

City of Lancaster

Single Audit Report

Year Ended December 31, 2016 with
Independent Auditor's Reports

MaherDuessel

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CITY OF LANCASTER SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2016

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 Lancaster, Pennsylvania (City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 12, 2017. Our report includes a reference to other auditors who audited the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, and the City of Lancaster City Revitalization and Improvement Zone Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania
Independent Auditor's Report on Internal
Control over Financial Reporting

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
July 12, 2017

Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the City of Lancaster, Pennsylvania's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania
Independent Auditor's Report on Compliance
for Each Major Program

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania
Independent Auditor's Report on Compliance
for Each Major Program

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2016-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 12, 2017, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, and the City of Lancaster City Revitalization and Improvement Zone Authority. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards (schedule) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania
Independent Auditor's Report on Compliance
for Each Major Program

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
July 12, 2017

CITY OF LANCASTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor Project Title	Source Code	Federal CFDA Number	Grant Pass-Through Grantor's Number	Period Beginning/ Ending Date	Grant Amount	Expenditures	Outstanding Loan Balance as of 12/31/16	Payments Made to Subrecipients
U.S. Department of Agriculture:								
Forest Health Protection	D	10.680	4000019692	04/01/15 - 03/31/18	\$ 21,000	\$ 14,348	\$ -	\$ -
Total U.S. Department of Agriculture						14,348	-	-
U.S. Department of Housing and Urban Development:								
CDBG - Entitlement Grants Cluster:								
Community Development Block Grant	D	14.218	B-15-MC-42-0010	01/01/15 - 12/31/15	1,562,751	461,641	-	-
Community Development Block Grant	D	14.218	B-16-MC-42-0010	01/01/16 - 12/31/16	1,575,992	819,948	-	5,000
Subtotal CDBG - Entitlement Grants Cluster						1,281,589	-	5,000
Passed through the County of Lancaster:								
HOME Investment Partnerships Program	I	14.239	M-16-DC-42-0210	01/01/16 - 12/31/16	462,519	60,074	-	-
Emergency Solutions Grant Program	D	14.231	E-15-MC-42-0010	04/09/15 - 06/23/17	139,052	70,323	-	64,673
Emergency Solutions Grant Program	D	14.231	E-16-MC-42-0010	04/09/16 - 07/13/18	140,679	84,051	-	52,662
Subtotal 14.231						154,374	-	117,335
Passed through the PA Department of Health:								
Passed through Lawrence County:								
Lead-Based Paint Hazard Control in Privately-Owned Housing	I	14.900	PALHB0605-15	10/01/15-09/30/18	498,205	83,373	-	-
Total U.S. Department of Housing and Urban Development						1,579,410	-	122,335
U.S. Department of Interior:								
Passed through the PA Historical and Museum Commission:								
Historic Preservation Fund - Grants-In-Aid	I	15.904	ME-61504	08/01/15-07/31/16	15,000	779	-	-
Historic Preservation Fund - Grants-In-Aid	I	15.904	ME-61602	08/01/16-07/31/17	18,000	10,988	-	-
Subtotal 15.904						11,767	-	-
Total U.S. Department of Interior						11,767	-	-
U.S. Department of Justice:								
Edward Byrne Memorial Justice Assistance Grant	D	16.738	2015-DJ-BX-0856	10/01/14-09/30/18	44,140	26,291	-	-
Edward Byrne Memorial Justice Assistance Grant	D	16.738	2016-DJ-BX-0695	10/01/15-09/30/19	45,040	30,110	-	-
Subtotal 16.738						56,401	-	-
Total U.S. Department of Justice						56,401	-	-

(Continued)

CITY OF LANCASTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Federal Grantor Project Title	Source Code	Federal CFDA Number	Grant Pass-Through Grantor's Number	Period Beginning/ Ending Date	Grant Amount	Expenditures	Outstanding Loan Balance as of 12/31/16	Payments Made to Subrecipients
U.S. Environmental Protection Agency:								
Passed through the National Fish and Wild Life Foundation:								
Chesapeake Bay Program	I	66.466	0602-12-033907	12/01/12-12/01/16	500,000	2,770	-	-
Passed through Chesapeake Bay Trust:								
Chesapeake Bay Program	I	66.466	13107	06/01/15-03/31/17	60,000	60,000	-	-
Subtotal 66.466						<u>62,770</u>	<u>-</u>	<u>-</u>
Passed through Pennsylvania Infrastructure Investment Authority:								
Clean Water State Revolving Funds Cluster:								
Capitalization Grants for Clean Water State Revolving Funds	I	66.458	72405	06/26/14-01/01/17	5,500,000	1,534,473	4,769,258	-
Subtotal Clean Water State Revolving Funds Cluster						<u>1,534,473</u>	<u>4,769,258</u>	<u>-</u>
Total U.S. Environmental Protection Agency						<u>1,597,243</u>	<u>4,769,258</u>	<u>-</u>
U.S. Department of Transportation:								
Passed through the Pennsylvania Department of Transportation:								
Highway Planning and Construction Cluster:								
Highway Planning and Construction	I	20.205	102507	01/01/16-02/01/18	48,000	9,177	-	-
Highway Planning and Construction	I	20.205	102507	01/08/15-01/08/17	48,000	6,662	-	-
Highway Planning and Construction	I	20.205	08A387	08/13/15-08/13/17	775,000	675,000	-	-
Highway Planning and Construction	I	20.205	08A134	08/29/13-08/29/18	300,000	278,479	-	-
Total Highway and Planning Construction Cluster						<u>969,318</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Transportation						<u>969,318</u>	<u>-</u>	<u>-</u>
Total Expenditures of Federal Awards						<u>\$ 4,228,487</u>	<u>\$ 4,769,258</u>	<u>\$ 122,335</u>

Legend:

- D - Direct Funding
- I - Indirect Funding
- CFDA - Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LANCASTER SINGLE AUDIT REPORT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City of Lancaster (City) and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the City's financial statements.

Such expenditures are recognized following, as applicable, either the cost principles in U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has not elected to use the 10-percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

2. RECONCILIATION OF PENNVEST DRAWS AND EXPENDITURES

The following is a reconciliation of the draws made during the year ended December 31, 2016 to the total expenditures, as presented on the Schedule:

Draws received during year ended December 31, 2016	\$ 2,499,647
Accounts payable as of December 31, 2015	(360,814)
Accounts payable as of December 31, 2016	26,533
Expenditures paid prior to year ended December 31, 2015, draw received subsequent to December 31, 2015	(722,994)
Expenditures paid prior to year ended December 31, 2016, draw received subsequent to December 31, 2016	<u>92,101</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,534,473</u></u>

The balance of the loan outstanding as of December 31, 2016 was \$4,769,258.

CITY OF LANCASTER SINGLE AUDIT REPORT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2016

- II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Finding 2015-001 – Recording Prepaid Expense

Condition: The City of Lancaster (City) entered into a contract with a vendor to build and maintain a City-wide wireless network, whereby the City will have access to 50% of the entire network. The contract term is 20 years and total costs paid to the vendor during the year ended December 31, 2015 totaled \$532,240, \$252,814 of which related to future years.

Recommendation: We recommend that the City implement procedures for adequate review of financial information to ensure that only current period costs are expensed during the year and that prepaid expenses are properly recorded.

Current Status: The City properly recorded prepaid expenses with respect to this contract.

- III. Findings and questioned costs for federal awards.

Finding 2015-002 – Reporting

U.S. Department of Housing and Urban Development – Community Development Block Grant (CFDA #14.218)

Condition: The City did not complete or submit the Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons.

Recommendation: We recommend that the City continue its efforts in evaluating its procedures to ensure that all required reports are submitted.

Current Status: The City completed and submitted HUD 60002 reports for 2013, 2014, 2015, and 2016.

Finding 2015-003 – Allowability

U.S. Department of Housing and Urban Development – Community Development Block Grant (CFDA #14.218)

Condition: During our audit, it was noted that actual time as recorded on individuals' timesheets was not accurately reported on the City's allocation calculation spreadsheet, which determines the amount charged to each program. Out of 24 individuals selected for testing, two were found to be improperly allocated. There were also two weekly timesheets missing for two

CITY OF LANCASTER SINGLE AUDIT REPORT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2016

out of the twelve employees that charged their time to CDBG funding during one of the two months tested.

Recommendation: We recommend that the City take steps to ensure adequate staffing is available in order to establish a review process for payroll allocations charged to federal programs.

Current Status: The City maintained sufficient timesheet documentation for allocation of payroll costs. See current year finding 2016-001 regarding allocation of payroll costs.

CITY OF LANCASTER SINGLE AUDIT REPORT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

7. Major Programs:

CFDA Numbers

14.218

66.458

20.205

Name of Federal Program or Cluster:

CDBG – Entitlement Grants Cluster

Clean Water State Revolving Funds Cluster

Highway Planning and Construction Cluster

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? yes no

CITY OF LANCASTER SINGLE AUDIT REPORT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

None Noted

III. Findings and questioned costs for federal awards.

Finding 2016-001 – Allowability (Repeat Finding)

U.S. Department of Housing and Urban Development – CDBG – Entitlement Grants Cluster (CFDA #14.218)

Criteria: It is the City of Lancaster’s (City) policy to directly allocate payroll costs to federal programs based upon actual time recorded by employees on weekly timesheets. These weekly timesheets are retained by the City as supporting documentation for the monthly allocations.

Condition: During our audit, it was noted that actual time as recorded on an individual’s timesheet was not accurately reported on the City’s allocation calculation spreadsheet, which determines the amount charged to each program. Out of 44 individuals selected for testing, one was found to be improperly allocated.

Cause: The City does not have a review process in place to ensure that payroll allocations are performed properly.

Effect: The City did not properly allocate payroll costs to CDBG.

Questioned Costs: The City overcharged CDBG for allocated costs in the amount of \$1,583.

Recommendation: We recommend that the City take steps to establish a review process for payroll allocations charged to federal programs.

Grantee Response: Management agrees.