

CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2010

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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, 2010, which collectively comprise the City of York, Pennsylvania's basic financial statements and have issued our report thereon dated November 4, 2011. 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 was not designed to 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.

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 schedule of findings and questioned costs as items 10-1, 10-2, 10-3, 10-4 and 10-5 to be material weaknesses.

To the Members of City Council
City of York, Pennsylvania

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.

Mallie Falconero & Company LLP

Oaks, Pennsylvania
November 4, 2011



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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on 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 City of York, Pennsylvania's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of York, Pennsylvania's major federal programs for the year ended December 31, 2010. 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 item 10-6 in the accompanying schedule of findings and questioned costs, the City of York, Pennsylvania did not comply with requirements regarding allowable costs that are applicable 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance 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 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-6 to be a material weakness.

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, 2010, which collectively comprise the City of York, Pennsylvania's basic financial statements, and have issued our report thereon dated November 4, 2011, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of York, Pennsylvania's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic financial statements as a whole.

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.

Mauli Falconer + Company LLP

Oaks, Pennsylvania
November 4, 2011

SUPPLEMENTARY INFORMATION

CITY OF YORK, PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2010

<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			
Direct Program			
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-42-0018	\$ 49,709
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-42-0018	490,280
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-42-0018	992,833
ARRA - Community Development Block Grants/Entitlement Grants	14.253	B-09-MY-42-0018	167,106
Home Investment Partnerships Program	14.239	M-08-MC-42-0214	28,173
Home Investment Partnerships Program	14.239	M-09-MC-42-0214	162,514
Home Investment Partnerships Program	14.239	M-10-MC-42-0214	195,098
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-09-MY-42-0010	190,774
Section 108 Program - Rebuild York	14.248	B-08-MC-42-0018	1,002,951
Fair Housing Assistance Program	14.401	FF203K083002	22,711
TOTAL FORWARD			<u>3,302,149</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COPS Technology Grant - In Car Camera	16.710	2009CKWX0045	88,866
Bulletproof Vest Partnership Grant	16.607	2007BUBX07039837	12,890
Bulletproof Vest Partnership Grant	16.607	2009BUBX09047961	8,342
Bulletproof Vest Partnership Grant	16.607	2010BUBX10054390	4,565
Justice Assistance Grant	16.738	2007-DJ-BX-1417	2,357
Justice Assistance Grant	16.738	2008-DJ-BX-0612	17,000
Justice Assistance Grant	16.738	2009-DJ-BX-0125	193,600
Weed and Seed	16.595	2008-WS-QX-0230	104,220
Weed and Seed	16.595	2009-WS-QX-0121	64,785
Passed through the Pennsylvania Commission on Crime and Delinquency			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	2009-AJ-03-20655	80,000
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	2009-AJ-03-21398	47,242
TOTAL FORWARD			<u>\$ 623,867</u>

CITY OF YORK, PENNSYLVANIA**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***Year Ended December 31, 2010*

<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>3,302,149</u>
U.S. DEPARTMENT OF JUSTICE			
TOTAL FORWARDED			<u>623,867</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation			
Highway Planning and Construction	20.205	MPMS75027	<u>440,523</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Department of Health			
Public Health Emergency Preparedness (Formerly Bioterrorism)	93.069	SAP 4100049915	175,238
Immunization Grants	93.268	SAP 4100047093	168,920
ARRA - Immunization Grants	93.712	SAP 4100047093	181,000
Epidemiological Research Studies of AIDS/HIV	93.943	SAP 4100032147	81,060
AIDS Prevention Projects	93.943	SAP 4100049938	36,696
Dental Sealant	93.991	SAP 4100047593	26,670
Dental Sealant	93.991	SAP 4100050780	12,812
Injury Prevention	93.991	SAP 4100042208	15,742
OPANAC	93.991	SAP 4100042521	50,720
Maternal and Child Health Services Block Grant	93.994	SAP 4100040505	67,319
Childhood Lead Poisoning Prevention	93.994	SAP 4100050700	60,092
Medical Assistance Program, Title XIX	93.167	SAP 4100034846	<u>73,407</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>949,676</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>5,316,215</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, 2010

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	\$ 326,543
Home Investment Partnerships Program	14.239	<u>306,328</u>
		<u>\$ 632,871</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

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>
Entitlement Grants Cluster	
Community Development Block Grants/Entitlement Grants	14.218
ARRA - Community Development Block Grants/Entitlement Grants	14.253
Home Investment Partnerships Program	14.239
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257
Immunization Grants Cluster	
Immunization Grants	93.268
ARRA - Immunization Grants	93.712
Highway Planning and Construction	20.205

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

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

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

10-1 General Ledger Management (A similar condition was noted in prior year finding 09-1.)

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.
- 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, 2009 and 2010 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 transactions of the Redevelopment Authority.
- The City does not have a procedure in place to ensure 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.

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

- 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, 2010, the funds 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.

10-2 Cash Management and Interfund Receivables/Payables (A similar condition was noted in prior year finding 09-2.)

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 2010, 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

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.

Effect:

Cash Management - As of December 31, 2010, 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.

10-3 Controls Over Employer Pension Contributions to Plans (A similar condition was noted in prior year finding 09-3.)

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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

Condition: For 2008, 2009 and 2010, the City did not fund the entire required minimum municipal pension obligation to the Pension Trust Funds by December 31 of the respective 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 of \$4,249,508 was not funded until February 2010. For 2010, the required minimum municipal obligation for Fire and Police was \$5,050,214, of which \$623,316 was funded by December 31, 2010. The remaining balance of \$4,426,898 was not fully funded until May 2011. The City recorded a liability for these amounts for the respective years in the General Fund and recorded a receivable in the Pension Trust Funds for the equivalent amounts due.

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 in which the obligation is due. The total calculated accumulated interest due as of December 31, 2010, was \$488,457, which was funded in July 2011. The City provided a liability for this amount in the financial statements for the year ended December 31, 2010.

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 institute procedures to ensure the minimum municipal obligation is funded prior to December 31 of the same year. 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.

10-4 Controls Over Preparation of the Schedule of Expenditures of Federal Awards

Criteria: The City is required to prepare a schedule of expenditures of federal awards in accordance with OMB Circular A-133.

Condition: Throughout our audit process, we noted multiple errors on the original schedule of expenditures of federal awards provided to us by the Grant Coordinator. These errors were corrected based on audit procedures and through further review and follow-up with the Grant Coordinator and the Deputy Business Administrator.

Cause: The City did not have controls in place to ensure that the original schedule of expenditures of federal awards provided to the auditors was accurate and complete.

Effect: Multiple errors on the schedule of expenditures of federal awards were identified during the audit process. These errors were corrected as a result of audit procedures performed and through further review and follow-up with the Grant Coordinator and the Deputy Business Administrator.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

Recommendation: We recommend the City institute procedures to ensure that an accurate and complete schedule of expenditures of federal awards is maintained. The Grant Coordinator should prepare and update this schedule on an ongoing basis throughout the year. In order to prepare this schedule accurately, it is important to ensure that the Grant Coordinator receives all required information from the departments administering the grants. In addition, the Grant Coordinator will need to reconcile information maintained by the grants administrator to the general ledger in BBAS.

10-5 Controls over State Grants - Redevelopment Assistance Capital Program Renovation - Northwest Triangle Project

Criteria: The City of York Redevelopment Authority entered into a grant agreement with the Commonwealth of Pennsylvania for the purpose of an urban revitalization project. The RACP (Northwest Triangle) program is a significant and complex project, and there were many conditions that had to be satisfied under the grant agreement in order for the Redevelopment Authority to receive the grant funds. From 2008 through 2011, the Redevelopment Authority submitted three applications for grant reimbursements for costs incurred through December 31, 2010. In 2010, the Commonwealth of Pennsylvania approved the first request submitted for costs through December 31, 2008, and submitted reimbursement to the City in the amount of \$2,456,876. Applications 2 and 3 were processed by the Commonwealth in 2011.

Condition:

- During our audit process and per review of the Commonwealth-approved grant reimbursement request for applications 1 through 3, we noted that there were significant reductions in total allowable costs credited to the program from the original applications submitted by the Redevelopment Authority. The expenditures submitted for the Redevelopment Authority's first three requests totaled \$9,068,722. However, the approved revised applications from the Commonwealth totaled \$6,267,097 for a reduction of credited allowable cost to the program in the amount of \$2,801,625. During our audit and per review with the Redevelopment Authority management, we noted the Redevelopment Authority did not have a detailed accounting and full explanations for the composition of this reduction in total allowable costs.
- Through communications with the Commonwealth and per review with the Redevelopment Authority management, we noted that the Commonwealth is not reimbursing interest expense incurred on the program until the amounts are paid. Interest incurred has been added to the Redevelopment Authority's line of credit, and the Commonwealth has indicated that it is not yet eligible for reimbursement as it has not been paid. Total line of credit interest expense claimed on the original first three reimbursement requests totaled \$1,170,375. The disallowed interest makes up a portion of the \$2,801,625 reduction of allowable costs referred to in the preceding paragraph.
- The Redevelopment Authority has utilized a line of credit to fund a significant portion of the project's expenses as well as unpaid accumulated interest on the line. The Redevelopment Authority has the intention of utilizing the grant funds received from the RACP grant to pay down the outstanding balance on the line of credit. As of December 31, 2010, the amount outstanding on the line of credit was \$4,470,397. With the significant delay in the Redevelopment Authority receiving funds from the project, the City has incurred significantly more interest than originally anticipated, which was added to the line of credit.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

In addition, a third-party developer is no longer providing a local match for the residential portion of the project. The Redevelopment Authority is seeking alternatives to securing a replacement for this local match. As a result of the above facts and circumstances, these issues can significantly impact the overall project costs and the ability of the Redevelopment Authority to meet cash flow demands of the project and provide funds required to repay the line of credit. The Redevelopment Authority does not have an updated cost projection and cash flow needs analysis and plan for this project.

Cause: The Redevelopment Authority does not have controls in place to promptly follow-up and reconcile allowable costs per the Commonwealth-approved applications and the original submissions. There have been delays beyond what was originally anticipated in receiving reimbursement under this program. The Redevelopment Authority does not have controls in place to ensure that up-to-date cost projections and cash flow needs analysis and plans are prepared on an ongoing basis to reflect current circumstances.

Effect: The Redevelopment Authority does not have a detailed accounting and full explanations for a significant reduction in allowable costs per the approved Commonwealth-processed reimbursement requests versus the originally submitted applications. The significant delays in receiving funding have resulted in a delay to repay the line of credit, and, as a result, interest continues to accumulate on the line of credit. The Redevelopment Authority does not have an updated cash cost projection and cash flow needs analysis and plan for this project.

Recommendation:

- We recommend the Redevelopment Authority meet with the Commonwealth to get a full and detailed accounting and explanations as to why the costs submitted for the original application were reduced and not approved. As a result of this follow-up, the Redevelopment Authority should be able to identify exactly which costs submitted on the original applications were not approved. This follow-up is extremely important as the Redevelopment Authority should identify the reasons why the costs were not approved and if additional information should be provided that would result in the allowance of these expenditures. In addition, it is important for the Redevelopment Authority to identify which costs will not be allowed with respect to the project in the future.
- We recommend the Redevelopment Authority review the issue with respect to the Commonwealth not allowing interest as an allowable cost until paid. The interest on this project has been incurred by the Redevelopment Authority and added to the line of credit. The Redevelopment Authority needs to address the issue of how it expects to pay this accumulated interest in order to satisfy the Commonwealth's requirements for an eligible cost under the program.

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- In addition, we recommend the Redevelopment Authority complete an updated cost projection and cash flow needs analysis and plan for this project. As a result of the above facts and circumstances, these issues can significantly impact the overall project costs and the ability of the Redevelopment Authority to meet cash flow demands of the project and provide funds required to repay the line of credit. The project's cost projections and plans and analysis developed by the Redevelopment Authority should address the funding issues related to the project. First, the plan and analysis should address the Redevelopment Authority's ability to timely meet all of the matching requirements required under the grant. Second, the plan and analysis should address the Redevelopment Authority's ability to meet cash flow needs with respect to the line of credit and minimize additional interest incurred. Additionally, the plan and analysis should address the Redevelopment Authority's ability to meet the other cash flow demands with respect to the project and enable the Redevelopment Authority to complete the project as timely as possible.

Due to the significant scale and complexity of this project, we further recommend the City's Finance Department and Grant Coordinator provide additional oversight over this program. The City should monitor the status of this grant program to ensure all grant requirements are being met and the funding sources and cash flow needs of the project are adequate.

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

10-6 Allowability of Costs (A similar condition was noted in prior year finding 09-5.)

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

ARRA - Community Development Block Grants/Entitlement Grants (CDBG)
CFDA 14.253

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

U.S. Department of Housing and Urban Development
ARRA - Homelessness Prevention and Rapid Re-Housing Program
CFDA 14.257

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.

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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.

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09-1 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. 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 the City Treasurer/Control Account had accumulated interest earned in 2007, 2008, 2009 and 2010 that was 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.
- 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.

Current Status: Not corrected.

See current finding 10-1, General Ledger Management.

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09-2 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 10-2, Cash Management and Interfund Receivables/Payables.

09-3 Controls Over Employer Pension Contributions to Plans

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 recorded a liability for these amounts for the respective years in the General Fund and recorded a receivable in the Pension Trust Funds for the equivalent amounts due.

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: Not corrected.

See current finding 10-3, Controls Over Employer Pension Contributions to Plans.

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09-4 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

Condition: Controls were not in place to ensure that all grant records were maintained in accordance with the grant agreements.

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: Corrected.

Corrections Made: The 2009 audit reported that the City did not have controls in place to track program delivery expenses as part of the cost of rehabilitating a specific structure. In addition, the City did not have procedures in place to ensure that the HOME expenditures were accurately and fully reported in the CAPER. During 2010, we noted the City did implement controls to track program delivery expenses by specific project and structure. In addition, controls were put in place to report HOME expenditures accurately and fully in the annual CAPER report.

09-5 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.

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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 10-6, Allowability of Costs.

09-6 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:

- 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.

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 its on-site evaluation to correctly categorize future costs in the IDIS system and as reported in the CAPER.

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- 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.

Current Status: Corrected.

Corrections Made: The 2009 audit reported that the City did not have controls in place to track program delivery expenses as part of the cost of rehabilitating a specific structure. In addition, the City did not have procedures in place to ensure that the HOME expenditures were accurately and fully reported in the CAPER. During 2010, we noted the City did implement controls to track program delivery expenses by specific project and structure. In addition, controls were put in place to report HOME expenditures accurately and fully in the annual CAPER report.