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October 31, 2007

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

In planning and performing our audit of the financial statements of the City of York, Pennsylvania as of and for the year ended December 31, 2006, in accordance with U.S. generally accepted auditing standards, we considered the City of York, Pennsylvania's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

## **MATERIAL WEAKNESSES**

### **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.

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 for the Authority are recorded.

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.

### **Audit Adjustments**

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. These audit adjustments are presented and disclosed in the Audit Committee Letter provided to the members of City Council.

We recommend the City establish controls to ensure that all significant adjustments are made to the financial statements.

### **Cash Overdrafts**

As noted in our prior year recommendation letter, various funds had significant cash deficits as of December 31, 2006. 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.



### **Interfund Receivables/Payables**

As noted in the preceding comment, we noted instances where certain funds had cash deficits. When a particular fund has a cash deficit and borrows funds from another fund, an interfund payable results on the fund that borrowed the funds and an interfund receivable results on 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.

We recommend the City, as part of the budget process, address the repayment of interfund receivables and payables. The balances of receivables and payables 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, then 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.

### **Improve Controls Over Permits**

As noted in our prior year recommendation letter, we noted weaknesses in the internal controls over permit processing in the Bureau of Permits. The City implemented one of the two suggestions as noted below:

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

In the prior year recommendation letter, we suggested 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.

During our current year audit, we noted the City put a procedure in place to document any deletions in the permit numbering system. Permits can only be voided by the Deputy Director. Evidence of the deleted permit remains in the system and an information box is present where the Deputy Director provides a reason for the deletion of the permit.

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

The following comment was noted in the prior year recommendations letter. During our audit, we noted that the recommendation made in the prior year was not implemented.

In the current system, permit fees are collected at the Bureau of Permits. A daily revenue report is maintained and 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 Department 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 Department 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.

### **City Treasurer Control Account**

#### ***Prior Year Comment Made***

In our prior year recommendation letter, we noted that the City Treasurer/Control Account was not reconciled timely throughout the year, reconciling items and errors were not addressed timely and there were amounts in the City Treasurer/Control Account that were due to the City Investment Account for errors that occurred.

#### ***Current Year Comment Made***

During our current year audit, we noted that meter collections were not transferred from the Treasurer's account to the General Authority's checking account in a timely manner. As of December 31, 2006, approximately \$149,000 had accumulated in the Treasurer's account that should have been transferred to the General Authority's checking account. The Controller's Department discovered this problem prior to our audit, and the error was corrected. Funds were transferred in 2007 to correct the problem and a deposit in transit was recorded in the General Authority's checking account to reflect the proper cash amount as of December 31, 2006.

In conclusion, as of the date of this letter, the City has corrected the problems with respect to the City Treasurer/Control Account. The funds that were due from the City Treasurer/Control Account were transferred to the City Investment Account. The Controller's Department is now reconciling the City Treasurer/Control Account on a timely basis.



**Department of Community and Economic Development - Grant Requirements**

During our audit, we noted instances where both the City of York and the City of York Redevelopment Authority received funds on DCED grants and did not follow the grant provisions with respect to the investment of grant funds.

DCED grants require that the funds paid to the contractor or grantee shall be deposited in a separate account identifiable by reference to the Department, proposal name, or contract number. Interest or any other income or accumulations earned on funds awarded that totals more than \$50 in any calendar year should be repaid to the Department.

The City and the Authority are not creating a separate bank account for the deposit of funds from the DCED grants in accordance with the grant requirements.

We recommend the City of York and the Authority set up an internal procedure for the receipt of DCED grant funds, whereby a separate bank account is set up for the grant which is identifiable by reference to the Department of Community and Economic Development as well as the grant proposal name or contract number.

**Federal Grants**

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

**OTHER RECOMMENDATIONS**

**Pass-Through Grant Monitoring - State Grants**

The City has multiple pass-through state grants whereby funds from a grant go to a sub-grantee or subrecipient. During our audit, we noted that the City Grant Coordinator did maintain files for these grants; however, there was no monitoring checklist or other type of document indicating that the Grant Coordinator verified that all grant standards were being followed.

State grants awarded from the Department of Community and Economic Development have special provisions that require a project audit if the grant is \$100,000 or more. The City has DCED grants that pass through the City to a sub-grantee. From review with the City Grant Coordinator, the sub-grantee is responsible for having the final project audit completed; however, there is no indication in the grant files that the audit was completed.

We recommend the City develop a grant checklist to be maintained in each grant file. Each grant is unique and this checklist should be developed by the Grant Coordinator based on a thorough review of the grant agreement and the specified requirements. This checklist should document that grant requirements have been reviewed and approved by the Grant Coordinator.



For DCED grants in which the funds are passed through the City to a sub-grantee or subrecipient, the City should obtain a copy of the project audit that the sub-grantee had performed for grants of \$100,000 or more. A copy of this audit should be maintained in the file.

**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.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 31, 2007, on the financial statements of the City of York, Pennsylvania. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

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.

This communication is intended solely for the information and use of the Mayor, members of City Council and management of the City of York, Pennsylvania and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maillie, Falconiero & Company LLP*

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