CITY OF LINCOLN
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2017

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CITY OF LINCOLN
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED JUNE 30, 2017

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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, 2017, 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 April 23, 2018.

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: 2017-001 through 2017-003.

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 accompany schedule of findings and questioned costs to be significant deficiencies: 2017-004 through 2017-006.

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 2017-007 and 2017-008.

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 Vartanian Nolt CPAs

Sacramento, California
April 23, 2018

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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-008. Our opinion on each major federal program is not modified with respect to this matter.

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

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 theCity 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 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 City of Lincoln, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Lincoln's basic financial statements. We issued our report thereon dated April 23, 2018, 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 Christiansen CPAS

Sacramento, California
April 23, 2018

CITY OF LINCOLN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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	$ 523,457
Community Development Block Grants/Entitlement Grants	14.228	Interest Income	8,917
Total Community Development Block Grants / Entitlement Grants			532,374
Home Investment Partnerships Program	14.239	Beginning Loan Balance	2,122,980
Home Investment Partnerships Program	14.239	Interest Income	25,260
Total Home Investment Partnership Program			2,148,240
Total U.S. Department of Housing and Urban Development			2,680,614
U.S Department of Transportation			
Direct programs:			
Airport Improvement Program	20.106	3-06-0120-020-2016	27,507
Airport Improvement Program	20.106	3-32-0120-019-2016	101,957
Airport Improvement Program	20.106	3-06-0120-021-2016	16,853
Total Airport Improvement Program			146,317
Pass-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5089(021)	227,551
Highway Planning and Construction	20.205	CML-5089(016)	74,972
Highway Planning and Construction	20.205	HSIPL-5089(020)	8,739
Highway Planning and Construction	20.205	CML-5089(023)	15,133
Highway Planning and Construction	20.205	CML-5089(025)	74,342
Total Highway Planning and Construction			400,737
Total U.S. Department of Transportation			547,054
Total Expenditures of Federal Awards			$ 3,227,668

CITY OF LINCOLN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017:

Federal CFDA Number	Program Title	Amount Outstanding
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	$ 507,356
14.239	Home Investment Partnerships Program	2,144,644
	Total Loans Outstanding	$ 2,652,000

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, 2017.

CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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: Community Development Block Grants, 14.228 Home Investment Partnerships Program, 14.239	
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 QUESTIOND COSTS
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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 2017-001 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 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.

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

We are in agreement and will strive to address this finding and have started to complete a documented process to use in the completion of the 2017-2018 audit.

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

Criteria

GASB 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB 7, *Advance Refundings Resulting in Defeasance of Debt* provides guidance on accounting for general long-term liabilities and advance refundings resulting in defeasance of debt.

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.

Cause

It appears there either was a lack of understanding regarding the refunding transaction or a lack of understanding on how to properly record long-term debt transactions in accordance with GASB 34 and GASB 7.

Effect

In reconciling the recorded debt activity to the transactions recorded in the general ledger, there were approximately 14 journal entries needed to correct what was initially recorded.

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.

Views of Responsible Officials

We are in agreement and will strive to address this finding and have started to complete a documented process to use in the completion of the 2017-2018 Audit. It should be noted that several bond issuances were refunded in 2016-2017 and were funded on June 30, 2017 and not reflected on the Fiscal Agent statements until the end of the first quarter 2017-2018 fiscal year creating the delay and accurate reconciliation.

Finding 2017-003 Notes Receivable (Material Weakness)

Criteria

In accordance with the modified accrual basis of accounting, such long-term receivables should be offset in the governmental fund statements by deferred inflows of resources to indicate they do not represent current financial resources. In the governmental fund statements, long-term loans are treated as expenditures in the year advanced and as revenues in the year repayment is measurable and available.

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.

Cause

The City was not aware of the proper accounting for long-term receivables.

Effect

To correct the accounting for loan receivables, a journal entry was proposed which effectively decreased beginning fund balance by approximately $6.4 million. The journal entry also included corrections to recording advances, interest accruals, and payments received in the current year.

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.

Views of Responsible Officials

We are in agreement with the need to correct the accounting for long-term receivables. Prior City staff revised the accounting of long-term receivables to the current accounting. Current staff brought to the attention of the audit team to advise on the recommended current accounting procedures for these receivables. Corrections will be made and implemented.

Finding 2017-004 Capital Assets and Compensated Absences (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

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.

Cause

It appears there was a lack of detailed review of the supporting schedules and reconciliations in order to record the long-term assets and liabilities on the City's general ledger. We also observed that the supporting schedules in excel used to maintain such information contained an abundant amount of prior years' information and data that subjects itself to manual error.

Effect

The compensated absences and capital assets balances as presented to the auditors contained misstatements that required adjustments.

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.

Views of Responsible Officials

We are in agreement and will begin new procedures to improve supporting documents to ensure that they are complete, mathematically accurate and reconciled in a timely manner.

Finding 2017-005 Grant Accounting (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 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.

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

There were numerous errors noted to properly match grant revenues, expenditures, and receivables within a fiscal year. We noted two grants that had grant expenditures incurred in fiscal year 2017 in which no corresponding receivable was recorded on a reimbursable grant. In addition, we noted three other grants that incurred expenditures in fiscal year 2016 that recorded the corresponding revenue in fiscal year 2017.

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

We are in agreement and will create as recommended a grant administration policy to improve departmental communication and improve reporting documentation of receivables, expenses and receipt of cash to properly match grant revenues, expenditures and receivables within a fiscal year.

Finding 2017-006 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 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.

Cause

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

The City was not aware that cash deficits should not be eliminated using special revenue funds.

Effect

By classifying these amounts as due to and due from other funds, the City is misstating these amounts as current interfund loans rather than long-term interfund loans. Further, cash of the restricted special revenue fund is being misstated.

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.

Views of Responsible Officials

Staff will review and ensure that all due from/due to accounts are not assets that should be classified as advances to /advances from and reclassify as required. In the future, special revenue funds will not be used as the offsetting due from account to eliminate other funds’ cash deficits.

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

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, 2017 by the deadline of December 31, 2017.

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 2017 annual audit.

Effect

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

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.

Views of Responsible Officials

We are in agreement and staff will strive to maintain adequate staffing levels to complete year-end close procedures and ultimately complete the annual financial audit and single audit accordance with compliance deadlines.

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 2017-008 Financial Reporting Timeliness (Compliance)

Criteria

The Single Audit reporting package and data collection form are required to be submitted to the Federal Audit Clearing House (FAC) nine months after year end.

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.

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 2017 annual audit and single audit.

Effect

The filing of the Single Audit reporting package and data collection form is past its due date.

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.

Views of Responsible Officials

We are in agreement and staff will strive to maintain adequate staffing levels to complete year end close procedures and ultimately complete the annual financial audit and single audit accordance with compliance deadlines.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

Finding 2016-001 Prior Period Adjustments (Material Weakness)

Condition

During the audit, we noted the City made material prior period adjustments to correct an overstatement of capital assets and net OPEB obligation.

Recommendation

We recommend that the City review the capital assets schedule to ensure that all amounts included on the schedule are or will result in assets owned by the City. We further recommend that the City review the calculation of the net OPEB obligation to ensure that all amounts are included in the calculation.

Status

Partially implemented. Noted no issues related to the OPEB calculation. However, see finding 2017-004 related to capital assets.

Finding 2016-002 Year-End Closing Process (Material Weakness)

Condition

At the time of the audit, we noted the financial statements as presented to us contained misstatements that required adjustment. We noted receivables, payables, and fund balance accounts that had not been reconciled and adjusted prior to the time of fieldwork. Many of these adjustments were noted as a part of the audit process. This is a repeat of a prior year finding.

Recommendation

We recommend that the City strive to record all adjustments in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Status

Not implemented. See 2017-001.

Finding 2016-003 Interfund Borrowing (Significant Deficiency)

Condition

The City has significant interfund borrowings in the form of due to and due from other funds. At June 30, 2016, the more significant of the due to other funds was $12,182,653 in the Public Facility Element (PFE) special revenue fund and $5,421,714 in the Airport enterprise fund. Neither of these funds have demonstrated the ability to repay these interfund borrowings within the subsequent fiscal year. This is a repeat of a prior year finding.

Recommendation

We recommend that the City Council review the items classified as due to and due from other funds (current interfund loans) to determine if they should be reclassified as advances to and advances from other funds (long-term interfund loans).

Status

Partially implemented. See 2017-006. The Public Facility Element fund's due to balance decreased $10,722,380 or 90% from the prior year.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

Finding 2016-004 Cost Allocation Plan (Significant Deficiency)

Condition

During the audit, we noted that the City had developed a cost allocation plan, however, we noted that the basis used for allocating supporting services was not documented in accordance with Title 2 Code of Federal Regulations Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). This is a repeat of a prior year finding.

Recommendation

We recommend that the City develop and formally document an indirect cost allocation plan that identifies costs of supporting services and allocates them to benefiting departments and funds on an equitable basis that is consistent with the Uniform Guidance and documented in accordance with the Uniform Guidance.

Status

Noted no such issues.

Finding 2016-005 Developer Deposits (Significant Deficiency)

Condition

During testing of developer deposits, we noted that the City had not refunded three deposits for which the projects had been completed.

Recommendation

We recommend that the City review the list of developer deposits and determine the amounts that should be refunded. We further recommend that the City develop procedures to ensure that developer deposits are reconciled on a timely basis.

Status

Noted no such instances as part of our developer deposit testing.

Finding 2016-006 Postclosure Liability (Significant Deficiency)

Condition

During our audit, we noted that the postclosure liability was overstated by $85,960.

Recommendation

We recommend that the City use the correct inflation factor in the calculation of the postclosure liability.

Status

Implemented.

CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

Finding 2016-007 (Single Audit Compliance)

Name: Community Development Block Grant, CFDA# 14.228
Federal Grantor: U.S. Department of Housing and Urban Development
Pass-Through Entity: State Department of Housing and Community Development
Award No.: Various

Condition

During test of five loan recipients, we noted for two loan recipients that the City did not have verification that the loan recipient is still the owner of the home and is not using the home as a rental property and for two loan recipients the City did not have documentation that the loan recipient maintained required fire and flood insurance.

Recommendation

We recommend that the City maintain proper documentation regarding compliance with the loan provisions.

Status

Implemented.

Finding 2016-008 (Single Audit Compliance)

Name: home Investment Partnership, CFDA# 14.239
Federal Grantor: U.S. Department of Housing and Urban Development
Pass-Through Entity: State Department of Housing and Community Development
Award No.: Various

Condition

During our test of six loan recipients, we noted for four loan recipients that the City did not have verification that the loan recipient is still the owner of the home and is not using the home as a rental property.

Recommendation

We recommend that the City maintain proper documentation regarding compliance with the loan provisions.

Status

Implemented.