

Communication to Those Charged with Governance

The Honorable Eric R. Papenfuse, Mayor,
Audit Committee, and Honorable
Members of City Council
City of Harrisburg, Pennsylvania

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 of Harrisburg, Pennsylvania (City), for the year ended December 31, 2016. We did not audit the financial statements of the Harrisburg Downtown Improvement District, Inc. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Harrisburg Downtown Improvement District, Inc., is based solely on the report of another auditor. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversation with you about planning matters on June 9, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under Auditing Standards Generally Accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance

As stated in our engagement letter dated December 7, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* applicable to its major federal

program for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the City's financial statements. As described in Note 1 to the City's financial statements, the City has adopted Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*," and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*." These Statements address accounting and financial reporting issues related to fair value measurements and related to certain external investment pools and pool participants. Other than the adoption of GASB Statements No. 72, and No. 79, no new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Validity and collectability of receivables from customers.
- Workers' compensation estimates for future liabilities.
- Depreciable lives of capital assets.
- Fair value of investments.
- Actuarial assumptions used in the calculation of pension and other post-employment benefit liabilities and the related deferred inflows and outflows of resources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 4 – Rent receivable
- Note 5 – Notes receivable
- Note 16 – Pension plans
- Note 17 – OPEB

The Honorable Eric R. Papenfuse, Mayor,
Audit Committee, and Honorable
Members of City Council
City of Harrisburg, Pennsylvania
Communication to Those Charged with Governance
Page 3 of 5

- Note 18 – Accumulated deficits
- Note 19 – Financial recovery plan
- Note 20 – Commitments and contingencies
- Note 21 – Compliance
- Note 22 – Litigation

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached Schedule A presents material misstatements, detected as a result of audit procedures, that were corrected by management. Schedule A presents entries proposed with respect to the City's recording of transactions related to cash, the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to/due from Capital Region Water (CRW) under the transition agreement, due to other funds and due to other governments, and transfer of the Bureau of City Services from the General Fund to the Neighborhood Services Fund.

The attached Schedule B summarizes an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to each opinion unit's financial statement taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, budgetary comparison schedules, and historical pension plan and other post-employment benefit plan information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund statements and schedules and the schedule of expenditures of federal awards (collectively, supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory or statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Audit Findings or Issues

Material weaknesses have been communicated to the City through the Single Audit Report. Additionally, other matters have been communicated to the City through a management letter.

The Honorable Eric R. Papenfuse, Mayor,
Audit Committee, and Honorable
Members of City Council
City of Harrisburg, Pennsylvania
Communication to Those Charged with Governance
Page 5 of 5

This information is intended solely for the information and use of the Honorable Mayor, Members of City Council, audit committee, and management of the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Mahe Duessel

Harrisburg, Pennsylvania
September 25, 2017

Client: *City of Harrisburg*
Engagement: *12430- CITY OF HARRISBURG*
Period Ending: *12/31/2016*
Workpaper: *Material Adjusting Journal Entry Report*

| Account | Description | W/P Ref | Debit | Credit |
|--|--------------------------|-----------------|-------------|-------------|
| GENERAL FUND | | | | |
| Adjusting Journal Entry JE # 1 | | Q-020 | | |
| To adjust PEDFA notes receivable for the net present value | | | | |
| 01000000-138055 | NOTE RECEIVABLE - PEDFA | | 510,092.00 | |
| 01000000-260007 | DEFERRED LOANS - PEDFA | | | 510,092.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 11 | | Q-510 | | |
| To remove activity related to transfer of leases and capital assets from the accrual fund to | | | | |
| 01000100-398025 | NEIGHBORHOOD SVCS FUND | | 155,228.00 | |
| 01060160-453049 | LEASE PURCHASE | | 168,146.00 | |
| 01010189-481025 | NEIGHBORHOOD SVCS FUND | | | 168,146.00 |
| 01060162-453049 | LEASE PURCHASE | | | 155,228.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 12 | | I-400 | | |
| To record change in due from CRW (sewer) | | | | |
| 01000000-110SWCSH | SEWER CASH | | 209,877.00 | |
| 01000000-125SWINV | SEWER WORK COMP INVESTMT | | | 1,314.00 |
| 01000000-229SWW/C | SEWER WORKERS' COMP | | | 43,473.00 |
| 01000000-229SWWCC | SEWER WORK COMP CURRENT | | | 23,112.00 |
| 01000000-230SWCRW | SEWER DUE TO CRW | | | 141,978.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 13 | | I-400 | | |
| To record change in due from CRW (water) | | | | |
| 01000000-102WTC SH | WATER CASH | | 52,284.00 | |
| 01000000-203000 | ACCOUNTS PAYABLE | | 162.00 | |
| 01000000-229100 | ACCRUED EXPENSES | | 4,545.00 | |
| 01000000-138002 | WATER | | | 56,991.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 14 | | C-01-300 | | |
| To record the amount due to HSD for ACH and Credit Card payments received in 2016. | | | | |
| 01000000-108000 | CASH STMT-CENTRL DEPOSIT | | 77,004.00 | |
| 01000000-108000 | CASH STMT-CENTRL DEPOSIT | | 131,756.00 | |
| 01000000-259999a | PAY TO HSD | | | 77,004.00 |
| 01000000-259999a | PAY TO HSD | | | 131,756.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 15 | | C-01-070 | | |
| To record a due to HSD for transfer that occurred 1/3/17. | | | | |
| 01000000-108000 | CASH STMT-CENTRL DEPOSIT | | 90,296.00 | |
| 01000000-259999a | PAY TO HSD | | | 90,296.00 |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entry JE # 17 | | C-01-100 | | |
| To remove negative cash on F/S from Fund 6 and create a due from capital projects. | | | | |
| 01000000-138006 | CAPITAL PROJECTS | | 514,283.00 | |
| 01000000-110000 | CHECKING | | | 514,283.00 |
| Total | | | 0.00 | 0.00 |

Client: *City of Harrisburg*
Engagement: *12430- CITY OF HARRISBURG*
Period Ending: *12/31/2016*
Workpaper: *Material Adjusting Journal Entry Report*

| Account | Description | W/P Ref | Debit | Credit |
|---------|-------------|---------|-------|--------|
|---------|-------------|---------|-------|--------|

CAPITAL PROJECTS FUND

Adjusting Journal Entry JE # 2

C-01-100

To remove negative cash on the F/S and create a due to general fund.

| | | | | |
|-----------------|--------------|--|-------------------|-------------------|
| 06000000-110000 | CHECKING | | 514,283.00 | |
| 06000000-230001 | GENERAL FUND | | | 514,283.00 |
| Total | | | 514,283.00 | 514,283.00 |

NEIGHBORHOOD SERVICIES FUND

Adjusting Journal Entries JE # 3

N-420

To properly accrue for 2016 expenses paid during 2017.

| | | | | |
|-----------------|------------------|--|-------------------|-------------------|
| 25062562-422040 | PROPERTY TAXES | | 105,644.00 | |
| 25000000-203000 | ACCOUNTS PAYABLE | | | 105,644.00 |
| Total | | | 105,644.00 | 105,644.00 |

Adjusting Journal Entries JE # 4

P-800

To record 12/31/15 compensated absences balance transferred from governmental

| | | | | |
|-----------------|------------------------|--|-------------------|-------------------|
| 25062562-481001 | GENERAL FUND TRANSFERS | | 257,897.00 | |
| 25062562-419005 | SEVERANCE PAY | | | 257,897.00 |
| Total | | | 257,897.00 | 257,897.00 |

Adjusting Journal Entries JE # 5

P-800

To reclass transfer of 12/31/15 workers comp liability from governmental activities

| | | | | |
|-----------------|------------------------|--|-------------------|-------------------|
| 25062562-481001 | GENERAL FUND TRANSFERS | | 843,037.00 | |
| 25062562-419012 | LOSS TIME & MED | | | 843,037.00 |
| Total | | | 843,037.00 | 843,037.00 |

Adjusting Journal Entries JE # 6

P-800

To record 12/31/15 city services OPEB liability

| | | | | |
|-----------------|------------------------|--|---------------------|---------------------|
| 25062562-481001 | GENERAL FUND TRANSFERS | | 2,862,648.00 | |
| 25000000-253010 | OPEB LIABILITY | | | 2,862,648.00 |
| Total | | | 2,862,648.00 | 2,862,648.00 |

Adjusting Journal Entries JE # 8

P-800

To record 12/31/15 compensated absences balance for A. Johson and Grayer

| | | | | |
|-----------------|------------------------|--|-------------------|-------------------|
| 25062562-481001 | GENERAL FUND TRANSFERS | | 119,329.00 | |
| 25062562-419012 | LOSS TIME & MED | | | 119,329.00 |
| Total | | | 119,329.00 | 119,329.00 |

Client: **City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2016**
 Trial Balance: **A-100 30 - Grant Funds Consolidated Trial balance**
 Workpaper: **A-05-02 - Proposed Journal Entry Report - Grant Funds**

| Account | Description | W/P Ref | Debit | Credit |
|---|-----------------------|---------|------------------|------------------|
| Proposed Journal Entries | | | | |
| Proposed Journal Entries JE # 1 | | | | |
| To record passed adjustment for Grant Funds | | | | |
| 14000000-133011 | GRANTS | | 29,255.00 | |
| 14031465-462000 | GRANTS TO LOCAL UNITS | | 29,255.00 | |
| 30000000-133011 | Grants | | 14,619.00 | |
| 30033010-462000 | GRANTS TO LOCAL UNITS | | 14,619.00 | |
| 14000000-203000 | ACCOUNTS PAYABLE | | | 29,255.00 |
| 14031405-350005 | FEDERAL GRANT | | | 29,255.00 |
| 30000000-203000 | ACCOUNTS PAYABLE | | | 14,619.00 |
| 30033000-350005 | FEDERAL GRANT | | | 14,619.00 |
| Total | | | 87,748.00 | 87,748.00 |
| Total Proposed Journal Entries | | | 87,748.00 | 87,748.00 |
| Total All Journal Entries | | | 87,748.00 | 87,748.00 |