



Management Letter

December 22, 2022

City of Lincoln
600 6th Street
Lincoln, California 95648

In planning and performing our audit of the financial statements of the City of Lincoln (the City) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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. This letter does not affect our report dated December 22, 2022, 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.

The City's responses to the comments identified in our audit are described in the accompanying schedule of control deficiencies and internal control recommendations. 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.

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".

Mann, Urrutia, Nelson CPAs & Associates LLP

City of Lincoln
Control Deficiencies and Internal Control Recommendations
June 30, 2022

Capital Assets (Repeat)

Per review of the capital asset detail schedules and the trial balance to be audited we encountered one asset that had been capitalized as an addition in fiscal year 20/21 was also capitalized as an addition in fiscal year 21/22. We recommend the City review the capital asset schedule for completeness and accuracy and reconcile the capital asset additions to capital outlay recorded in the general ledger to ensure assets are properly capitalized.

Management's Response:

City management agrees with this recommendation and this one time issue has been resolved.

Interfund Advances (Repeat)

The City has 7 interfund loans totaling \$18.4 million. Currently only five of the loans have payment schedules and are making payment. The remaining 2 interfund loans totaling \$7.7 million continue to accrue interest and did not have principal payments made in the current year. We recommend the City revisit the payment plans for all interfund loans to determine the likelihood of payoff and alter the payment plans as necessary. The City may want to consider the possibility of writing-off amounts due and research implications of the write-off if it is deemed that insufficient funds are available to fulfill the obligations.

Management's Response:

City management agrees with the auditor's recommendation and will complete an analysis and seek recommendation from the Council.

Fund Balance – Special Revenue Funds

In accordance with GASB 54, special revenue funds should only remain if specific revenue sources that are restricted or committed are expected to continue to be a substantial portion of the inflows reported in that fund. Per review of fund 250, we noted there had been no activity in the fund for two fiscal years. Upon further investigation, the City noted the remaining cash in this fund should have been applied to other funds. We recommend the City review the special revenue funds and close any funds that no longer meet the definition of a special revenue fund.

Management's Response:

City management agree with this recommendation and this one time issue has been resolved.

City of Lincoln
Status of Prior Year Findings
June 30, 2022

Other Post-Employment Benefits Census Data (Repeat) and Other Benefit Liabilities

(Repeat) The City provides various employee benefits such as pension, retiree health, medical insurance, and life insurance. The basis of payment for such services is accurate employee data. We noted the City does not have any procedures in place to reconcile that employee data is being properly recorded and taken into consideration as invoices received by the City are dependent on such data. Further, we noted that these invoices are not being reviewed and approved by human resources. As pension and retiree health comprise significant liabilities to the City, we recommend the City implement processes and controls to ensure that complete and accurate information is reported to the plans and the plan actuary regarding census data. On an annual basis, management should obtain the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the City may compare the information to underlying payroll records and the prior year census data file. The City may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences. In relation to other benefit liabilities, human resources should be reviewing and approving related invoices. The basis of their review should be verifying accurate employee data has been considered and that changes have been made for any new hires or terminated employees.

Status: Implemented

Human Resources

Current City procedures for terminated employees includes obtaining an approved payroll status change form indicating the termination status of the employee. For four out of the nine terminated employees selected for testing, the City was unable to locate their approved payroll status change form. We recommend the City enhance procedures to ensure proper documentation is maintained.

Status: Implemented

Developer Agreements

As part of the year-end close process, the City discovered developer agreements that were not being accurately tracked or properly disclosed in the financial statements. These developer agreements date back several years and the inconsistent tracking and reporting of information is primarily due to staff turnover throughout the years. The complexity of the developer agreements requires coordination with the Finance Department to ensure that transactions are properly being recorded and reported. We recommend the City perform an inventory of current developer agreements and develop procedures and a tracking mechanism to ensure that all information required to be reported and disclosed in the financial statements is complete and accurate.

Status: Implemented

Interfund Advances (Repeat)

The City has 7 interfund loans totaling \$18.9 million. Currently only three of the loans have payment schedules and are making payment. The remaining 4 interfund loans totaling \$9.8 million continue to accrue interest and did not have principal payments made in the current year. We recommend the City revisit the payment plans for all interfund loans to determine the likelihood of payoff and alter the payment plans as necessary. The City may want to consider the possibility of writing-off amounts due and research implications of the write-off if it is deemed that insufficient funds are available to fulfill the obligations.

Status: Not Implemented