

**CITY OF YORK, PENNSYLVANIA**

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

*December 31, 2005*



**MAILLIE, FALCONIERO & COMPANY, LLP**  
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October 12, 2006

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, 2005, 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 October 12, 2006, 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.



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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**

### **Summary Trial Balances - Out of Balance**

As noted in our prior year recommendation letter, 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 2005 audit adjustments to the City's general ledger. After all audit 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 all adjustments were properly posted to the general ledger.

Additionally, each fund's trial balance should be reviewed to determine if the fund is out of balance.

### **Cash - Overdrafts**

As noted in our prior year recommendation letter, four funds had significant cash deficits as of December 31, 2005. The City covers the cash deficits in these 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 the repayment of such borrowing.

### **Redevelopment Authority - Self-Balancing Set of Books**

As noted in our prior year recommendation letter, the Redevelopment Authority ("Authority") did 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 the Authority did make improvements during 2005 with respect to maintaining ledgers for the various activities of the Authority. However, the Authority does not have one self-balancing set of books reporting all the activities of the Authority. The City reports the Authority's financial statements by compiling and consolidating all the information from the various ledgers and summary statements to present the Authority's financial statements.

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, several problems were noted with respect to the City Treasurer Control Account as stated below.

#### ***Reconcile City Treasurer Control Account Timely***

The City Treasurer Control Account was not reconciled timely throughout the year. The reconciliation as of December 31, 2005, was not completed until July 2006. Untimely reconciliations were reported on our prior year's recommendation letter.

Reconciling accounts timely is important to help safeguard the City's assets and ensure that transactions are recorded properly. In addition, the discovery and correction of bank and posting errors often result from the reconciliation process.

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.

#### ***Address Errors and Reconciling Items Timely***

Errors made in the transfer of funds to the City Investment Account result in reconciling items on the account reconciliation. Such reconciling items are not being addressed in a timely manner. During our fieldwork, we noted many reconciling items on the City Investment Account, whereby funds were due to the City Investment Account from the City Treasurer Control Account. When we reviewed the cash reconciliation of the City Treasurer Control Account, which is reconciled by the Controller's Department, these reconciling items were also presented on this reconciliation as amounts due to the City Investment Account.

Although these errors were identified by the Finance Department and the Controller's Department, the cash is not being transferred to the City Investment Account to correct these errors. At December 31, 2005, we noted approximately \$140,000 due from the City Treasurer Control Account to the City Investment Account.

The practice of not making cash transfers on a timely basis to correct errors has a negative impact on the cash flow of the City. The City cannot access the cash until it is transferred from the City Treasurer Control Account to the City Investment Account.

We recommend the City immediately address the issue of the funds that are owed to the City Investment Account from the City Treasurer Control Account. The Finance Department, Controller's Department and the City Treasurer should review the total amounts due, and the amounts should be transferred accordingly.



We recommend establishing an internal procedure to ensure that reconciling items resulting from incorrect transfers are corrected timely. Upon completion of the monthly reconciliation of the City Investment Account and the City Treasurer Control Account, the various departments involved should meet and review any reconciling items resulting from errors. Transfers should then be made to correct errors. All transfers should be made during the subsequent month. All errors should be corrected before the next month's reconciliation process begins.

### **Improve Controls Over Permits**

During our audit, we noted there are weaknesses in the internal controls over permit processing in the Bureau of Permits. The weaknesses are summarized below.

#### ***Documentation of Deletion of Permits in the Software System***

All permits are entered into a software system known as the Hanson Software System. Permits are assigned a sequential number in the system. The current system allows permits to be deleted without supporting documentation as to why the permit was deleted. Gaps in the sequential numbering result.

The sequential numbering system used in the issuance of permits is an important function in the accountability of permits issued by the City. If there is a void or deletion of a permit, documentation must be maintained to support the reason for the deletion.

We recommend the City establish procedures for documenting any deletions in the permit numbering system. Documentation should include the reason for the void or deletion of a permit number with an authorized signature by the Director of the Bureau of Permits.

#### ***Receipts Sent to City Hall do not have Adequate Supporting Documentation***

In the current system, permit fees are collected at the Bureau of Permits. A daily revenue report is maintained, broken down by the type of permits collected, such as building permits, zoning permits, etc. The following morning, the receipts and the daily revenue report are taken to City Hall to be processed through the Cash Receipts Terminal System.

A problem with the current system is that the receipts support does not give a breakdown of all permits by issuance number but rather groups permits together by the type of permit. The Finance Department and Controller's Office cannot identify which permit numbers were included in the daily receipts batch processed from the Bureau of Permits. The proper use of the sequential numbering system is an important process in maintaining proper internal controls over permits.



We recommend the City require the Bureau of Permits to provide a daily report listing by permit number, type and amount, to accompany the current daily revenue report broken out by permit type totals. The Bureau of Permits should maintain this report and create a cumulative monthly report by permit number and type broken down by day processed. The monthly report should be forwarded to the Controller's Office at the end of each month for reconciliation purposes.

In addition to improving internal controls, this monthly report will be useful to the Bureau of Permits in processing the monthly report for third-party inspection services. Currently, the Bureau of Permits manually sorts through all copies of permit receipts at the end of each month to prepare the report for the third-party inspector.

### **Federal Grants**

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

## **OTHER RECOMMENDATIONS**

### **Consider Updating Indirect Cost Allocations to the Sewer and Sewer Intermunicipal Funds**

As noted in our prior year recommendation letter, 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 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.