



**The City of York  
Pennsylvania**

50 W. King Street ♦ PO Box 509 ♦ York, PA 17405  
www.yorkcity.org  
*Honorable C. Kim Bracey, Mayor*

*Michael J. O'Rourke, Esquire  
Business Administrator  
Business Administration Department*

November 9, 2011

U. S. Department of Housing and Urban Development

The City of York, Pennsylvania respectfully submits the attached corrective action plan for the year ended December 31, 2010.

Auditor:

Maillie, Falconiero & Company, LLP  
P. O. Box 680  
Oaks, PA 19456-0680

Audit period: December 31, 2010

Sincerely,

A handwritten signature in black ink that reads "Michael J. O'Rourke".

Michael J. O'Rourke, Esquire  
Business Administrator

**City of York  
2010 Audit  
Corrective Action Plan**

**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.

***Recommendation:***

- We recommend the 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 that 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, 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.

**RESPONSE**

The City is in the process of creating a separate company within the BBAS accounting system for the Redevelopment Authority. This will allow us to maintain the separate and complete self-balancing set of books that has been recommended. The City finance bureau will work

with the Redevelopment Authority to develop this system and will maintain the records. This should also reduce the number of adjustments made to the Authority's statement.

The City continues to work on ensuring that financial statements are adjusted prior to the audit. The City works with a consultant to prepare the financial statements

As stated in the audit, in 2007 the City changed the bank used for the Control Account. The Control Account became an interest bearing account at that time. Since the Control Account was not interest bearing in the past, we did not have a procedure in place to allocate the interest. We now have a procedure to allocate the interest and should be able to do so in 2011.

**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 balance should be reduced and the amount that is not expected to be repaid should be reported as transfer from the fund that made the loan to the fund that received the loan.

**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.

## **RESPONSE**

The City maintains a cash flow projection in each fund and has taken steps to reduce the fund deficits where possible. In future budgets, we will budget a deficit reduction line item to help reduce the deficits.

### **10-3            Controls Over Employee Pension Contributions to plan(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 fund on a timely basis and in accordance with the Municipal Pension Plan Funding standards. Municipal Pension Plan funding standards require that the Minimum Municipal Obligation should be paid by the municipality prior to December 31 of the current year.

#### ***Recommendation:***

We recommend that the City put procedures in place to ensure that the Minimum Municipal Obligation is funded prior to December 31 of the current respective year. In addition the City should address the funding issue of the current amount of accumulated interest due to the plan. 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.

## **RESPONSE**

The interest on the late MMO payments for 2010 have been paid to the pension funds in the amount of \$496,250 on 7/18/11. In 2011, the City budgeted the full amount for the MMO as well as the interest paid in 2010. For 2012, the City will budget the full amount of the MMO plus the amount of interest paid in 2011. The city will evaluate the economy and make adjustments to try to fund the MMO by December 31 of the year in which it is due.

## 10-4 Controls Over Preparation of Schedule of Federal Awards

**Criteria:** The City is required to prepare a Schedule of Expenditures of Federal Awards in accordance with (OMB) Circular A-133.

**Recommendation:**

We recommend that the City put procedures in place to ensure an accurate and complete Schedule of Expenditures of Federal Awards is maintained. The Grants 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 Grants Coordinator receives all required information from the departments administering the grants. In addition the Grants Coordinator will need to reconcile information maintained by the grants administrator to the general ledger in BBAS.

### **RESPONSE**

The Deputy Business Administrator of Finance will work with the Grants Coordinator to ensure that the Schedule of Expenditures of Federal Awards is accurate and maintained throughout the year.

## 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 Authority to receive the grant funds. From 2008 through 2011 the Authority had submitted three applications for grant reimbursements for cost incurred through December 31, 2010. In 2010 the Commonwealth of Pennsylvania approved the first request submitted for cost through December 31, 2008 and submitted reimbursement to the City in the amount of \$2,456,876. Application 2 and 3 were processed by the state in 2011.

**Recommendation:**

First we recommend that the Redevelopment Authority should 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 Authority should be able to identify exactly which costs that were submitted on the original applications were not approved. This follow up is extremely important as the Authority should identify the reasons why the costs were not approved and if additional information may be provided that would result in the allowance of these expenditures. In addition it is important for the Authority to identify which cost will not be allowed with respect to the project in the future.

Secondly, we recommend that the Redevelopment authority should review the issue with respect to the State not allowing interest as an allowable cost until paid. The interest on this project has been incurred by the Authority and added to the line of credit. The Authority needs to address the issue of how they expect to pay this accumulated interest in order to satisfy the State's requirements for an eligible cost under the program.

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

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

## **RESPONSE**

1. Office of Budget Meeting - The Authority has requested an audience with the RACP grant program administrators to discuss the following items:

Review Eligible Expenses to Date – As pointed out the by the Authority's accountant and the City's auditor, we recognize the need to address the disparity

between what we have submitted to the Office of Budget for review/approval and what has been allowed by their post as actual approved costs at this time for reimbursement. We are aware of the fact that in our efforts to get reimbursed under the program guidelines for costs incurred, the OB has made some concessions to assist the Authority in its immediate goal to realize payment to Peoples Bank and reduce the line of credit and subsequently the interest carry for the project. It is our belief that the OB may have administratively made some redistribution of project expenses to assist us in obtaining reimbursement sooner rather than later based on the Authority's appeal for reimbursement. At this point in time we agree it is prudent to reevaluate the distribution of costs for the project and determine what has been considered of the matching costs submitted to the Commonwealth. We do not feel that the OB has unduly burdened us in this regard nor do we suspect that they have been heavy handed in their approach to aid the Redevelopment Authority in the best possible way in order to assure repayment to our lender for the project.

- a. Capitalized Interest Conundrum – RDA staff will also discuss the interest issue with the OB for guidance on how to proceed with the growing cost of financing. Heretofore, we have understood that interest is an eligible expense under the RACP grant guidelines. Our goal in this regard is to get clarity on what means of payment will satisfy the Office of Budget and further how additional finance costs and charges can be avoided in paying the existing line of credit interest.
2. Update Project Cash Flow Projection – the Authority recently met with the OB's construction compliance auditor, HRG, Inc., to discuss the status of all subprojects that constitute the contributing matching funds for the project. As part of our obligation under the grant we will be providing them with an updated cash flow spreadsheet through October 31, 2011 that shows all funds spent for project and projects what additional costs are to be incurred in the near future. For all intents and purposes, six of the seven subprojects are complete or substantially complete. The remaining subproject is private matching funds that are to be expended by the developer Kinsley Equities, III by December 12, 2012. Leaving the Authority primarily with the interest expense until the grant is closed out and retainage received from the Commonwealth.
3. Grant Administration – The City and the Authority take no issue with the recommendation of an added layer of oversight for the project. In fact the Authority encourages and supports this action to ensure that all grant conditions are met and the project is fully compliant under the grant guidelines.

**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  
CFDA 14.218

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

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

U.S. Department of Housing and Urban Development  
ARRA-Homeless Persons Representation Project (HOME)  
CFDA 14.257

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

**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.

**RESPONSE**

The City will update the rfp for the selection of a vendor to develop a cost allocation plan. The City will submit the plan to the Department of Housing and Urban Development for approval.