

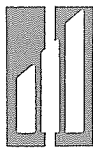
CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2004

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**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

To the Members of City Council
City of York, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of York, Pennsylvania, as of and for the year ended December 31, 2004, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 considered the City of York, Pennsylvania's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of York, Pennsylvania's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1, 04-2 and 04-3.

To the Members of City Council
City of York, Pennsylvania

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.

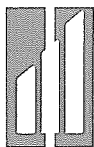
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of York, Pennsylvania's financial statements are free of material misstatement, we performed tests of its 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, Members of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maille, Falconiero & Company, LLP

August 12, 2005



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**Independent Auditors' Report on Compliance With Requirements Applicable to
Each Major Program, Internal Control Over Compliance and the Schedule of
Expenditures of Federal Awards in Accordance With OMB Circular A-133**

To the Members of City Council
City of York, Pennsylvania

COMPLIANCE

We have audited the compliance of the City of York, Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City of York, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of York, Pennsylvania's management. Our responsibility is to express an opinion on the City of York, Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of York, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of York, Pennsylvania's compliance with those requirements.

As described in Items 04-4, 04-5, 04-6 and 04-7 in the accompanying schedule of findings and questioned costs, the City of York, Pennsylvania, did not comply with requirements regarding grants management that are applicable to its Community Development Block Grants. In addition, the City did not comply with the allowable costs requirements, the reporting requirements and the subrecipient monitoring requirements that apply to its Community Development Block Grants. Compliance with such requirements is necessary, in our opinion, for the City of York, Pennsylvania, to comply with the requirements applicable to those programs.

To the Members of City Council
City of York, Pennsylvania

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of York, Pennsylvania, did not comply, in all material respects, with the requirements referred to above that are applicable to its Community Development Block Grants for the year ended December 31, 2004.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of York, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of York, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of York, Pennsylvania's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-4, 04-5, 04-6 and 04-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.

To the Members of City Council
City of York, Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of York, Pennsylvania, as of and for the year ended December 31, 2004, and have issued our report thereon dated August 12, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of York, Pennsylvania's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, Members of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maille, Falconiero & Company, LLP

August 12, 2005

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2004

Federal Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program			
Community Development Block Grant	14.218	B-01-MC-42-0018	\$ 10,000
Community Development Block Grant	14.218	B-02-MC-42-0018	12,114
Community Development Block Grant	14.218	B-03-MC-42-0018	594,329
Community Development Block Grant	14.218	B-04-MC-42-0018	1,282,223
Home Investments Partnerships Program	14.239	M-02-MC-42-0214	75,492
Home Investments Partnerships Program	14.239	M-03-MC-42-0214	105,401
Home Investments Partnerships Program	14.239	M-04-MC-42-0214	47,738
Fair Housing Assistance Program	14.401	FF203K013002	3,926
Fair Housing Assistance Program	14.401	FF203K023002	33,784
Fair Housing Assistance Program	14.401	FF203K033002	43,600
TOTAL FORWARD			<u>2,208,607</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COPS Universal Hiring Program	16.710	2003-UM-WX-0267	53,465
COPS Technology Grant Award	16.710	2003-CK-WX-0173	24,696
COPS In School	16.710	2004-SH-WX-0089	29,416
Local Law Enforcement Grant	16.592	2002-LB-BX-1893	57,713
Local Law Enforcement Grant	16.592	2003-LB-BX-1220	47,092
TOTAL FORWARD			<u>212,382</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Direct Program			
Assistance to Firefighters Grant	97.044	EMW-2003-FG-02254	35,480
TOTAL FORWARD			<u>35,480</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Commission on Crime and Delinquency			
Temporary Assistance for Needy Families (York City PALS)	93.558	2003-TW-16-13487	94,240
Temporary Assistance for Needy Families (York City PALS)	93.558	2004-DP-ST-14638	3,041
TOTAL FORWARD			<u>\$ 97,281</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
TOTAL FORWARDED			\$ 2,208,607
U.S. DEPARTMENT OF JUSTICE			
TOTAL FORWARDED			212,382
FEDERAL EMERGENCY MANAGEMENT AGENCY			
TOTAL FORWARDED			35,480
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
TOTAL FORWARDED			97,281
Passed through the Pennsylvania Department of Health			
Acquired Immunodeficiency Syndrome (AIDS) Activity			
Childhood Immunization Grant	93.940	ME 03-017	125,853
Preventative Health and Human Services Block Grant	93.268	ME 03-017	102,023
Maternal and Child Health Services Block Grant	93.991	ME 02-070	127,066
Maternal and Child Health Services Block Grant	93.994	ME 01-062	35,097
Medical Assistance Program, Title XIX	93.994	SAP 4100020367	33,599
Medical Assistance Program, Title XIX	93.197	ME 01-061	61,943
Bioterrorism	93.283	SAP 4100019657	66,867
		SAP 4100019328	192,082
			<u>744,530</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>841,811</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,298,280</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF YORK, PENNSYLVANIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2004

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of York, Pennsylvania (the "City") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B SUBRECIPIENTS

Of the federal expenditures presented in the schedule and tested as a major program, the City provided federal awards to subrecipients as follows:

	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant Entitlement Grant	14.218	\$ <u>296,066</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified: **Yes**

Reportable condition(s) identified that are not considered to be material weaknesses:
No

Noncompliance material to financial statements noted: **No**

Federal Awards

Internal control over major programs:

Material weaknesses(es) identified: **Yes**

Reportable conditions(s) identified that are not considered to be material weaknesses:
No

Type of auditors' report issued on compliance for major programs: **Adverse**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **Yes**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
Community Development Block Grants	14.218

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as a low-risk auditee: **No**

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Reportable Conditions

04-1 General Ledger Management (A similar condition was noted in prior year finding 03-1.)

Criteria: Controls must be in place to ensure the City maintains an accurate self-balancing general ledger. Amounts reported for federal grants should be reconciled to the general ledger.

Condition: During our audit, we noted the following:

- The accounting system allows the City to post journal entries that do not balance. Multiple City funds had trial balances that did not balance, which required adjustments by the consultant to derive the financial statements. The City also does not have the ability to produce "push-button financial statements."
- The City has reported amounts on the Comprehensive Annual Performance and Evaluation Report (CAPER) for program income that cannot be reconciled to the general ledger. (See finding 04-6, *Lack of Accurate Reporting*.)
- Funds for sewer and refuse are deposited in a control account. The funds are then transferred into the Treasurer/Control Account and the City's investment account. Effectively, this account is usually a zero balance account in that all funds received are transferred out. During our audit, we noted that a portion of the funds in this account was not recorded in the City's financial statements. The funds were not transferred to the City's Investment Account until 2005. These funds were in the City's Sewer/Refuse Control Account as of December 31, 2004, and therefore should be recorded on the City's financial statements as cash received. An audit adjustment was recorded to post the fees collected and the cash balances at year end.
- The Redevelopment Authority is a component unit of the City of York and is required to be presented in the City's financial statements. During our audit, we noted multiple cash accounts and a line of credit that were not recorded in the financial statements.

Cause: The City does not have controls in place to ensure that the general ledger is balanced. The City's software system allows one-sided entries to be made. The City had amounts reported on the CAPER for program income that cannot be reconciled to the general ledger. The City did not review cash control accounts to ensure that all cash was properly recorded. The Redevelopment Authority does not maintain a separate self-balancing set of books.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Effect:

- Trial balances for several of the funds did not balance without adjustment. The trial balances that did not balance were off by the same carrying difference as prior years, which is an indication that no one-sided entries were made in the current year. The trial balances reconcile if the difference is posted to beginning retained earnings.
- Program income amounts reported to the federal government for the annual CAPER report did not reconcile to the general ledger.
- The City had cash collected as of year end in the Sewer/Refuse Control Account that was not recorded in the financial statements. An adjustment was recorded to reflect these amounts.
- Multiple cash accounts and transactions were not recorded for the Redevelopment Authority in the City's financial statement.

Recommendation:

- The City should modify the accounting system to only allow the posting of balanced journal entries. Adjustments should be posted to the internal system to balance all the funds.
- The accounting system report writer software should be utilized to develop "push-button financial statements."
- The City should reconcile program income reported in the CAPER to the general ledger.
- The City should review all cash control accounts to ensure that all cash is recorded in the City's financial statements.
- We recommend the Redevelopment Authority maintain a separate and complete self-balancing set of books. The ending trial balance should be sent to the Finance Department at year end, so the City can include this information in its financial statements.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

04-2 Cash Management (A similar condition was noted in prior year finding 03-2.)

Criteria: Controls must be in place to monitor and prevent large cash deficits from occurring.

Condition: The City maintains many of its funds in a pooled account. During 2004, the City borrowed cash from other funds to cover deficits in several of its funds.

Cause: The City did not have procedures in place to prevent cash deficits from occurring in multiple funds.

Effect: As of December 31, 2004, the City had to borrow cash from other funds to cover deficits in several of its funds.

Recommendation: The City should monitor cash flow in each fund, and the future funding of prior cash deficits should be addressed in the budget process.

04-3 Controls over the City Treasurer/Control Account

Criteria: Controls must be in place to ensure that the City Treasurer/Control Account is reconciled timely. Controls must also be in place to ensure that transfers from the Treasurer's Account are made to the proper accounts.

Condition: Two problems were noted during our audit with respect to the controls over the City Treasurer/Control Account as stated below:

- First, the City Treasurer/Control Account was not reconciled timely throughout the year. The final reconciliation through December 31, 2004, was not completed until July 2005.
- In April 2004, \$300,000 of City taxes was transferred to the County of York's Escrow Account in error. This was discovered by the Treasurer's office in January 2005. Although the amount was transferred back into the Treasurer/Control Account in January 2005, the transfer of these funds to the City's Investment Account did not occur until August 2005.

Cause:

- Controls were not in place to ensure that the Treasurer/Control Account was reconciled timely.
- An amount was incorrectly input from the Cash Receipts Report to the Treasurer's Daily Receipts Reconciliation, which resulted in the transfer error.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Effect:

- The Treasurer/Control Account was not reconciled timely.
- City taxes were deposited in the County's Escrow Account in error. The Treasurer's office did find the error; however, the error was not discovered in a timely manner. The error occurred in April of 2004 and was not corrected until January of 2005.

Recommendation:

- The City should establish internal controls to ensure that the Treasurer/Control Account is reconciled timely.
- We recommend the City establish internal controls to review the Treasurer's Daily Receipts Reconciliation to ensure that amounts were correctly input from the cash receipts reports. All transfers should be traced to the applicable statements to ensure they were made to the appropriate account.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

Reportable Conditions

04-4 Grants Management (A similar condition was noted in prior year finding 03-4.)

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants
CFDA 14.218

Criteria: According to Title 24 Section 92.508 of the Code of Federal Regulations (the "CFR") applicable to Community Development Block Grants, the City, as a grantee, is required to maintain accurate and complete accounting records which identify the source of and application for federal funds. In addition, Title 24 of the CFR states that the City must establish reasonable control procedures, which ensure the accuracy of such records.

Condition: Controls were not in place to ensure that all grant records were maintained in accordance with the grant agreements as indicated in the specific findings 04-5 through 04-7. Reports were not properly reviewed by the Grant Coordinator or member of the Finance Department before filing with the federal agency.

During our audit, we noted that the HUD monitoring report for a review that was conducted from July 26 through July 30, 2004, was received in the Bureau of Housing; however, a copy of this report was not sent to the Grant Coordinator or the Finance Department for their review.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Cause: The City did not have the proper oversight of the grant process to ensure that all grant requirements were met. The Grant Coordinator position was vacant for approximately seven months during 2004. There was significant turnover in the Grant Coordinator position as two separate employees filled the position during 2004, and a third employee took over the position in August of 2005. The HUD monitoring report was not forwarded to the Finance Department or the Grant Coordinator.

Effect: The City was not in compliance with multiple requirements under the various grants tested (see detailed findings 04-5 through 04-7).

Recommendation:

- The various department heads in charge of the grants should review their controls to ensure that all reports filed for grants are accurate and reconciled to the general ledger. The department heads should also thoroughly review each grant agreement to ensure that all provisions of the grant are met and the supporting documentation is maintained as required.
- Reports prepared by department heads should be forwarded to the Grant Coordinator for a second review before filing. The City's Grant Coordinator should also monitor all grants to determine that required grant provisions are adhered to in accordance with the grant agreements. The City's Grant Coordinator should be the designated contact to maintain and organize all of the City's grant information. It is important to completely centralize the oversight of all grants received by the City.
- All significant correspondence for grants should be forwarded to the Finance Department and the Grant Coordinator. The Bureau of Housing should work with these departments to resolve any issues in a timely manner. It is important to centralize the grant process, and communication between departments will help in achieving this objective.

04-5 Lack of Monthly Effort Reports/Allowability of Costs (A similar condition was noted in prior year finding 03-5.)

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants
CFDA 14.218

Criteria: All allowable costs must be supported by appropriate documentation, such as time and attendance records, and correctly charged as to account, amount and period. All cost allocation plans must be approved by the federal agency.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Condition: Many improvements were made in this area in 2004 relative to 2003. However, some problems still exist in the area of substantiation of allowable costs charged to this program.

Improvements Made to the Management of the Community Development Block Grant:

During 2003, the City created a time effort tracking system to charge program delivery costs; however, the schedules created were not used to bill the program delivery. During 2004, the time effort tracking system was utilized to bill program delivery, and amounts could be traced from the tracking system to the billings in the IDIS billing system.

During 2003, administrative costs were billed to the program based on budgeted amounts, and no system of tracking costs was present. During 2004, the City charged administrative costs based on the time effort tracking system and other methods of allocating indirect costs. Although there are weaknesses in the current method of allocating indirect costs, improvement was noted as the City was using a method to allocate administrative costs rather than just billing based on budgeted amounts.

Problems Noted in the Area of Allowable Costs:

Similar to 2003, the administrative costs were not charged to the program and drawn down periodically during the year. The draw downs for administrative costs were not started until October 2004. These costs should be tracked and drawn down periodically throughout the year to aid in cash flow related to the program.

The cost allocation plan used by the City to allocate indirect costs to its federal programs has not been approved by the Department of Housing and Urban Development. During our review of the current plan in place to allocate indirect administrative costs, one error was noted which resulted in questioned costs in the amount of \$10,303. This error was due to an over-allocation in the calculation of one employee's hours charged to the program.

As noted in the prior year finding, there were no costs charged to the program for the Business Administration Department because they did not prepare time/effort reports for 2003. During 2004, one individual who was actively involved in the program prepared time/effort reports; however, there were no charges to the program for any salary costs attributable to the Business Administration Department.

The City has the opportunity to charge eligible costs up to 20% of the total grant amount for planning and administrative costs. For 2004, the percentage of the program costs charged for planning and administration was approximately 12%.

Cause: The City does not have an approved cost allocation plan which allocates indirect costs for planning and administrative costs. Eligible costs for the Business Administration Department are not being charged to the program. Funds for administrative costs were not drawn down until late in the fiscal year.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Effect: An error made in the method of cost allocation resulted in questioned costs of \$10,303. No costs were charged to the program by the Business Administration Department. The City is currently using a cost allocation plan that has not been approved by HUD. The City is well under the maximum for eligible planning and administrative costs, because it is not capturing eligible costs from the Business Administrative Department and is possibly missing other eligible indirect costs.

Recommendation: The City should develop a cost allocation plan in accordance with OMB-87 and have it approved by the Department of Housing and Urban Development. All individuals in the Business Administration Department who are actively involved in the administration of the Community Development Block Grant should maintain time effort reports. These reports should be used to charge administration costs to the program.

Questioned Costs:

Community Development Block Grants\$10,303

04-6 Lack of Accurate Reporting (A similar condition was noted in prior year finding 03-6.)

Federal Agency: U.S. Department of Housing and Urban Development
 Community Development Block Grants
 CFDA 14.218

Criteria: The City is required to file a complete and accurate CAPER with the U.S. Department of Housing and Urban Development for the Community Development Block Grant.

Condition:

- Amounts were reported for program income that could not be reconciled to the general ledger.
- Amounts reported in the narrative section of the CAPER did not match amounts reported in the financial portion of the report.
- Certain amounts used in the earmarking calculations, as well as prior year amounts reported in the CAPER, could not be substantiated or reconciled.
- Per grant requirements, program delivery amounts should be directly allocated to the individual programs to which they relate or, if broken out separately, they should contain the activity number to which the program delivery amounts relate. Various amounts were broken out separately on the CAPER for program delivery in which no activity number was assigned to the costs.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

- The City did not have documentation to support the amount on Line 1 of the CAPER financial summary, which indicates the unexpended portion of CDBG funds at the end of the previous period. The City should request the support from HUD at a cutoff date of December 31 to verify that the amount reported agrees.

Cause: Management does not appear to be properly reviewing the CAPER prior to filing it with the Department of Housing and Urban Development. At this time, the City is not tracking and reporting its program delivery costs related to each individual grant.

Effect: The City is not in compliance with the reporting requirements of OMB Circular A-133.

Recommendation: We recommend the City develop formal procedures for monitoring the federal grant program reporting process. Amounts reported on the CAPER should be reconciled to both the general ledger and the IDIS system prior to filing. The narrative and financial sections should be compared for consistency. The use of a consultant can be an important tool in the administration of a program; however, management should complete a detailed review of the reports and understand where all amounts reported are derived. The City should begin tracking and reporting program delivery costs as they relate to each grant.

Questioned Costs:

Community Development Block Grants Unknown

04-7 Subrecipient Monitoring (A similar condition was noted in prior year finding 03-10.)

Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants
CFDA 14.218

Criteria: The City passed federal funds to various subrecipients during 2004. Per OMB A-133 Compliance Supplement, Part 3, *Compliance Requirements*, a pass-through entity is responsible for:

- Identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.

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- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition:

- Subrecipient agreements did not meet HUD specifications.
- Invoices from subrecipients were compared in total to the budget for the project; however, there was no evidence that each individual budget line item was compared to the invoices.
- The City was receiving audited financials and maintaining a file for the subrecipients tested; however, there was no adequate documentation in the file to indicate that the financial statements were reviewed.

Cause: There were no controls in place to ensure all subrecipient requirements were met.

Effect: The City is not in compliance with OMB A-133 subrecipient monitoring compliance requirements.

Recommendation:

- We recommend that the City modify their subrecipient agreements to meet HUD specifications. Per review with management, these agreements were modified in 2005 to meet HUD specifications.
- We recommend that subrecipient invoices be compared to the budget for individual line items. Per review with management, the City is now maintaining a schedule for each subrecipient that allows them to track and compare the invoices by detailed line item to the agreed-upon budget on a cumulative basis.
- The City should set up a checklist or other type of report to document that the subrecipient financial statements were reviewed to support the monitoring process.

Questioned Costs:

Community Development Block Grants Unknown

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03-1 General Ledger Management

Condition: During our audit, we noted the following:

- The accounting system allows the City to post journal entries that do not balance. Multiple City funds had trial balances that did not balance, which required adjustments by the consultant to derive the financial statements. The City also does not have the ability to produce "push-button financial statements."
- The City has reported amounts on the Comprehensive Annual Performance and Evaluation Report (CAPER) for program income that cannot be reconciled to the general ledger.

Recommendation:

- The City should modify the accounting system to only allow the posting of balanced journal entries. Adjustments should be posted to the internal system to balance all the funds.
- The accounting system report writer software should be utilized to develop "push-button financial statements."
- The City should reconcile amounts reported for grant programs to the general ledger.

Current Status: Not corrected.

See current finding 04-1, General Ledger Management.

03-2 Cash Management

Condition: The City maintains many of its funds in a pooled account. During 2003, the City borrowed cash from other funds to cover deficits in several of its funds.

Recommendation: The City should monitor cash flow in each fund, and the future funding of prior cash deficits should be addressed in the budget process.

Current Status: Not corrected.

See current finding 04-2, Cash Management.

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03-3 Recording of Loan Activity

Condition:

The City has not adopted a formal policy requiring the Finance Department to be actively involved in the origination of loan agreements made on behalf of the City.

The City does not calculate an allowance for loss on its loans until year end based on compilation results.

Recommendation:

We recommend that the City adopt a formal policy requiring the Finance Department be actively involved in the origination of all loan agreements made on behalf of the City. This policy should also indicate that copies of all loan documentation be provided to the Finance Department.

We recommend the City institute a policy to periodically evaluate loan allowances to determine if they are sufficient. The City should not rely on the outside party performing the year-end compilation to adjust these allowances.

Current Status: Corrected.

In April 2004, an ordinance was passed establishing a Loan Committee for the purpose of reviewing and recommending approval or denial of loan applications for all grants or loans in excess of \$15,000 from the various City-funded programs through the Departments of Community Development and Economic Development. The Finance Department receives copies of all loans and reviews allowances with the consultant to determine that they are adequate.

03-4 Grants Management

Federal Agency: U.S. Department of Housing and Urban Development
 Community Development Block Grants
 CFDA 14.218

 U.S. Department of Health and Human Services
 Temporary Assistance for Needy Families Grants
 CFDA 93.558

 U.S. Environmental Protection Agency
 Surveys, Studies, Investigations and Special Purpose Grant
 CFDA 66.606

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Condition: Controls were not in place to ensure that all grant records were maintained in accordance with the grant agreements as indicated in the specific findings 03-5 through 03-11.

Recommendation:

The various department heads in charge of the grants should review their controls to ensure that all reports filed for grants are accurate and reconciled to the general ledger. The department heads should also thoroughly review each grant agreement to ensure that all of the provisions of the grant are met and that the supporting documentation is maintained as required.

Reports prepared by department heads should be forwarded to the Grant Coordinator for a second review before filing. The City's Grant Coordinator should also monitor all grants to determine that required grant provisions are adhered to in accordance with the grant agreements. The City's Grant Coordinator should be the designated contact to maintain and organize all of the City's grant information. It is important to completely centralize the oversight of all grants received by the City.

Current Status: Partially corrected.

See comments for prior year findings 03-5 through 03-11 for areas that were corrected.

See current finding 04-4, Grants Management, for conditions that were not corrected in 2004.

03-5 Lack of Monthly Effort Reports

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants
CFDA 14.218

Condition: During 2003, the Business Administration Department did not prepare time/effort reports. Therefore, the administrative effort to support this program on behalf of the Business Administration Department could not be supported. These effort reports should have been prepared because individuals in this department spend a significant amount of time in the administration of this program.

The Bureau of Housing Services, with the aid of the Information Systems Department, created and implemented a time tracking system in late 2003. Employees retroactively entered their time into the system for 2003 and 2004. However, the summary schedules prepared by the Bureau of Housing Services could not be reconciled to the general ledger or to the costs charged to the program.

The administrative costs for the program were charged to the program based on budgeted costs and not actual costs, which resulted in questioned costs. Also note that the administrative costs were charged to the program and drawn down on the program at year end. These costs should be tracked and drawn down periodically throughout the year.

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Based on our review of the costs that could be substantiated for program delivery and administrative effort, the amount charged to the program exceeded the amount of substantiated costs, which resulted in questioned costs as disclosed below. This could be attributed to the lack of tracking eligible costs within the Business Administration Department, as well as other eligible costs.

Recommendation: We recommend the Finance Department once again begin to track time in accordance with OMB A-87. All administrative costs from this department should be supported and reconciled to the general ledger. Also, time tracked by the Bureau of Housing Services should be reconciled with salaries posted to the general ledger for this department. The cost charged to the program should be based on actual costs and not budgeted costs, which should be tracked and drawn down periodically throughout the year. In summary, all supporting schedules tracking time and effort should be reconciled to the general ledger, to the amount charged to the program in the Integrated Disbursement and Information System (IDIS) and to the CAPER.

Current Status: Partially corrected.

Improvements Made to the Management of the Community Development Block Grant:

During 2003, the City created a time effort tracking system to charge program delivery costs; however, the schedules created were not used to bill the program delivery. During 2004, the time effort tracking system was utilized to bill program delivery, and amounts could be traced from the tracking system to the billings in the IDIS billing system.

During 2003, administrative costs were billed to the program based on budgeted amounts, and no system of tracking costs was present. During 2004, the City charged administrative costs based on the time effort tracking system and other methods of allocating indirect costs. Although there are weaknesses in the current method of allocating indirect costs, improvement was noted as the City was using a method to allocate administrative costs rather than just billing based on budget.

See current finding No. 04-5, Lack of Monthly Effort Reports/Allowability of Costs, for conditions that were not corrected in 2004.

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03-6 Lack of Accurate Reporting

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants
CFDA 14.218

U.S. Department of Housing and Urban Development
Section 108 Loan Guarantee Assistance Program
CFDA 14.248 (not a major program for 2003; prior year finding not corrected)

U.S. Department of Health and Human Services
Passed through Pennsylvania Commission on Crime and Delinquency
Temporary Assistance for Needy Families Grants (York City PALS Project)
CFDA 93.558

Condition:

CAPER Report - Community Development Block Grants:

The City's CAPER filed for 2003 contained multiple errors as indicated below:

- Program income recorded on the general ledger did not match the program income recorded in the IDIS system. The amount of program income recorded on the CAPER could not be reconciled to the amounts recorded on the general ledger or the IDIS system.
- The amount of program income charged to the program from the High Risk Fund and the Rental Rehab Fund could not be reconciled to the general ledger and did not appear to be calculated correctly.
- The CAPER contained various mathematical errors.
- Amounts reported in the financial section of the CAPER did not match amounts reported in the narrative portion of the report.
- Line 1 of the financial summary, which indicates the unexpended portion of CDBG funds at the end of the previous reporting period, was not reconciled to the actual grant status as of December 31, 2003.
- Planning and administrative costs as reported on the CAPER do not reconcile to the supporting documentation.

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Reporting for Section 108 Loan Guarantee Assistance Program:

The monthly reports required under the grant agreement were not filed for 2003.

York City PALS Project Grant (TANF) (Contract #2003-TW-16-13487):

The final quarter for 2003 fiscal report and quarterly progress report were not filed for this grant.

Recommendation: We recommend the City develop formal procedures for monitoring the federal grant program reporting process. Amounts reported on the CAPER should be reconciled to both the general ledger and the IDIS system. The use of a consultant can be an important tool in the administration of a program; however, management should complete a detailed review of the reports and understand where all amounts reported are derived.

Current Status: Partially corrected.

CAPER Report - Community Development Block Grants:

We noted no mathematical errors in the 2004 CAPER.

Planning and administrative costs reported in the CAPER were reconciled to the supporting documentation, the IDIS system and the general ledger.

Reporting for Section 108 Loan Guarantee Assistance Program:

The monthly reports required under the grant agreement were not filed for 2004.

York City PALS Project Grant (TANF) (Contract #2003-TW-16-13487):

The final report was filed for the York City Pals Project Grant (TANF), and subsequent quarterly reports were filed during 2004.

See current finding 04-6, Lack of Accurate Reporting, for conditions that were not corrected in 2004 with respect to major programs.

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03-7 Eligibility Determinations

Agency: U.S. Department of Health and Human Services
Temporary Assistance for Needy Families
York City PALS Project Grant and the Juvenile Violence Delinquency Project
CFDA 93.558

Condition: The City does not appear to be initiating any procedures for determining the eligibility of direct beneficiaries of the program. Subrecipient eligibility is determined solely by the federal agency's approval of the application for funds.

Recommendation: We recommend the City develop formal procedures for determining the eligibility of beneficiaries and subrecipients.

Calculations should be performed to assist in determining who is eligible and the amount of benefits each is to receive.

Records should be maintained to support the eligibility of each individual, group of individuals and subrecipients.

The period of time an individual, group of individuals, or subrecipient is eligible should be tracked, and benefits should be discontinued when the period of eligibility has expired.

Current Status: Not corrected.

Per follow up with the prior year finding, the City does not appear to be initiating any procedures for determining eligibility of direct beneficiaries of the program. This will not be presented as a current year finding because the TANF program was not selected as a major program in 2004.

03-8 Davis Bacon Act

Agency: U.S. Environmental Protection Agency
Surveys, Studies, Investigations and Special Purpose Grant
CFDA 66.606

Condition: The City could not locate the supporting payroll certifications and other supporting documentation to support the proper monitoring required under the Davis Bacon Act. As a result, it was not possible to ensure the City monitored compliance with the Davis Bacon Act during 2003.

Recommendation: We recommend the City personnel responsible for administering federal grant programs review the grant requirements and maintain complete and accurate records to ensure compliance with the Davis Bacon Act.

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Current Status: This grant was fully expended as of December 31, 2003. We had no findings related to the Davis Bacon Act for major programs audited during 2004.

03-9 Suspension and Debarment

Agency: U.S. Environmental Protection Agency
 Surveys, Studies, Investigations and Special Purpose Grant
 CFDA 66.606

Condition: During our fieldwork, no documentation could be located to verify the City received certifications from its contractors or that it checked a list of suspended or debarred persons/contractors. Note that from the contractors sampled under this program, we reviewed the listing of suspended or debarred contractors and noted that none of the contractors used were suspended or debarred.

Recommendation: We recommend the City personnel responsible for administering federal grant programs review the grant requirements and maintain complete and accurate records to ensure compliance with OMB Circular A-133.

Current Status: This grant was fully expended as of December 31, 2003. We had no findings related to suspension and debarment for major programs audited in 2004.

03-10 Subrecipient Monitoring

Agency: U.S. Department of Health and Human Services
 Temporary Assistance for Needy Families Grants
 York City PALS Projects and the Juvenile Violence Delinquency Project
 CFDA 93.558

Condition: The City did not adequately monitor its subrecipients in 2003. For the subrecipients selected, the City maintained a signed contract stating the subrecipient's responsibilities under the program. However, the City did not perform any additional monitoring, such as site visits, etc., to ensure compliance with program requirements. Financial statements and progress reports were not obtained from subrecipients. In addition, there are no controls in place to ensure that subrecipient monitoring is being performed in accordance with OMB A-133.

Recommendation: We recommend the City department responsible for administering federal grants review the policies for subrecipient monitoring to ensure that these procedures are followed for all grants that have subrecipients.

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Current Status: Partially corrected.

Temporary Assistance for Needy Families Grants:

During 2004, the Grant Coordinator did start making site visits to the subrecipients; however, there was no adequate documentation of the visit. Improvement will need to be made in this area for this particular grant.

See current finding 04-7, Subrecipient Monitoring, for conditions related to subrecipient monitoring with respect to current year major programs.

03-11 Other Special Provisions

Agency: U.S. Department of Housing and Urban Development
 Section 108 Loan Guarantee Assistance Program
 CFDA 14.248

Criteria: In accordance with the loan agreement under the Section 108 Loan Guarantee Assistance Program, all funds in the Guaranteed Loan Funds Account or the Guaranteed Loan Funds Investment Account must be withdrawn and disbursed by the City for approved activities by September 20, 2002. Any funds remaining in either account after this date shall be immediately transferred to the Loan Repayment Account established according to the contract.

Condition: The City did not create a separate restricted Loan Repayment Account, and, therefore, the unexpended funds were not appropriately transferred to this account in accordance with the loan agreement.

Current Status: During 2004, the City did not transfer the unexpended funds to a separate restricted Loan Repayment Account. This was not presented as a current year finding because this program was not selected as a major program in 2004.