

**CITY OF YORK, PENNSYLVANIA**

**SINGLE AUDIT REPORT**

***Year Ended December 31, 2008***

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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, 2008, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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: 08-1, 08-2, 08-3 and 08-4.

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 08-1, 08-2, 08-3 and 08-4 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.

To the Members of City Council  
City of York, Pennsylvania

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.

*Maulle, Falconero & Company LLP*

Oaks, Pennsylvania  
December 14, 2009





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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, 2008. 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 auditing standards generally accepted in the United States of America; 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.

As described in items 08-5, 08-6 and 08-7 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 that are applicable to its Community Development Block Grants/Entitlement Grants and Home Investment Partnerships Program. In addition, the City of York, Pennsylvania did not comply with the reporting requirements that apply to its Community Development Block Grants/Entitlement Grants and Home Investment 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, 2008.

#### **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 08-5, 08-6 and 08-7 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 08-5, 08-6 and 08-7 to be material weaknesses.

#### **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, 2008, and have issued our report thereon dated December 14, 2009. 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.

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.

*Mailli, Falconero & Company, LLP*

Oaks, Pennsylvania  
December 14, 2009



## **ADDITIONAL INFORMATION**

**CITY OF YORK, PENNSYLVANIA****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***Year Ended December 31, 2008*

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>Direct Program</b>			
Community Development Block Grants/Entitlement Grants	14.218	B-04-MC-42-0018	\$ 39,186
Community Development Block Grants/Entitlement Grants	14.218	B-05-MC-42-0018	198,849
Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-42-0018	18,473
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-42-0018	353,045
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-42-0018	1,370,259
Home Investment Partnerships Program	14.239	M-06-MC-42-0214	27,242
Home Investment Partnerships Program	14.239	M-07-MC-42-0214	282,236
Home Investment Partnerships Program	14.239	M-08-MC-42-0214	93,706
Section 108 Program	14.248	B-99-MC-42-018	174,600
Fair Housing Assistance Program	14.401	FF203K043002	6,611
Fair Housing Assistance Program	14.401	FF203K053002	3,174
Fair Housing Assistance Program	14.401	FF203K063002	14,656
Fair Housing Assistance Program	14.401	FF203K073002	24,899
TOTAL FORWARD			<u>2,606,936</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<b>Direct Program</b>			
COPS Universal Hiring Program	16.710	2003-UM-WX-0267	40,339
COPS Technology Grant	16.710	2006-CK-WX-0361	19,292
COPS in School	16.710	2004-SH-WX-0089	13,888
Bullet Proof Vest Partnership Grant	16.607	FY2003BVP	3,086
Justice Assistance Grant	16.738	2006-DJ-BX-0295	11,184
Justice Assistance Grant	16.738	2007-DJ-BX-1417	21,862
Weed and Seed Strategy	16.595	2008-WS-OX-0230	3,112
TOTAL FORWARD			\$ <u>112,763</u>

**CITY OF YORK, PENNSYLVANIA****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***Year Ended December 31, 2008*

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
TOTAL FORWARDED			\$ <u>2,606,936</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
TOTAL FORWARDED			<u>112,763</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Passed through the Pennsylvania Department of Health</b>			
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.940	4100032147 A002	100,396
Childhood Immunization Grant	93.268	SAP 4100032438	127,096
Preventative Health and Human Services Block Grant - Injury Prevention	93.991	SAP 4100025693	50,664
Preventative Health and Human Services Block Grant - Cardiovascular Disease	93.991	SAP 4100032695	39,731
Maternal and Child Health Services Block Grant	93.994	SAP 4100040505	61,641
Medical Assistance Program, Title XIX	93.197	SAP 4100034846	144,086
Bioterrorism	93.283	SAP 4100019328	213,891
Dental Sealant	93.991	SAP 4100041739	53,582
Dental Sealant	93.991	SAP 4100044731	<u>10,569</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>801,656</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
<b>Passed through the Pennsylvania Historical and Museum     Commission</b>			
Federal Land and Water Conservation Fund	15.916	ME 588553/LWCF 42-0155	<u>150,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>3,671,355</u></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, 2008*

**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 Grants/ Entitlement Grants	14.218	\$ 263,239
Home Investment Partnerships Program	14.239	<u>252,517</u>
		<u>\$ 515,756</u>

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

**A. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

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

Significant 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**

Significant 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/ Entitlement Grants	14.218
Home Investment Partnerships Program	14.239

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, 2008*

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**08-1 General Ledger Management (A similar condition was noted in prior year finding 07-1.)**

**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 Redevelopment Authority. The consultant compiling the City's financial statements must still combine all the activity from many different accounts of the Redevelopment 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 Redevelopment 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. The City continues to make improvement in this area as the number of audit adjustments required continues to decrease.
- During 2007, the City changed banks for multiple accounts, and some accounts changed from noninterest bearing to interest bearing. During our audit, we noted that the City/Treasurer/Control Account and the City's Accounts Payable Control Account had accumulated interest earned in 2007 and 2008 that was not recorded in the City's general ledger. The amounts were recorded as reconciling items on the cash reconciliations for these accounts.

**Cause:**

- The Redevelopment Authority does not maintain a separate self-balancing set of books that includes all the transactions of the Redevelopment Authority.
- The City does not have a procedure in place to ensure that all significant adjustments were made in the financial statements.
- The City does not have a policy in place to allocate and record interest earned in the City/Treasurer/Control Account and the City's Accounts Payable Control Account.



**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

***Effect:***

- The Redevelopment Authority cannot produce complete financial statements reflecting all activities of the Redevelopment Authority. The consultant that assists the City in preparing the financial statements combines activity from multiple ledgers and sources to prepare a complete set of financial statements for the Redevelopment Authority.
- Significant adjustments were identified during our audit process, and these adjustments were made to the financial statements.
- Interest funds that were earned in the City Treasurer/Control Account and the City's Accounts Payable Control Account have not been transferred to the City's investment account. The interest earned was not allocated or recorded in the general ledgers of the City's applicable funds. As of December 31, 2008, the funds have accumulated in the City Treasurer/Control Account and the City's Accounts Payable Control Account and have been treated as a reconciling item on the year-end cash reconciliations.

***Recommendation:***

- We recommend the Redevelopment Authority maintain a separate and complete self-balancing set of books.
- We recommend the City establish controls to ensure that all significant adjustments are made to the financial statements.
- We recommend the City create a policy to track and allocate the interest earned in the City Treasurer/Control Account and the City's Accounts Payable Control Account. The City Treasurer/Control Account is used to collect monies for the City, County and School District. The City's Accounts Payable Control Account is used to disburse funds for the City's many Governmental and Proprietary Funds. The policy should address the equitable allocation of interest between the County and the School District and between the City's Governmental and Proprietary Funds.

We further recommend transferring the interest earned in these accounts to the School District, County and City's investment account on a monthly basis. The City's interest should be recorded in the general ledgers of the various funds based upon a monthly allocation calculation.

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

**08-2 Cash Management and Interfund Receivables/Payables** (A similar condition was noted in prior year finding 07-2.)

***Criteria:***

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

**Interfund Receivables/Payables/Cash Deficits** - The City must review the balances of the interfund receivables, payables and accumulated cash deficits 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, 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 2008, the City borrowed cash from other funds to cover deficits in several of its funds. Multiple funds have accumulated large cash deficits.

**Interfund Receivables/Payables/Cash Deficits** - 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 or funding the cash deficits 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/Cash Deficits** - 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 and accumulated cash deficits. The budget process has not addressed paying down several of these significant interfund payables and receivables or funding the accumulated cash deficits.

***Effect:***

**Cash Management** - As of December 31, 2008, the City borrowed cash from other funds to cover deficits in several of its funds.

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

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

***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/Cash Deficits** - The City must address the repayment of interfund receivables and payables and the funding of accumulated cash deficits in the budget process. Interfund receivables and payables, as well as accumulated cash deficit balances in each fund, 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, 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.

**08-3 Controls Over Employee Pension Contributions to Plan**

***Criteria:*** Controls must be in place to ensure that employee pension withholdings are contributed to pension trust funds in a timely manner.

***Condition:*** During our audit, we noted that pension funds withheld from employees during 2008 were not remitted to the pension trust accounts in a timely manner. The funds were withheld for each of the biweekly pay periods and then deposited in the City's Accounts Payable Control Account where they accumulated throughout the year. The aggregate accumulated funds for 2008 were \$611,142, which was composed of \$141,268 due to the Officer's and Employees' Pension Fund, \$283,808 due to the Police Pension Fund and \$186,066 due to the Firefighters' Pension Fund. As of December 31, 2008, a receivable in the amount of \$611,142 was recorded in the Pension Trust Funds, and a corresponding payable was recorded in the General Fund to account for the amount due from the City. Funds in the amount of \$611,142 were transferred from the City's Accounts Payable Control Account to the respective Pension Trust Funds on October 1, 2009.

***Cause:*** The City did not have controls in place to ensure that pension contributions withheld were remitted to the Pension Trust Funds in a timely manner.

***Effect:*** Pension funds withheld during 2008 accumulated in the City's Accounts Payable Control Account and were not transferred to the Pension Trust Funds until October 1, 2009.

***Recommendation:*** We recommend the City put controls in place to ensure that pension withholdings are remitted to the Pension Trust Funds in a timely manner. We also recommend the City calculate the allocated interest earned on the pension funds and transfer this amount from the City's Accounts Payable Control Account to the respective Pension Trust Funds accounts.

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

**08-4 Debt Service Reserve Fund Deficiency (City of York Sewer Authority - Blended Component Unit of the City of York, Pennsylvania)**

**Criteria:** Controls must be in place to ensure that Debt Service Reserve Fund balances are maintained in compliance with the bond indentures.

**Condition:** During our audit, we became aware that the trustee of the Sewer Authority had determined that the funds in the Debt Service Reserve Fund were not adequate to meet the requirements under the bond indentures. The Sewer Authority addressed this issue and, in June 2009, transferred a balance of approximately \$131,000 from the Bond Redemption and Improvement Fund to the Debt Service Reserve Fund in order to bring the Debt Service Reserve Fund to the required balance under the bond indentures.

**Cause:** The Authority did not have controls in place to ensure that debt service funds were maintained in accordance with the bond indentures.

**Effect:** The amount of funds in the Debt Service Reserve Fund was deficient with respect to the amount required under the bond indentures. The Sewer Authority corrected this issue in June 2009 by depositing approximately \$131,000 into the Debt Service Reserve Fund, which brought the balance in the Debt Service Reserve Fund to the required amount under the bond indentures.

**Recommendation:** The Sewer Authority took action on correcting this Debt Service Reserve Fund deficiency in June 2009. We recommend the Sewer Authority put procedures in place to ensure that the Debt Service Reserve Fund is maintained in accordance with the requirements under the bond indentures.

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

**08-5 Grants Management (A similar condition was noted in prior year finding 07-4.)**

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

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program  
CFDA 14.239

**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.

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

**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 08-6 and 08-7.

**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 08-6 and 08-7).

**Recommendation:**

- The various department heads in charge of the grants should review their controls to ensure that all reports filed for grants are accurate and reconciled to the general ledger. The department heads should also thoroughly review each grant agreement to ensure that all provisions of the grant are met and the supporting documentation is maintained as required.
- Reports prepared by department heads should be forwarded to the Grant Coordinator for a second review before filing. The City's Grant Coordinator should also monitor all grants to determine that required grant provisions are adhered to in accordance with the grant agreements. The City's Grant Coordinator should be the designated contact to maintain and organize all of the City's grant information. It is important to completely centralize the oversight of all grants received by the City.

**08-6 Allowability of Costs (A similar condition was noted in prior year finding 07-5.)**

**Federal Agency:** U.S. Department of Housing and Urban Development  
Community Development Block Grants/Entitlement Grants (CDBG)  
CFDA 14.218

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program (HOME)  
CFDA 14.239

**Criteria:** All allowable costs must be supported by appropriate documentation. The cost allocation plan must be approved by the federal agency.

**Condition:** 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.

**CITY OF YORK, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended December 31, 2008*

**Cause:** The City does not have an approved cost allocation plan which allows the allocation of indirect costs to the CDBG and HOME programs.

**Effect:** The City is currently using a cost allocation plan that has not been approved by HUD.

**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.

**08-7 Lack of Accurate Reporting**

**Federal Agency:** U.S. Department of Housing and Urban Development  
Community Development Block Grants/Entitlement Grants (CDBG)  
CFDA 14.218

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program (HOME)  
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 Grants/Entitlement Grants and Home Investment 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.
- Budgeted numbers were reported for the HOME program in the narrative section of the CAPER. Actual HOME expenditures for 2008 should have been reported in this section.
- Various budget amounts reported in the CAPER did not agree to the amended action plan. In the prior year audit, we noted the City was not updating the internal accounting system to reflect the amended budget amounts as reported in the action plan, and, in addition, there were discrepancies in the budget amounts reported on the CAPER to the amended action plan. The City did make improvements in this area, as we noted that the internal accounting system was updated to reflect budget changes in the amended action plan; however, we still noted discrepancies between the amounts reported on the CAPER and the amended action plan.



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**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 procedures 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. The City should also put procedures in place to ensure that budgeted amounts reported in the amended action plan are properly reported in the CAPER at the time of filing.

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**SCHEDULE OF PRIOR AUDIT FINDINGS**  
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**07-1 General Ledger Management**

**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 Redevelopment Authority. The consultant compiling the City's financial statements must still combine all the activity from many different accounts of the Redevelopment 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 Redevelopment 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.
- During 2007, the City changed banks for multiple accounts, and some accounts changed from noninterest bearing to interest bearing. During our audit, we noted that the City/Treasurer/Control Account and the City's Accounts Payable Control Account had accumulated interest earned in 2007 and not recorded in the City's general ledger. The amounts were recorded as reconciling items on the cash reconciliations for these accounts.

**Recommendation:**

- 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.
- We recommend the City establish controls to ensure that all significant adjustments are made to the financial statements.
- We recommend the City create a policy to track and allocate the interest earned in the City Treasurer/Control Account and the City's Accounts Payable Control Account. The City Treasurer/Control Account is used to collect monies for the City, County and School District. The City's Accounts Payable Control Account is used to disburse funds for the City's many Governmental and Proprietary Funds. The policy should address the equitable allocation of interest between the County and School District and between the City's Governmental and Proprietary Funds.

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*Year Ended December 31, 2008*

We further recommend transferring the interest earned in these accounts to the School District, County and City's investment account on a monthly basis. The City's interest should be recorded in the general ledgers of the various funds based upon a monthly allocation calculation.

**Current Status:** Not corrected.

**See current finding 08-1, General Ledger Management.**

**07-2 Cash Management and Interfund Receivables/Payables**

**Condition:**

**Cash Management** - The City maintains many of its funds in a pooled account. During 2007, the City borrowed cash from other funds to cover deficits in several of its funds. Multiple funds have accumulated large cash deficits.

**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.

**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, 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.

**Current Status:** Not corrected.

**See current finding 08-2, Cash Management and Interfund Receivables/Payables.**

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**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended December 31, 2008*

**07-3 Controls Over Permits**

**Condition:** Permit fees are collected by the Bureau of Permits. A summary 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 finding noted in the prior year report indicated that the receipts support in the cash receipts terminal system did not give a breakdown of all permits by issuance number but rather grouped permits together as to the type of permit. The Finance Department and the Controller's Department could not identify the permit numbers included in the daily receipts batch processed from the Bureau of Permits.

During the 2007 annual audit, we noted that in August 2007, the Bureau of Permits started sending a detailed list of permits with the summary daily revenue report; however, upon review of various reports, we noted the detailed permit reports were not totaled on the worksheet and amounts did not agree to the summary daily revenue report. We also noted the Bureau of Permits is not sending a monthly recap report to the Finance Department or the Controller's Department.

**Recommendation:** We recommend the Bureau of Permits review the process for the preparation of the detailed permit schedule that accompanies the summary daily revenue report. Procedures should be put in place to ensure that the detailed report is totaled and agrees to the daily revenue report. 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 be forwarded to the Controller's Department and Finance Department at the end of each month for reconciliation purposes.

**Current Status:** Corrected.

**Corrections Made:** Based upon our review during the 2008 audit, it appears that the permit schedules that accompany the daily revenue report agree to the amounts reported in the daily revenue reports and the Controller's office is involved in this review process.

**CITY OF YORK, PENNSYLVANIA**  
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**07-4 Grants Management**

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

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program  
CFDA 14.239

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

**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 07-5 through 07-6 noted in the 2007 audit.

**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.

**Current Status:** Not corrected.

**See current finding 08-5, Grants Management.**

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**07-5 Allowability of Costs**

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

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program  
CFDA 14.239

U.S. Department of Transportation  
Highway Planning and Construction Grant  
CFDA 20.205 (Finding for contract 88475)

**Condition:**

**Community Development Block Grants (CDBG) and Home Investment Partnerships Program (HOME)**

Similar to 2006, draw downs of administrative costs were completed on a quarterly basis during the year. The draw downs for administrative costs were not started until July 2006 in the previous year as reported. This delay was more significant in 2007 as the draw downs for 2007 did not start until January 2008. These costs should be tracked and drawn down quarterly 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.

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 2007, the percentage of program costs charged for planning and administrative was 18.6%. During the year, we noted that various individuals involved in the administration of the program did not have time charged to the program, which may have resulted in the lost opportunity cost for additional reimbursement. However, it is important to note that the City did increase its reimbursements for planning and administration relative to the total program. For 2006 and 2005, the percentage of program costs charged for planning and administration was approximately 9% and 11%, respectively.



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**Highway Planning and Construction Grant (In the prior year, contract 88475 was audited; the finding has not been resolved. There were no findings on the current year grant contract 88639, as presented in the schedule of expenditures of federal awards.)**

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 2005, 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 of \$117,278 being reimbursed under the Highway Planning and Construction Grant that were also reimbursed under the CDBG program.

During 2006, 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 \$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.

The Commonwealth of Pennsylvania Department of Transportation is currently in the process of conducting an audit of this program with respect to this finding. 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. As of the date of the report, this issue has not been resolved and, therefore, is reported under the current year findings.

***Recommendation:***

**Community Development Block Grants and Home Investment 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. The City should also ensure that all sources of eligible planning and administrative expenses are captured for reimbursement. The City should put controls in place to ensure that administrative costs are drawn down on a timely basis.

**CITY OF YORK, PENNSYLVANIA**  
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*Year Ended December 31, 2008*

**Highway Planning and Construction Grant (In the prior year, contract 88475 was audited; the finding has not been resolved. There were no findings on the current year grant contract 88639, as presented in the schedule of expenditures of federal awards.)**

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 Commonwealth of Pennsylvania Department of Transportation is currently in the process of conducting an audit of this program with respect to this finding. 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:*** Partially corrected.

***Corrections Made - Community Development Block Grants/Entitlement Grants (CDBG) and Home Investment Partnerships Program (HOME):***

As noted in the prior year single audit report, there were significant delays in the draw downs for administrative costs in 2007, as the draw downs on behalf of the 2007 fiscal year did not start until January 2008. There was significant improvement noted on the timeliness of the administrative draw downs in the 2008 fiscal year.

The City has made great improvement over the last several years in tracking and capturing planning and administrative costs. For 2006 and 2005, the percentage of program costs charged for planning and administration was approximately 9% and 11%, respectively. 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 2007, the amount charged under the program was 18.6%. This amount went up to 19.1% in 2008. The City appears to be properly tracking and capturing planning and administrative costs.

***Corrections Made - Highway Planning and Construction Grant:***

The Commonwealth of Pennsylvania Department of Transportation completed its audit and issued a letter dated April 29, 2009, indicating that they have accepted the single audit reports for 2005, 2006 and 2007. No funds were required to be refunded to the Department of Transportation as a result of this audit.

**See current finding 08-6, Allowability of Costs, for conditions that were not corrected.**

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**07-6 Lack of Accurate Reporting**

**Federal Agency:** U.S. Department of Housing and Urban Development  
Community Development Block Grants/Entitlement Grants (CDBG)  
CFDA 14.218

U.S. Department of Housing and Urban Development  
Home Investment Partnerships Program (HOME)  
CFDA 14.239

**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.
- Budgeted numbers were reported for the HOME program in the narrative section of the CAPER. Actual HOME expenditures for 2007 should have been reported in this section.
- During our audit, we noted that in some instances budgeted amounts reported on the CAPER did not agree to the amended action plan or the BBAS general ledger system.

**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 procedures 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. The City should also put procedures in place to ensure that if budgeted amounts are revised on the action plan, these changes are reflected in the BBAS general ledger system as well as the CAPER that is filed. A periodic review of these amounts should be done throughout the year to ensure that the budgets are up to date and agree.

**Current Status:** Partially corrected.

**Corrections Made:** We noted in the 2007 single audit report that the City of York was not updating the budget amounts in the City's internal accounting software (BBAS) with the amended budget amounts in the action plan. Based on our 2008 audit, we observed that the City was now updating budget amounts in the BBAS system to agree to the amended action plan.

**See current finding 08-7, Lack of Accurate Reporting, for conditions that were not corrected.**