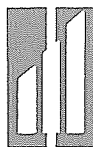


CITY OF YORK, PENNSYLVANIA

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

December 31, 2004



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August 12, 2005

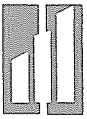
To the Members of the City Council
City of York, Pennsylvania
York, Pennsylvania

In planning and performing our audit of the financial statements of the City of York, Pennsylvania for the year ended December 31, 2004, 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 August 12, 2005, 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
Certified Public Accountants and Business Counselors

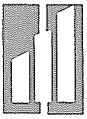
To the Members of the City Council
City of York, Pennsylvania
York, Pennsylvania

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 (Prior year reportable condition that was corrected in 2004)

As noted in the prior year recommendations letter, the Authority was 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.

We are pleased to report that the debt covenant was met during 2004. Net revenues were equal to 138% of total debt service.

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 resulted from incorrect beginning equity amounts. The out-of-balance amounts were adjusted for financial statement purposes.

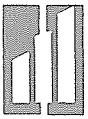
We recommend correcting this problem when recording the final 2004 audit adjustments to the City's general ledger. After all adjustments are posted, the ending fund balances on the City's general ledger should be compared to the final trial balance for each fund to ensure amounts agree and that all adjustments were properly posted to the general ledger.

Additionally, each fund's trial balance should be reviewed to determine the fund is not out of balance.

Cash - Overdrafts

As noted in the prior year recommendations letter, multiple funds had significant cash deficits as of December 31, 2004. The City covers the cash deficits in various funds by borrowing cash from other funds.

We recommend the City, as part of the budget process, consider preparing separate cash flow projections by fund. With document in hand, interfund borrowing can be planned as well as planning for the repayment of such borrowing.



Redevelopment Authority - Self-Balancing Set of Books

As noted in the prior year recommendations letter, the Redevelopment Authority ("Authority") does not have a separate complete 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 Authority.

During our audit, we noted multiple 2004 transactions not recorded on the City's financial statements for the Authority.

The unrecorded transactions included the following:

- Two new cash accounts were opened during 2004, with proceeds from property sales. The corresponding sales and cash accounts were not recorded on the City's financial statements.
- The Authority opened a line of credit in 2004 to advance funds for a DCED grant contract awarded in 2004. The line of credit and related transactions were not recorded on the City's financial statements.
- The Authority's attorney maintains an escrow account on behalf of the Authority. The Authority does not appear to be recording all of the transactions recorded in the escrow account. The Authority should maintain an account in its records reflecting the escrow account, deposits and disbursements. The ending balance on the Authority's books should be reconciled monthly to the amount of cash maintained in escrow.

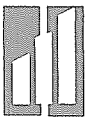
We recommend the Authority maintain a separate self-balancing set of books. The books should include all balance sheet and income statement accounts and reflect all transactions incurred by the Authority. This will reduce the risk of transactions not being recorded. The end-of-year trial balance should be sent to the Finance Department so the City can include this information in its financial statements.

City Treasurer Control Account

During our audit, two problems were noted with respect to the City Treasurer Control Account as stated below:

First, the City Treasurer Control Account was not reconciled timely throughout the year. The reconciliation as of December 31, 2004, was not completed until July 2005.

Second, in April 2004, \$300,000 of real estate taxes was transferred to the County of York's Escrow Account in error. This was discovered by the Treasurer's office in January 2005, and the amount was transferred back into the City Treasurer Control Account. The amount was transferred into the City's Investment Account in August 2005.



Reconciling accounts timely is important to help safeguard the City's assets and ensure that transactions are recorded properly. The current internal control system did not timely identify an error for a material amount improperly transferred.

We recommend the City establish a procedure to ensure that the City Treasurer Control Account is reconciled timely. A deadline date for completion should be established following each month, and there should be a documented review of the reconciliation by someone outside of the Treasurer/Controller office.

We also recommend the City establish a procedure to review the Treasurer's Daily Receipts Reconciliation (TDRR). The reconciliation should be reviewed to ensure that amounts were correctly input from the Cash Receipts Terminal System Report. All transfers on the TDRR should be traced to the applicable bank statements to ensure that the transfers were made to the appropriate bank account.

Sewer/Refuse Control Account

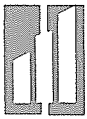
Funds received for sewer and refuse billings are deposited in a control account. The funds are transferred into the City Treasurer Control Account and transferred again into the City's Investment Account. The Sewer/Refuse Control Account (the "SRC Account") is a zero balance account, i.e., all funds received are to be transferred out.

During our audit, we noted that a portion of the funds in the SRC Account were not recorded as revenue on the City's financial statements. These funds were not transferred to the City's Waypoint Account until 2005. These funds were in the City's Sewer/Refuse Control Account as of December 31, 2004. Because of the requirement to transfer to the City Treasurer Control Account in order to record revenue, these funds were not recorded as income. An audit adjustment totaling \$134,597 was recorded for refuse fees collected in the amount of \$59,716 and sewer fees collected in the amount of \$74,881.

We recommend the City review procedures to ensure all control accounts at year end that have cash balances (untransferred funds) record those balances as revenue on the respective fund to ensure inclusion in the City's financial statements.

Noncompliance with DCED Contract C000007241

In 2004, the City of York entered into a grant with the Commonwealth of Pennsylvania through the Department of Community and Economic Development (DCED) and a Sub-grant Agreement with a local nonprofit for the purpose of undertaking a residential improvements project. During 2004, funds were received by the City in excess of amounts paid out to the Sub-grantee. In accordance with the grant agreement, the funds should be deposited into a separate account until the funds are expended. Interest earned over \$50 in any calendar year must be repaid to the Commonwealth of Pennsylvania yearly.



The City deposited these funds in its main Investment Account, and the funds were not segregated in a separate account. No interest was allocated to the funds, and, consequently, no interest repaid to the Commonwealth of Pennsylvania.

We recommend the City immediately transfer the unexpended funds to date to a segregated account. Interest earned on the funds should be calculated as of December 31, 2004, and repaid to the Commonwealth of Pennsylvania as soon as possible.

Ice Rink - Sales Tax Payable

During our audit, we noted the City of York did not pay sales tax on Ice Rink sales by the due date required by the Commonwealth of Pennsylvania. Management calculated the unpaid sales tax balance due for 2004 in the amount of \$7,600, not including penalty and interest.

We recommend the City immediately pay all balances due. The City should put controls in place to ensure that all sales tax returns are filed and all balances are paid in accordance with the regulations required by the Commonwealth of Pennsylvania.

We understand the City is now current on the sales tax obligation with respect to the Ice Rink.

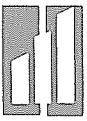
Federal Grants

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

OTHER RECOMMENDATIONS

Noncompliance 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."



We noted in our prior year letter that no segregated account was maintained in 2003. We are pleased to report that during 2004 a segregated account was opened, and funds were deposited into this account. However, there is still noncompliance with the contract regarding the timeliness of deposits to this account. As of December 31, 2004, receipts for October, November and December were not deposited into this segregated account. These amounts were recorded as a receivable in the City's financial statements. The receipts were deposited into the segregated account in March 2005.

We recommend that internal controls be established to ensure that funds collected are deposited timely into this segregated account.

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. The York City Recreation Corporation reimbursed the City by issuing checks to the City of York for the previous month's credit sales less any bank fees. The City's Finance Department reviewed the daily receipts reports from the internal Ice Rink software to ensure that the check received included all credit card receipts.

We recommend the City change the policy to require credit card receipts be deposited directly into the City's bank account. This will improve the timeliness of collection and availability of cash.

Upon review with management, the procedure was changed during 2005. Credit card receipts for the Ice Rink are deposited directly into the City's account.

Indirect Cost Allocations to the Sewer and Sewer Intermunicipal Funds

The City charges indirect costs to the Sewer and Sewer Intermunicipal Funds based on budgeted expenditures multiplied by an indirect cost allocation factor. The indirect cost allocation factor is not based on an updated indirect cost allocation plan.

We recommend the indirect cost allocation factor should be updated to a more recent plan. This should be done in conjunction with an update of a City-wide indirect cost allocation plan prepared in accordance with OMB-87.