

CITY OF YORK, PENNSYLVANIA

SINGLE AUDIT REPORT

Year Ended December 31, 2011

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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 basic financial statements of the City of York, Pennsylvania as of and for the year ended December 31, 2011, and have issued our report thereon dated May 28, 2013. 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

Management of the City of York, Pennsylvania is responsible for establishing and maintaining effective 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 opinion 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 the 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 11-1, 11-2, 11-3 and 11-4 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.

Maillie LLP

Oaks, Pennsylvania
June 18, 2013

***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 compliance of the City of York, Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. 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 entity'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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of York, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of York, Pennsylvania's compliance with those requirements.

As described in item 11-5 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. As described in item 11-6 in the accompanying schedule of findings and questioned costs, the City of York, Pennsylvania did not comply with requirements regarding special tests and provisions over the control, accountability and safeguarding of vaccine that are applicable to its Immunization Grants. 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, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of York, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of York, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 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 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 a 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 questioned costs as items 11-5 and 11-6 to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of York, Pennsylvania as of and for the year ended December 31, 2011, and have issued our report thereon dated May 28, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of York, Pennsylvania's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 other 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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.

Maillie LLP

Oaks, Pennsylvania
June 18, 2013

SUPPLEMENTARY INFORMATION

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

<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	\$ 20,000
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-42-0018	46,640
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-42-0018	956,064
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-42-0018	880,839
ARRA - Community Development Block Grants/Entitlement Grants	14.253	B-09-MY-42-0018	34,870
Home Investment Partnerships Program	14.239	M-09-MC-42-0214	132,225
Home Investment Partnerships Program	14.239	M-10-MC-42-0214	110,335
Home Investment Partnerships Program	14.239	M-11-MC-42-0214	48,580
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-09-MY-42-0010	485,763
Section 108 Program - Rebuild York	14.248	B-08-MC-42-0018	581,461
Fair Housing Assistance Program	14.401	FF203K083002	9,655
EDI-Special Project	14.251	B-10-SP-PA-0161	157,830
TOTAL FORWARD			<u>3,464,262</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COPS Technology Grant - In Car Camera	16.710	2009CKWX0045	12,647
COPS Universal Hiring	16.710	2010UMWX0271	212,292
Bulletproof Vest Partnership Grant	16.607	2007BUBX07039837	17,560
Bulletproof Vest Partnership Grant	16.607	2010BUBX10054390	4,710
Justice Assistance Grant	16.738	2010-DJ-BX-0904	55,120
Justice Assistance Grant	16.738	2011-DJ-BX-2432	2,918
Weed and Seed	16.595	2010-WS-QX-0091	90,226
Weed and Seed	16.595	2009-WS-QX-0121	29,857
Passed through the Pennsylvania Commission on Crime and Delinquency			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	2009-AJ-03-21398	33,958
TOTAL FORWARD			<u>\$ 459,288</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

<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>3,464,262</u>
U.S. DEPARTMENT OF JUSTICE			
TOTAL FORWARDED			<u>459,288</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation			
Highway Planning and Construction	20.205	MPMS75027	<u>522,344</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	114,213
Public Health Emergency Preparedness (Formerly Bioterrorism)	93.069	SAP 4100055377	71,317
Immunization Grants	93.268	SAP 4100047093	519,443
ARRA - Immunization Grants	93.712	SAP 4100047093	181,000
AIDS Prevention Projects	93.943	SAP 4100049938	140,231
Dental Sealant	93.991	SAP 4100050780	43,158
Injury Prevention	93.991	SAP 4100042208	20,620
Injury Prevention	93.991	SAP 4100055358	32,321
OPANAC	93.991	SAP 4100042521	34,258
OPANAC	93.991	SAP 4100055605	49,490
Maternal and Child Health Services Block Grant	93.994	SAP 4100040505	33,988
Maternal and Child Health Services Block Grant	93.994	SAP 4100055370	34,651
Childhood Lead Poisoning Prevention	93.994	SAP 4100050700	<u>145,539</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,420,229</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>5,866,123</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, 2011

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	\$ 348,195
Home Investment Partnerships Program	14.239	<u>200,000</u>
		<u>\$ 548,195</u>

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

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

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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

11-1 General Ledger Management (A similar condition was noted in prior year finding 10-1.)

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, 2010 and 2011 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, 2011

- 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, 2011, 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.

11-2 Cash Management and Interfund Receivables/Payables (A similar condition was noted in prior year finding 10-2.)

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 2011, 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

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, 2011, 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.

11-3 Controls Over Employer Pension Contributions to Plans (A similar condition was noted in prior year finding 10-3.)

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.

Condition: For 2011, 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 2011, the required minimum municipal obligation for Fire, Police and Officers and Employees was \$5,859,262, none of which was funded by December 31, 2011. In 2012, a portion of the 2011 municipal obligation was funded in the amount of \$5,393,014. At the end of 2012, there was still a \$466,248 obligation remaining for the 2011 minimum municipal obligation excluding significant interest charges, and this obligation continued to accumulate interest. The City recorded a liability for the unfunded minimum municipal pension obligation as well as the calculated interest charges as of December 31, 2011, 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, 2011

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, 2011, was \$486,316. The City provided a liability for this amount in the financial statements for the year ended December 31, 2011.

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. In addition, the time lag for funding pension obligations has increased relative to prior years as the City did not fund the entire 2011 obligation within the next calendar year as it had accomplished in the prior years. This results in additional interest charges which add to the unfunded balance. The City continues to get further behind in funding pension obligations and has now extended the obligation for paying pension obligations for 2011 to the 2013 budget period.

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.

11-4 Controls over State Grants - Redevelopment Assistance Capital Program Renovation - Northwest Triangle Project (A similar condition was noted in prior year finding 10-5.)

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 five applications for grant reimbursements for costs incurred through July 2011. As of December 31, 2011, the Redevelopment Authority had received the funds for the first four requests in the amount of \$3,575,865. In August 2012, the Redevelopment Authority received the payment in the amount of \$1,046,561 for request number five, which included costs incurred through July 21, 2011. Aggregate reimbursements received as of the date of this report were \$4,622,426.

Condition:

- As of the report date, the last reimbursement request that the Redevelopment Authority submitted was request number five, which included costs through July 2011. The Redevelopment Authority has incurred significant costs since that date; however, no reimbursement requests have been submitted for these costs as of the report date of June 18, 2013.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

- 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, 2011, the amount outstanding on the line of credit was \$3,424,135. The Redevelopment Authority did refinance the line of credit in October 2012 and was able to reduce the interest rate. Interest costs incurred on the financing of this project are well above the original budgeted amounts, and the delays in receiving reimbursements under this project cause the interest charge to continue to increase. As indicated above, the Redevelopment Authority is delayed in submitting reimbursement requests which will compound this effect. As interest accumulates beyond the anticipated charges, there will most likely be cash shortages that have to be funded at the end of this project. The Redevelopment Authority does not have a current cash flow projection in order to determine the expected cash flows and projected shortages for this project.

Cause: The Redevelopment Authority does not have controls in place to ensure that timely reimbursement requests are submitted to the Commonwealth. 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 delays in receiving funding have resulted in a delay to repay the line of credit, and, as a result, interest charges on the line continue to accumulate. The Redevelopment Authority does not have an updated cash cost projection and cash flow needs analysis and plan for this project. As a result of interest charges significantly exceeding original expectations, there could be cash shortages that will need to be funded under this project.

Recommendation:

- We recommend that the Redevelopment Authority complete the payment request reimbursement forms with accumulated costs to date as soon as possible and submit these to the Commonwealth for approval.
- 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.

CITY OF YORK, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

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

11-5 Allowability of Costs (A similar condition was noted in prior year finding 10-6.)

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.

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.

11-6 Special Tests and Provisions - Control, Accountability and Safeguarding of Vaccine

Federal Agency: U.S. Department of Health and Human Services
Immunization Grants
CFDA 93.268

ARRA - Immunization Grants
CFDA 93.712

Criteria: Effective control and accountability must be maintained for all vaccine.

Condition: Inventory records ensuring the proper recording of the receipt, transfer and usage of vaccines were not available.

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Cause: The department administering the grants indicated that all vaccine inventory records were discarded prior to our audit.

Effect: The City's procedures over the control, accountability and safeguarding of vaccine cannot be tested and verified.

Recommendation: The City should ensure that records are kept for a reasonable amount of time and in accordance with program requirements. We recommend that these records should be kept for no less than seven years.

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10-1 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 11-1, General Ledger Management.

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10-2 Cash Management and Interfund Receivables/Payables

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.

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 11-2, Cash Management and Interfund Receivables/Payables.

10-3 Controls Over Employer Pension Contributions to Plans

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.

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.

Current Status: Not corrected.

See current finding 11-3, Controls Over Employer Pension Contributions to Plans.

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SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2011

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

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.

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.

Current Status: Corrected.

Corrections Made: In 2011, controls over the preparation of the schedule of expenditures of federal awards were put into place in which information was collected from all departments administering grants. The schedule of expenditures of federal awards was then completed based on the data received from the departments and was also reconciled to the general ledger in BBAS.

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

Condition:

- During our audit process and per review of the Commonwealth-approved grant reimbursement request for applications one through three, 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.

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- 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.

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.

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.
- 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.

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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.

Current Status: Partially corrected.

Corrections Made: Since our last report, the Redevelopment Authority has met with the Commonwealth to review the grant project and hired a consultant to aid them in tracking the detailed cost of the project, as well as tracking approved and unapproved costs. In addition, the Redevelopment Authority did receive approval and reimbursement for a portion of the interest expense incurred in the amount of \$613,987. The Redevelopment Authority is also in the process of working with the Commonwealth to obtain alternate local matches for replacement of the residential portion of the project that was not completed as originally anticipated.

See current finding 11-4, Controls over State Grants - Redevelopment Assistance Capital Program Renovation - Northwest Triangle Project

10-6 Allowability of Costs

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

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 11-5, Allowability of Costs.