



July 31, 2017

City Council  
City of Johnstown, Pennsylvania

In planning and performing our audit of the financial statements of City of Johnstown for the year ended December 31, 2016, we considered the Organization's internal control over financial reporting 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 Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We reported on the Organization's internal control in a report dated July 31, 2017, which contains our report on significant deficiencies in the Organization's internal control. This letter does not affect our report dated July 31, 2017, on the financial statements of the City of Johnstown.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

In conclusion, we would like to thank the Organization's personnel for their outstanding cooperation extended to us during the audit.

Very truly yours,

WESSEL & COMPANY  
Certified Public Accountants

Joel C. Valentine, CPA, CM&AA, CVA, CGMA  
Shareholder

JCV/MVL/aah

[www.wesselcpa.com](http://www.wesselcpa.com)

# Memo

**To:** City Council, City of Johnstown, Pennsylvania  
**From:** Wessel & Company  
**Date:** July 31, 2017  
**Re:** Management Letter Comments Arising from the 2016 Audit

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## **Tax Collection Contracts**

It was noted during our audit that the City engaged a 3<sup>rd</sup> party to enhance the collection of Mercantile and Business Privilege taxes. The 3<sup>rd</sup> party received a commission of 25% on delinquent collections regardless of how the delinquency was identified. It should be noted that the City has an existing contract with Berkheimer that provides for a 2 ½% commission for delinquent tax collections. We recommend that the City perform a detailed review of all existing and future tax collection contracts in order to avoid paying undue costs.

## **Employee Benefit Review**

During the current year audit, management made us aware of a wellness benefit program offered to employees that premiums were funded through a reduction of payroll taxes. After review of the plan, research of various IRS guidelines, correspondence with the various plan providers and city personnel, it was determined that the best course of action for the City was to terminate the plan and notify the appropriate parties. Management effectively terminated the plan and notified the parties deemed appropriate in 2017.

## **Community Development Loan Programs**

The City's Community Development department operates multiple loan programs that each have a unique purpose to assist both individual taxpayers and local businesses. As of December 31, 2016, the following programs reported outstanding loan balances as follows:

UDAG Revolving Loan	\$ 505,477
State Grant Enterprise Zone	936,430
State Grant Neighborhood Community Partnership	120,900
HOME Loans	2,162,680
HOME First Time Home Buyer	50,261
HOME – Chandler School	200,000
Owner Occupied Loans	1,863,063
Renter Rehabilitation Loans	176,251
First Time Home Buyer	2,025,475
Demolitions ( <i>New in 2016</i> )	1,053,559
Emergency Rehabilitation	30,965
Job Development	<u>310,967</u>
Total Loans Outstanding	\$ <u>9,436,028</u>

During the audit process, we estimate the following programs to have delinquent loans amounting to almost \$500,000 or roughly 5.3% of the total loans outstanding.

UDAG Revolving Loan	\$ 221,727
State Grant Enterprise Zone	239,261
Job Development	<u>35,296</u>
Total Loans Outstanding	\$ <u>496,284</u>

Given the high risk nature of some of the loan programs and the material impact on the financial statements, we recommend that the Community Development Director work with the City Manager to perform a comprehensive review of each of the loan programs. This review would allow the City to maximize the management of the loans from the application process, to loan issuance, collection of payments, compliance monitoring and timely enforcement of collections on delinquent loans. See the attached 8 year comprehensive historical perspective of the loans.

**Interfund Transactions**

During the current year audit, each interfund payable and receivable was evaluated and certain amounts that were stagnant and deemed unable to be paid were appropriately reclassified. Due to the City of Johnstown now having the financial resources, we recommend the following interfund balances to formally be repaid:

General Fund owes Sewage	\$ 1,475,364
General Fund owes Liquid Fuels	133,939
General Fund owes UDAG	548,014
Debt Service owes General Fund	1,441,741
Parking Revenue owes UDAG	300,000
Sewage owes Pension	267,677

Other interfund borrowing activity exists that will be paid through the normal course of operations.

### **Consolidation of Funds (Parking Revenue and Intermodal Parking)**

Currently, for financial statement purposes, the City combines the Parking Revenue and Intermodal Parking funds, while maintaining two separate chart of accounts. We recommend management formally consolidate these funds into one centralized Parking fund in which all related activity would occur in one place.

### **Elimination of Funds (Sanitation and Recreation)**

Due to the limited activity in both the Sanitation and Recreation funds, we recommend that these fund are eliminated in the 2018 budget and all activity is recorded in the General Fund prospectively. We can assist with the appropriate adjustments to close the funds.

### **New Accounting Standards**

#### **GASB 74 & 75**

In June 2015, the GASB approved a pair of related Statements that reflect substantial improvements in the accounting and financial reporting for postemployment benefit plans other than pensions (OPEB). Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses reporting by OPEB plans that administer benefits on behalf of governments. Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

The new OPEB standards parallel the pension standards issued in 2012 – Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68, Accounting and Financial Reporting for Pensions.

Statement No. 74 will take effect for OPEB in the City's 2017 year. Statement No. 75 will take effect in the City's 2018 year.

#### **GASB 80**

In January 2016, the GASB approved a Statement that will improve financial reporting by clarifying the financial statement presentation requirements for certain component units. Statement No. 80, Blending Requirements for Certain Component Units is an amendment of Statement No. 14, The Financial Reporting Reporting Entity, as amended.

The new Statement amends the blending criteria established by Statement No. 14, and establishes an additional blending for criterion for component units of all state and local governments. Components units incorporated as a nonprofit when the primary government is the sole member of the corporation would be reported as blended component units.

Statement No. 80 will take effect in the City's 2018 year.

## GASB 82

In March 2016, the GASB approved a Statement that amends Statements No. 67, 68 and 73 to address practical issues that have arisen. Statement No. 82, Pension Issues, amends 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.

Statement No. 67 required RSI to include covered-employee payroll, defined as the payroll of employees that are provided pensions through the plan. Statement No. 82 requires presentation of covered payroll, which is the compensation paid to active employees on which contributions are based. This Statement also clarifies that actuarial assumptions cannot deviate from Actuarial Standards of Practice. Additionally, this Statement clarifies that employer-paid member contributions should be classified as member contributions for GASB 67 plan statements and as employee contributions for GASB 68. The employer's expense for those amounts must be included in salaries of the period for which the contribution is assessed.

Statement No. 82 will take effect in the City's 2018 year.

**City of Johnstown  
Loan Funds Summary**

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	Amounts Considered Delinquent
Fund 8 Loans Rec- UDAG Revolving Loan	1,217,521	1,109,218	1,008,917	906,774	797,484	718,119	645,352	505,477	221,727
Fund 13 Loans Rec- State Grant EZ Loans	1,498,136	1,391,166	1,368,045	1,228,450	1,176,546	1,033,311	970,995	936,430	239,261
Fund 13 Loans Rec- State Grant NCP	155,759	155,759	155,759	155,759	155,759	155,759	120,900	120,900	
Fund 13 State Grant - Due From State (non loan)	-	-	-	-	-	47,376	-	-	
Fund 23 Loans Rec- HOME	2,244,027	2,349,616	2,703,799	2,777,896	1,917,953	2,097,942	2,010,549	2,162,680	
Fund 23 Loans Rec- HOME - FTHB	50,261	50,261	50,261	50,261	50,261	50,261	50,261	50,261	
Fund 23 Loans Rec- HOME - Chandler School	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	
<b>Total Loans - governmental funds</b>	<b>5,365,704</b>	<b>5,256,020</b>	<b>5,486,781</b>	<b>5,319,140</b>	<b>4,298,003</b>	<b>4,302,768</b>	<b>3,998,057</b>	<b>3,975,748</b>	
<b>TOTAL Per AUDIT Report</b>	<b>5,365,704</b>	<b>5,256,020</b>	<b>5,486,781</b>	<b>5,319,140</b>	<b>4,298,003</b>	<b>4,302,768</b>	<b>3,998,057</b>	<b>3,975,748</b>	
Variance	-	-	-	-	-	-	-	-	
Fund 14 Loans Receiv- Owner Occupied	1,561,555	1,739,771	1,822,953	2,061,016	1,566,826	1,750,174	1,632,883	1,863,063	
Fund 14 Loans Receivable- Renter Rehab	98,019	94,004	77,552	134,921	154,921	161,281	178,711	176,251	
Fund 14 Loans Receivable- FTHB	2,217,583	2,253,256	2,254,655	2,301,813	2,324,173	2,093,782	2,047,037	2,025,475	
Fund 14 Loans Receivable- Architectural barriers	40,541	-	-	-	-	-	-	-	
Fund 14 Loans Receivable- Demolitions	-	-	-	-	-	-	-	1,053,559	
Fund 14 Loans Rec- Emergency Rehab	-	-	-	11,022	21,122	20,672	24,222	30,965	
Fund 15 Loans Rec- Job Development	353,253	238,085	246,513	322,955	311,865	325,711	306,734	310,967	35,296
<b>Total Loans - fiduciary funds</b>	<b>4,270,951</b>	<b>4,325,116</b>	<b>4,401,673</b>	<b>4,831,727</b>	<b>4,378,907</b>	<b>4,351,620</b>	<b>4,189,587</b>	<b>5,460,280</b>	
<b>TOTAL Per AUDIT Report</b>	<b>4,270,951</b>	<b>4,325,116</b>	<b>4,401,673</b>	<b>4,831,727</b>	<b>4,378,907</b>	<b>4,351,620</b>	<b>4,189,587</b>	<b>5,460,280</b>	
Variance	-	-	-	-	-	-	-	-	
<b>TOTAL Loans All Fund Types</b>	<b>9,636,655</b>	<b>9,581,136</b>	<b>9,888,454</b>	<b>10,150,867</b>	<b>8,676,910</b>	<b>8,654,388</b>	<b>8,187,644</b>	<b>9,436,028</b>	<b>496,284</b>

Overall Loan Delinquency (%)  
5%