

**OFFICE OF THE CITY CONTROLLER  
FISCAL YEAR 2016 BUDGET TESTIMONY  
APRIL 21, 2015**

**EXECUTIVE SUMMARY**

**DEPARTMENT MISSION AND FUNCTION**

**Mission:** The job of the Office of the City Controller<sup>1</sup> is to perform traditional financial auditing duties in accord with Generally Accepted Government Auditing Standards, to audit disbursement requisitions before payment, and to conduct management audits and make recommendations.

**Description of Major Services:** The City Controller is one of nine popularly elected offices in the executive branch of City of Philadelphia government and the term of office of the City Controller is four years, and is not subject to term limitation. The City Controller is independent of the Mayor and City Council, whose operations the City Controller audits. This independence is reinforced by legislatively mandated staggered terms, the election for City Controller and District Attorney falling midway between the elections for Mayor, the other six executive branch officeholders and the 17 members of City Council.

The Office of the Controller is composed of eight divisions: Pre-Audit (responsible for approving disbursement requisitions for payment from the City Treasury), Post-Audit (responsible to audit at least annually the affairs of every officer, department, board and commission receiving appropriations from City Council, the financial report of the City and School District of Philadelphia and to render an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles, Federal and state financial assistance received by the City and School District of Philadelphia and to render an opinion on whether the funds were spent in compliance with applicable laws and regulations), Special and Fraud Investigations (coordinates and undertakes all investigations in response to tips and other information which may indicate fraud involving City contracts, alleged misconduct on the part of City employees, worker injury abuse, enforcement of the residency requirement, and conflicting employment issues), Administration, Financial and Policy Analysis (opines on the City's Five-Year Plan, publishes reports on the financial condition of the City, conducts policy analyses, and advises the Controller on crucial issues of the day), Pension Affairs (responsible for the Controller's activities with respect to the Municipal Pension Fund, Sinking Fund Commission, and PGW Retirement Reserve Fund), Information Technology (responsible for the planning, purchase and administration of the Office's computer hardware and software), and Legal Affairs.

**PROPOSED BUDGET HIGHLIGHTS/FUNDING REQUEST**

**Budget Highlights:** The total FY16 Proposed Budget maintains funding at the FY15 Current Projection levels.

Fund	Class	FY14 Actual	FY15 Current Projection	FY16 Proposed Budget	FY16-FY15 Change	FY16-FY15 Percent Change
General	100	7,070,173	7,673,028	7,772,885	99,857	1.3%
	200	403,693	637,450	497,450	(140,000)	-22.0%
	300/400	(12,779)	25,000	25,000	0	0.0%
	Total	7,461,087	8,335,478	8,295,335	(40,143)	-0.5%
	Positions	111	126	126	0	0.0%
Other*	200	130,097	0	0	0	0.0%
	300/400	57,419	249,999	249,999	0	0.0%
	Total	187,516	249,999	249,999	0	0.0%
	Positions	0	0	0	0	0.0%
All	100	7,070,173	7,673,028	7,772,885	99,857	1.3%
	200	533,790	637,450	497,450	(140,000)	-22.0%
	300/400	44,640	274,999	274,999	0	0.0%
	Total	7,648,602	8,585,477	8,545,334	(40,143)	-0.5%
	Positions	111	126	126	0	0.0%

<sup>1</sup> Under Article VI of the Home Rule Charter, the Controller's office is referred to as the Auditing Department.

\* Other Funds includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, Healthchoices Behavioral Health Fund, Hotel Room Rental Tax Fund, Grants Revenue Fund, Community Development Fund, Car Rental Tax Fund, Housing Trust Fund, Water Fund, Water Residual Fund, Aviation Fund, and Acute Care Hospital Assessment Fund.

**Staff Demographics Summary (as of December 2014)**

	Total	Minority	White	Female
Full-Time Staff	122	63	59	60
Executive Staff	7	2	5	1
Average Salary - Executive Staff	\$109,741	\$64,397	\$112,917	\$83,126
Median Salary - Executive Staff	\$120,479	\$83,126	\$125,281	\$83,126

**Employment Levels (as of December 2014)**

	Budgeted	Filled
Full-Time Positions	123	122
Part-Time Positions	2	2
Executive Positions	13	7

**Contracts Summary (\*as of December 2014)**

	FY10	FY11	FY12	FY13	FY14	FY15*
Total amount of contracts	\$432,953	\$1,309,888	\$776,481	\$562,446	\$504,127	\$435,713
Total amount to M/W/DBE	\$39,000	\$30,950	\$83,505	\$121,474	\$49,041	\$39,500
Participation Rate	9%	2%	11%	22%	10%	9%

## PERFORMANCE, CHALLENGES AND INITIATIVES

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### DEPARTMENT PERFORMANCE (OPERATIONS)

The Office of the City Controller performs a variety of functions that include:

- traditional financial auditing;
- auditing disbursement requisitions prior to payment; and
- conducting management audits.

The major goals of its work are twofold:

1. to provide objective, timely, and quality audit reports to city officials, the public, and other interested parties about financial operations of the city, and on ways to improve city operations and the use of public resources; and
2. to prevent inappropriate spending of public funds.

Measures:

**Goal Number 1:** To provide objective, timely, and quality audit reports.

#### Objectivity

- 100 % of threats to independence on audits eliminated annually
- 100% of audit staff completing annual independence certification

#### Timely

- Percent of financial audits completed by target due dates
- Percent of departmental audits completed annually as required by the Home Rule Charter
- Percent of management audits concluded within budget

#### Quality

- Percentage of audit staff licensed as a CPA
- Percentage of staff meeting Continuing Professional Education requirements
- Rating of *pass* on independent review of system of quality control

**Goal Number 2:** To prevent inappropriate spending and preserve the integrity of public bid process

Our Pre-audit Division provides oversight of the City's payment and purchasing processes. This division monitors, reviews and approves or disapproves all requisitions for payment of City funds, and responds to daily requests for information regarding vendor payments. Pre-audit processed over 300,000 payment vouchers representing over \$4.9 billion in expenditures.

The Pre-audit Division's functions include but are not limited to:

- Monitoring internal controls over payment process
- Approving disbursement requisitions for payments from the City Treasury
- Monitoring contracts, purchase orders and payments for City departments and agencies beginning with the bid process
- Verifying that expenditures are authorized, accurate and compliant before payments are made
- Performing bid oversight procedures designed to ensure that the City acquires goods, services and construction at the lowest prices under a fair and open process
- Conducting special and contract compliance audits and reviews

### ACCOMPLISHMENTS AND INITIATIVES

#### **Post Audit:**

- Audited all 42 City departments and agencies
- Issued seven performance and/or special reports that included:
  - Vehicle Use and Assignment
  - Licenses and Inspections Demolition Performance Audit
  - Sheriff MOU Report
  - PICA Five-Year Plan Report

- City Overtime Cost Study
- Advisory Bank Account Report
- Unlicensed Realtors Study
- Issued Independent Auditor’s Reports for both the City and School District of Philadelphia’s Comprehensive Annual Financial Reports (CAFRs)
- Issued Independent Auditor’s Reports for both the City and School District of Philadelphia’s Schedule of Financial Assistance
- Made 228 recommendations
- Identified financial reporting errors, compliance deficiencies, cost reductions, and increased revenues totaling more than \$1.7 billion.
- Won the Association of Local Government Auditor’s Distinguished Knighton Award for the Licenses and Inspections Demolition Performance Audit, which exposed the informal culture of demolition oversight of L&I, including undocumented inspections, inconsistent enforcement of new requirements, waivers of required inspections, lack of training and supervisory review, and data integrity issues.
- Increased to 41% the percentage of audit staff licensed as CPAs
- Maintained a 100% compliance rate with Continuing Professional Education requirements of Governmental Auditing Standards.

Audit Report	FY	Issue Date	No. Rec.	Dollars
Vehicle Use and Assignment	2013	4/15/2014	7	\$0
School CAFR Reports	2013	8/27/2014	21	\$21,813,634
City CAFR Reports	2013	8/18/2014	33	\$1,700,000,000
Departmental Audit Report	2013	7/16/2014	103	\$0
L&I Performance Audit	2014	5/22/2014	29	\$0
Sheriff MOU Report	2013	6/27/2014	7	\$1,333,440
PICA Five Year Plan Report	2015-2019	7/15/2014	0	\$0
City Overtime Costs	2013	9/24/2014	3	\$715,814
School Single Audit	2013	Approx 12/2014	4	\$868,350
City Single Audit	2013	Approx 2/2015	13	\$308,184
Advisory Bank Accounts	2012	1/7/2015	4	\$0
Unlicensed Realtors Study	2010-2014	Unissued	4	\$380,000
<b>Totals</b>			<b>228</b>	<b>\$1,725,419,422</b>

**Pre-Audit Division:**

- The Pre-audit Division conducted a review of contract costs associated with capital projects administered by the Department of Public Property. Pre-audit found almost \$650,000 in questioned costs and problematic billings by contractors due to inadequate controls over change orders and requirements contract. Based on recommendations from Pre-audit, DPP implemented changes which strengthened their controls over the change order process and requirements contracts.
- Confirmed saving to the City based on changes recommended by the Pre-audit total \$229,712 for the fiscal year.

**General Office:**

- **City Controller’s Mentor Program:** The City Controller’s Office launched the inaugural Mentor Program that works with youth of all ages in Philadelphia to provide financial education and real-life working experience. Committed employees teach financial literacy to elementary school and middle school students in public schools, reaching more than 60 students in its first year. In addition, the Controller’s staff is working with 12 high school students to offer unique exposure to a professional office environment, and an opportunity to speak with city professionals about possible career paths with the City of Philadelphia.
- **Pension Board Oversight:**The City Controller introduced a resolution before the Philadelphia Board of Pensions that would require political spending disclosure from the Pension Fund’s portfolio managers and alternative investment funds. With oversight of an almost \$5 billion municipal pension fund, the Board approved the measure and it will be engaging these companies through letters and other means of communication and urging them to disclose their political spending.

- **Vacant & Dangerous Properties:**As part of the City Controller’s ongoing efforts to ensure public safety and quality of life in all Philadelphia neighborhoods, the Controller reviewed privately-owned vacant properties with violations and examined those with any unresolved issues that may be causing unsafe conditions. This report found a total of 1,215 vacant properties that contained violations, with more than half that were not in compliance with City Code. In addition, 101 properties were considered imminently dangerous or unsafe, resulting in L&I taking immediate action to demolish some of the properties and re-inspecting several others.

**Special Investigations and Fraud Divisions:**

- These units coordinate and undertake all investigations in response to tips and other information which may indicate fraud involving City contracts, alleged misconduct on the part of City employees, including worker injury abuse, enforcement of the residency requirement, and conflicting employment issues. Completed investigations may be referred to the U.S. Attorney or the Office of the District Attorney for prosecution.
- Beginning fiscal 2015 to the present date, the Special Investigations Unit has investigated 33 complaints of alleged wrong doing. Cases involving fraud, misconduct, with some investigations leading to criminal matters, these cases were referred to the District Attorney’s Office for further investigation.
- Some examples of cases from the Special Investigations Unit:
  - **Idling Streets Department Truck:** Complaints such as an idling Streets Department truck at 10<sup>th</sup> & Bigler Streets in South Philadelphia where a local high school football game was being played. Our investigation finding the trucks are assigned 1 hour before and several hours after the event for the extra volume of trash before, during and after the sport event. Our investigation accounted for the time of the Streets Department truck and employees.
  - **Recreational Water Safety Report of 2014:** The Recreational Water Safety Report of 2014, where the Special Investigations Unit conducted water safety inspections, visiting 81 pools and spray grounds throughout the city. These inspections uncovered 23 pools with the potential of causing injuries to a person at a facility.
    - Found were tripping hazards, such as un-even pavement in the pool deck areas which was observed at 11 of the pools visited. Blocked drains found at pool deck areas causing puddling and slipping hazards around the pool deck.
    - Improperly stored containers of chlorine were found at the Denby Pool in the areas of the pool deck. At the East Poplar Pool, chlorine from the containers mixed with puddle water on the pool deck with the possibility of injuring a person walking through the puddle of water & chlorine.
    - On the afternoon of August 8, 2014 firefighters were called to the O’Connor Pool 26<sup>th</sup> & South Streets for a report of swimmers having been shocked by electrical current at the facility. The three children shocked were released from the hospital. The pool was closed for the season. The Department of Parks and Recreation disclosed to our office that a Pool Action Plan is now in place for all Parks and Recreations Pools. These actions are:
      - All pool to be inspected for electrical issues
      - Insulation to be installed between pool motor and mounting base where required
      - Remove unnecessary lighting circuits in pool area
      - Contract with an outside agency to inspect and certify O’Connor Pool
      - Outside agency will also inspect any pools that we deem necessary after our initial inspection
 Any electrical or mechanical work required at any pool must be done either before the pool opens or after the pool closes. In the case of emergency repair during operating hours, the pool must close until the work is completed. The Controller’s Office anticipates the conditions listed in our report would be corrected to ensure a safe swimming season in 2015.

Other cases of our work in the Special Investigations Unit in conjunction with the Pre-audit unit:

- **Overbilling of Contract Costs:** Our investigation into overbilling of contract costs due to unreasonable change orders, and other questionable costs, made by contractors has uncovered \$134,036 of total questionable costs. These amounts billed for smaller projects had exceeded standard pricing resources as listed under the Blue Book rate, including trucks, equipment and fuel. City requirements contracts clearly indicate that the rates charged for these items should never be higher than those listed in the Blue Book.

- For one project we found a contractor was billing for a dump truck as if it was being operated for eight hours a day for four days. However, it was determined that the dump truck had operated for only 90minutes over a four day span resulting in the City paying 4.5 times more than should have been paid.
- Subsequent to the initiation of the Controller's review and after discussing the findings with Commissioner Bridget Collins-Greenwald. The Commissioner has committed to establishing a working group made up of representatives of the Controller's Office as well as Public Property to improve the process and protect the resources of the City.
- **Fox Chase Advisory Council Audit:**
  - At the Fox Chase Recreation Center, the Advisory Council, which is responsible managing the individual recreation center's bank accounts, could not provide any accounting records detailing financial transactions. The former Treasurer never maintained a general ledger for the account, and when she left she took the financial records with her.
  - Obtaining copies of bank statements for a six month period, auditors did find a beginning cash balance of almost \$187,400 and an ending balance of \$117,500. Our auditors also uncovered a computer where it was determined that the former Treasurer was the sole user of the computer and no one else had the ability to access her account.
  - To better safeguard the Advisory Council bank accounts, Parks and Recreation management along with Advisory Council officials must improve their oversight of these funds.
  - This includes monthly monitoring ensuring the Advisory Council maintains accounting records detailing the receipt and disbursement transactions
  - Review the monthly bank and petty cash reconciliations for accuracy
  - Examining payments to determine that these expenditures are for the benefit of the facility or its programs, also recommending Parks and Recreation need to designate staff independent of the recreation facilities and Advisory Councils with the task of performing periodic site visits to review compliance with the Advisory Council.

We have referred our findings regarding the former Treasurer at Fox Chase to the District Attorney's Office.

**STAFFING**

**Staff Demographics (as of December 2014)**

<i>Full-Time Staff</i>				<i>Executive Staff</i>			
		Male	Female			Male	Female
	African-American		African-American		African-American		African-American
<i>Total</i>	13		32	<i>Total</i>	1		1
<i>% of Total</i>	10.7%		26.2%	<i>% of Total</i>	14.3%		14.3%
	White		White		White		White
<i>Total</i>	42		17	<i>Total</i>	5		0
<i>% of Total</i>	34.4%		13.9%	<i>% of Total</i>	71.4%		0.0%
	Hispanic		Hispanic		Hispanic		Hispanic
<i>Total</i>	0		2	<i>Total</i>	0		0
<i>% of Total</i>	0.0%		1.6%	<i>% of Total</i>	0.0%		0.0%
	Asian		Asian		Asian		Asian
<i>Total</i>	2		6	<i>Total</i>	0		0
<i>% of Total</i>	1.6%		4.9%	<i>% of Total</i>	0.0%		0.0%
	Other		Other		Other		Other
<i>Total</i>	5		3	<i>Total</i>	0		0
<i>% of Total</i>	4.1%		2.5%	<i>% of Total</i>	0.0%		0.0%
	Bi-lingual		Bi-lingual		Bi-lingual		Bi-lingual
<i>Total</i>	7		11	<i>Total</i>	0		0
<i>% of Total</i>	5.7%		9.0%	<i>% of Total</i>	0.0%		0.0%
	Male		Female		Male		Female
<i>Total</i>	62		60	<i>Total</i>	6		1
<i>% of Total</i>	50.8%		49.2%	<i>% of Total</i>	85.7%		14.3%

**CONTRACTING**

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**M/W/DBE Participation on Large Contracts  
FY15 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DBE Participation Achieved	\$ Value of M/W/DBE Participation	Total % and \$ Value Participation - All DSBEs	Living Wage Compliant?
Mitchell & Titus, LLP	Auditing	\$25,000	8/22/14	11/24/14	MBE:	100%	\$25,000		Yes
					WBE:	0%	\$0	100%	
					DSBE:	0%	\$0	\$25,000	
Carole Buncher	Training	\$2,000	6/2/14	7/11/14	MBE:	0%	\$0		Yes
					WBE:	100%	\$2,000	100%	
					DSBE:	0%	\$0	\$2,000	



**OTHER BUDGETARY IMPACTS**

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FEDERAL AND STATE (WHERE APPLICABLE)

N/A

OTHER

N/A