To Management and City Council
City of Harrisburg
Harrisburg, Pennsylvania

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the City of Harrisburg (the City) as of and for the year ended December 31, 2019. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

Fiduciary Funds

During the audit, it was noted that the City's fiduciary funds are not retained within the general ledger. Inclusion of these funds would allow the City to have quick access to the fund's activity at any given point in time. We suggest these funds be retained within the general ledger.

Management Response: The City concurs as the Finance Department is currently in the process of planning the implementation of such accounting process for the Police Pension Plan and will also give same consideration to tax collection activity associated with the Harrisburg School District.

Cash and Investments

During the review of cash accounts during the audit, various items here noted:
- Although the City reconciles cash and investment accounts monthly, the general ledger does not present the cash and investment accounts separately.
- Bank interest is recorded in the month following receipt.
- The City does not utilize a standard bank reconciliation for each account held by the City.

We suggest the City:
- Report the cash and investment accounts separately in the general ledger, either throughout the year, or by year end, in order to accurately reflect the balances for financial reporting.
- Record interest in the month in which it was received.
- Utilize a standard bank reconciliation to provide consistency and a clear reconciliation for each bank account held by the City.

Management Response: Going forward the Accounting Manager, as part of the audit preparation process, will plan out or direct a related methodology for recording such year-end interest/dividend revenue, though considered immaterial, and will also develop investment reclassification entries for financial statement purposes without creating normal cash account reconciliation issues for Treasury.

Police Extra Duty Pay

During the review of the police extra duty pay it was noted that the City did not consider outstanding receivables in relation to police extra duty. This receivable would also allow for more precise recording of accrued payroll associated with the extra duty pay. Although amounts are not significant, and would ultimately cause a net impact of $0 to the Statement of Net Position, we suggest the City track these outstanding invoices and record the receivable and accrual associated at year end.

Management Response: The City concurs and the Finance Department for the next audit preparation phase for the 2020 year will analyze, via review of related documentation available within the Bureau of Human Resources, the involved accounts to do a matching of both related Police extra duty amounts receivable and payable.

Other Post-Employment Benefits Allocation Methodology

Annually there is another post-employment benefits liability which must be allocated amongst funds, based on the number of employees. During the audit it was noted that this allocation is occurring by considering the overall change in the liability and then allocating a percentage of that change to each fund. This allocation method can produce a different ending liability within a fund than what would be calculated if the allocation percentage were applied to the overall ending liability. We suggest the City review this calculation and consider allocation based on what percentage of the overall liability should be represented within each fund.

Management Response: The City concurs and will work to revisit this OPEB allocation process as part of the next audit preparation phase for the 2020 year and will give further consideration to calculating this liability as being more reflective of the actual applicable employee ratio rate within the involved funds.

Signature Stamps

During the audit, it was noted that signature stamps utilized during check signing are old and do not always create a clear signature when the stamp is applied. We suggest a new stamps be purchased in any case were a clear signature is not consistently created.

Management Response: The City Treasurer's office is aware of the sometimes-unclear appearance of the Treasurer's signature stamp on bank provided canceled check images and is currently in the process of considering the purchase of new related software and involved system and will opt to wait for the implementation of such to occur prior to further upgrading its existing check signing equipment.

Payroll Action Forms

During the audit, it was noted that when an employee is covered under a collective bargaining agreement, their annual payroll action form is not always signed for approval by the department head. Although the form is approved by other parties, we suggest the department head review and approve the form, as the form includes pay rate and pay allocations, including changes in pay cost allocations.

Management Response: The Finance Department will further discuss with the Director of the Bureau of Human Resources the process for adding this recommended layer of review and approval on such payroll action form documentation.

Subrecipient Monitoring

During the audit, it was noted that the City enters into a contract with its subrecipients, citing the period of performance and Code of Federal Regulations citations, however the contracts did not include information to notify subrecipients of the federal award identification number or the CFDA number for the federal award as suggested under the Uniform Guidance. In addition, the City should maintain a formal risk assessment in the subrecipient files and ensure that a review of the subrecipients programmatic or financial reports/audits was performed.

We recommend that the City establish procedures to ensure that all required award information is communicated to the subrecipient at the time of the subaward in accordance with the Uniform Guidance and that formal risk assessments of the subrecipient (including review of programmatic and financial reports/audits) is being completed and maintained.

Management Response: The City of Harrisburg conducts sub-recipient monitoring throughout the program year rather than during a singular monitoring event at the end of the program year. The City requires all potential sub-recipients to apply for funding prior to any funding commitments being made. Upon receipt of funding applications, City staff reviews all agencies for eligibility including non-profit status, organizational capacity, debarment status, registration with sam.gov, audit history, conflict of interest and of course the eligibility of the proposed activity. Once funding eligibility is determined, funding recommendations are made and sub-recipient agreements are prepared. These agreements include detailed scopes of work and detailed activity budgets. All sub recipients are funded on a strict reimbursement basis. Agencies can submit requests for reimbursement on a monthly basis. Requests must include a budget tracking sheet that matches the activity budget included in the agreement, proof of payment, documentation to confirm the expenses were eligible and reasonable. Multiple city staff members review all sub-recipient agency requests for reimbursement before payments are made. In addition to monthly reimbursement requests, all agencies are required to submit detailed activity progress reports including details for all program beneficiaries. These monthly progress reports are reviewed by city staff for accuracy & compliance. If reimbursement requests or monthly progress reports are found to be insufficient, city staff will provide technical assistance to the sub-recipient to resolve any issues before any grant funds are released to the agency.

At the end of the program year all sub-recipient agencies are required to provide a year-end activity close-out report, a full roster of beneficiaries and a summary of all program related expenses.

In summary, the city conducts on-going sub-recipient monitoring and oversight rather than conducting only annual monitoring events. We find this process avoids any substantial issues early on during the program year and this process establishes a working partnership style relationship between the city and our non-profit partners.

The following comments were previously communicated to you by other auditors, however, we continue to bring them to your attention as the comments are still relevant and present opportunities for improvement:

Inventorying Capital Assets

There has been no physical inventory taken since 2005. In that year, each department head was provided with a list of capital assets for their department. The listing was to be reviewed for any obsolete or disposed assets. Replaced infrastructure assets are not being removed from the capital asset inventory unless the department head completes a disposal form.

It was also noted that the Accounting Manager is responsible for entering all capital asset additions in the Capital Assets System. The capital asset additions are based on the Accounting Manager's review of expenses recorded within the capital expenditure account within each fund. There is no review of the additions entered into the Capital Asset System by the Accounting Manager.

We recommend that the City inventory its capital assets on an annual basis and update the disposals and additions accordingly in order to ensure the accuracy of the capital asset listing and depreciation. The additions and disposals updated in the Capital Asset System by the Accounting Manager should be reviewed. Each department should be in agreement with the capital assets reported for their department. A complete capital asset inventory should be compared to the insurance policy to verify proper insurance coverage of capital assets.

Management's Response: The City concurs and will endeavor to develop and implement a more formalized approach in documenting previously established procedures appropriate procedures for the periodic inventorying of its capital assets. Also, the Accounting Manager, for future audit preparation work, will develop a procedural process comprised of recording capital asset additions to the fixed assets system with included delegation to another member of the City accounting staff.

Converting Vacation Carryover Balances for Firefighters

According to the City's vacation policy, at year-end, Firefighter's accrued vacation is to be converted to holiday pay. During our audit, it was noted that Firefighter's compensated absences included accrued vacation balances at December 31, 2019 that had not been converted to holiday time. We suggest that the City follow its policy as it relates to accrued vacation for firefighters.

Management Response: In 2014, the vacation leave earning rates for new hires changed from 12 to 8 days, with the implementation of the amendments to the Collective Bargaining Agreement approved in late 2013. However, the leave system calculation program continued to credit the new hires with the prior earning rate. Upon discovering this error, the City was unable to convert the vacation carryover balances until IT was able to make adjustments to the program; the involved adjustments have yet to be completed but remain on the City's list of currently ongoing projects with a related focus of migrating the mainframe personnel system to a new system. The conversion will be addressed as part of such migration to a new system.

Developing Formal Program and System Change Control Policies and Procedures

The Bureau of Information Technology (IT) performs program development, operating system maintenance, and application software maintenance on the City's IT systems. IT management maintains close oversight over the change control process, but more formalized documentation is recommended to reduce the risk of unauthorized changes being made to the City's IT systems. The risk of unauthorized changes being made to information technology systems and programs could result in processing errors and system down-time. We recommend that a comprehensive written policy be developed that outlines all the procedures and documentation required for changes to the City's IT systems and programs. The policy should follow the system development life cycle methodology to include the following:

- Preparation of written requests.
- Approval of the request by management.
- Required documentation standards.
- Testing of the changes, follow-up of discrepancies, and participation and approval by users.
- Procedures for integrating the changes into the production environment from a separate test environment.

We also recommend that documentation be maintained by the City to support any changes made to programs and systems. This documentation should include retention of all documents as noted above and should be maintained for each change made.

Management's Response: The City concurs with the recommendation and will implement a change control process. Due to other priorities, the formal development of a process has been delayed. During the year, the strategy and focus has been to move away from custom developed systems and migrate to industry standard commercial off-the-shelf (COTS) systems. Because of this, system changes have been kept to a minimum, and will continue to be kept to a minimum, knowing that the current systems will ultimately be retired.

Providing IT Employee Training

There is currently limited training scheduled for IT employees. It is important for IT staff to be trained on the hardware and software changes occurring in the City's computer environment. If the IT staff is not trained properly, this could result in vulnerabilities, poor employee performance, and down-time. We recommend that a training schedule be established for all IT staff as the budget permits.

Management's Response: The City concurs with the recommendation. The City has evaluated the skills of the current staff members and identified several training areas that should be addressed. Both technical skills and soft skills have been identified. Options for training have been evaluated, including online, classroom, and internal knowledge transfer. A formal training schedule has not yet been developed.

Developing a Technology Disaster Recovery Plan – Network Servers

An information technology disaster recovery plan describes the procedures necessary to recover from an abnormal disruption in computerized operations. The objectives of disaster recovery are to ensure that the City's information technology personnel are sufficiently prepared and trained in the event of a disaster; to minimize the effects upon the City's other operations; and to establish an alternate means of restoring normal information technology operations within a short period of time. The scope of a disaster recovery plan should cover the following issues:

- Identification of critical information technology systems relevant to the daily operations of the City
- An assessment of the vulnerability and security of each critical information technology system
- Disaster declaration and notification procedures and assignment of responsibilities to personnel
- Procedures for restoration of critical information technology systems
- Back-up and storage procedures for critical information technology systems
- Any required testing of the plan's disaster recovery procedures to ensure that the plan will function as intended.
- An inventory of all critical information technology assets
- A list of employee and vendor contacts

There is no written disaster recovery plan for the City's network servers. In addition, although a written disaster recovery plan exists for the City's mainframe computer systems, the plan has not been tested since November 2009. In addition, in January 2012, the City terminated its "Hot Site" contract which provided a disaster recovery site along with a set amount of time each year to test the mainframe recovery. Even though the contract was terminated, a recovery site is still available to the City, but arrangements would need to be made to utilize the site each time an event occurs.

We recommend that the City prepare a written disaster recovery plan that covers the network servers under the City's control and that the plan for both systems be tested periodically.

Management's Response: The City is currently backing up all Mainframe systems and data to virtual tapes and replicating them to a Data Center in Altoona, Iowa, for disaster recovery purposes. The City plans to purchase a vacant M&T bank building within City limits during 2021. We intend to utilize available space within the building to house our disaster recovery equipment and ultimately replicate our full open systems environment to that equipment, so as to make available a redundant facility which can be utilized in the event of a disaster within City Hall. We have identified a local Data Center for providing disaster recovery and redundancy capabilities for our open systems environment. We anticipate disaster recovery capabilities for the open systems environment to be completed in 2021.

Restoring Backups Periodically

IT system backups are not periodically restored. To ensure that files are being properly backed up, we recommend that backups be periodically restored.

Management's Response: Now that our mainframe virtual tape server solution is complete, we will work on being able to restore the backups at the Data Center in Altoona, Iowa. We anticipate being able to restore that environment in 2021. Once we have another Data Center facility in place for the open systems environment, we will be able to restore those systems and provide redundancy at that location.

Creating a Policy for Use of the Virtual Private Network (VPN)

Some City employees are provided access to the City's network and City applications on their home computers. The City does not require the use of an anti-malware system on these home computers. This increases the risk of a breach of network information. We recommend that the City formalize a policy requiring that each employee who accesses City information on a home computer have some form of anti-malware installed on the computer being used to access City information. This policy should be signed by each employee prior to access being granted to the system.

Management's Response: The City concurs with this recommendation. Our internal policies address the use of home computers to access the VPN via software available to those eligible employees. Using this software to establish the VPN connection ensures the connection to the City network is secure and encrypts the transmission of data across this network. The policies require the employee to maintain up-to-date anti-virus and firewall software on their home computer in order to use the VPN software. The City maintains up-to-date anti-virus and firewall software on all City owned desktop computers, laptops, and servers.

Reconciling Shared Services Revenue and Expense and Invoicing Other Post-Employment Expenses for Water and Sewer Retirees

The City incurred certain revenues and expenditures under the Shared Service Agreement and the Transition Agreement with Capital Region Water (CRW). We noted the following items:

- Per the shared services agreement, within 60 days after the end of each term, the parties are required to reconcile the actual costs for providing services to CRW to the costs in the budget provided pursuant to the shared services schedule. The City and CRW are to then reduce or increase the payments for the services based on actual costs. The City and CRW continue to negotiate the actual costs related to these shared services for the years ended December 31, 2013 through 2016. No additional shared services costs were incurred during the years ended December 31, 2017, 2018, and 2019.
- Per the transition agreement, CRW assumed responsibility for all costs for other postemployment benefit costs for Water and Sewer retirees. Costs are to be invoiced by the City to CRW on a monthly basis and paid within 30 days of receipt of the invoice. The City invoiced CRW timely for other post-employment costs; however, the invoices did not include all other post-employment costs incurred by the City and did not reflect pension withholding amounts that are used to offset these costs.

We recommend that the City review the Shared Services Agreement and Transition Agreement and ensure that all items in the agreements are being followed and invoiced appropriately.

Management's Response: The City will continue to separately track such CRW water and sewer retiree other post-employment benefit costs and related offsetting revenue received throughout the year, via consistent accounting entries to specific accounts utilized for year-end reconciliation purposes.

<u>Obtaining Required Signatures on Manual Checks</u>

The City maintains manual checkbooks for the Central Depository, Fire Escrow, and Payroll accounts. These checkbooks are in the custody of the Treasurer's Office. Currently, the Treasurer is the only signer for the Central Depository and Fire Escrow accounts. Per Section 1704(a) of the City Code, the City Controller is to countersign all documents authorizing payment of moneys out of the City treasury when satisfied of the legality of the payment. We recommend that the City comply with the City Code and add the Controller as an authorized signer on the Central Depository and Fire Escrow accounts, and that the Controller's office review, approve, and sign all checks written from these accounts.

Management's Response: The City has, in the past, collectively discussed this recommendation with both the Offices of the City Treasurer and the City Controller. Both offices are in agreement with dual signature control being applicable to the disbursement of appropriated City funds or otherwise approved City funds, e.g., grant funds. The Controller views the second signature as implying a level of pre-audit review has occurred allowing for advance knowledge awareness and understanding of the involved transaction. Such awareness or understanding enables or conveys satisfaction of the legality of the payment as also referenced in the City Code, and this understanding is not present relative to the disbursements from the Central Depository and Fire Escrow accounts including the significant disbursements occurring throughout the year of Harrisburg School District taxes which the City collects on behalf of the School District.

This letter is intended solely for the information and use of management, City Council, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate serving the City of Harrisburg and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

Boyer & Ritter

Camp Hill, Pennsylvania
February 18, 2021