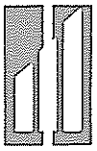


CITY OF YORK, PENNSYLVANIA

**RECOMMENDATIONS DESIGNED TO IMPROVE
ACCOUNTING PROCEDURES AND TO SAFEGUARD
THE CITY'S ASSETS MORE EFFECTIVELY**

December 31, 2003



MAILLIE, FALCONIERO & COMPANY, LLP
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September 8, 2004

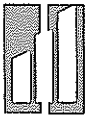
To the Members of the City Council
City of York, Pennsylvania
York, Pennsylvania

In planning and performing our audit of the financial statements of the City of York, Pennsylvania for the year ended December 31, 2003, we considered the City of York, Pennsylvania's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving internal control and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City of York, Pennsylvania's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes the reportable conditions and the other comments and suggestions regarding those matters.

This letter does not affect our report dated September 8, 2004, on the financial statements of the City of York, Pennsylvania.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



MAILLIE, FALCONIERO & COMPANY, LLP
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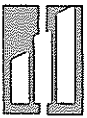
To the Members of the City Council
City of York, Pennsylvania
York, Pennsylvania

We wish to thank the City for the opportunity to be of service in these matters. We would like to thank the staff for the many courtesies extended to us during the course of our audit.

Very truly yours,

Maillie, Falconiero & Company LLP

MAILLIE, FALCONIERO & COMPANY, LLP
*Certified Public Accountants and
Business Counselors*



REPORTABLE CONDITIONS

Rate Covenant - Security Agreement Between the City of York and the City of York General Authority

As noted in the prior year recommendations letter, the Authority is not in compliance with the rate covenant as defined in Section 6.01 of the Loan and Security Agreement between the City of York and the City of York General Authority. Section 6.01 stipulates the Authority adopt a schedule of rates and charges to provide sufficient funds to pay expenses for the period and to produce net revenues equal to at least 120% of the debt service requirement for the period.

The computation was reviewed with management, and it was determined that 2003 net revenues were approximately 114% of debt service. This was an improvement over the prior year where net revenues were 82% of debt service; however, the covenant requires net revenues equal at least 120% of the debt service requirement for the period.

We recommend management address the requirements, as defined by Section 6.01 of the Loan and Security Agreement, during the budget process to ensure that this covenant will be met in future fiscal years.

Summary Trial Balances - Out of Balance

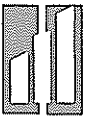
As noted in the prior year recommendations letter, multiple trial balances for various funds were not in balance. The out-of-balance amounts were isolated to incorrect beginning equity amounts. Amounts were adjusted for financial statement purposes.

We recommend this problem be corrected during the posting of the final 2003 audit adjustments to the City's general ledger. After all adjustments are posted, the ending fund balances on the City's general ledger should be compared to the final trial balance for each fund to ensure amounts agree and that all adjustments were properly posted to the general ledger.

Cash - Overdrafts

As noted in the prior year recommendations letter, multiple funds had significant cash deficits as of December 31, 2003. The City covers the cash deficits by borrowing cash from other funds.

We recommend the City review its budget process and evaluate cash flow, considering the total cash flow needed, as well as the timing of the cash flow needs, to eliminate significant deficits.



Ice Rink - Pro Shop and Concession Stand Physical Inventory

During our audit, we noted a physical inventory was not taken of pro shop inventory or concession stand inventory as of December 31, 2003. The pro shop inventory, at December 31, 2003, was adjusted based on a roll-back analysis from a physical inventory taken on February 4, 2004. The concession stand inventory was adjusted based on an estimate.

We recommend the City establish procedures to ensure that physical counts of inventory are taken at year end for both the pro shop and concession stand. The City's books should be adjusted based on these physical counts.

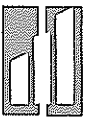
We also recommend the City take physical counts of the pro shop inventory on a quarterly basis. The physical counts should be compared to the perpetual inventory system and any deviations reviewed and explained. The hard copies of the physical count, the perpetual inventory report and the documentation of the reasons for deviations between the perpetual and physical counts should be maintained on file for each quarter. This process will help to safeguard the pro shop inventory.

Redevelopment Authority - HUD Deposit

As noted in the prior year recommendations letter, the City's audited financial statements for 2000, 2001 and 2002 included a Redevelopment Authority liability for \$480,388. This amount represents a deposit by HUD, made in error, into the Redevelopment Authority's account on May, 9, 2000. The Redevelopment Authority returned these funds to HUD in September 2004. Accordingly, a liability is reported in the 2003 financial statements.

Non-Compliance with Management Agreement for the Susquehanna Commerce Center Parking Garage

During 2002, the Redevelopment Authority of the City of York entered into a management agreement with Creekside Investors, LP for the purpose of managing the Susquehanna Commerce Center Parking Garage. Section 5 of the management agreement states that the "Manager on behalf of the Authority shall collect all parking fees, rents, charges, and other income attributable to the Parking Facilities. Upon receipt of such money, Manager shall deposit such money in a segregated account and shall apply such money to pay all costs, fees and expenses, of whatsoever nature, incurred by Manager in the performance of its duties and obligations hereunder."



Our review indicated Creekside Investors did not maintain a separate account for 2003. The funds were commingled with Creekside Investor's accounts. Creekside Investors did maintain and track a separate ledger on behalf of the Susquehanna Commerce Center Parking Garage, which was used to record the activity on the Redevelopment Authority's books. A Creekside Investor's separate account was opened in June 2004. The net transfer of revenues over expenses for 2003 was transferred to this segregated account in June of 2004. As of the date of this report, no transfers were made to the segregated account for the 2004 activity.

We recommend the cumulative year to date net balance of revenues over expenses for 2004 be immediately transferred to the segregated account. All funds collected on behalf of the Susquehanna Commerce Center Parking Garage should be deposited in this segregated account on a timely basis and all expenses paid, in accordance with the management agreement, from this account.

Federal Grants

Refer to our separate Single Audit Report for findings related to federal grants.

OTHER RECOMMENDATIONS

Redevelopment Authority - Self-Balancing Set of Books

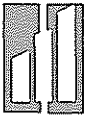
As noted in the prior year recommendations letter, the Redevelopment Authority does not have a separate self-balancing set of books. The City reports information for the Authority in its financial statements by compiling activity from cash summary statements provided by the Redevelopment Authority.

We recommend the Redevelopment Authority maintain a separate self-balancing set of books. The ending trial balance should be sent to the Finance Department at year end, so the City can include this information in its financial statements.

Ice Rink - Credit Card Receipts

During our audit, we noted that credit card receipts for the ice rink were deposited in the York City Recreation Corporation's bank account. In the current system, the York City Recreation Corporation reimburses the City by issuing a check to the City of York for the previous month's credit sales less any bank fees. The City's Finance Department reviews the daily receipts reports from the internal rink software to ensure that the check received includes all credit card receipts.

We recommend the City change the current policy to require credit card deposits go directly into the City's bank account. We also suggest the City open a separate Recreation Fund bank account specifically for credit card deposits. This will improve the timeliness of collection and availability of cash flow.



Ice Rink - Concession Stand Analytical Analysis

Based on inquiry of City personnel, analytical analysis of the gross profit margin is not completed periodically throughout the year.

We recommend that a gross profit analysis be completed and documented on a monthly basis. A budgeted gross profit margin should be determined by reviewing pricing and the costs of the goods. This expected gross profit margin should then be compared to the actual gross profit calculated on the monthly analysis. Significant deviations from the expected margin should be evaluated and explained. This process should be documented on a monthly basis.

Gross profit margin analysis can be an important tool in safeguarding assets in a cash business.