

CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2005

TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 1 |
| 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 | 3 |
| ADDITIONAL INFORMATION | |
| Schedule of Expenditures of Federal Awards | 6 |
| Notes to the Schedule of Expenditures of Federal Awards | 8 |
| Schedule of Findings and Questioned Costs | 9 |
| Schedule of Prior Audit Findings | 22 |



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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, 2005, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated October 12, 2006. 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 initiate, record, process 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 05-1, 05-2, 05-3 and 05-4.

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.

Maillie Falconiero & Company LLP

October 12, 2006



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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, 2005. 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 05-5, 05-6, 05-7, 05-8 and 05-9 in the accompanying schedule of findings and questioned costs, the City of York, Pennsylvania, did not comply with requirements regarding grants management and allowable costs that are applicable to its Community Development Block Grant, Home Investments Partnerships Program and Highway Planning and Construction Grant. In addition, the City did not comply with the reporting requirements, subrecipient monitoring requirements and participant monitoring requirements that apply to its Community Development Block Grant and Home Investments Partnerships Program. 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, Home Investments Partnerships Program and Highway Planning and Construction Grant for the year ended December 31, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of York, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-5, 05-6, 05-7, 05-8 and 05-9.

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 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 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, 2005, and have issued our report thereon dated October 12, 2006. 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.

Maillie, Falconiero & Company, LLP

October 12, 2006

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

| 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 | 1,105 |
| Community Development Block Grant | 14.218 | B-03-MC-42-0018 | 159,555 |
| Community Development Block Grant | 14.218 | B-04-MC-42-0018 | 627,241 |
| Community Development Block Grant | 14.218 | B-05-MC-42-0018 | 849,772 |
| Home Investments Partnerships Program | 14.239 | M-02-MC-42-0214 | 131,206 |
| Home Investments Partnerships Program | 14.239 | M-03-MC-42-0214 | 298,413 |
| Home Investments Partnerships Program | 14.239 | M-04-MC-42-0214 | 26,550 |
| Home Investments Partnerships Program | 14.239 | M-05-MC-42-0214 | 118,546 |
| Fair Housing Assistance Program | 14.401 | FF203K043002 | 32,960 |
| Lead Based Paint Hazard Control Program | 14.900 | ME-03210 | 51,042 |
| TOTAL FORWARD | | | <u>2,306,390</u> |
| U.S. DEPARTMENT OF JUSTICE | | | |
| Direct Program | | | |
| COPS Universal Hiring Program | 16.710 | 2003-UM-WX-0267 | 135,331 |
| COPS Technology Grant Award | 16.710 | 2003-CK-WX-0173 | 5,038 |
| COPS in School | 16.710 | 2004-SH-WX-0089 | 70,316 |
| Bullet Proof Vest Partnership Grant | 16.607 | FY2003BVP | 2,370 |
| Local Law Enforcement Grant | 16.592 | 2003-LB-BX-1220 | 1,816 |
| Local Law Enforcement Grant | 16.592 | 2004-LB-BX-0720 | 21,837 |
| TOTAL FORWARD | | | <u>236,708</u> |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | | |
| Direct Program | | | |
| National Fire Academy Training Assistance Grant | 97.018 | EMW-2004-FP-01652 | 2,290 |
| TOTAL FORWARD | | | <u>\$ 2,290</u> |

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

| Federal Grantor/Program Title | Federal CFDA Number | Grantor's Number | Expenditures |
|---|---------------------------|------------------|---------------------|
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| TOTAL FORWARDED | | | \$ <u>2,306,390</u> |
| U.S. DEPARTMENT OF JUSTICE | | | |
| TOTAL FORWARDED | | | <u>236,708</u> |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | | |
| TOTAL FORWARDED | | | <u>2,290</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through the Pennsylvania Department of Health | | | |
| Acquired Immunodeficiency Syndrome (AIDS) Activity | 93.940 | ME 03-017 | 135,780 |
| Childhood Immunization Grant | 93.268 | ME 03-017 | 108,842 |
| Preventative Health and Human Services Block Grant | 93.991 | ME 02-070 | 106,588 |
| Maternal and Child Health Services Block Grant | 93.994 | SAP 4100020367 | 57,417 |
| Medical Assistance Program, Title XIX | 93.197 | SAP 4100019657 | 120,932 |
| Bioterrorism | 93.283 | SAP 4100019328 | <u>151,603</u> |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | <u>681,162</u> |
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Passed through the Pennsylvania Department of Transportation | | | |
| Highway Planning and Construction Grant | 20.205 | 88475 | <u>594,001</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,820,551</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, 2005

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. Federal expenditures do not include amounts funded by program income. 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 | \$ 171,090 |
| Home Investments Partnerships Program | 14.239 | 53,444 |
| Highway Planning and Construction Grant | 20.205 | <u>-</u> |
| | | <u>\$ 224,534</u> |

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

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 |
| Home Investments Partnerships Program | 14.239 |
| Highway Planning and Construction Grant | 20.205 |

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, 2005

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Reportable Conditions

05-1 General Ledger Management (A similar condition was noted in prior year finding 04-1.)

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, requiring adjustments by the consultant to prepare the financial statements.
- Although the Redevelopment Authority has made progress maintaining ledgers for multiple projects, the Authority still does not have a complete self-balancing set of books. The consultant compiling the City's financial statements must still combine all the activity of the Redevelopment Authority to prepare complete 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 Redevelopment Authority does not maintain a separate self-balancing set of books.

Effect:

- Trial balances for several funds did not balance without adjustment. The trial balances reconcile if the difference is posted to the beginning retained earnings.
- The Redevelopment Authority cannot produce a complete financial statement reflecting all activities of the Authority. The consultant that assists the City prepare financial statements combines activity from multiple ledgers and sources to prepare a complete set of financial statements for the Redevelopment Authority.

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

- 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.

05-2 Cash Management (A similar condition was noted in prior year finding 04-2.)

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 2005, 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, 2005, 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.

05-3 Controls Over the City Treasurer/Control Account (A similar condition was noted in prior year finding 04-3.)

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 any errors made in the amounts transferred from the City Treasurer/Control Account to the City Investment Account are corrected timely.

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, 2005, was not completed until July 2006. The controller's office is currently responsible for reconciling the City Treasurer/Control Account.
- Errors made in the transfer of funds to the City Investment Account from the City Treasurer/Control Account result in reconciling items on the account reconciliations. Such reconciling items are not being addressed in a timely manner. Although these errors are being identified by the Finance Department and the Controller's Department, cash is not being transferred to the City Investment Account to correct these errors. At December 31, 2005, we noted approximately \$140,000 was due from the City Treasurer/Control Account to the City Investment Account.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

Cause:

- Controls were not in place to ensure timely reconciliation of the City Treasurer/Control Account.
- Controls were not in place to timely correct transfer errors between the City Treasurer/Control Account and the City Investment Account. Reconciling items were maintained on both cash reconciliations for long periods of time and the cash transfers to correct the errors were not made.

Recommendation:

- The City should establish an internal control procedure to ensure the City Treasurer/Control Account is reconciled timely.
- We recommend the City immediately address the issue of the funds owed to the City Investment Account from the City Treasurer/Control Account. The Finance Department, Controller's Department and the City Treasurer should review the total amounts due, and the amounts should be transferred accordingly.

We recommend establishing an internal procedure to ensure that reconciling items resulting from incorrect transfers are corrected timely. Upon completion of the monthly reconciliation of the City Investment Account and the City Treasurer/Control Account, the various departments involved should meet and review any reconciling items resulting from errors. Transfers should then be made to correct errors. All transfers should be made during the subsequent month. All errors should be corrected before the next month's reconciliation process begins.

05-4 Controls Over Permits

Criteria: Controls must be in place to monitor the proper use of the sequential numbering system for the issuance and collection of permit fees.

Condition: Two problems were noted during our audit with respect to the controls over permits as stated below:

- All permits are entered into a software system known as the Hanson software system. Permits are assigned a sequential number in the system. The current system allows permits to be deleted without supporting documentation detailing why the permit was deleted. Gaps in the sequential numbering result.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

- In the current system, permit fees are collected by the Bureau of Permits. A daily revenue report is maintained, which is broken down by the type of permit collected such as building permits, zoning permits, etc. The following morning, the receipts and the daily revenue report are taken over to City Hall to be processed through the cash receipts terminal system. The problem with the current system is that the receipts support does not give a breakdown of all permits by issuance number but rather groups permits together as to the type of permit. The Finance Department and the Controller's office cannot identify the permit numbers included in the daily receipts batch processed from the Bureau of Permits.

Cause: The City did not have adequate internal controls in place to properly use the sequential numbering system for the issuance and collection of permit fees. Support is not maintained with the daily receipts batch that identifies a listing of permit numbers included in the batch.

Effect: The Finance Department and Controller's office do not have the necessary information included with the processed permit receipt batches to ensure that all permits issued by the Bureau of Permits were processed through the terminal cash receipts system.

Recommendation:

- We recommend the City establish procedures for documenting any deletions in the permit numbering system. Documentation should include the reason for the void or deletion of a permit number, with an authorized signature by the Director of the Bureau of Permits.
- The City should require the Bureau of Permits to provide a daily report listing by permit number, type and amount, accompanying the current daily revenue report broken out by permit type totals. The Bureau of Permits should maintain this report and create a cumulative monthly report by permit number and type broken down by day processed. The monthly report should then be forwarded to the Controller's office following the end of each month for monthly reconciliation purposes.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

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

Reportable Conditions

05-5 Grants Management (A similar condition was noted in prior year finding 04-4.)

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
Home Investments Partnerships Program
CFDA 14.239

U.S. Department of Transportation
Highway Planning and Construction Grant
CFDA 20.205

Criteria: According to the Code of Federal Regulations (the "CFR") applicable to the above 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, 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 05-6 through 05-8.

Cause: The City did not have the proper oversight of the grant process to ensure that all grant requirements were met.

Effect: The City was not in compliance with multiple requirements under the various grants tested (see detailed findings 05-6 through 05-8).

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

- 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.

05-6 Allowability of Costs (A similar condition was noted in prior year finding 04-5.)

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
Home Investments Partnerships Program
CFDA 14.239

U.S. Department of Transportation
Highway Planning and Construction Grant
CFDA 20.205

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

Condition:

Community Development Block Grants and Home Investments Partnerships Program

Similar to 2004, the administrative costs were not charged to the CDBG and HOME programs and drawn down periodically during the year. The draw downs for administrative costs were not started until September 2005. 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. The City is in the process of preparing an RFP for an outside contractor to complete a federally approved cost allocation plan for use City-wide.

Detailed schedules provided for Redevelopment Authority Activity for acquisition, demolition, and disposition did not agree to the Community Development Block Grant Fund general ledger.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

For 2004, as stated in a prior year finding, one individual 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. This individual's time was charged to the CDBG and HOME programs for 2005. We did note that two other individuals who materially participate in the administration of these programs throughout the year were charged to the program for only part of the year. One individual was charged to the program for five months of the year and the other individual was charged to the program for three months of the year.

The City has the opportunity to charge eligible costs up to 20% of the total grant amount for planning and administrative costs under the CDBG program. For 2005 and 2004, the percentage of the program costs charged for planning and administration was approximately 11% and 12%, respectively.

Highway Planning and Construction Grant

During 2005, the City of York incurred costs for the Broad Street Greenway project. The City planned to be reimbursed for this project by various sources, including a Highway Planning and Construction Grant and through Community Development Block Grant Funds.

During our audit, we noted that under the Highway Planning and Construction Grant, the City submitted a request for reimbursement for contractor costs and did not reduce the request for the amount of these costs charged to the Community Development Block Grant. This resulted in costs in the amount of \$117,278 being reimbursed under the Highway Planning and Construction Grant that were also reimbursed under the Community Development Block Grant. Upon review with the City, we also noted there were subsequent duplicate reimbursements occurring during 2006. We also noted there were eligible costs incurred under the program that were not submitted for reimbursement.

Cause:

Community Development Block Grants and Home Investments Partnerships Program

The City does not have an approved cost allocation plan which allows the allocation of indirect costs for planning and administrative costs for the CDBG and HOME programs. Eligible costs for all personnel are not being charged to the programs. The City did not reconcile detailed cost sheets to the general ledger for the Redevelopment Authority activities. Funds for administrative costs were not drawn down until late in the fiscal year.

Highway Planning and Construction Grant

Different parties were submitting for reimbursement under this grant, and there was a lack of communication between these parties. The monitoring and administration of this grant was not centralized.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

Effect:

Community Development Block Grants and Home Investments Partnerships Program

Reimbursable planning and administrative costs were not correctly allocated to the CDBG and HOME programs. 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 all eligible costs.

Highway Planning and Construction Grant

Costs reimbursed under the Community Development Block Grant were also reimbursed under the Highway Planning and Construction Grant resulting in duplicate reimbursement for the same costs.

Recommendation:

Community Development Block Grants and Home Investments Partnerships Program

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 who are actively involved in the administration of the Community Development Block Grant and HOME Investments Programs should maintain time/effort reports and submit them to the Bureau of Housing Services on a timely basis. The City should also ensure that all sources of eligible planning and administrative expenses are captured for reimbursement. All detail tracking schedules for the Redevelopment Authority activity should be reconciled to the general ledger.

Highway Planning and Construction Grant

The grant administration process should be centralized. For projects funded by multiple grants, the Grant Coordinator should maintain a schedule of costs incurred detailing how these costs will be allocated to each grant. Reimbursement requests should be approved by the Grant Coordinator before they are sent to the grantor agency to ensure there are no duplicate reimbursement requests.

The City should address the duplicate payments reimbursed under the grant by contacting the grantor agency and reviewing the problem with them. Note that per review with the City, there are other eligible costs not submitted under this grant that may offset some of these duplicate reimbursements; however, the City's ability to utilize these costs to offset the duplicate payments is unknown.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

Questioned Costs:

| | |
|---|------------|
| Community Development Block Grants | Unknown |
| Home Investments Partnerships Program | Unknown |
| Highway Planning and Construction Grant | \$117,278* |

*This amount only represents questioned costs for 2005 and does not include duplicate reimbursements for 2006 incurred costs.

05-7 Lack of Accurate Reporting (A similar condition was noted in prior year finding 04-6.)

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
Home Investments Partnerships Program
CFDA 14.239

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 and Home Investments Partnerships Programs.

Condition:

- Amounts reported in the narrative section of the CAPER did not match amounts reported in the financial portion of the same report.
- Amounts reported for HOME expenditures in the narrative portion of the report could not be reconciled to the general ledger or the schedule of expenditures of federal awards.
- The amount reported on the financial summary of the CAPER for public service unliquidated obligations at the end of the previous year did not agree to the previous year's CAPER.
- 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

Cause: Although there were improvements made, management must more thoroughly review the CAPER prior to filing it with the Department of Housing and Urban Development.

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.

Questioned Costs:

Community Development Block Grants Unknown
 Home Investments Partnerships Program Unknown

05-8 Subrecipient Monitoring (A similar condition was noted in prior year finding 04-7.)

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
 Home Investments Partnerships Program
 CFDA 14.239

Criteria: The City passed federal funds to various subrecipients during 2005. 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.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

Condition:

- In 2005, the City implemented a schedule to compare CDBG subrecipient invoices submitted for reimbursement to individual line items stated on the agreed-upon project budget. However, evidence that this comparison was made could not be located in several of the subrecipient files selected for testing.
- The City was receiving audited financial statements 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.
- Several subrecipient files selected for testing did not contain quarterly progress reports as required by the subrecipient grant agreements.
- It was noted during our audit that many of the subrecipient files were missing required documentation. Although a majority of the documents were provided upon request, these items should be kept in the subrecipient files and be available for inspection at all times.

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:

- The City should maintain a schedule for each CDBG and HOME subrecipient allowing them to track and compare the invoices by detailed line item to the agreed-upon budget on a cumulative basis. These schedules should be maintained in each subrecipient file.
- 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. Financial statements should be reviewed to determine that the subrecipient is financially stable, which is a requirement to receive federal funds. A single audit report, if applicable to the subrecipient, must also be reviewed to determine that the federal pass-through funds were reported correctly to the federal government. The City should follow up on any deficiencies noted in the subrecipients' single audit reports to ensure compliance with grant requirements.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2005

- All documents relating to subrecipients, including monitoring checklists, audited financial statements and single audit reports, quarterly progress reports and copies of all requests for reimbursements, should be maintained in subrecipient files and be available for inspection upon request. Progress reports should be reviewed quarterly to ensure the subrecipient monitoring requirements of these grants are met.

Questioned Costs:

Community Development Bock Grants Unknown
Home Investments Partnerships Program Unknown

05-9 Monitoring of First-Time Homebuyer Loans (3/2 Loan Program)

Federal Agency: U.S. Department of Housing and Urban Development
Home Investments Partnerships Program
CFDA 14.239

Criteria: Loans granted to first time homebuyers under the 3/2 loan program are normally forgiven over a five-year period. However, the loan must be repaid if the property purchased is not maintained in good condition or the owner does not uphold the property as his/her primary residence.

Condition: The City is maintaining a listing of the loans given under this program; however, there is no monitoring process in place to ensure that the property is being maintained in good condition and as the primary residence of the owner.

Cause: The City does not have internal controls in place to monitor the conditions under the first-time homebuyers 3/2 program.

Effect: The City may not be identifying participants in the program who are not following the required guidelines. If the participants in the program do not follow the guidelines, they are required to repay the loan. This repayment is then treated as program income.

Recommendation: The City should institute procedures to ensure that loans under the first-time homebuyers 3/2 program are being properly monitored. The process should be documented and support for this monitoring process should be maintained by property loan.

Questioned Costs:

Home Investments Partnerships Program Unknown

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

04-1 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 has reported amounts on the Comprehensive Annual Performance and Evaluation Report (CAPER) for program income that cannot be reconciled to the general ledger.
- 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 were 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.

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 PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

Current Status: Partially corrected.

Corrections Made:

Program income reported in the general ledger was reconciled to the financial summary with the CAPER, although amounts did not agree to the narrative portion of the report as noted in subsequent findings in this report.

Funds deposited in the Sewer and Refuse Control Account at year end were reflected in the financial statements.

No audit adjustments had to be made to the Redevelopment Authority to record cash accounts or line of credit accounts, although the consultant assisting the City in compiling its financial statements had to make a significant amount of adjustments to compile complete financial statements for the Redevelopment Authority.

See current finding 05-1, General Ledger Management, for conditions that were not corrected in 2005.

04-2 Cash Management

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.

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 05-2, Cash Management.

04-3.1 Controls Over the City Treasurer/Control Account

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 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 amounts were correctly posted from the cash receipts reports. All transfers should be traced to the applicable statements to ensure they were made to the appropriate account.

Current Status: Not corrected.

See current finding 05-3, Controls Over the City Treasurer/Control Account.

04-4 Grants Management

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

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.

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

- 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.

Current Status: Not corrected.

See current finding 05-5, Grants Management.

04-5 Lack of Monthly Effort Reports/Allowability of Costs

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

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.

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%.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

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.

Current Status: Partially corrected.

Corrections Made:

As noted in the finding for 2004, there were no costs charged to the program for the Business Administration Department. During 2005, costs were charged to the program for an individual in Business Administration based on time/effort reports prepared.

See current finding 05-6, Allowability of Costs, for conditions that were not corrected in 2005.

04-6 Lack of Accurate Reporting

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

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.
- 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

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.

Current Status: Partially corrected.

Corrections Made:

Community Development Block Grants: Expenditures and program income recorded in the general ledger were reconciled to the amounts reported in the CAPER financial summary section.

See current finding 05-7, Lack of Accurate Reporting, for conditions that were not corrected in 2005.

04-7 Subrecipient Monitoring

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

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 financial statements 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.

Recommendation:

- We recommend the City modify its subrecipient agreements to meet HUD specifications. Per review with management, these agreements were modified in 2005 to meet HUD specifications.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

- 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.

Current Status: Partially corrected.

Corrections Made:

Subrecipient agreements were modified to meet HUD specifications.

The City is now maintaining schedules for subrecipients that allows them to track and compare invoices by detailed line item to the agreed-upon budget on a cumulative basis; however, two files in the sample selected for testing did not contain the required schedules.

See current finding 05-8, Subrecipient Monitoring, for conditions that were not corrected in 2005.