



March 1, 2019

John Billington
Chief Deputy State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Response to Draft Report of the California State Auditor

Dear Mr. Billington:

Thank you for the opportunity to comment on the draft report prepared by the California State Auditor, as requested by the Joint Legislative Audit Committee. In December 2018, the City began a comprehensive business process improvement initiative that is focused on all finance-related activities. This initiative includes the evaluation of all policies and procedures to identify areas where the City can improve accuracy, effectiveness, transparency and efficiency, and then redesign those processes or policies to realize the improvements.

This effort is long overdue and is needed to demonstrate the City's commitment to being good stewards of the public's money and to increase trust and transparency for our residents. The audit is beneficial to this effort and will serve as part of the framework for establishing a road map for moving forward. As a city, we can do better through the creation of strategic plans to correct course and improve the overall fiscal health and function of the City. Both staff and the City Council are committed to championing this effort.

Response to Audit Recommendations

The City responds to the recommendations as follows:

Section 1

Recommendation 1A: "To ensure that it complies with state law, Lincoln should immediately review all of its outstanding interfund loans to determine whether the borrowing funds can repay the loans according to the terms. For any loan that is from a restricted fund and that does not have the capacity to be repaid, Lincoln should develop a plan that ensures repayment within a reasonable timeframe, including seeking possible alternative financing or revenue sources, such as the general fund, bonds, one-time revenues, or a tax increase, to address the obligation."

City Hall
600 Sixth Street
Lincoln, CA 95648
(916) 434-2400
www.ci.lincoln.ca.us

Administrative Services - City Manager's Office - Development Services
Fire - Library - Recreation - Police - Public Services

Response: *The City agrees with this recommendation. The analysis of all interfund loans is currently underway and a comprehensive plan for addressing all interfund loans will be presented to City Council for input and consideration. Paying off all associated debt will require a long-term implementation strategy.*

Recommendation 1B: “To ensure that it avoids accumulating surpluses, by August 2019, Lincoln should establish policies and procedures requiring it to review its fund balances at least annually and, if necessary, reduce its fees within a reasonable timeframe.”

Response: *The City agrees with this recommendation and will include this requirement in a comprehensive budget policy that will be presented to City Council for consideration.*

Recommendation 1C: “To comply with state law, Lincoln should immediately discontinue its practice of using restricted funds to subsidize other funds that have year-end deficits and lack the ability to permanently repay the transfers within 90 days of the close of the fiscal year.”

Response: *The City agrees with this recommendation. Beginning with the 2018/2019 fiscal year, the City will discontinue this practice except for short-term loans required for the fiscal year end Generally Accepted Accounting Principle (GAAP) presentation of the City’s financial statements. These types of loans are legal, repaid within 90 days, primarily made for cash flow reasons, and are typically funded by the General Fund.*

Recommendation 1D: “By June 2019, Lincoln should establish accounting procedures to ensure that it records all costs of city maintenance from the appropriate funds, including apportioning the general benefit costs to the general fund.”

Response: *The City agrees with this recommendation and implemented this recommendation for fiscal year 2018/2019, beginning with the City Council’s adoption of the Lighting and Landscaping District Engineer’s Report on June 12, 2018. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.*

Recommendation 1E: “To ensure that it complies with the state constitution, Lincoln should establish and adhere to procedures that account for revenue and expenditures in each landscaping and lighting zone separately, and it should discontinue the use of surplus revenue from one zone to offset a deficit in another zone. It should take these actions by June 2019.”

Response: *The City agrees with this recommendation and implemented this recommendation for fiscal year 2018/2019. Importantly, however, the costs associated with the general benefit and any zone deficit that cannot be paid by the Lighting and Landscaping District are obligations of the General Fund. Payment of this obligation by the General Fund results in decreased revenue for public safety. In order to address this issue, consideration of an assessment increase for those deficit zones, as well as those areas of the City that do not currently pay an assessment for the use of parks,*

landscaping, and lighting, will be necessary. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.

Recommendation 1F: “To ensure that city staff provides the city council adequate information to make its decisions regarding interfund loans and transfers, the city council should immediately collaborate with the city manager and department directors to establish formal expectations regarding the content of staff reports, and it should hold the city manager accountable for ensuring all staff reports meet those expectations.”

***Response:** The City agrees to establish formal expectations among staff regarding the content of staff reports. Information provided to City Council should be reviewed and revised as appropriate to ensure the highest expectation for content.*

Section 2

Recommendation 2A: “Lincoln should immediately commence a fee study that ensures its fees for water capacity are commensurate with the costs of current and planned future water capacity needs. To the extent that Lincoln has previously overcharged for water capacity fees, it should develop a plan to provide equitable consideration to those who overpaid such fees and it should eliminate any unnecessary surplus in the water connections fund.”

***Response:** The City agrees with this recommendation and has initiated the process by issuing a request for proposals to complete the required study. Proposals were received by the City on February 22, 2019, and it is anticipated that a contract will be proposed to City Council on March 12, 2019. The fee study will be used to inform any nexus for the future use of water connection revenue on hand. If a nexus is not identified, the City Council will then evaluate equitable considerations and the public benefit to determine the appropriate action to address any unnecessary surplus.*

Recommendation 2B: “To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and follow a timeline by June 2019 for conducting periodic fee studies for each of its services, including updating its staff rates annually.”

***Response:** The City agrees with this recommendation. Below is the current status of the various fee studies that are completed or underway:*

***Water Rates:** Complete. New rates were implemented October 1, 2018.*

***Solid Waste and Wastewater Rates:** Studies are underway. Draft rates are expected to be presented to City Council by August 2019.*

***Public Facility Element (PFE) Study:** Draft study completed. Final study anticipated to be presented to City Council by June 30, 2019.*

***Master Fee Schedule:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019.*

***Cost Allocation Plan:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019.*

Water Connection Nexus Study: Proposals received. Contract will be proposed to City Council on March 12, 2019.

Moving forward, the City will create a schedule ensuring regular updates to its fees and rates.

Recommendation 2C: “To the extent allowable by law, the city council should develop a plan by August 2019 to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the city’s practice of not paying for its own water, sewer, and solid waste services.”

Response: *The City agrees with the recommendation that further discussion should take place related to this item. The City Council originally addressed this item at its March 13, 2018 meeting. At the end of that meeting, City Council concluded that any decision regarding the item should be postponed until the completion of the audit. Therefore, this item will now be brought back before the Council for consideration.*

Recommendation 2D: “To ensure transparency to the public, beginning with its fiscal year 2019-20 budget, Lincoln should specific in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste—and the funds that it intends to use to pay for these costs.”

Response: *The City agrees to implement this recommendation.*

Section 3

Recommendation 3A: “By August 2019, Lincoln should establish and follow policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices.”

Response: *The City agrees with this recommendation and has already initiated its implementation as part of the comprehensive business process improvement initiative. On February 12, 2019, the City Council adopted a Closing Policy and a Grants Management Policy. Staff is currently developing a comprehensive budget policy as part of budget planning for the 2019/20 fiscal year. The City will ensure that all policies and procedures required by the Governmental Accounting Standards Board (GASB) and its Generally Accepted Accounting Principles (GAAP) are adopted and implemented.*

Recommendation 3B: “To help ensure that the city manager fully informs the city council of all relevant information before the council approves the annual budget, the city should specify by July 2019 the supporting information that it expects staff to provide with the proposed budget. Lincoln should then update its duty statements to require the city manager and department directors to provide the city council with this information as party of the city’s budget process.”

Response: *The City agrees with this recommendation and is currently developing a comprehensive budget policy that will be presented to City Council for consideration.*

Recommendation 3C: “To ensure that the city complies with its purchasing policy, the city manager should immediately develop and implement procedures for staff to obtain and document the required approval from the city manager or the city council before committing city resources. Beginning immediately, the city manager should also report to the city council on a regular basis all purchases that the city manager approves.”

Response: *The City agrees with this recommendation and is in the process of reviewing the policies and procedures that already exist to determine what modification is required to fully implement this recommendation.*

Recommendation 3D: “To ensure that the city management holds city staff accountable for resolving deficiencies identified in its annual audits, Lincoln city council should immediately require the city manager to track and report progress in addressing outstanding audit recommendations at least quarterly.”

Response: *The City agrees with this recommendation and will be regularly presenting this information to the Financial Investment and Oversight Committee and the City Council.*

Recommendation 3E: “By June 2019, Lincoln should develop and follow a process to ensure that it accurately and promptly records all year-end closing entries in its general ledger and issues its CAFR within the period that state law requires.”

Response: *Complete. The City Council adopted a new Closing Policy on February 12, 2019, which addresses this requirement. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.*

Section 4

Recommendation 4A: “To ensure transparency in providing accurate fee information to the public, Lincoln should immediately update and publicly disclose its master fee schedule to reflect the fees that it actually charges. In addition, Lincoln should periodically review its fee schedule to identify outdated fees that do not accurately reflect the cost of providing services. It should revise those fees to incorporate the costs commensurate with those services and update its master fee schedule accordingly.”

Response: *The City agrees with this recommendation and began implementation on February 26, 2019, when the City Council approved a contract for services with a consultant tasked with completing a comprehensive update to the Master Fee Schedule and the Cost Allocation Plan, both with required annual updates.*

Section 5

Recommendation 5A: “To ensure that it applies the correct fee credits to developers, Lincoln should develop policies and procedures by September 2019 for establishing fee credits and maintaining adequate documentation to justify modifications to fee credits, including credits it awards based on changes in fee schedules and updated development agreements.”

***Response:** The City agrees with this recommendation and is addressing it primarily through the adoption of a new Public Facility Element (“PFE”) study. A draft study is completed, and the final study is anticipated to be presented to City Council by June 30, 2019. Additional procedures will be adopted for the accounting of these credits to ensure they are accurately tracked and managed.*

Conclusion

The audit provided the City of Lincoln a valuable opportunity to look internally and improve its operational processes. City staff and the City Council look forward to engaging residents to address the heart of the City’s challenges, a shortfall in General Fund revenue, and the levels of service provided.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,



Jennifer Hanson
City Manager