

CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2009

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MAILLIE, FALCONIERO & COMPANY, LLP

Certified Public Accountants and Business Counselors

www.maillie.com

PO Box 680
Oaks, PA 19456-0680
610-935-1420
Fax: 610-935-1632

PO Box 3068
West Chester, PA 19380-3068
610-696-4353
Fax: 610-430-8811

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, 2009, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated September 20, 2010. 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

To the Members of City Council
City of York, Pennsylvania

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedules of findings and questions costs as items 09-1, 09-2 and 09-3 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*.

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.

Muller, Falconier & Company LLP

Oaks, Pennsylvania
September 20, 2010



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www.maillie.com

PO Box 680
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PO Box 3068
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Fax: 610-430-8811

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 (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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.

To the Members of City Council
City of York, Pennsylvania

As described in items 09-4, 09-5 and 09-6 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, 2009.

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 material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questions costs as items 09-4, 09-5 and 09-6 to be material weaknesses.

To the Members of City Council
City of York, Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of York, Pennsylvania as of and for the year ended December 31, 2009, and have issued our report thereon dated September 20, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the 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.

Muller, Falconier & Company LLP

Oaks, Pennsylvania
September 20, 2010

ADDITIONAL INFORMATION

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2009

Federal Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program			
Community Development Block Grants/Entitlement Grants	14.218	B-05-MC-42-0018	\$ 38,393
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-42-0018	5,000
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-42-0018	435,996
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-42-0018	1,243,601
ARRA - Community Development Block Grants/Entitlement Grants	14.218	B-09-MY-42-0018	251,425
Home Investment Partnerships Program	14.239	M-06-MC-42-0214	23,058
Home Investment Partnerships Program	14.239	M-07-MC-42-0214	4,500
Home Investment Partnerships Program	14.239	M-08-MC-42-0214	698,897
Home Investment Partnerships Program	14.239	M-09-MC-42-0214	453,842
Section 108 Program	14.248	B-99-MC-42-018	105,894
Section 108 Program - Rebuild York	14.248	B-08-MC-42-0018	930,729
Fair Housing Assistance Program	14.401	FF203K083002	49,860
TOTAL FORWARD			<u>4,241,195</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COPS Universal Hiring Program	16.710	2003-UM-WX-0267	69,159
COPS Technology Grant - Records Management	16.710	2008-CK-WX-0807	280,590
Bullet Proof Vest Partnership Grant	16.607	FY2009BVP	8,062
Bullet Proof Vest Partnership Grant	16.607	FY2007BVP	3,086
Justice Assistance Grant	16.738	2009-DJ-BX-0125	106,400
Justice Assistance Grant	16.738	2007-DJ-BX-1417	19,175
Safer York Weed & Seed	16.595	2009-WS-QX-0121	104,341
Weed and Seed Strategy	16.595	2008-WS-OX-0230	1,255
TOTAL FORWARD			<u>\$ 592,068</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2009

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
TOTAL FORWARDED			\$ <u>4,241,195</u>
U.S. DEPARTMENT OF JUSTICE			
TOTAL FORWARDED			<u>592,068</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Department of Health			
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.940	4100032147 A002	171,118
Childhood Immunization Grant	93.268	SAP 4100032438	69,588
Childhood Immunization Grant	93.268	SAP 4100047093	75,276
ARRA DHHS/CDC - Immunization and Vaccines for Children Grant	93.712	SAP 4100047093	33,967
Preventative Health and Human Services Block Grant - Injury Prevention	93.991	SAP 4100042208	25,885
Preventative Health and Human Services Block Grant - Cardiovascular Disease	93.991	SAP 4100042521	55,177
Maternal and Child Health Services Block Grant	93.994	SAP 4100040505	72,699
Medical Assistance Program, Title XIX	93.197	SAP 4100034846	147,772
Bioterrorism	93.283	SAP 4100019328	175,214
Public Health Emergency Preparedness (Formerly Bioterrorism)	93.069	SAP 4100049915	57,510
Dental Sealant	93.991	SAP 4100044731	25,039
Dental Sealant	93.991	SAP 4100047593	<u>14,570</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>923,815</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>5,757,078</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, 2009

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 modified 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	\$ 553,030
Home Investment Partnerships Program	14.239	<u>128,277</u>
		<u>\$ 681,307</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

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
Section 108 Program	14.248
COPS	16.710

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, 2009

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

09-1 General Ledger Management (A similar condition was noted in prior year finding 08-1.)

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 had accumulated interest earned in 2007, 2008 and 2009 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

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 that was earned in the City Treasurer/Control Account has 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, 2009, the funds have accumulated in the City Treasurer/Control Account 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. The City Treasurer/Control Account is used to collect monies for the City, County and School District. 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, 2009

09-2 Cash Management and Interfund Receivables/Payables (A similar condition was noted in prior year finding 08-2.)

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 2009, the City borrowed cash from other funds to cover deficits in several of its funds. Multiple funds have accumulated large cash deficits as a result of current year borrowings and accumulated borrowings from prior years.

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 accumulated 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. The City's budget process has not resulted in the funding of these accumulated cash deficits within various 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

Effect:

Cash Management - As of December 31, 2009, the City borrowed cash from other funds to cover deficits in several of its funds. Significant cash deficits have accumulated in various funds.

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

Recommendation:

Cash Management - The City should monitor cash flow in each fund, and the future funding of prior accumulated 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.

09-3 Controls Over Employer Pension Contributions to Plans

Criteria: Controls must be in place to ensure that minimum municipal pension obligations are paid to the pension funds on a timely basis and in accordance with the Municipal Pension Plan Funding Standards. Municipal Pension Plan Funding Standards require the minimum municipal obligation be paid by the municipality prior to December 31 of the current year.

Condition: For 2008 and 2009, the City did not fund the entire required minimum municipal pension obligation to the Pension Trust Funds by December 31 of each year. For 2008, the residual required minimum municipal obligation funded after December 31, 2008, was \$3,069,057, which was funded in January 2009. For 2009, the total required minimum municipal obligation for Fire and Police was \$4,905,420, of which \$655,912 was funded by the year ended December 31, 2009. The remaining balance was not funded until February 2010 in the amount of \$4,249,508. The City did record a liability of these amounts for the respective years in the General Fund and recorded a receivable in the Pension Trust Funds for the equivalent amounts due.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

The Municipal Pension Plan Funding Standards require that any amount of minimum obligation of the municipality which remains unpaid as of December 31 shall have interest charged from January 1 of the year in which the minimum obligation was first due until the date of payment. The rate of interest charged shall be paid at the greater amount of the interest rate utilized for the actuarial valuation report or the discount rate applicable to Treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year which the obligation is due. The total calculated accumulated interest due as of December 31, 2009, was \$660,278. This amount has not been funded as of the report date. The City has provided for a liability in this amount in the financial statements as of the year ended December 31, 2009.

Cause: The City did not have controls in place to ensure pension contributions were remitted to the Pension Trust Funds on a timely basis and in accordance with the Municipal Pension Plan Funding Standards.

Effect: The City did not fund the entire minimum municipal obligation by December 31 and, therefore, did not comply with the Municipal Pension Plan Funding Standards.

Recommendation: We recommend the City put procedures in place to ensure the minimum municipal obligation is funded prior to December 31 of the same year. In addition, the City should address the funding issue of the current amount of accumulated interest due to the plans. In order to fund the pension timely, the City must review the budget process in order to meet the cash flow needs to fund the minimum municipal obligation by year-end.

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

09-4 Grants Management (A similar condition was noted in prior year finding 08-05.)

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.

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 09-4 and 09-5.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

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 09-5 and 09-6).

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.

09-5 Allowability of Costs (A similar condition was noted in prior year finding 08-6.)

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.

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

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.

09-6 Lack of Accurate Reporting (A similar condition was noted in prior year finding 08-7.)

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:

- Based on review of a Monitoring Report for an on-site evaluation conducted by the U.S. Department of Housing and Urban Development, it was determined that the City had a separate activity established for housing rehabilitation delivery and did not track the cost of program delivery for rehabilitation of a specific structure. In order for the cost to be qualified as program delivery, it must be associated and tracked for a specific rehabilitation project of a defined structure. As a result of this issue, it was determined that the City had incorrectly categorized planning and administrative costs as program delivery costs. In response to the HUD findings, the City made changes to the allocations of the questioned costs. These changes affected the amount reported on the CAPER for the planning and administration cap. The U.S. Department of Housing and Urban Development is still in the process of evaluating these changes as of this report date. As a result of the City's proposed reclassifications and corrections made to the CAPER, the total planning and administrative costs have exceeded the 20% cap. The proposed changes would put the City at 21.41% and in excess of approximately \$27,600 over the cap.
- Per review of the City's CAPER, it was noted that the City only reported 2009 expenditures from the 2009 HOME grant. Funds expended in 2009 that were funded by prior year grants were not reported. The amount reported for HOME expenditures in the CAPER should include all expenditures incurred in 2009 regardless of whether or not they were funded with a current year grant. The amount reported in the CAPER should match the amount reported the schedule of expenditures of federal awards.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

Cause:

- The City did not track delivery as part of the cost of rehabilitating a specific structure. The City misclassified amounts as program delivery that did not qualify.
- The City did not have procedures in place to ensure that the HOME expenditures were accurately and fully reported in the CAPER.

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

Recommendation:

- The City should put controls in place to ensure that program delivery costs are tracked in accordance with HUD guidelines for rehabilitating specific structures. Based on discussions with the City, it was noted that the City is taking action based on the information provided by HUD regarding the results of their on-site evaluation to correctly categorize future costs within the IDIS system and as reported in the CAPER.
- The City should put controls in place to ensure all expenditures incurred during the respective year for the HOME program are reported in the CAPER. The amounts reported should agree to the amount as reported in the schedule of expenditures of federal awards.

Questioned Cost: Amount over cap planning and administrative cap approximated \$27,600.

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08-1 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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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: The third finding indicated under general ledger management was partially corrected. The City of York did implement a process to allocate and transfer interest for the City's Accounts Payable Control account; however, this process was not implemented for the City Treasurer/Control Account.

See current finding 09-1, General Ledger Management, for conditions that were not corrected.

08-2 Cash Management and Interfund Receivables/Payables

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 - 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 09-2, Cash Management and Interfund Receivables/Payables.

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08-3 Controls Over Employee Pension Contributions to Plan

Condition: During our audit, we noted 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 bi-weekly 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.

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.

Current Status: Corrected.

Corrections Made: 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. The City implemented a process to transfer the pension withholdings on a bi-weekly basis corresponding with the City payroll.

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

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.

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.

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Current Status: Corrected.

Corrections Made: The Sewer Authority transferred an amount in 2009 to meet the deficiency in the Debt Service Reserve Fund. The Authority was in compliance with the Debt Service Reserve Fund requirements as of December 31, 2009.

08-5 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

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 noted during the 2008 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 09-4, Grants Management.

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08-6 Allowability of Costs

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 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.

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.

Current Status: Not corrected.

See current finding 09-5, Allowability of Costs.

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

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.

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- 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.

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

Current Status: Partially corrected.

Corrections Made: We noted in the 2008 single audit report that the City of York had discrepancies between the budget amounts reported on the CAPER and the Amended Action Plan. Based on our 2009 audit, we observed the City put controls in place to ensure the amounts agreed and no discrepancies were noted. In addition, we noted in the 2008 single audit report that the City reported budgeted amounts in the HOME portion of the CAPER. Based on our 2009 audit, we noted the City made progress in this area, as they reported actual expenditures in this section; however, as noted in the current year finding, the information reported was not complete.

See current finding 09-6, Lack of Accurate Reporting, for current findings.