

**CITY OF LINCOLN,  
CALIFORNIA**



**SINGLE AUDIT ACT  
REPORTS AND SCHEDULES  
FOR THE YEAR ENDED  
JUNE 30, 2016**

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**CITY OF LINCOLN**  
**Single Audit Act**  
**For the Year Ended June 30, 2016**

**Table of Contents**

	Page
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.....	1-2
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	3-5
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2016. ....	6
Notes to Schedule of Expenditures of Federal Awards.....	7-8
Schedule of Findings and Questioned Costs. ....	9-15
Schedule of Prior Year Findings and Questioned Costs. ....	16
Management's Corrective Action Plan. ....	17-19

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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 Honorable Mayor and  
Members of 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, (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 23, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. (2016-001 and 2016-002)

To the Honorable Mayor and  
Members of the City Council  
City of Lincoln, California

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. (2016-003 through 2016-006)

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City'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.

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

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

To the Honorable Mayor and  
Members of the City Council  
City of Lincoln, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Lincoln, California's (City) 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's major federal programs for the year ended June 30, 2016. The City'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'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'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's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City 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, 2016.

To the Honorable Mayor and  
Members of the City Council  
City of Lincoln, California

### **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 2016-007 and 2016-008. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 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'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'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.

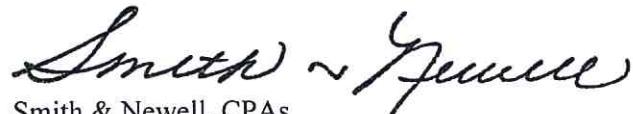
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

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.

To the Honorable Mayor and  
Members of the City Council  
City of Lincoln, California

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, California, (City) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 2016, 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.



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

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**CITY OF LINCOLN**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>				
State Department of Housing and Community Development:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	-	\$ -	\$ 595,052
Home Investment Partnerships Program	14.239	-	<u>-</u>	<u>2,173,915</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>-</u>	<u>2,768,967</u>
<b>U.S. Department of Transportation</b>				
State Department of Transportation:				
Highway Planning and Construction	20.205	BRSL-5089(021)	-	240,903
Highway Planning and Construction	20.205	CML-5089(016)	-	1,166,546
Highway Planning and Construction	20.205	CML-5089(023)	-	16,133
Highway Planning and Construction	20.205	HSIPL-5089(020)	-	12,308
Highway Planning and Construction	20.205	SRTSL-5089(018)	<u>-</u>	<u>409,683</u>
<b>Subtotal 20.205</b>			<u>-</u>	<u>1,845,573</u>
Direct Program:				
Airport Improvement Program	20.106	-	-	85,500
Airport Improvement Program	20.106	-	<u>-</u>	<u>1,800</u>
<b>Subtotal 20.106</b>			<u>-</u>	<u>87,300</u>
<b>Total U.S. Department of Transportation</b>			<u>-</u>	<u>1,932,873</u>
<b>Total</b>			<u>\$ -</u>	<u>\$ 4,701,840</u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards

**CITY OF LINCOLN**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

**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, California (City). The City of Lincoln reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule of Expenditures of Federal Awards. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

**2. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accompanying Schedule of Expenditures of Federal Awards, is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in the notes to the City financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursements. In addition, the outstanding balance of prior years' loans that have significant continuing compliance requirements have been included in total federal expenditures.

**3. INDIRECT COST RATE**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the related federal financial assistance reports.

**5. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the City's basic financial statements.

**6. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

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. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

**CITY OF LINCOLN**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

**7. LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS**

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs require servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. In accordance with Section 200.510 of the Uniform Guidance, the City has reported the outstanding balance of loans from previous years that have significant continuing compliance requirements as of June 30, 2016, along with the value of total outstanding and new loans made during the current year.

The programs listed below had the following aggregate, federally funded loans outstanding at June 30, 2016:

Federal CFDA	Program Title	<u>Amounts Outstanding</u>	
		<u>July 1, 2015</u>	<u>June 30, 2016</u>
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	\$ 536,541	\$ 523,457
14.239	Home Investment Partnerships Program	<u>2,171,305</u>	<u>2,122,980</u>
	Total Loans Outstanding	<u>\$ 2,707,846</u>	<u>\$ 2,646,437</u>

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

<b>Financial Statements</b>	<b><u>Status</u></b>
1. Type of auditor's report issued	Unmodified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
3. Noncompliance material to financial statements noted?	No
<b>Federal Awards</b>	
1. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	No
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516 (a)	No
4. Identification of major programs:	
14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	
14.239 Home Investment Partnerships Program	
5. Dollar threshold used to distinguish between Type A and Type B programs?	\$ 750,000
6. Auditee qualified as a low-risk auditee under 2 CFR Section 200.520?	No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Prior Period Adjustments	2016-001
Year-End Closing Process	2016-002
Interfund Borrowing	2016-003
Cost Allocation Plan	2016-004
Developer Deposits	2016-005
Postclosure Liability	2016-006

**SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	2016-007
14.239 Home Investment Partnerships Program	2016-008

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-001 Prior Period Adjustments (Material Weakness)**

**Condition**

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

**Cause**

The City incorrectly capitalized the Regional Sewer Project as construction in progress in the prior year and the City did not reduce the net OPEB obligation by the contribution to the trust in the prior year.

**Criteria**

Generally Accepted Accounting Principles require that material errors in the prior year ending balances be corrected by a prior period adjustment to beginning net position.

**Effect of Condition**

Beginning net position was misstated and required adjustment.

**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.

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

**Condition**

At the time of our 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.

**Cause**

The City did not review all accounts prior to the audit fieldwork. The process to close the City's accounting records and produce the annual financial report is labor intensive and the reports produced by the accounting system can require additional analysis and reconciliation.

**Criteria**

Government Auditing Standards require independent auditors to evaluate all unadjusted misstatements of financial statements. Also, producing timely audited financial statements is more difficult when adjustments are not recorded prior to the start of the annual audit.

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-002 Year-End Closing Process (Material Weakness) (Continued)**

**Effect of Condition**

The financial statements as presented to us for audit contained misstatements that required adjustment.

**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.

**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.

**Cause**

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

**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.

**Effect of Condition**

The City has had significant interfund borrowings in previous fiscal years. The funds involved have not demonstrated the ability to repay these interfund borrowings within the subsequent fiscal year. 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.

**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).

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-004 Cost Allocation Plan (Significant Deficiency)**

**Condition**

During our 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.

**Cause**

The City developed an indirect cost allocation plan for the allocation of supporting services, however, it is not Uniform Guidance compliant.

**Criteria**

The Uniform Guidance Section 200.56 states that indirect costs should be distributed on bases that will produce an equitable result in consideration of relative benefits derived.

**Effect of Condition**

The City's cost allocation plan is not consistent with the Uniform Guidance and is not documented in accordance with the Uniform Guidance. As a result, several of the City's funds are being allocated as indirect costs based on a plan that does not have documentation supporting the rationale to distribute indirect costs on an equitable basis.

**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 benefitting departments and funds on an equitable basis that is consistent with the Uniform Guidance and documented in accordance with the Uniform Guidance.

**2016-005 Developer Deposits (Significant Deficiency)**

**Condition**

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

**Cause**

The City was not properly monitoring the developer deposits for project completion.

**Criteria**

The City collects deposits from developers to be used in connection with the application process.

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-005 Developer Deposits (Significant Deficiency) (Continued)**

**Effect of Condition**

The Developer Deposits are overstated and requires adjustment.

**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.

**2016-006 Postclosure Liability (Significant Deficiency)**

**Condition**

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

**Cause**

The City used an incorrect inflation factor in the calculation of the postclosure liability.

**Criteria**

The inflation factor to be used in the postclosure liability calculation is determined annually by the Department of Resources Recycling and Recovery.

**Effect of Condition**

The postclosure liability was overstated by \$85,960 and required adjustment.

**Recommendation**

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

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-007**

**Name:** Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
**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  
**Year:** 2015/2016

**Condition**

During our 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.

**Cause**

There was not adequate monitoring of loans receivable to ensure compliance with loan provisions.

**Criteria**

Proper grant compliance requires that CDBG loans be monitored for compliance with the loan provisions on a regular basis.

**Effect of Condition**

The City has not received documentation from the property owners to determine if the properties continue to be in compliance with the loan provisions regarding default.

**Questioned Costs**

No costs are questioned. The loan recipients were eligible to receive a CDBG loan. The problem was that the City was not maintaining documentation regarding compliance.

**Perspective**

Of the City's 23 CDBG loans outstanding, we examined five for loan compliance monitoring and found six instances of non-compliance.

**Recommendation**

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

**CITY OF LINCOLN**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

**2016-008**

**Name:** Home Investment Partnerships Program  
**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  
**Year:** 2015/2016

**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.

**Cause**

There was not adequate monitoring of loans receivable to ensure compliance with loan provisions.

**Criteria**

Proper grant compliance requires that Home loans be monitored for compliance with the loan provisions on a regular basis.

**Effect of Condition**

The City has not received documentation from the property owners to determine if the properties continue to be in compliance with the loan provisions regarding default.

**Questioned Costs**

No costs are questioned. The loan recipients were eligible to receive a Home loan. The problem was that the City was not maintaining documentation regarding compliance.

**Perspective**

Of the City's 24 Home Program Loans outstanding, we examined six for loan compliance monitoring and found eight instances of non-compliance.

**Recommendation**

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

**CITY OF LINCOLN**  
**Schedule of Prior Year Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
<b>2015-001</b>	<b>Prior Period Adjustments</b>  <b>Recommendation</b>  We recommend that the City properly account for the classification of funds.  <b>Status</b>  Implemented
<b>2015-002</b>	<b>Year-End Closing Process</b>  <b>Recommendation</b>  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.  <b>Status</b>  Not Implemented
<b>2015-003</b>	<b>Interfund Borrowing</b>  <b>Recommendation</b>  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 from other funds (long term interfund loans).  <b>Status</b>  Not Implemented
<b>2015-004</b>	<b>Cost Allocation Plan</b>  <b>Recommendation</b>  We recommend that the City develop and formally document an indirect cost allocation plan that identifies costs of supporting services and allocates them to benefitting departments and funds on an equitable basis that is consistent with Attachment A of OMB A-87 and documented in accordance with OMB A-102.  <b>Status</b>  Not Implemented

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

**Finding 2016-001      Prior Period Adjustments (Material Weakness)**

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.

Responsible Individual: Anastasia Efstathiu, Finance Manager

Corrective Action Plan: Staff will review the capital asset schedule more regularly to ensure that all amounts listed in the schedule will be assets owned by the City.

Anticipated Completion Date: June 2017

**Finding 2016-002      Year-End Closing Process**

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.

Responsible Individual: Anastasia Efstathiu, Finance Manager

Corrective Action Plan: Staff will strive to ensure that all adjustments are recorded prior to the start of the annual audit.

Anticipated Completion Date: June 2017

**Finding 2016-003      Interfund Borrowing**

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).

Responsible Individual: Anastasia Efstathiu, Finance Manager

Corrective Action Plan: 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 if so they will be re-classified accordingly.

Anticipated Completion Date: June 2017

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

**Finding 2016-004      Cost Allocation Plan**

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

- Responsible Individual: Steve Ambrose, Director of Support Services
- Corrective Action Plan: Staff will engage in a process to develop and document a procedure that will identify indirect costs of support services and the method to allocate those costs and that this process will be in accordance with and consistent with the Uniform Guidance
- Anticipated Completion Date: June 2017

**Finding 2016-005      Developer Deposits**

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.

- Responsible Individual: Steve Ambrose, Director of Support Services
- Corrective Action Plan: Staff will work to develop policy and procedures to ensure that developer deposits will be tracked and reconciled in a timely basis. Staff will also ensure that developer deposits are returned on a timely basis.
- Anticipated Completion Date: June 2017

**Finding 2016-006      Postclosure Liability**

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

- Responsible Individual: Steve Ambrose, Director of Support Services
- Corrective Action Plan: Staff will ensure that the correct inflation factor will be applied in the calculation of the post closure liability.
- Anticipated Completion Date: June 2017

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

## **Finding 2016-007      Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

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

Responsible Individual: Anastasia Efstathiu, Finance Manager

**Corrective Action Plan:** Staff will ensure that proper documentation regarding compliance with loan provisions will be maintained and available for review.

Anticipated Completion Date: June 2017

**Finding 2016-008      Home Investment Partnerships Program**

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

Responsible Individual: Anastasia Efstathiu, Finance Manager

**Corrective Action Plan:** Staff will ensure that proper documentation regarding compliance with loan provisions will be maintained and available for review.

Anticipated Completion Date: June 2017