

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

To the City Council
City of Lincoln
Lincoln, California

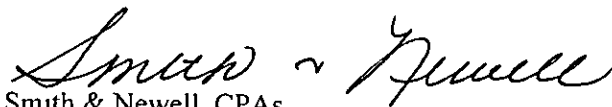
In planning and performing our audit of the financial statements of the City of Lincoln, (City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government 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 management, the City Council 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
January 7, 2016

CITY OF LINCOLN
Appendix A. Management Letter Comments
For the Fiscal Year Ended June 30, 2015

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Cash Receipts (Control Deficiency)

Condition

During our audit we noted multiple journal entries recorded by the City that were to record cash receipts into the general ledger. This is a repeat of a prior year finding.

Cause

Instead of entering the transaction through the cash receipting system for items such as interest, dividends, and sales tax from the State, the City prepared a journal entry to record the cash receipts.

Criteria

Good internal control requires that all receipts of monies be recorded in the general ledger through the cash receipting system.

Effect of Condition

Cash receipts that are entered into the general ledger through journal entries do not have a cash receipt trail through the City's cash receipting system and there is an increased risk of errors and irregularities occurring and not being detected by the City in a timely manner.

Recommendation

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

Corrective Action Plan

The City agrees with the finding, however, due to the volume of accounting entries associated with interest earnings, the City believes the risk is minimal and at an acceptable level with the journal review process and timely bank reconciliations.

Cash Collections - Parks and Recreation (Control Deficiency)

Condition

At the time of our fieldwork we noted that deposits for the use of City facilities were not receipted with pre-numbered receipts into the Active Net accounting system. We also noted that checks on hand were not restrictively endorsed so that they could not be cashed.

Cause

The department is in the process of implementing cash handling procedures but has not implemented how to account for deposits. The City's cash handling policy for the department does not address restrictively endorsing checks as they are received or the handling of overages or shortages in collections.

CITY OF LINCOLN
Appendix A Management Letter Comments
For the Fiscal Year Ended June 30, 2015

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

Cash Collections - Parks and Recreation (Control Deficiency) (Continued)

Criteria

Good internal control policies over cash handling should include the receipting of all collections and restrictively endorsing all checks received

Effect of Condition

The risk of errors and irregularities occurring and not being detected is increased when collections are not recorded with pre-numbered receipts. In addition the risk of errors or irregularities occurring is increased when checks are not restrictively endorsed when received.

Recommendation

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

Corrective Action Plan

The City agrees with the finding and will increase training to staff to comply with the cash handling policy and proper restrictive check endorsement. The City will investigate improvements to the Active Net program to allow adequate reconciliation of receipts and implement a different process if this cannot be attained.

Airport Billing and Collections Policies and Procedures (Control Deficiency)

Condition

During our audit we noted approximately \$35,381 in past due amounts owed to the City for airport hanger and tie down leases that had not been resolved by the City. We also noted that there are no approved controls over cash handling at the airport.

Cause

The City does not have a set of approved policies and procedures related to cash transactions, airport hanger and tie down leases, and billing and collections at the airport.

Criteria

Good internal control requires that policies and procedures are in place to ensure that amounts billed for airport hanger and tie down leases are collected in a timely manner and that cash receipts are reconciled to amounts collected and deposited.

CITY OF LINCOLN
Appendix A: Management Letter Comments
For the Fiscal Year Ended June 30, 2015

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

Airport Inventory/Fuel Sales (Control Deficiency) (Continued)

Corrective Action Plan

The City agrees with this finding and will develop and implement inventory control procedures and provide periodic testing

CITY OF LINCOLN
Appendix A. Management Letter Comments
For the Fiscal Year Ended June 30, 2015

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

Not Implemented

Cash Collections - Parks and Recreation

Prior Year Recommendation

We recommend that all collections and deposits be recorded with receipt numbers, checks be endorsed when received, and that overages and shortages be reported with daily collections

Status

Not Implemented

Payroll Withholding

Prior Year Recommendation

We recommend that the City review the withholdings entered in the payroll system to ensure that employee withholdings are correct in accordance with Form W-4 and DE-4 completed by each employee

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

Not Implemented

CITY OF LINCOLN
Appendix A. Management Letter Comments
For the Fiscal Year Ended June 30, 2015

STATUS OF PRIOR YEAR RECOMMENDATIONS (CONTINUED)

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

Not Implemented