July 18, 2018

The Honorable 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, 2017, 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

Improving the Timeliness of Bank Reconciliations

It is important to note that this is a repeat of a fiscal 2015 and 2016 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 will continue to improve the timeliness of the bank reconciliations.

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 approximately three months of the year-end. ZA was not able to commence 2018 audit work until May 9th and we received the General Fund adjusted general ledger trial balance in June. 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:
We agree and 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. We will continue to work with all departments to have written policies and procedures in place and update as changes are needed.

The following GASB Statements are effective for 2018 and future financial statements:

- 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 year 2018.

- 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 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 fiscal year 2019.

- 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 fiscal year 2019.

- 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 fiscal year 2019.

- 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 fiscal year 2018.

- 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 fiscal year 2020.

- GASBS No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement's objective is to improve the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and placements. Additional information will be required such as unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Existing and additional information must be provided in the notes to financial statements for direct borrowings and placements of debt separately from that for other debt.

  Information about resources to liquidate debt and risks associated with changes in terms associated with debt will be disclosed in the notes. Financial statement users will have better information to understand the effects of debt on a government's future resource flows.

  The requirements of this Statement are effective for fiscal year 2019.

- GASBS No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus (similar to the recognition on a governmental fund basis of accounting). Interest cost incurred before the end of a construction period will not be included in the historic cost of a capital asset reported in a business-type activity or enterprise fund.

The effect of this Statement will be to improve financial reporting by providing users with more relevant information about capital assets and the costs of borrowing. The resulting information will also enhance the comparability of information about capital assets and the cost of borrowing for both governmental and business-type activities.

The requirements of this Statement are effective for fiscal year 2020.