Zelenkofske Axelrod LLC

June 27, 2017

The Honorable Ed Pawlowski, Mayor,
and Members of City Council
City of Allentown, Pennsylvania

In planning and performing our audit of the basic financial statements of City of Allentown as of and for the year ended December 31, 2016, in accordance with 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, we considered City of Allentown 's internal control over financial reporting (internal control) as a basis for designing 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Allentown 's 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC
Jamison, Pennsylvania
June 27, 2017

Harrisburg	Philadelphia	Pittsburgh	Greensburg
830 Sir Thomas Court, Suite 100	2370 York Road, Suite A-5	3800 McKnight E. Drive, Suite 3805	210 Tollgate Hill Rd
Harrisburg, PA 17109	Jamison, PA 18929	Pittsburgh, PA 15237	Greensburg, PA 15601
717.561.9200 Fax 717.561.9202	215.918.2277 Fax 215.918.2302	412.367.7102 Fax 412.367.7103	724.834.2151 Fax 724.834.5969

Improving the Timeliness of Bank Reconciliations

It is important to note that this is a repeat of a fiscal 2015 recommendation. To ensure that monthly financial information is accurate, bank reconciliations must be completed in a timely manner. The monthly bank reconciliation process is usually several months behind. Therefore there is no assurance that the financial information provided to the Budget and Finance Committee and Members of City Council is accurate. We recommend that the Treasury Department assign the necessary personnel to prepare month-end reconciliations, including any required general ledger adjusting entries, by the end of the following month.

Views of Responsible Officials Response – City of Allentown Management:
We agree and have made improvements from prior year. This was done by reassigning tasks between personnel that will help improve the timeliness. As stated last year, we will also revisit our software systems and how we can make this process even more efficient.

Timely and Accurate Periodic and Year-end Closing

To ensure that the financial statements are issued and submitted to the Government Finance Officers Association (GFOA) and Electronic Municipal market Access (EMMA) in a timely manner, it is imperative that the annual financial records are reconciled and closed within three months of the year-end. During our audit, we noted certain supporting documentation and schedules did not agree with the City's IT systems. For example, the capital assets schedules did not agree with the Eden capital assets system that is linked to the general ledger system. These discrepancies were not noticed until we were in the field conducting our audit four months after year-end. We recommend that the City reconcile all schedules to the general ledger at least on a quarterly basis.

Views of Responsible Officials Response – City of Allentown Management:
In 2016 we had turnover of staff that affected the timeliness of our year-end closing. Going forward we are striving to improve the year-end closing process and reconciling on a quarterly basis.

Written Policies and Procedures for Estimating Allowances for Uncollectible Accounts

During our audit, we noted that there are no formal written policies and procedures for estimating allowances for uncollectible accounts. This applies to accounts receivable for various taxes curb and sidewalk assessments. The methodology should include analysis of historic annual collections of assessments. We recommend that management develop formal written policies for the processes of developing estimated allowances for uncollectible accounts.

Views of Responsible Officials Response – City of Allentown Management:
We are currently reviewing our process for estimating allowances for uncollectible accounts in all areas. The end result will be implementing formal written policies and procedures for our methodology.

Written Accounting Policies and Procedures Manual

The City maintains some written accounting policies and procedures, including internal controls; however, some of them are incomplete or outdated. The documents are not contained in one location. We recommend that the City develop a formal, written accounting policies and procedures manual for all types of transactions in all funds.

We understand and support that the Finance Department is developing an Administrative Information Manual that should include the accounting policies and procedures for all transactional cycles including billing and cash receipts, purchasing and cash disbursements, payroll, and grants monitoring.

Views of Responsible Officials Response – City of Allentown Management:
We agree and this is a current work in progress, and we will continue to work with all departments to have all policies and procedures in place and update as changes are needed.

Recycling and Solid Waste Department Internal Controls

Note that this topic is a duplicate from the 2015 audit.

The City's Recycling and Solid Waste Department cashiers collect payments for sweep tickets, community trash, recyclable materials, and mulch loading services, among others. Multiple cashiers within the Department operate in a single user account in the Tyler Cashiering System ("Recycle Cashier"). We recommend that each user maintain a unique login and password.

The cash drawer is reconciled by one of the cashiers who accept cash receipts. This represents a lack of segregation of duties that may contribute to potential misappropriation of cash. The cash drawer should be monitored and reconciled by someone independent of the cash receipts process. This will mitigate the opportunity to misappropriate funds.

Views of Responsible Officials Response – City of Allentown Management:
The City will work with IT and City staff to have all that have access to a cash drawer have a single user account that is not shared. In addition we will put procedures out to all departments on the reconciling of cash receipts and turning over to Treasury for deposit.

Implementing Government Accounting Standards Board (GASB) Standards

Note that during 2016, the City adopted the following GASB Statements (GASBS) as described in Note 1 to the financial statements:

- GASBS No. 72, *Fair Value Measurement and Application*
- GASBS No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASBS No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

- GASBS No. 77, *Tax Abatement Disclosures*
- GASBS No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASBS No. 79, *Certain External Investment Pools and Pool Participants*

The following GASB Statements are effective for 2017 and future financial statements:

- GASBS No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Certain parts of GASBS o. 73 were applicable to GASBS No. 67 and 68 and were effective for the City's 2017 financial statements. The Statement clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

    - Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported,
    - Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, and
    - Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

- GASBS No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial statements of state and local governmental OPEB plans for making decisions and assessing accountability.

    The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

    - Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
    - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
    - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets are also legally protected from the creditors of the plan members.

    This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

- GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits, including pensions, with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

  This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

  The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed.

  The Statement is effective for fiscal years beginning after June 15, 2017.

- GASBS No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21-37 of Statement No. 14, as amended. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

- GASBS No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries including governments. Split-interest agreements can be created through trusts – or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements – in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016.

- GASBS No. 82, *Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
  Prior to the issuance of GASBS No. 82, GASBS No. 67 and No. 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that us that measure in schedules of required supplementary information. GASBS No. 82 amends GASBS No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

  GASBS No. 82 clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASBS No. 67, No. 68, or No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

  GASBS No. 82 clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for the purposes of GASBS No. 67 and as employee contributions for the purposes of GASBS No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

- GASBS No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

  Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewer treatment plans. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

  This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The Statement also requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. The current value of a government's ARO is to be adjusted for the effects of general inflation or deflation at lease annually.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

- GASBS No. 84, *Fiduciary Activities.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

- GASBS No. 85, *Omnibus 2017.* This Statement addresses the following topics:

  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
  - Reporting amounts previously reported as goodwill and "negative" goodwill.
  - Classifying real estate held by insurance entities.
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in the financial statements prepared using the current financial resources measurement focus.
  - Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
  - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
  - Classifying employer-paid member contributions for OPEB.
  - Simplifying certain aspects of the alternative measurement method for OPEB.
  - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

- GASBS No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

In financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

- GASBS No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.