



### Management Letter

January 4, 2021

City of Lincoln  
600 6<sup>th</sup> Street  
Lincoln, California 95648

In planning and performing our audit of the financial statements of City of Lincoln (the City) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered City of Lincoln's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and 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. A separate letter dated January 4, 2021, contains our communication of material weaknesses and significant deficiencies in the City's internal control. This letter does not affect our report dated January 4, 2021, on the financial statements of the City of Lincoln.

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 City 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.

This communication is intended solely for the information and use of management, City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

A handwritten signature in blue ink that reads 'Mann Urrutia Nelson CPAs'.

Mann, Urrutia, Nelson CPAs & Associates LLP

**City of Lincoln**  
**Control Deficiencies and Internal Control Recommendations**  
**June 30, 2020**

**Other Post-Employment Benefits Census Data (Repeat) and Other Benefit Liabilities**

**(Repeat)** The City provides various employee benefits such as pension, retiree health, medical insurance, and life insurance. The basis of payment for such services is accurate employee data. We noted the City does not have any procedures in place to reconcile that employee data is being properly recorded and taken into consideration as invoices received by the City are dependent on such data. Further, we noted that these invoices are not being reviewed and approved by human resources. As pension and retiree health comprise significant liabilities to the City, we recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plans and the plan actuary regarding census data. On an annual basis, management should obtain the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the City may compare the information to underlying payroll records and the prior year census data file. The City may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences. In relation to other benefit liabilities, human resources should be reviewing and approving related invoices. The basis of their review should be verifying accurate employee data has been considered and that changes have been made for any new hires or terminated employees.

**Financial Close**

**(Repeat)** In fiscal year 2019, the City implemented processes for financial close and reporting. However, due to turnover in the finance department, these procedures were not adequately performed. Approximately twelve journal entries were proposed to the trial balance for audit. We recommend the City enhance their financial close and reporting process to limit the amount of journal entries needed to correct year-end balances.

**Allowance for Uncollectible Receivables**

Upon receipt of the final unaudited trial balance, we noted there were no changes to the allowance for uncollectible receivable accounts. Upon further inquiry, it was determined these balances had not yet been reviewed and assessment of collectability had not yet been performed. We recommend the City ensure that these procedures are included as part of their year-end close process.

**Grant Accounting**

**(Repeat – previously reported as a significant deficiency)** During our evaluation of grant revenues, grants receivable, and grant unearned revenue, we noted grant activity was not being properly recorded. We identified one capital project grant did not include retention receivable of \$62,086 thus understating the receivable balance as of 6/30/20.

During our review of grant receivables and deferred revenue, we identified one grant related the Airport Fund that had inappropriately deferred the grant receivable balance at year-end and the related grant revenue for the fiscal year. This was due to misapplying modified accrual accounting principles to a proprietary fund accounted for under the full accrual method. We recommend the City ensure long-term receivables are accounted for correctly based on the type of fund the activity is being recorded in.

**Compensated Absences**

Per review of the compensated absences schedule, we noted one employee who had an accrued vacation balance over the allowable limit. The total hours accrued included 443 vacation hours which is 143 hours over the accrued maximum of 300. We recommend staff perform a comprehensive review of the compensated absences report to ensure hours do not exceed their respective limits.

**City of Lincoln**  
**Control Deficiencies and Internal Control Recommendations (continued)**  
**June 30, 2020**

**Classification of Developer Deposits**

*Amounts Due to Other Agencies*

The City identified funds totaling \$57,500 that were previously recorded as revenue in fiscal year 2019, but represent funds on deposit with a developer. Therefore, a prior period adjustment was recorded in fiscal year 2020 decreasing beginning fund balance.

*Agency Fund – Developer Deposits*

The City identified approximately \$1.7 million in funds that were previously recorded in fiscal year 2019 as “Due to Property Owners” that should have been recorded as “Pay-as-you-go Developer Liability.” Accordingly, the City reclassified the funds to the correct account. As this activity is recorded as an agency fund, there is no impact to fund balance or net position; the reclassification only affects the reporting of the agency fund.

We recommend the City enhance their review of developer related receipts to ensure they are being properly recorded.

**Interfund Advances**

The City currently has 7 interfund loans totaling \$19.8 million. Currently only two of the loans have current payment schedules and are making payment. The remaining 5 interfund loans totaling \$13.7 million do not have formal payment plans and continue to accrue interest. We recommend the City develop payment plans for all interfund loans. Alternatively, the City may want to consider the possibility of writing-off amounts due and research implications of the write-off.

In addition, per review of the interfund loan schedule, we noted several errors in the calculation of accrued interfund interest. We recommend the City ensure all loans are properly accruing interest and that the interest is being calculated correctly.

**City of Lincoln**  
**Status of Prior Year**  
**Control Deficiencies and Internal Control Recommendations**  
**June 30, 2020**

**Payroll**

As part of the process of inputting new employee information and/or changes to current employee information into Springbrook, a proof list is generated by the Payroll Technician to verify that items input and changes were made accurately. However, there is no indication of the review of the proof list. We recommend that the Payroll Technician, or assigned personnel, initial and date the proof list as evidence of their review.

**Status: Implemented**

Upon our review of the payroll process, we noted that after payroll is posted to the general ledger, there is no reconciliation performed between what is posted to the general ledger and the final payroll journal reports. We recommend a reconciliation be performed after each pay period to ensure that payroll is properly posted to the general ledger.

**Status: Implemented**

As part of the payroll process a check proof list, similar to a payroll register, is generated and compared to a payroll GL distribution list which presents the allocation of expenses among the various related GL accounts. The Payroll Technician agrees the totals between both reports to ensure the total payroll expense is captured in the GL at time of posting. Both reports are then presented to the Finance Manager for review. Due to the vacancy of the Finance Manager position, this review was not taking place during the year. We recommend the check proof list and GL distribution list be reviewed and approved by an alternative supervisor in Finance with the absence of a Finance Manager.

**Status: Implemented**

Upon our review of the payroll process, we noted there is no report listing terminated employees which verifies that terminated employees have been correctly removed from the payroll system. We recommend a report listing terminated employees be generated and compared to the payroll status change forms received for terminated employees. This report should be signed after comparison. This will ensure terminated employees have been removed from the payroll system.

**Status: Implemented**

Upon our review of the payroll process, we noted there is no review or approval of the amount that is uploaded to the bank for direct deposit. The direct deposit list is prepared and uploaded solely by the Payroll Technician. We recommend the Finance Manager or another supervisor in Finance review the direct deposit upload to ensure accuracy of the approved amounts.

**Status: Implemented**

**City of Lincoln**  
**Status of Prior Year**  
**Control Deficiencies and Internal Control Recommendations (continued)**  
**June 30, 2020**

**Other Post-Employment Benefits Census Data and Other Benefit Liabilities**

The City provides various employee benefits such as pension, retiree health, medical insurance, and life insurance. The basis of payment for such services is accurate employee data. We noted the City does not have any procedures in place to reconcile that employee data is being properly recorded and taken into consideration as invoices received by the City are dependent on such data. Further, we noted that these invoices are not being reviewed and approved by human resources. As pension and retiree health comprise significant liabilities to the City, we recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plans and the plan actuary regarding census data. On an annual basis, management should obtain the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the City may compare the information to underlying payroll records and the prior year census data file. The City may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences. In relation to other benefit liabilities, human resources should be reviewing and approving related invoices. The basis of their review should be verifying accurate employee data has been considered and that changes have been made for any new hires or terminated employees.

**Status: Not Implemented**

**Cash Disbursements**

**(Repeat)** Per our observation of the cash disbursement process, the Accounts Payable Specialist has various duties which are reviewed by an independent employee. One of the tasks within the cash disbursement process is the upload and submittal of checks to be paid via the bank's positive pay system. There is no final review comparing the approved accounts payable proof list with the positive pay upload. To enhance controls, we recommend the approved accounts payable proof list be compared to the positive pay upload by evidence of signature. This comparison serves as a detective control to ensure no changes were made from the approved accounts payable proof list to the final check register.

**Status: Implemented**

**Vendor Monitoring**

During review of the internal controls over cash disbursements, we identified that there was no subsequent review for accuracy and validity performed after the input of new vendors into the accounting system. Although the risk of false vendors being created in the system can be remediated through the review of checks by the check signer prior to disbursement, we recommend the City review that check signers do not have access to create new vendors in the Springbrook system.

Additionally, we noted there is no periodic review of vendors no longer being used by the City. We recommend that on an annual basis the Accounts Payable Specialist generate a master vendor listing out of Springbrook to verify all the vendors are current and accurate. This list should also be reviewed by the Finance Manager.

**Status: Implemented**

**City of Lincoln**  
**Status of Prior Year**  
**Control Deficiencies and Internal Control Recommendations (continued)**  
**June 30, 2020**

**Developer Deposits**

We identified two developer projects and related agreements that were not properly monitored for ongoing compliance. We further noted two separate developer deposits related to long-standing developer projects with little to no prospects of progress or completion. Based on our additional corroboration with the Public Works Director, three of the four noted deposits could have been refunded to the developer as of June 30, 2019, but were not refunded during the fiscal year. We recommend the City public works department develop procedures to more closely monitor and track the compliance requirements of each developer agreement in place, and the finance department annually review the status of each developer deposit recorded in the general ledger and inquire of any long outstanding deposits that may no longer be associated with an active development project.

**Status: Implemented**

**Hydrant Deposits**

We identified one long outstanding hydrant meter deposit that needed to be evaluated for a possible refund to the customer or applied for the purchase of hydrant meters not returned to the City. We recommended the utility billing manager review on an annual basis any long-outstanding hydrant deposits and ensure the utility billing staff are properly monitoring the status of such deposits and provide instruction to address long-outstanding deposits, if necessary.

**Status: Implemented**

**Information Technology – Springbrook Access**

The City's financial information is maintained through the financial software Springbrook. In the prior year, we were informed that all employees who have access to Springbrook have full access to the system. Full access to the City's financial information may result in unauthorized transactions being posted or viewed, or unauthorized changes being made. The Finance team has reviewed user access with IT and updated access permissions, which is consistent with our review of the user access rights in Springbrook, however, both we and the City's financial consultant agree that the City should still continue to address the proper access and change privileges, specifically for the lower level staff within the finance department.

**Status: Implemented**

**Special Revenue Funds**

In accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, special revenue funds are used to report proceeds of specific revenue sources that are restricted or committed for specified purposes, other than capital projects or debt service. Upon our review of the City's special revenue funds, there were several funds that did not appear to receive any restricted or committed proceeds during the year. We recommend management reassess their use of special revenue funds and ensure that they expect that a substantial amount of the required proceeds received will continue. Otherwise, if the City no longer expects that a substantial portion of the inflows will derive from restricted or committed resources, that the remaining resources are reported in the general fund or another fund type.

**Status: Implemented**

**City of Lincoln**  
**Status of Prior Year**  
**Control Deficiencies and Internal Control Recommendations (continued)**  
**June 30, 2020**

**Capital Assets**

Per our review of the asset detail, we noted several assets that are fully depreciated. We recommend the City perform an inventory to determine if those fully depreciated assets are still in use. If the assets are no longer in use by the City, the assets should be removed from the asset listing and deemed obsolete.

**Status: Not Implemented. Included as a significant deficiency in separate letter.**

We noted two instances where leased assets were not properly included in the capital asset schedule. We recommend the City enhance procedures to ensure that all capital assets are accounted for and included in the City's inventory and properly tracked. In addition, leased assets should be accounted for using the relevant and appropriate accounting standards.

**Status: Not Implemented. Included as a significant deficiency in separate letter.**

**Support Service Department Organization**

The City's Support Services Department consists of finance, utility billing, information technology, and central services (purchasing, risk management). Many of these functions affect the financial reporting process. The support services department as presently structured divides oversight of the financial functions in such a manner that lacks cohesion. We recommend management review the current alignment of the support services department staff and their various duties to be reorganized in a manner that will provide for maximum efficiency and proper oversight of the financial reporting process.

**Status: In process. Management continually assesses the needs of the Finance Department.**

**Resolution of Internal Control Deficiencies**

Internal control deficiencies and other issues identified by external auditors are reported to those charged with governance—the Finance & Investment Committee and the City Council each year subsequent to the audit being completed. The Finance & Investment Committee and the City Council have taken action this year to implement several of the recommendations provided to the City during the fiscal year 2018-2019. We have obtained and reviewed a City Council report dated July 2, 2019 logging the status of implementation of these recommendations, and roughly 44% of our recommendations were implemented, 50% were either pending or in process, and 6% have yet to be implemented. We continue to recommend that the status log should be reviewed at every quarterly meeting to ensure proper accountability for implementing these recommendations and that no issues have been overlooked before custody of the log is rotated to the next Committee member.

**Status: Implemented**

**Financial Close**

In fiscal year 2019, the City implemented processes for financial close and reporting; however due to turnover in the finance department, these procedures were not adequately performed. Approximately five journal entries relating to misclassification of revenue or expenses were posted subsequent to the City providing the trial balance for audit. Although our finding did not result in a net effect in the City's fund balance or net position, we recommend the City enforce current procedures, or implement alternatives in light of the current staffing situation.

**Status: Not Implemented**

**City of Lincoln**  
**Status of Prior Year**  
**Control Deficiencies and Internal Control Recommendations (continued)**  
**June 30, 2020**

**Financial Close**

When reviewing the City's beginning fund balance, we identified differences in the beginning fund balance between the City's trial balance and prior year audited financial statements. We recommend the City incorporate into their financial close process a reconciliation of the beginning fund balance to the prior year audited financial statements and correct any variances noted.

**Status: Implemented**