



Management Letter

December 17, 2021

City of Lincoln
600 6th Street
Lincoln, California 95648

In planning and performing our audit of the financial statements of the City of Lincoln (the City) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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. This letter does not affect our report dated December 17, 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.

The City's responses to the comments identified in our audit are described in the accompanying schedule of control deficiencies and internal control recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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, 2021

Capital Assets (Repeat)

(Repeat) Per review of the capital asset detail schedules and the trial balance to be audited we encountered the following:

- Capital assets once recorded in an internal service fund, were double booked to the governmental capital assets on the general ledger upon closure of the internal service fund. In addition, a journal entry to record the City's investment in governmental capital assets was recorded backwards. While these transactions are recorded in an internal tracking fund on the general ledger, we still recommend the City ensure that journal entries to record capital asset transactions are properly recorded and agree to supporting schedules.
- Approximately \$135,000 of capital asset additions were recorded in the Water Fund but belonged to the Wastewater Fund. As above, we recommend the City ensure that journal entries to record capital asset transactions are properly recorded in the correct fund and agree to supporting schedules.

Management's Response: City Management agrees with the auditor's recommendation on the double booking of assets.

Interfund Advances (Repeat)

The City has 7 interfund loans totaling \$18.9 million. Currently only three of the loans have payment schedules and are making payment. The remaining 4 interfund loans totaling \$9.8 million continue to accrue interest and did not have principal payments made in the current year. We recommend the City revisit the payment plans for all interfund loans to determine the likelihood of payoff and alter the payment plans as necessary. The City may want to consider the possibility of writing-off amounts due and research implications of the write-off if it is deemed that insufficient funds are available to fulfill the obligations.

Management's Response: City Management agrees with the auditor's recommendation and will complete an analysis and seek recommendation from Council.

Human Resources

Current City procedures for terminated employees includes obtaining an approved payroll status change form indicating the termination status of the employee. For four out of the nine terminated employees selected for testing, the City was unable to locate their approved payroll status change form. We recommend the City enhance procedures to ensure proper documentation is maintained.

Management's Response: City Management agrees and this was a one-time issue of not maintaining the proper documentation when processing seasonal employee terminations in the system. The issue has been addressed and a procedure update has been implemented for future process integrity.

Proper Classification of Accounts

Throughout the audit process, we encountered various reclassification entries that needed to be recorded such as:

- Reclassification of interfund interest revenue from investment revenue
- Reclassification of debt service interest
- Separation of principal and interest expense recorded to the same account.
- Reclassification of investment revenue from gain on sale of asset

While these entries had minimal to no impact on fund balance or net position, we recommend the City improve their controls over ensuring that transactions are recorded to the proper accounts.

Management's Response: City Management agrees with this recommendation and will take care to carefully review journal entries for correct classification.

City of Lincoln
Control Deficiencies and Internal Control Recommendations (continued)
June 30, 2021

Developer Agreements

As part of the year-end close process, the City discovered developer agreements that were not being accurately tracked or properly disclosed in the financial statements. These developer agreements date back several years and the inconsistent tracking and reporting of information is primarily due to staff turnover throughout the years. The complexity of the developer agreements requires coordination with the Finance Department to ensure that transactions are properly being recorded and reported. We recommend the City perform an inventory of current developer agreements and develop procedures and a tracking mechanism to ensure that all information required to be reported and disclosed in the financial statements is complete and accurate.

Management's Response: Management have been working with Community Development since 2019 to ensure that all developer agreements are properly accounted for. We will continue to work closely with other departments to ensure these agreements are accounted for timely.

City of Lincoln
Status of Prior Year Findings
June 30, 2021

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.

Status: The City did not have a full valuation year as of June 30, 2021. This recommendation will be reassessed in fiscal year 2022.

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.

Status: Implemented.

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.

Status: Implemented.

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.

Status: Implemented.

City of Lincoln
Status of Prior Year Findings (continued)
June 30, 2021

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.

Status: Implemented.

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.

Status: Not implemented.

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.

Status: (1) Not Implemented. (2) Implemented