

CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2006

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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 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, 2006, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated October 31, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of York, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of York, Pennsylvania's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Members of City Council
City of York, Pennsylvania

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of York, Pennsylvania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of York, Pennsylvania's financial statements that is more than inconsequential will not be prevented or detected by the City of York, Pennsylvania's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 06-1, 06-2 and 06-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of York, Pennsylvania's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-1, 06-2 and 06-3 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 or other matters that are required to be reported under *Government Auditing Standards*.

The City of York, Pennsylvania's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of York, Pennsylvania's response, and, accordingly, we express no opinion on it.

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

October 31, 2007



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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, 2006. 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 of the City of York, Pennsylvania's compliance with those requirements.

To the Members of City Council
City of York, Pennsylvania

As described in items 06-4, 06-5, 06-6 and 06-7 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 applicable to its Community Development Block Grant, Home Investments Partnerships Program and Highway Planning and Construction Grant. In addition, the City of York, Pennsylvania 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.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of York, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of York, Pennsylvania's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 06-4, 06-5, 06-6 and 06-7 to be significant deficiencies.

To the Members of City Council
City of York, Pennsylvania

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 06-4, 06-5, 06-6 and 06-7 to be material weaknesses.

The City of York, Pennsylvania's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of York, Pennsylvania's response, and, accordingly, we express no opinion on it.

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, 2006, and have issued our report thereon dated October 31, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of York, Pennsylvania's basic financial statements. 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

October 31, 2007

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2006

Federal CFDA Number	Federal Grantor/Program Title	Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program			
14.218	Community Development Block Grant	B-02-MC-42-0018	\$ 2,475
14.218	Community Development Block Grant	B-03-MC-42-0018	122,857
14.218	Community Development Block Grant	B-04-MC-42-0018	235,567
14.218	Community Development Block Grant	B-05-MC-42-0018	1,021,783
14.218	Community Development Block Grant	B-06-MC-42-0018	1,256,555
14.239	Home Investments Partnerships Program	M-02-MC-42-0214	22,044
14.239	Home Investments Partnerships Program	M-03-MC-42-0214	70,051
14.239	Home Investments Partnerships Program	M-04-MC-42-0214	261,403
14.239	Home Investments Partnerships Program	M-05-MC-42-0214	248,140
14.239	Home Investments Partnerships Program	M-06-MC-42-0214	233,731
14.401	Fair Housing Assistance Program	FF203K043002	74,904
14.401	Fair Housing Assistance Program	FF203K053002	7,845
14.900	Lead Based Paint Hazard Control Program	ME-03210	32,344
	TOTAL FORWARD		<u>3,589,699</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
16.710	COPS Universal Hiring Program	2003-JM-WX-0267	91,482
16.710	COPS in School	2004-SH-WX-0089	81,001
16.607	Bullet Proof Vest Partnership Grant	FY2003BVP	10,602
16.592	Local Law Enforcement Grant	2004-LB-BX-0720	268
16.738	Justice Assistance Grant	2005-DJ-BX-0338	26,653
	TOTAL FORWARD		<u>210,006</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Direct Program			
97.044	National Fire Academy Training Assistance Grant	EMW-2004-FP-01652	3,797
	TOTAL FORWARD		<u>\$ 3,797</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2006

Federal Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
TOTAL FORWARDED			<u>\$ 3,589,699</u>
U.S. DEPARTMENT OF JUSTICE			
TOTAL FORWARDED			<u>210,006</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
TOTAL FORWARDED			<u>3,797</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	56,904
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.940	SAP 4100032147	47,876
Childhood Immunization Grant	93.268	ME 03-017	59,111
Childhood Immunization Grant	93.268	SAP 4100032438	56,858
Preventative Health and Human Services Block Grant - Injury Prevention	93.991	SAP 4100025693	15,258
Preventative Health and Human Services Block Grant - Cardiovascular Disease	93.991	SAP 4100025186	32,118
Preventative Health and Human Services Block Grant - Cardiovascular Disease	93.991	SAP 4100032695	28,034
Maternal and Child Health Services Block Grant	93.994	SAP 4100022397	57,222
Medical Assistance Program, Title XIX	93.197	SAP 4100019657	123,137
Bioterrorism	93.283	SAP 4100019328	187,507
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>664,025</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation			
Highway Planning and Construction Grant	20.205	88475	358,780
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,826,307</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, 2006

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	\$ 294,026
Home Investments Partnerships Program	14.239	61,346
Highway Planning and Construction Grant	20.205	<u>-</u>
		<u>\$ 355,372</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Control deficiencies 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**

Control deficiencies identified that are not considered to be material weaknesses: **No**

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

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, 2006

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Reportable Conditions

06-1 General Ledger Management (A similar condition was noted in prior year finding 05-1.)

Criteria: Controls must be in place to ensure the City and the Redevelopment Authority maintain an accurate self-balancing general ledger.

Condition: During our audit, we noted the following:

- The City of York Redevelopment Authority does not have a complete self-balancing set of books that includes all transactions of the Authority. The consultant compiling the City's financial statements must still combine all the activity from many different accounts of the Authority to prepare complete financial statements. The inherent risk of having an unrecorded transaction in the financial statements is greatly increased by the practice of not having one general ledger where all transactions of the Authority are recorded.
- During our audit, we proposed multiple adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process.

Cause:

- The Authority does not maintain a separate self-balancing set of books that includes all the transactions of the Authority.
- The City of York did not have a procedure in place to ensure that all significant adjustments were made in the financial statements.

Effect:

- The Authority cannot produce complete financial statements reflecting all activities of the Authority. The consultant that assists the City prepare the financial statements combines activity from multiple ledgers and sources to prepare a complete set of financial statements for the Authority.
- Significant adjustments were identified during our audit process, and these adjustments were made to the financial statements.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Recommendation:

- We recommend the 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.
- We recommend the City establish controls to ensure that all significant adjustments are made to the financial statements.

06-2 Cash Management and Interfund Receivables/Payables (A similar condition was noted in prior year finding 05-2.)

Criteria:

Cash Management - Controls must be in place to monitor and prevent large cash deficits from occurring.

Interfund Receivables/Payables - The City must review the balances of the interfund receivables and payables on an annual basis to determine if repayment can be expected. Governmental accounting standards stipulate that if repayment is not expected within a reasonable time period, then the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Condition:

Cash Management - The City maintains many of its funds in a pooled account. During 2006, the City borrowed cash from other funds to cover deficits in several of its funds.

Interfund Receivables/Payables - When a particular fund has a cash deficit and borrows funds from another fund, an interfund payable results in the fund that borrowed the funds and an interfund receivable results in the fund that paid out the funds. Over time, these interfund receivables and payables can grow as a result of the fund deficits. The City has not addressed the issue of paying down these interfund payables in the budget process.

Cause:

Cash Management - The City did not have procedures in place to prevent cash deficits from occurring in multiple funds.

Interfund Receivables/Payables - During the current year and in prior years, the City did not have procedures in place to prevent cash deficits from occurring in multiple funds, which resulted in interfund receivables and payables. The budget process has not addressed paying down several of these significant interfund payables and receivables.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Effect:

Cash Management - As of December 31, 2006, the City had to borrow cash from other funds to cover deficits in several of its funds.

Interfund Receivables/Payables - Significant interfund balances have accumulated over the years from having deficits in certain funds.

Recommendation:

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

Interfund Receivables/Payables - The City must address the repayment of interfund receivables/and payables in the budget process. Receivable and payable balances should be reviewed by management on an annual basis to determine if repayment is expected in a reasonable time period. If repayment cannot be expected, then the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

06-3 Controls Over Permits (A similar condition was noted in prior year finding 05-4.)

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: Although the City has corrected one component of the prior year finding with respect to the documentation of deleted permits, controls were not put in place with respect to the following finding noted in the prior year report.

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 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 Department cannot identify the permit numbers included in the daily receipts batch processed from the Bureau of Permits.

Cause: Support is not maintained with the daily receipts batch that identifies a listing of permit numbers included in the batch.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Effect: The Finance Department and Controller's Department 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: 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 Department following the end of each month for monthly reconciliation purposes.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Reportable Conditions

06-4 Grants Management (A similar condition was noted in prior year finding 05-5.)

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: 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 06-5 through 06-7.

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 06-5 through 06-7).

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

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.

06-5 Allowability of Costs (A similar condition was noted in prior year finding 05-6.)

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

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 (CDBG) and Home Investments Partnerships Program (HOME)

Similar to 2005, draw downs of administrative costs were not completed on a quarterly basis during the year. The draw downs for administrative costs were not started until July 2006; however, this is an improvement from the prior year when the draw downs did not start until September. These costs should be tracked and drawn down quarterly throughout the year to aid in cash flow related to the program.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Individuals that have time charged to the grant maintain time sheets to support the hours charged to the program. In reviewing this support, two exceptions were noted with respect to time charged to the CDBG program. One individual had a time sheet that did not match the total time charged to the program; another individual had time charged to a program for which a time sheet could not be located.

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 City-wide use.

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 2006 and 2005, the percentage of the program costs charged for planning and administration was approximately 9% and 11%, respectively.

Highway Planning and Construction Grant

During 2005 and 2006, 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 CDBG funds.

During the prior year 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 those costs charged to the CDBG program. 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 CDBG program.

During the current year, 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 CDBG program. This resulted in costs in the amount of \$57,365 being reimbursed under the Highway Planning and Construction Grant that were also reimbursed under the CDBG program.

Total cumulative questioned costs resulting from this duplicate reimbursement in 2005 and 2006 were \$174,643.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

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. Adequate time sheet documentation was not maintained for all charges made to the CDBG program. The City has not put a procedure in place to draw down administrative costs on a quarterly basis under the CDBG and HOME programs.

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.

Effect:

Community Development Block Grants and Home Investments Partnerships Program

The City is currently using a cost allocation plan that has not been approved by HUD. Time was charged to the program that could not be substantiated by time sheets. 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 CDBG program 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 CDBG program and HOME program should maintain time/effort reports and submit them to the Bureau of Housing Services on a timely basis. Time sheets should be maintained on file to support all charges to the program. The City should also ensure that all sources of eligible planning and administrative expenses are captured for reimbursement.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

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.

Questioned Costs:

Community Development Block Grants	Unknown
Home Investments Partnerships Program	Unknown
Highway Planning and Construction Grant	\$57,365 (2006)
Highway Planning and Construction Grant	\$117,278 (2005)
Highway Planning and Construction Grant	\$174,643 (cumulative)

06-6 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
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:

- 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.

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- An amount for program delivery was included in the Planning and Administration cap analysis in the CAPER, resulting in a misstatement of planning and administration costs and the computation of the percentage of planning and administration relative to the program.

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 thoroughly reviewed for accuracy. The City needs to put a process in place to ensure that the correct amount is included in the CAPER financial summary for the unexpended CDBG funds at the end of the previous program year. The City should contact HUD each year to ensure that the correct amount is reported in the CAPER.

Questioned Costs:

Community Development Block Grants Unknown
 Home Investments Partnerships Program Unknown

06-7 Subrecipient Monitoring/Pass-Through Entity Monitoring Responsibilities (A similar condition was noted in prior year finding 05-8.)

Federal Agency: 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 2006. 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.

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Condition:

- A schedule should be maintained in subrecipient files to compare the cumulative cost of invoices submitted for reimbursement to the individual line items stated on the agreed-upon project budget. This schedule was not present in the subrecipient files selected under the HOME program. Per review with management, this process was implemented in the HOME program in 2007.
- The City was receiving audited financial statements and maintaining a file for the subrecipients tested; however, there was not adequate documentation in the file to indicate that the financial statements were reviewed under the HOME program. Per review with management, this process was implemented in the HOME program in 2007.
- The City does not maintain a monitoring file with respect to the funds passed through the City to the Authority. The Authority does maintain project files; however, the City's Bureau of Housing does not maintain adequate support to demonstrate that the City has monitored the projects to determine that all grant standards have been met.

Cause: There were no controls in place to ensure all subrecipient requirements were met and that all pass-through funding was properly monitored.

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

Recommendation:

- The City should maintain a schedule for each HOME program 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 for the HOME program 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.

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- The Bureau of Housing should maintain project files on Authority projects to demonstrate that the pass-through funds have been properly monitored in accordance with grant standards. A checklist should be maintained in the file to document that the Bureau of Housing has reviewed the completion of the project and is satisfied that all of the grant standards were met.

Questioned Costs:

Community Development Block Grants	Unknown
Home Investments Partnerships Program	Unknown

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05-1 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, requiring adjustments by the consultant to prepare the financial statements.
- Although the 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 Authority to prepare complete 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.
- We recommend the 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.

Current Status: Partially corrected.

Corrections Made: The City has made attempts to correct this balancing problem in the general ledger and has determined that this is a software issue that cannot be corrected. The City has identified the differences in fund balances. These adjustments are consistently made on the final trial balance as prepared by the City and the consultant who aids in the preparation of the City's financial statements. Therefore, this finding has been removed.

See current finding 06-1, General Ledger Management, for conditions that were not corrected in 2006.

05-2 Cash Management

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.

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 06-2, Cash Management and Interfund Receivables/Payables.

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05-3 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, 2005, was not completed until July 2006. The Controller's Department 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.

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.

Current Status: Corrected

The funds that were due to the City Investment Account from the Treasurer/Control Account were transferred to correct the error. The Controller's Department is now reconciling the account on a timely basis and reconciling differences are being resolved during the reconciliation process.

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05-4 Controls Over Permits

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.
- 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 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 Department cannot identify the permit numbers included in the daily receipts batch processed from the Bureau of Permits.

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 Department following the end of each month for monthly reconciliation purposes.

Current Status: Partially corrected.

Corrections Made: The City has instituted procedures to document any deletions in the permit numbering system. Permits can only be voided in the system by the Deputy Director. Evidence of the deleted permit remains in the system and an information box is present for the Deputy Director to provide a reason for the deletion of the permit. Hard copy memorandums and support for the deletion are maintained on file.

See current finding 06-3, Controls Over Permits, for conditions that were not corrected in 2006.

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05-5 Grants Management

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.

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.

Current Status: Not corrected.

See current finding 06-04, Grants Management, for conditions that were not corrected.

05-6 Allowability of Costs

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 City-wide use.

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Detailed schedules provided for Authority activity for acquisition, demolition and disposition did not agree to the CDBG fund general ledger.

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 participated 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 CDBG 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 CDBG program. This resulted in costs of \$117,278 being reimbursed under the Highway Planning and Construction Grant that were also reimbursed under the CDBG program. 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.

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 CDBG and HOME 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 Authority activity should be reconciled to the general ledger.

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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.

Current Status:

Community Development Block Grants and Home Investments Partnership Program

Findings partially corrected.

Corrections Made:

Administrative draw downs were started in July rather than in September as in the prior year. This is an improvement in the current year; however, administrative draw downs should be done on a quarterly basis.

In the prior year, it was noted that two individuals who materially participated in the administration of the program were only charged to the program for a partial year. In the current year, individuals who materially participated in the program were charged to the program.

Highway Planning and Construction Grant

Findings not corrected.

See current year finding 06-5, Allowability of Costs, for conditions that were not corrected.

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05-7 Lack of Accurate Reporting

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.

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.

Current Status: Partially corrected.

Corrections Made: Amounts reported in the narrative portion of the report could be reconciled to the general ledger and the schedule of expenditures of federal awards.

See current year finding 06-6, Lack of Accurate Reporting, for conditions that were not corrected.

05-8 Subrecipient Monitoring

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.

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- 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.

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.
- 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.

Current Status: Partially corrected.

Corrections Made:

Community Development Block Grant - In 2005, it was noted that the City was not comparing the subrecipient invoices submitted for reimbursement to the individual line items within the approved budget on a cumulative basis. During the current year, we noted that the City did complete this review which was located in the subrecipient files reviewed.

Community Development Block Grants and Home Investments Partnerships Program - Overall, the subrecipient files were in better order than the prior year. All of the files selected contained progress reports.

See current year finding 06-7, Subrecipient Monitoring/Pass-Through Entity Monitoring Responsibilities, for conditions that were not corrected.

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

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.

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.

Current Status: Corrected.

Corrections Made: The City has implemented a monitoring process to determine that the participant in the program is still living in the property and maintaining it in good condition.