

**INDEPENDENT AUDITOR'S MANAGEMENT LETTER**

To the City Council  
City of Lincoln  
Lincoln, California

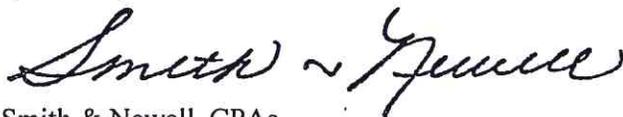
In planning and performing our audit of the financial statements of the City of Lincoln, (City) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are described in the attached appendix.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. It is our intention to use our knowledge of the City gained during our work to make comments and suggestions that will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

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



Smith & Newell, CPAs  
Yuba City, California  
December 23, 2016

**THIS PAGE INTENTIONALLY LEFT BLANK**

**CITY OF LINCOLN**  
**Appendix A: Management Letter Comments**  
**For the Fiscal Year Ended June 30, 2016**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Disbursements (Control Deficiency)**

**Condition**

During our test of twenty-five disbursements, we noted three disbursements for utility billing refunds that did not have adequate supporting documentation.

**Cause**

The City did not include documentation indicating the reason for the refund or the calculation of the refund amount with the refund claim.

**Criteria**

Generally accepted accounting principles require that all disbursements be accompanied by appropriate documentation.

**Effect of Condition**

We were unable to determine if the refund amounts were correctly stated based on the documentation available.

**Recommendation**

We recommend that the City include proper documentation indicating the reason for the refund and the calculation of the refund amount with all refund claims.

**Stale Dated Checks (Control Deficiency)**

**Condition**

During our audit we noted \$27,309.17 in stale dated checks on the outstanding check list.

**Cause**

The City has not followed-up with vendors that have stale dated checks.

**Criteria**

Property that remains unclaimed must be reported and remitted to the State of California.

**Effect of Condition**

The City has stale dated checks that may need to be reissued or remitted to the State.

**CITY OF LINCOLN**  
**Appendix A: Management Letter Comments**  
**For the Fiscal Year Ended June 30, 2016**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)**

**Stale Dated Checks (Control Deficiency) (Continued)**

**Recommendation**

We recommend that the City develop procedures for monitoring and reissuing stale dated checks and that the City review the State of California Unclaimed Property Holder Handbook to determine if property should be remitted to the State.

**Interest Apportionment (Control Deficiency)**

**Condition**

During our audit we noted that the basis for the interest apportionment was incorrect and the City was not apportioning interest to funds with negative cash balances.

**Cause**

The City calculated the interest apportionment prior to the completion of the cash reconciliation and did not apportion interest to funds with negative cash balances.

**Criteria**

The City's investment policy states "All monies earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio."

**Effect of Condition**

The interest apportionment was based on unreconciled cash balances and did not follow the investment policy.

**Recommendation**

We recommend that the City complete the cash reconciliation prior to the interest apportionment and that interest be apportioned to all funds including those with negative cash balances.

**CITY OF LINCOLN**  
**Appendix B: Status of Prior Year Recommendations**  
**For the Fiscal Year Ended June 30, 2016**

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**Cash Receipts**

**Prior Year Recommendation**

We recommend that all revenues be entered into the City's general ledger through the cash receipting system.

**Status**

The City has reviewed the process and does not feel changes are necessary.

**Cash Collections - Parks and Recreation**

**Prior Year Recommendation**

We recommend that all collections and deposits be recorded with pre-numbered receipts, and that checks be endorsed when received.

**Status**

Implemented

**Airport Billing and Collections Policies and Procedures**

**Prior Year Recommendation**

We recommend that the City develop written policies and procedures related to cash transactions, airport hanger and tie down leases, and billing and collections at the airport.

**Status**

Implemented

**Airport Inventory/Fuel Sales**

**Prior Year Recommendation**

We recommend that the airport perform periodic counts of inventory and adjust the balances on the monthly fuel activity report as necessary. We also recommend that the department examine the existing inventory control procedures to ensure that effective controls are in place.

**Status**

Implemented

**CITY OF LINCOLN**  
**Appendix C: Management's Corrective Action Plan**  
**For the Year Ended June 30, 2016**

**Disbursements (Control Deficiency)**

We recommend that the City include proper documentation indicating the reason for the refund and the calculation of the refund amount with all refund claims.

Responsible Individual: Fe Angel, Customer Service Supervisor

Corrective Action Plan: Staff will work to maintain adequate documentation for all refund claims. Staff is also working on updating procedures regarding the refund request and refund process.

Anticipated Completion Date: June 2017

**Stale Dated Checks (Control Deficiency)**

We recommend that the City develop procedures for monitoring and reissuing stale dated checks and that the City review the State of California Unclaimed Property Holder Handbook to determine if property should be remitted to the State.

Responsible Individual: Anastasia Efstathiou, Finance Manager

Corrective Action Plan: Staff will work to clear all items and update policy and procedures to address the State of California Unclaimed Property mandates and ensure compliance.

Anticipated Completion Date: June 2017

**Interest Apportionment (Control Deficiency)**

We recommend that the City complete the cash reconciliation prior to the interest apportionment and that interest be apportioned to all funds including those with negative cash balances.

Responsible Individual: Anastasia Efstathiou, Finance Manager

Corrective Action Plan: Staff will develop updated policies and procedures to address timing, cash balancing and interest apportionment guidelines.

Anticipated Completion Date: June 2017