CITY OF LINCOLN
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2018

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CITY OF LINCOLN
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Lincoln, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lincoln's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lincoln's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lincoln's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2018-001 through 2018-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2018-003 through 2018-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-007 through 2018-009.

City of Lincoln, California's Responses to Findings

City of Lincoln's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lincoln'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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze Christi Nel CPAs

Sacramento, California
March 27, 2019

MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Lincoln, California

Report on Compliance for Each Major Federal Program

We have audited the City of Lincoln's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Lincoln's major federal programs for the year ended June 30, 2018. City of Lincoln's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lincoln's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lincoln's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lincoln, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-008 and 2018-009. Our opinion on each major federal program is not modified with respect to this matter.

City of Lincoln's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Lincoln's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City of Lincoln is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lincoln's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lincoln's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements. We issued our report thereon dated March 27, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maze & Associates, CPAs

Sacramento, California
March 27, 2019

CITY OF LINCOLN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program	Federal CFDA Number	Pass-Through Entity Identifying Number/Grant Number	Federal Expenditures
U.S Department of Housing and Urban Development			
Direct programs:			
Community Development Block Grants/Entitlement Grants	14.228	Beginning Loan Balance	$ 507,357
Community Development Block Grants/Entitlement Grants	14.228	Program Income	506,515
Community Development Block Grants/Entitlement Grants	14.228	13-CDBG-8950	96,664
Total Community Development Block Grants / Entitlement Grants			1,110,536
Home Investment Partnerships Program	14.239	Beginning Loan Balance	2,144,644
Total U.S. Department of Housing and Urban Development			3,255,180
U.S Department of Transportation			
Direct programs:			
Airport Improvement Program	20.106	3-06-0120-022-2017	301,244
Airport Improvement Program	20.106	3-32-0120-023-2017	74,242
Airport Improvement Program	20.106	3-06-0120-021-2016	14,649
Total Airport Improvement Program			390,135
Pass-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5089(021)	53,395
Highway Planning and Construction	20.205	HSIPL-5089(020)	72,590
Highway Planning and Construction	20.205	CML-5089(023)	720,653
Highway Planning and Construction	20.205	CML-5089(025)	84,553
Highway Planning and Construction	20.205	STPL-5089(024)	1,066,202
Highway Planning and Construction	20.205	HSIPL-5089(026)	45,000
Total Highway Planning and Construction			2,042,393
Total U.S. Department of Transportation			2,432,528
Total Expenditures of Federal Awards			$ 5,687,708

CITY OF LINCOLN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Lincoln. The City of Lincoln reporting entity is defined in Note 1 of the City's Comprehensive Annual Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Lincoln has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

NOTE 5: LOANS OUTSTANDING

The programs listed below had the following aggregate federally funded loans outstanding at June 30, 2018:

Federal CFDA Number	Program Title	Amount Outstanding
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	$ 460,261
14.239	Home Investment Partnerships Program	1,861,272
	Total Loans Outstanding	$ 2,321,533

NOTE 6: INDIRECT COSTS

The City elected not to use the 10% de minimis indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2018.

CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance	No
Identification of Major Programs: Airport Improvement Program, 20.106 Highway Planning and Construction, 20.205	
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II: FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted *Government Auditing Standards.*

Finding 2018-001 Prior Period Adjustments (Material Weakness)

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulation.

Condition

As part of the year-end close process, the City's financial consultant identified various prior period adjustments. In addition, during the performance of the audit, additional prior period adjustments were identified. Prior period adjustments were related to: developer deposits, grant revenue, unearned revenue, completed projects, capital assets, and accounts receivable.

Cause

Proper account reconciliations were not being performed. Balances extending over fiscal years were not being researched to identify whether or not they were still valid.

Effect

The financial statements as presented to the auditors contained misstatements that required adjustment. In addition, financial statements that are being presented to management and Council for decision-making purposes are not accurate.

Recommendation

We recommend the City develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to respective account balances prior to the trial balance being provided for the audit.

Views of Responsible Officials

City Management is in agreement with the auditors finding. Closing policies and procedures have been adopted by the City Council which include a monthly close process to ensure that all activity is posted in a timely manner, reconciled, and reported accurately thorough periodic financial statements to the Finance Committee and City Council.

Finding 2018-002 Financial Close (Material Weakness - Repeat Finding)

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulation.

Condition

During the performance of the audit, we noted that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective, which contributed to the delayed accounting close of the City's trial balances and unpreparedness for the audit. Approximately 50 journal entries were proposed and posted subsequent to providing the trial balance for audit. Auditors had to perform additional procedures over testing of account balances after receiving additional journal entries.

Cause

The City does not have adequate controls in place to ensure accounting records are closed timely and accurately.

Effect

The financial statements as presented to the auditors contained misstatements that required adjustments.

Recommendation

We recommend the City develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to respective account balances prior to the trial balance being provided for the audit.

Views of Responsible Officials

City Management is in agreement with the auditors finding. Closing policies and procedures have been adopted by the City Council which include a monthly close process to ensure that all activity is posted in a timely manner, reconciled, and reported accurately thorough periodic financial statements to the Finance Committee and City Council.

Finding 2018-003 Capital Assets (Significant Deficiency - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

In addition to the material weaknesses noted in 2018-001 and 2018-002, there were various inaccuracies noted in the capital assets schedule.

During our testing of capital assets, we noted the City had not properly reconciled the general ledger balances to the supporting depreciation detail. We recommend the City review its depreciation schedule for mathematical accuracy and perform an asset inventory to ensure all assets are being accounted for properly. We also recommend the City perform a thorough reconciliation of the supporting depreciation schedule to each fund's general ledger.

During our review of the asset detail, we noted an asset totaling $4,365,752 that was erroneously included as part of construction-in-progress but was not the City's asset. This resulted in a prior period restatement.

During our review of Council minutes, we noted a transfer of land from the Successor Agency to the City in the amount of $1,798,914 that was approved but was not recorded.

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.

Cause

The City's capital asset detail schedules have gone through several revisions over the past years. The City has maintained a capital asset module, an excel spreadsheet, and general ledger accounts which all have not been properly reconciled to one another. In addition, it appears that finance was not made aware of certain capital asset transactions.

Effect

The capital assets schedule as presented to the auditors contained misstatements that required adjustments.

Recommendation

We recommend the City assess their current supporting schedules for capital assets to ensure 1) they are mathematically accurate; 2) they only include relevant data; and 3) the reconciliations and journal entries are being properly prepared and reviewed.

Views of Responsible Officials

City Management agrees with the auditors finding. Staff have created a filing system for all activity pertaining to capital assets. Supporting documentation for any transactions that occur through the year will be filed here, reconciled, reviewed, and included on the City’s schedule. Additional attention will be provided to ensure that assets are relevant, and that all entries are reviewed and recorded properly.

Finding 2018-004 Grant Accounting (Significant Deficiency - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and repot financial data consistent with the assertions of management in the financial statements and the schedule of expenditures of federal awards.

Condition

The City's grant revenues, expenditures, and receivables are not being properly reconciled for financial reporting purposes at year-end.

> Audit procedures identified a grant that was not presented on the City's grant schedule. It was further identified that $211,513 of the grant revenue recorded in the current year was actually related to expenditures recorded in the prior fiscal year. This resulted in a prior period adjustment.
>
> As part of audit procedures related to grants, we identified two cash receipts for $633,604 and $441,994 received after 60 days that should have been recorded as deferred inflows of resources as opposed to revenue in accordance with the modified accrual basis of accounting.

Cause

It appears there is not enough formalized communication between the various departments who manage grants and the Finance Department who is responsible for financial reporting at year-end. A formal reconciliation of grants was not being performed.

Effect

A prior period adjustment was recorded for the grant expenditures incurred in the prior year. In addition, grant revenue that was recorded in the current year was reversed and recorded as deferred inflows of resources.

Recommendation

We recommend the City implement a grants administration policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Finance Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approval of coding and application
- Copies of reimbursement requests submitted
- Monitoring of grant cash flow

The Finance Department should then be able to prepare a reconciliation of grant revenues, expenditures, unearned revenues, and receivables for the fiscal year-end.

Views of Responsible Officials

The City Council has adopted a grants administration policy and is in the process of being operationalized. The policy requires involving the finance department from grant application through close out. A new checklist has been created, and is required to be completed by the awarded department and submitted to finance. The City’s finance department will be assuming responsibility for maintaining the permanent files which will include, grant agreements and budgets, in addition to reimbursement requests which will be reconciled and verified by finance prior to filing.

Finding 2018-005 Interfund Borrowing (Significant Deficiency - Repeat Finding)

Criteria

Governmental Accounting Standards define the current portion of interfund loans as due to and due from other funds and the non-current portion of interfund loans as advances to and advances from other funds.

Condition

The City's airport enterprise fund has significant interfund borrowings in the form of due to other funds. As of June 30, 2018, the amount due to other funds totaled $5,250,000. This balance represents an increase of $206,829 or 4.17% from the prior year. Amounts exceeding $5,000,000 have existed as due to other funds in the airport fund for several years. Based on current revenue sources and review of the City's budget, this fund has not demonstrated the ability to repay the interfund borrowing within the subsequent fiscal year. We also noted that a restricted special revenue fund was being used as the offsetting due from account to eliminate this fund's cash deficit. As a restricted, special revenue fund, this transaction represents an ineligible cost.

Cause

There were insufficient revenue sources to pay for expenditures incurred for projects in past years which has resulted in long-term interfund borrowing and the cash deficit.

Effect

By classifying these amounts as due to and due from other funds, the City is misstating these amounts as a current interfund loan rather than a long-term interfund loan. Further, cash of the restricted special revenue fund is being used for an unintended purpose.

Recommendation

Per review of the City's budget, it is evident that the airport fund's revenues will not be sufficient to cover general operating costs and may result in subsequent years' cash deficits. We recommend the City implement plans on how the cash deficit will be eliminated in future years and establish a formal interfund loan agreement that is approved by Council. Alternatively, the City may want to consider the possibility of writing-off the amount due and research implications of the write-off.

Views of Responsible Officials

Management is in agreement with the auditors finding. Staff are currently evaluating strategies to resolve the airport cash deficit that include potential sale of property, expense reduction, revenue reduction, and other possibilities. The City will be reviewing its options in conjunction with other financial challenges that exist within the City and will determine the best possible solution holistically.

Finding 2018-006 Special Assessment Debt Funds (Significant Deficiency)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

Upon reviewing the City's cash balances, we noted that several of the City's funds related to special assessment debt had negative unrestricted cash balances. These funds were being used to wire bond payments to the fiscal agent. Upon further inquiry, it was identified that the related special assessment revenue that was supposed to be used to pay the bond payments were being recorded in a different fund, causing the negative cash balances.

During our audit procedures, we noted that one of the City's governmental capital project funds related to a Community Facilities District transferred out $123,168 to a special assessment agency fund. The City was not able to provide supporting documentation for this transfer.

Cause

As additional bonds were issued, which were secured by the same Community Facilities District (CFD), the City created new funds for each debt issuance. The bonds secured by the same CFD are levied as one. The City applied the receipt of the levy to one fund, however debt service payments were paid from each individual fund. This resulted in negative unrestricted cash balances in the related funds.

The City received capital project funding from multiple sources, including special assessment bond proceeds. However, the City does not have records to support the amount of unused project funds by funding source, and transferred the remaining project funds to the agency fund responsible for special assessment bond repayment.

Effect

Numerous funds related to special assessment debt had negative cash balances. Funds that should have been closed or consolidated were not being presented as such.

The City's records for the capital project do not support the transfer of funds to the agency fund.

Recommendation

We recommend the City enhance their current procedures to reconcile their special assessment debt and related activity (cash with fiscal agent, special assessment revenue, and bond payments). Funds that tracked special assessment debt that have since been refinanced or paid off should be closed. The City should also ensure that each fund's cash balance is sufficient to cover the required bond payments. Transfers between the City's pooled cash and cash with fiscal agent need to be performed in a timely manner.

We recommend the City develop a system to properly track project revenues and expenditures by funding source to ensure that all funds are expended properly.

Views of Responsible Officials

City Management is in agreement with this finding. The City Council has adopted a financial close policy and procedures that require monthly reconciliations by fund, appropriate filing of those reconciliations, as well as the permanent documents such as budgets, sources and uses, etc. so staff are regularly reviewing relevant activity, and have access to information filed in a centralized location to help them determine the validity of expenses, and other balances on the special assessment financials, and other funds as well.

Finding 2018-007 SB 341 Successor Agency Compliance (Compliance - Repeat Finding)

Criteria

Senate Bill (SB 341) requires that all successor entities, starting with fiscal year ended June 30, 2014, to comply with annual report requirements within six months after the end of each fiscal year. The annual report must be posted to the City's website and contain all of the required items as described in the Health and Safety Code Section 34176.1 beginning with subsection (f).

Condition

The City did not post the required annual report for the fiscal year ended June 30, 2018 by the deadline of December 31, 2018.

Cause

There were various accounting issues such as accounting schedules not properly reconciling to the general ledger which caused delays in the completion of the 2018 annual audit.

Effect

The posting of the annual financial report is past its due date.

Recommendation

As noted in recommendations 2018-001 and 2018-002, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 months after year-end in order to complete the annual financial audit and single audit timely.

Views of Responsible Officials

Management is in agreement with the auditors finding. The City has adopted a financial close policy and procedures that will enable the finance department to close its books both timely and accurately, and to file all reports required in a timely manner.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings and defined in section 200.516 of the Uniform Guidance

Finding 2018-008 Federal Grant Procedures Manual (Uniform Guidance Compliance)

Criteria

On May 17, 2017, the Office of Management and Budget (OMB) issued an addendum to Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) allowing nonfederal entities an additional year to implement the Uniform Guidance procurement requirements and the entity must document the decision to utilize the extension.

Condition

The City did not document the decision to utilize the extension for the implementation of the procurement standards thereby extending the due date to FY 2018/19, however the City has not updated the Federal Grant Procedures manual for compliance with the Uniform Guidance in FY 2017/18.

Cause

City management was not adequately informed of the Uniform Guidance requirements and implementation dates.

Effect

The City's procurement policies and procedures are not in compliance with the Uniform Guidance.

Recommendation

We recommend that the City review the Uniform Guidance procurement requirements and update the Federal Grant Procedures manual for compliance with the Uniform Guidance.

Views of Responsible Officials

City Management is in agreement with the finding. Staff will review the Uniform Guidance procurement requirements and update the City’s procurement policies.

Finding 2018-009 Schedule of Expenditures of Federal Awards (SEFA) (Uniform Guidance Compliance)

Criteria

Uniform Guidance §200.510, Financial statements, requires that the auditee prepare a SEFA which includes the total federal awards expended determined in accordance with §200.502. In addition, Uniform Guidance §200.502 states in part that federal awards expended under loan and loan guarantees include the beginning of audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements.

Condition

The City prepared SEFA did not include the beginning of audit period balance of loans from previous years, expenditures of program income funds and expenditures of CDBG grant funds .

Cause

The City prepared SEFA included the end of audit period balance of loans. In addition, the City finance department was not aware that expenditures of CDBG program income funds are considered federal expenditures or that the City had received and expended funds under a new CDBG grant agreement.

Effect

Expenditures reported on the City prepared SEFA were not correctly calculated in accordance with the Uniform Guidance.

Recommendation

We recommend that the City review the Uniform Guidance regarding preparation of the SEFA to ensure that the proper balances of loans are reported on the SEFA and implement procedures and open communication lines between departments to ensure that all federal expenditures are correctly reported on the SEFA.

Views of Responsible Officials

Management is in agreement with the auditors finding. The City Council has adopted a grants administration policy which will re-centralize grants administration and reporting in the finance department, and will be managed by the City's accountants. The City will ensure accounting staff are trained on the Uniform Guidelines, which will ensure that the City's SEFA is completed accurately in future years.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2018

Finding 2017-001 Financial Close (Material Weakness - Repeat Finding)

Condition

During the performance of the audit, we noted that processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective, which contributed to the delayed accounting close of the City's trial balances and unpreparedness for the audit. Approximately 35 journal entries were proposed and posted subsequent to providing the trial balance for audit. Auditors had to perform additional procedures over testing of account balances after receiving additional journal entries.

Recommendation

We recommend that the City develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to respective account balances prior to the trial balance being provided for the audit.

Status

Not implemented.

Finding 2017-002 Long-Term Liabilities (Material Weakness)

Condition

During the current year the City refunded several of their outstanding bonds. The account balances related to those transactions were not properly reflected in the trial balance provided to the auditors.

In addition, there were several errors in the schedule the City maintains to track special assessment debt that is disclosed in the financial statements.

Recommendation

We recommend those employees involved in the recording and reconciliation of long-term liabilities receive advanced training on the subject matter. In addition, the City should ensure their reconciliation of long-term liabilities reflects all activity that occurred during the year.

Status

Implemented.

Finding 2017-003 Notes Receivable (Material Weakness)

Condition

The City has various funds which account for loan programs. The loans that are recorded in these funds are long-term loans that were recorded on the full accrual basis in the governmental funds.

Recommendation

We recommend the City ensure that all loan activity is recorded in accordance with the modified accrual basis of accounting in the governmental fund statements.

Status

Implemented.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2018

Finding 2017-004 Capital Assets and Compensated Absences (Significant Deficiency)

Condition

In addition to the material weakness noted in 2017-002, it appears the City's tracking of long-term items such as compensated absences and capital assets is not accurate.

During our testing of capital assets, we noted the City had not properly reconciled the general ledger balances to the supporting depreciation detail. Additionally we noted the depreciation schedule included mathematical errors, beginning balances did not agree to the prior year audit report, and the schedule contained duplicate additions or disposals that required us to perform additional audit procedures. Additionally, we noted the disposal of one asset was recorded twice in the general ledger. We recommend that the City review its depreciation schedule for mathematically accuracy and perform an asset inventory to ensure all assets are being accounted for properly. We also recommend the City perform a thorough reconciliation of the supporting depreciation schedule to the general ledger.

During our testing of compensated absences, the general ledger balances did not agree to the supporting schedule provided to the auditors. Additionally we noted there were errors within the supporting document causing the difference between the schedule and the general ledger. We recommend that the City review its supporting schedule for mathematical accuracy and perform a thorough reconciliation of the supporting schedule to the general ledger.

Recommendation

We recommend the City assess their current supporting schedules for compensated absences and capital assets to ensure 1) they are mathematically accurate; 2) they only include relevant data; 3) they are being thoroughly reviewed against the payroll and capital assets modules which serve as the source documents for the information; and 4) the reconciliations and journal entries are being properly prepared and reviewed.

Status

Partially implemented.

Finding 2017-005 Grant Accounting (Significant Deficiency)

Condition

The City's grant revenues, expenditures, and receivables are not being properly reconciled for financial reporting purposes at year-end.

Recommendation

We recommend the City implement a grants administration policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Finance Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approval of coding and application
- Copies of reimbursement requests submitted
- Monitoring of grant cash flow

The Finance Department should then be able to prepare a reconciliation of grant revenues, expenditures, unearned revenues, and receivables for the fiscal year-end.

Status

Not Implemented.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2018

Finding 2017-006 Interfund Borrowing (Significant Deficiency - Repeat Finding)

Condition

The City had significant interfund borrowings in the form of due to and due from other funds. As of June 30, 2017, the more significant of the due to other funds was $5,043,171 in the Airport enterprise fund. This balance represents a decrease of $378,543 or 7% from the prior year. Based on current revenue sources and review of the City's budget, this fund has not demonstrated the ability to repay the interfund borrowing within the subsequent fiscal year.

In addition, we also noted that a restricted special revenue fund was being used as the offsetting due from account to eliminate other funds' cash deficits. As a restricted, special revenue fund, this transaction represents an ineligible cost.

Recommendation

We recommend the City review the items classified as due to and due from other funds to determine if they should be reclassified as advances to and advances from other funds, and determine whether such funds truly have the ability to eliminate their cash deficit in the subsequent year. Consideration should be made for an interfund loan to be established and approved by City Council. Subsequent short-term cash borrowing should be made between the City's General Fund.

Status

Not Implemented.

Finding 2017-007 SB 341 Successor Agency Compliance (Compliance)

Condition

The City did not post the required annual report for the fiscal year ended June 30, 2017 by the deadline of December 31, 2017.

Recommendation

As noted in recommendations 2017-001 and 2017-005, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 months after year-end in order to complete the annual financial audit and single audit timely.

Status

Not implemented.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2018

Finding 2017-008 Financial Reporting Timeliness (Compliance)

Condition

The 2017 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearing House by the deadline of March 31, 2018.

Recommendation

As noted in recommendations 2017-001 and 2017-005, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 months after year-end in order to complete the annual financial audit and single audit timely.

Status

Implemented.