and contracts was limited to tests of revenue, payroll, other expenditure activity, and personal property, during fiscal 2005. Grant compliance will be tested and reported on as part of our single audit in accordance with Office of Management and Budget Circular A-133. Our departmental tests disclosed no instances of noncompliance or other matters by the City Commissioners that are required to be reported under *Government Auditing Standards*.

However, we noted certain other conditions that are not required to be reported under *Government Auditing Standards*, but nonetheless represent deficiencies in internal control over financial reporting, noncompliance with laws or regulations, and economy or effectiveness issues that should be addressed by management. These conditions are listed in the table of contents and included in the findings and recommendations section of the report.

This report is intended solely for the information and use of the management of the City of Philadelphia, the City Commissioners, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

September 1, 2006

ALBERT F. SCAPEROTTO, CPA
Deputy City Controller

FINDINGS AND RECOMMENDATIONS

TWO HUNDRED VOTING MACHINES MALFUNCTIONED DURING THE MAY 2006 PRIMARY ELECTION

The City Commissioners purchased 3,500 electronic voting machines in 2002 at a cost of \$18.5 million. During the May 2006 primary election, approximately 200 of those machines malfunctioned. This resulted in voters at several polling places not being able to cast ballots until late in the day, after repairs were made. The malfunctions were reportedly caused by problems with paper rolls that tally votes in each machine.

City Commissioners officials stated that causes of the malfunctions would be the subject of a special City Council meeting that was to have been held in June 2006. However, that meeting was cancelled and not rescheduled. We have been informed that officials have researched the causes of the voting machine failures and are in the process of completing a draft report on their findings. The manufacturer of the machines has issued specific instructions for this process which may not have been followed in all cases when preparing the machines for the May 2006 primary election. Tests have been conducted following the prescribed instructions and the machines are reported to have functioned properly.

In order to help provide assurance against wide-spread voting machine failure, we recommend that City Commissioners officials conduct training for its technicians and intensify its supervision of this process. Additional steps could include written machine preparation instructions, and using a checklist that lists the preparation steps with technicians signing the forms to indicate that all required steps have been performed. [17305.01]

KEY EMPLOYEES NEGLECTED TO FILE FINANCIAL DISCLOSURE FORMS

Under the Commonwealth of Pennsylvania State Ethics Commission's Act and State regulations, public officials and public employees meeting certain criteria are required to file the State Financial Disclosure Form. The forms contain information related to an employee's income sources, business and other financial interests. The disclosures are designed to highlight potential conflicts of interest and other relationships that may preclude impartial judgments on the part of public officials. Failure to file the required disclosure forms violates the State Ethics Act, Pa C.S. 1101 and State regulations, 51 Pa. Code 11.1, could hinder any future investigative operations, and could result in legal actions.

Our review of forms on file with the City of Philadelphia's Records Department revealed that four (29%) key City Commissioners employees failed to file the required disclosures for the 2005 calendar year. As a result, there is no public disclosure of any potential conflicts that may prevent these individuals from fulfilling their official duties. We therefore recommend that all required City Commissioners personnel properly file their 2005 Financial Disclosure Forms as soon as possible and that all future filing be completed by the required dates. [17305.02]

STATUS OF PRIOR YEAR FINDINGS

Prior year finding are followed up and reported upon until corrective action or changes are made by management.

Petty Cash Fund Controls

Incompatible Functions and No Reconciliations

In our prior year report, we commented that the petty cash fund was susceptible to fraud and abuse because the fund custodian had several incompatible duties. The custodian made deposits, prepared disbursements, and was responsible for other revenue functions. Additionally, because fund and bank reconciliations were not being routinely prepared as required by Finance Department's Standard Accounting Procedure (SAP) 7.1.3.a, the risk of fraud and abuse increased.

We found the same condition existed again in our fiscal year 2005 audit. The City Commissioners has made no staff changes connected to the administration of the petty cash fund, and the custodian is still responsible for the other revenue funds. Furthermore, we found that no bank reconciliations, and no fund reconciliations were prepared for the entire fiscal year 2005. Without the oversights provided by the proper segregation of duties and timely bank and fund reconciliations, petty cash funds continue to be at risk of misappropriation and abuse.

We continue to recommend that management re-assign some of the custodian's duties to provide adequate segregation [17303.01], and take steps to assure that bank and fund reconciliations are performed and reviewed by supervisory personnel monthly. [17303.02]

Split Invoices

In our prior year report we noted that there were two instances of invoice splitting that circumvented the \$500 petty cash expenditure limit established by the Director of Finance. Our current year testing disclosed approximately sixteen incidents of invoice splitting, including one case where a vendor was instructed to process a large order of imaging supplies by splitting it into at least six invoices with increments of \$500 each, for a total payment of \$2,604.

As stated in our previous report, the \$500 petty cash spending limit is in place to ensure that larger purchases follow the Procurement Department's bidding and contract procedures. We therefore continue to recommend that the City Commissioners refrain from splitting invoices to circumvent these controls, and that it adhere to the city's procurement regulations when purchasing needed supplies. [17303.03]

Personal Property Controls

We previously reported that the same individual performed all control functions for personal property. Responsibilities include maintaining records, making physical counts, and approving disposals. Our current testing found no changes in this condition. This condition permits misappropriation of assets to occur without detection.

Adequate internal controls require the functions of record keeping, disposal approval, and taking inventory be separated. We continue to recommend that those incompatible duties be performed by different individuals. [17303.04]

Annual Asset Certification

At the end of each fiscal year, the Controller's Office requests that each city department or agency submit an accurate and complete certification form listing all assets. Certifications are required as a check that all assets have been reported to the Director of Finance and are included in the scope of the audit.

In our fiscal year 2003/2004 audit report, we commented that the City Commissioners Office had not submitted an asset certification for the last four years. A certification has likewise not been submitted for fiscal year 2005, and we continue to recommend that City Commissioners Office prepare and submit an accurate asset certification to the Controller's Office each year. [17303.05]

Payroll Documentation

Leave and Attendance Records Not Maintained

We noted in the prior year audit, that the City Commissioners continued the practice of not maintaining attendance and leave records for their non-civil service (exempt) employees. Without these records, there is no documentation to support the amount of pay earned or the employees' accumulated leave balances. In our current year follow-up, we were informed that this condition has not changed. We therefore continue to recommend that the City Commissioners maintain attendance and leave records for all employees. [1073.10]

Leave Request Slips Not Used at the Warehouse

In our prior year report we noted that the City Commissioners did not require employees at the voting machine warehouse to use leave request forms. We noted that the Finance Department's SAP E-9011 required the use of the leave request slips to document approval of paid leave. The use of the slips also provides management the information necessary to ensure adequate employee coverage. Our current review found that the City Commissioners is now requiring the employees at the warehouse to submit leave slips for approval. This finding [1673.08] is considered resolved.

Inventory Exemption Request

In many prior reports, we recommended that the City Commissioners request an exemption from the year-end materials and supplies inventory requirement. We noted that the value of the inventory was immaterial, and therefore it was not cost efficient to perform an annual count. We commend the City Commissioners for requesting and receiving an exemption from the material and supplies inventory requirement for the fiscal year 2005. Therefore, this finding [1973.02] is considered resolved.

Accountability Over Revenue Receipts

In previous audits we reported that internal control weaknesses existed over revenue receipts. Revenue receipts are not reconciled to the city's on-line FAMIS accounting system, and revenue receipts are not deposited immediately upon receipt. These conditions have not changed. We noted revenue receipts that were held at the department's warehouse location for more than a month before being forwarded to the City Hall office for processing.

Again, in order to ensure proper accountability and accuracy of its revenue receipts, we continue to recommend that the City Commissioners' revenue receipts be reconciled to the city's on-line FAMIS accounting system at least monthly and that cash and checks should be deposited timely. [1973.04]