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September 20, 2010

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of York, Pennsylvania, as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all such deficiencies have been identified. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.



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We consider the following deficiencies in the City of York, Pennsylvania's or Component Units of the City of York, Pennsylvania's internal control to be material weaknesses:

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

As noted in our prior year recommendation letter, the Redevelopment Authority (the "Redevelopment Authority") did not have a separate complete self-balancing set of books. The City reports information for the Redevelopment Authority in its financial statements by compiling activity from cash summary statements provided by the Redevelopment 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 Redevelopment Authority are recorded.

We recommend the Redevelopment 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 Redevelopment 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 communication with those charged with governance provided to the members of City Council. The City continues to make improvements in this area as the number of audit adjustments required continues to decrease.

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



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- **Allocation and Recording of Interest Earned in the City Treasurer/Control Account and the City's Accounts Payable Control Account**

As noted in our prior year recommendation letter, the City changed banks for multiple accounts, and some accounts changed from noninterest bearing to interest bearing. During our audit, we noted the City Treasurer/Control Account had accumulated interest earned in 2007, 2008 and 2009 that was not recorded in the City's general ledger. The amounts were recorded as reconciling items on the cash reconciliations for these accounts.

We recommend 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 and the 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.

- **Cash Overdrafts**

As noted in our prior year recommendation letter, various funds had significant cash deficits as of December 31, 2009. 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, as well as the repayment of such borrowing, can be planned.

- **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 in the fund that borrowed the funds and an interfund receivable results in 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.



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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, 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.

- **Controls Over Employer Pension Contributions to Plan**

For 2008 and 2009, the City did not fund the entire required minimum municipal pension obligation to the Pension Trust Funds by December 31 of the respective year. For 2008, the residual required minimum municipal obligation that was funded after December 31, 2008, was \$3,069,057, which was funded in January 2009. For 2009, the total required minimum municipal obligation for Fire and Police was \$4,905,420, of which \$655,912 was funded by the year ended December 31, 2009. The remaining balance was not funded until February 2010 in the amount of \$4,249,508. The City did record a liability of these amounts for the respective years in the General Fund and recorded a receivable within the Pension Trust Funds for the equivalent amounts due.

The Municipal Pension Plan Funding Standards require that any amount of minimum obligation of the municipality which remains unpaid as of December 31 shall have interest charged from January 1 of the year in which the minimum obligation was first due until the date of payment. The rate of interest charged shall be paid at the greater amount of the interest rate utilized for the actuarial valuation report or the discount rate applicable to Treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year which the obligation is due. The total calculated accumulated interest due as of December 31, 2009, was \$660,278. This amount has not been funded as of the report date. The City has provided for a liability in this amount in the financial statements as of the year ended December 31, 2009.

We recommend the City put procedures in place to ensure the minimum municipal obligation is funded prior to December 31 of the same 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.



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

During our audit, and as indicated in our prior year recommendation letter, we noted instances where the City of York, Pennsylvania, received funds from DCED grants and did not follow the grant provisions with respect to the investment of grant funds.

DCED grants require the funds paid to the contractor or grantee 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 of Community and Economic Development.

The City is 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 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.

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 September 20, 2010, 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.



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OTHER RECOMMENDATIONS

- **Monitoring of State Grants**

During our audit, and as indicated in our prior year recommendation letter, we noted that the monitoring of all grants through the City has not been fully centralized. Upon review of grant files, it appears there is no documentation that the Grant Coordinator has fully reviewed the grant for compliance.

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. The Grant Coordinator must ensure that all information is forwarded from each department so that a complete centralized grant file can be maintained. Oversight of all grants by the Grant Coordinator is an important function in centralizing the grants process.

The City hired a new Grants Coordinator in March 2010. The City has informed us that the Grants Coordinator is working on addressing these issues and developing controls to centralize and monitor City grants.

- **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 in conjunction with an update of a City-wide indirect cost allocation plan prepared in accordance with OMB-87.



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- **Controls Over the Administration of Unclaimed Property**

As noted in our prior year recommendation letter, the Treasurer's office stopped performing the administrative function over unclaimed property. The cash account utilized for depositing these funds and transferring them to the state was closed in 2008.

Per review with management, this responsibility will be administered by the Finance Department. Management has informed us that, as of the report date, a separate cash account has not been opened for this purpose, and the Finance Department is working on procedures to administer unclaimed property.

We recommend the Finance Department open a separate cash account for the purpose of administering unclaimed property. The Finance Department should also set up procedures to administer and account for unclaimed property in accordance with state law. It is important the City put procedures in place immediately to address the administration of unclaimed property in accordance with state statutes.

- **Review Collateralized Public Funds Under PA Act 72**

The Pennsylvania Legislature enacted Act 72 in 1971 enabling financial institutions to pledge collateral on a pooled basis for the purpose of providing security for public deposits in excess of the FDIC insurance limitations.

As noted in our prior year recommendation letter, the City does not have formal written agreements with the depository and the custodian. This is not unusual as many public bodies rely on Act 72 with no written agreement or policies set up to monitor collateral. However, considering current economic conditions, we believe it is important the City institute procedures to evaluate and monitor the collateralization provided by the depositories.

We recommend the City have a written agreement with the depository and separate custodian regarding Act 72. The City should refer to its attorney with respect to setting up this agreement with the depository.



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- **Redevelopment Assistance Capital Program Renovation (RACP) - Northwest Triangle Project**

During our audit, and as indicated in our prior year recommendation letter, we noted the Redevelopment Authority has not received any grant reimbursements from the Commonwealth of Pennsylvania with respect to the cost incurred under the RACP program for the Northwest Triangle Project. The amounts to be reimbursed to the Redevelopment Authority are subject to approval by the Commonwealth of Pennsylvania. During this project, the Redevelopment Authority has utilized a line of credit to fund the expenditures under the program. The line of credit had a balance of \$6,124,688 as of December 31, 2009. It is the Redevelopment Authority's intention to use the reimbursement from the RACP grant to pay the outstanding balance on the line of credit.

The RACP (Northwest Triangle) program is a significant project, and there are many conditions that must be satisfied under the grant agreement in order for the Redevelopment Authority to receive the grant funds. The Redevelopment Authority has satisfied many of the conditions required by the grant agreement; however, there are still various conditions that have not been approved by the Commonwealth as of the report date.

The Redevelopment Authority has the intention of utilizing the grant funds received from the RACP grant to pay down the outstanding balance on the line of credit. The interest incurred to date on the line has been funded with the line of credit. As the receipt of grant funds has been delayed, the amount of interest cost incurred on the outstanding line of credit continues to grow. We recommend the Redevelopment Authority put procedures in place to monitor cash flow under the program and to focus on the satisfaction of the final conditions to expedite the receipt of the grant funds. Delays in the receipt of the grant funding could cause the accumulated interest to exceed budgeted amounts. In this case, alternative funding sources would be needed to cover project deficits.

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.



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The City has informed us that the Grants Coordinator is now periodically meeting with representatives of the Redevelopment Authority to review the status of the grant. We recommend the City continue to increase their monitoring of the status of this grant program.

- **General Authority - Duplicate Payment**

During our audit, we noted the General Authority made a duplicate payment on two requisitions in July 2009. The requisitions were primarily composed of amounts due to the City for operating expenditures, administrative costs and parking tax. This duplicate payment appeared to be an isolated instance, and this issue was identified by the City and their consultant prior to our audit; therefore, the City and their consultant had already made an entry to correct this mistake for book purposes. The total duplicate payment was \$200,263, and for financial statement purposes it was applied to the reduction of the amount due from the General Authority to the City.

We recommend the General Authority review procedures over requisitions to ensure a duplicate payment does not occur.

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 the 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,

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