



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

Management Letter

March 27, 2019

City of Lincoln
600 6th Street
Lincoln, California 95648

In planning and performing our audit of the financial statements of City of Lincoln (the City) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered City of Lincoln's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated March 27, 2019, contains our communication of significant deficiencies and material weaknesses in the City's internal control. This letter does not affect our report dated March 27, 2019, on the financial statements of the City of Lincoln.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Sincerely,

A handwritten signature in blue ink that reads "Mann Urrutia Nelson CPAs". The signature is written in a cursive, flowing style.

Mann, Urrutia, Nelson CPAs & Associates LLP

City of Lincoln
Control Deficiencies and Internal Control Recommendations
June 30, 2018

Payroll

(Repeat) As part of the process of inputting new employee information and/or changes to current employee information into Springbrook, a proof list is generated by the Payroll Technician to verify that items input and changes were made accurately. However, there is no indication of the review of the proof list. We recommend that the Payroll Technician, or assigned personnel, initial and date the proof list as evidence of their review.

Per our observation of the payroll process, a report listing printed checks to be distributed to employees is generated through Springbrook. This listing is to be signed off by the payroll technician and provided to the finance manager for review. Upon our review of the printed check listing for the pay period ending April 6, 2018, we noted no evidence of review next to individuals receiving printed checks or a signature of approval on the check summary listing. We recommend that evidence of review and approval be maintained on the check summary listing.

Upon our review of the payroll process, we noted that after payroll is posted to the general ledger, there is no reconciliation performed between what is posted to the general ledger and the final payroll journal reports. We recommend a reconciliation be performed after each pay period to ensure that payroll is properly posted to the general ledger.

Cash Disbursements

(Repeat) Per our observation of the cash disbursement process, the Accounts Payable Specialist has various duties which are reviewed by an independent employee. One of the tasks within the cash disbursement process is the upload and submittal of checks to be paid via the bank's positive pay system. There is no final review comparing the approved accounts payable proof list with the positive pay upload. To enhance controls, we recommend the approved accounts payable proof list be compared to the positive pay upload by evidence of signature. This comparison serves as a detective control to ensure no changes were made from the approved accounts payable proof list to the final check register.

As part of the process of obtaining a Cal-Card, employees complete an application for approval by management. Out of a sample selection of 12 Cal-Card items, the City was unable to locate one application and another application did not have a signature indicating approval. We recommend that all Cal-Card applications be maintained by the City and that they contain the proper level of approval as indicated by a signature.

Cash Receipts (Repeat)

Out of a sample of 40 cash receipts, approximately 27 of those items tested were receipts that are received by the central cash department (finance department). A receipt was generated and coded to their corresponding general ledger account. However, unlike other departments which have approved deposit transmittal sheets attached to the cash receipts, we noted no evidence of review that the cash receipts were being properly coded to the correct account. We recommend that the Finance Department implement procedures that are already in place for cash received in other departments of the City and attach a daily deposit transmittal sheet to receipts received. The daily deposit transmittal sheet includes verification of the preparer and reviewer of the deposit. Further, the final batch posting of cash receipts should be reviewed by the Accounting Manager to ensure proper coding.

Other Post-Employment Benefits Census Data (Repeat)

During our testing of census data utilized for the GASB 75 report, we identified one instance in which one employee on the retired listing with a retirement date after the valuation date should have been excluded from the actuarial valuation, but was included in the census. The GASB 75 actuarial report contained a total of 53 retirees and should only contain 52 retirees. We recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plan actuary. In evaluating the census data file, the employer may compare the information to the underlying payroll records and the prior year census data file.

City of Lincoln
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2018

Loans Receivable

We noted the City has not reviewed information on the loans receivable schedule for accuracy and has not verified information to supporting loan documentation. During our testing, we noted one loan was incorrectly shown on the City's schedule as a deferred loan. The interest rate for one loan on the loan schedule did not agree to the loan agreement; and the property address of another loan on the loan schedule did not agree to the loan agreement. In addition, the City was unable to locate the loan documents for one loan on the City's loan schedule. We recommend that the City review the loan schedule and verify that the information on the loan schedule agrees to the loan documentation on file and that the City locate any missing loan documents.

Accounts Receivable

The City receives revenue related to wastewater operation charges that is assessed and received every quarter. The City records a total of four quarters in revenue each year; however, the Q4 2017 receipt was incorrectly recorded in fiscal year 2018 and the Q4 2018 receipt was incorrectly recorded in fiscal year 2019. Per discussion with the City's financial consultant, it is a consistent practice to only record the revenue based on the date the payment is received. We recommend the City accrue receipts related to the correct fiscal year of service versus when the actual cash receipt is received.

Upon our review of reports generated by the City's accounts receivable module, we noted that balances being reported through the accounts receivable module did not agree to the general ledger. We recommend the City perform a reconciliation between the accounts receivable module and general ledger.

Compensated Absences

During our review of the compensated absences schedule, we noted 6 employees incorrectly excluded from the City's accrual for sick leave. The total amount of the missed accrual was not material to the financial statements however we recommend that the City review the sick leave accrual included on the compensated absences schedule. Currently, the percentage accrual is a hard-coded percentage on the spreadsheet, however this percentage can change each year based on years worked. We recommend updating the spreadsheet to include a formula that takes into consideration the employee's hire date.

Investments

It was brought to our attention that the City's investment portfolio contained approximately 16 investment holdings that were not in compliance with investment policy requirements under the California Government Code. The City's investment broker and City staff responsible for oversight were not aware of the non-compliance. The City has engaged a new company to manage their investments. We recommend that City staff responsible for oversight review the investment policy and receive proper training on allowable investment holdings.

Information Technology – Springbrook Access

The City's financial information is maintained through the financial software Springbrook. Upon review of access controls, we were informed that all employees who have access to Springbrook have full access to the system. Full access to the City's financial information may result in unauthorized transactions being posted or viewed, or unauthorized changes being made. Controls should be put in place that specifies the areas and modules to which each person should have access, and whether that access is to be full or selective.

City of Lincoln
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2018

Support Service Department Organization

The City's Support Services Department consists of finance, utility billing, information technology, and central services (purchasing, risk management). Many of these functions affect the financial reporting process. The support services department as presently structured divides oversight of the financial functions in such a manner that lacks cohesion. We recommend management review the current alignment of the support services department staff and their various duties to be reorganized in a manner that will provide for maximum efficiency and proper oversight of the financial reporting process.

Resolution of Internal Control Deficiencies

Internal control deficiencies and other issues identified by external auditors are reported to those charged with governance—the Finance & Investment Committee and the City Council each year subsequent to the audit being completed. However, the recommendations for many of the deficiencies have not been implemented and the deficiencies have been repeating for at least the past five years. We suggest the Finance & Investment Committee maintain a log of all audit items that come to its attention. Custody of the log can be rotated quarterly among Committee members. The Committee member with custody of the log can coordinate with one City official charged with resolving issues. For each item, the appropriate supervisor can be informed, suggestions for corrective action reviewed, and the ultimate action documented. The log should be reviewed at every quarterly meeting to ensure that no issues have been overlooked before custody of the log is rotated to the next Committee member.

Financial Oversight

Currently, financial oversight procedures of the City include:

- The fiscal & investment oversight committee reviews an investment report and a fiscal summary report on a quarterly basis. Per review of the fiscal & investment oversight committee meeting agendas and packets for the fiscal year, we were unable to verify if these reports were being consistently presented and reviewed.
- On a monthly basis, City Council reviews prior month's check registers, budget amendments, and contract amendments. We noted that City Council does not receive any other detailed financial reports.

In order to provide improved financial oversight to the City, we recommend that financial reports including detailed financial statement information, be presented on a consistent basis to the City Council, at a minimum on a quarterly basis.

The role of City Council, including the Finance & Investment Committee, in governance and their use of sound judgment in fulfilling their fiduciary responsibilities, including overseeing the City's efforts to prevent fraud and effectively manage risks, is an important one. In fulfilling their obligations, Council and Committee members often face a host of difficult questions requiring judgment calls on complex financial matters. In dealing with issues such as these, the need for high-quality judgment and oversight is crucial. We recommend that the oversight effectiveness could be improved by ensuring that Council and Committee members have proper training in such matters. Ideally, Council and the Committee as a whole should have knowledge of the City's business and industry, internal control concepts, generally accepted accounting principles and industry accounting practices, and the financial reporting and independent audit processes.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations
June 30, 2018

Payroll

As part of the process of inputting new employee information and/or changes to current employee information into Springbrook, a proof list is generated by the Payroll Technician to verify input and changes were made accurately. However, we noted no indication of this review of the proof list. We recommend that the Payroll Technician, or assigned personnel, initial and date the proof list as evidence of their review.

Status: Not implemented.

Cash Disbursements

When processing accounts payable checks, the AP Specialist prints out a proof list to be approved by the Director of Support Services, Finance Manager, or Budget Analyst. Once approved, the AP Specialist will then print the checks and a final warrant register (AP posting list). Since the AP Specialist has access to edit the checks to be printed, we recommend that the final AP posting list be compared to the approved proof list and the positive pay report by someone independent of the AP Specialist. We recommend this review be documented by evidence of date and initials on the final AP posting list.

Status: Not implemented. See revised recommendation.

We selected 15 invoices for testing that required formal bidding procedures to be applied in the selection of the vendor. For 1 out of those 15 purchases, we noted there was not adequate support documenting the bidders' submitted prices which are usually found on a staff report. We recommend the City ensure they are following the current procurement policy and maintain adequate supporting documentation for all proposals and bids.

Status: No instances noted in the current year.

Cash Receipts

Out of a sample of 40 cash receipts, approximately 15 of those items tested were receipts that are received by central cash department (finance department). Of those 15, we noted 8 cash receipts did not have any indication of review or approval. The receipts generated agreed to a general ledger distribution report and bank statement, however without indication of review or approval we are unable to determine if proper segregation of duties were in place and whether there was adequate review of the receipt. The remaining 7 items did have support which indicated some sort of review, however that manner was inconsistent. We recommend that the Finance Department implement procedures that are already in place for cash received in other departments of the City and attach a daily deposit transmittal sheet to receipts received. The daily deposit transmittal sheet includes verification of the preparer and reviewer of the deposit.

Status: Not implemented.

Out of a sample of 40 cash receipts, we noted 1 receipt in which the daily deposit transmittal sheet did not include the administrative analyst's signature or the supervisor's signature as evidence of review. We recommend the Finance Department verify that transmittal sheets are properly signed off before as reviewed before processing the receipt.

Status: No instances noted in the current year.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2018

Deferred Revenue

Upon our review of deferred revenue accounts, we noted one deferred revenue account related to a long-term receivable that was not updated for a current year payment received. The City properly adjusted the receivable account; however the corresponding deferred account was not adjusted to reflect the transaction. As the City has numerous deferred revenue accounts containing funds from prior years that are waiting to be recognized, we recommend that all deferred revenue accounts be reviewed and reconciled on an annual basis to ensure that accounts represent valid amounts and all current year activity has been taken into consideration.

Status: Partially implemented. See separately issued significant deficiencies related to grants and prior period adjustments.

Cash and Investment Balances

In our review of the City's cash and investment reconciliations and statements, we noted the City's LAIF account and two U.S. Bank fiscal agent accounts were recorded at cost as opposed to fair market value. We recommend the City ensure that all cash and investment accounts are being recorded at fair market value at year-end.

Status: Implemented.

Expense Classification

During our review of expense account fluctuations, we noted that airport fuel expenditures in the amount of \$26,000 were incorrectly recorded as lease expenditures. An adjustment was proposed to correct the proper coding of the expenditure. We recommend the City should review its accounts for significant fluctuations from the prior year and current year budget to identify and correct any incorrect classifications.

Status: No such instance in the current year.

Other Post-Employment Benefits Census Data

During our testing of census data provided to the City's actuary for the calculation of the liability related to other post-employment benefits, we identified one instance in which the hire date for a single employee did not agree to personnel records. The difference was only one-month, however, it appears there are no formal procedures in place to review the accuracy of census data provided to actuaries. We recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plan actuary. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file.

Status: Not implemented.