



Management Letter

December 18, 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, 2019, 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 December 18, 2019, contains our communication of significant deficiencies in the City's internal control. This letter does not affect our report dated December 18, 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".

Mann, Urrutia, Nelson CPAs & Associates LLP

City of Lincoln
Control Deficiencies and Internal Control Recommendations
June 30, 2019

Payroll

(Repeat. Not implemented until May 31, 2019) 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.

(Repeat. Not implemented until May 31, 2019) 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.

As part of the payroll process a check proof list, similar to a payroll register, is generated and compared to a payroll GL distribution list which presents the allocation of expenses among the various related GL accounts. The Payroll Technician agrees the totals between both reports to ensure the total payroll expense is captured in the GL at time of posting. Both reports are then presented to the Finance Manager for review. Due to the vacancy of the Finance Manager position, this review was not taking place during the year. We recommend the check proof list and GL distribution list be reviewed and approved by an alternative supervisor in Finance with the absence of a Finance Manager.

Upon our review of the payroll process, we noted there is no report listing terminated employees which verifies that terminated employees have been correctly removed from the payroll system. We recommend a report listing terminated employees be generated and compared to the payroll status change forms received for terminated employees. This report should be signed after comparison. This will ensure terminated employees have been removed from the payroll system.

Upon our review of the payroll process, we noted there is no review or approval of the amount that is uploaded to the bank for direct deposit. The direct deposit list is prepared and uploaded solely by the Payroll Technician. We recommend the Finance Manager or another supervisor in Finance review the direct deposit upload to ensure accuracy of the approved amounts.

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

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.

City of Lincoln
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2019

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.

Vendor Monitoring

During review of the internal controls over cash disbursements, we identified that there was no subsequent review for accuracy and validity performed after the input of new vendors into the accounting system. Although the risk of false vendors being created in the system can be remediated through the review of checks by the check signer prior to disbursement, we recommend the City review that check signers do not have access to create new vendors in the Springbrook system.

Additionally, we noted there is no periodic review of vendors no longer being used by the City. We recommend that on an annual basis the Accounts Payable Specialist generate a master vendor listing out of Springbrook to verify all the vendors are current and accurate. This list should also be reviewed by the Finance Manager.

Developer Deposits

We identified two developer projects and related agreements that were not properly monitored for ongoing compliance. We further noted two separate developer deposits related to long-standing developer projects with little to no prospects of progress or completion. Based on our additional corroboration with the Public Works Director, three of the four noted deposits could have been refunded to the developer as of June 30, 2019, but were not refunded during the fiscal year. We recommend the City public works department develop procedures to more closely monitor and track the compliance requirements of each developer agreement in place, and the finance department annually review the status of each developer deposit recorded in the general ledger and inquire of any long outstanding deposits that may no longer be associated with an active development project.

Hydrant Deposits

We identified one long outstanding hydrant meter deposit that needed to be evaluated for a possible refund to the customer or applied for the purchase of hydrant meters not returned to the City. We recommended the utility billing manager review on an annual basis any long-outstanding hydrant deposits and ensure the utility billing staff are properly monitoring the status of such deposits and provide instruction to address long-outstanding deposits, if necessary.

Information Technology – Springbrook Access

(Repeat) The City's financial information is maintained through the financial software Springbrook. In the prior year, 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. The Finance team has reviewed user access with IT and updated access permissions, which is consistent with our review of the user access rights in Springbrook, however, both we and the City's financial consultant agree that the City should still continue to address the proper access and change privileges, specifically for the lower level staff within the finance department.

City of Lincoln
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2019

Special Revenue Funds

In accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, special revenue funds are used to report proceeds of specific revenue sources that are restricted or committed for specified purposes, other than capital projects or debt service. Upon our review of the City's special revenue funds, there were several funds that did not appear to receive any restricted or committed proceeds during the year. We recommend management reassess their use of special revenue funds and ensure that they expect that a substantial amount of the required proceeds received will continue. Otherwise, if the City no longer expects that a substantial portion of the inflows will derive from restricted or committed resources, that the remaining resources are reported in the general fund or another fund type.

Capital Assets

Per our review of the asset detail, we noted several assets that are fully depreciated. We recommend the City perform an inventory to determine if those fully depreciated assets are still in use. If the assets are no longer in use by the City, the assets should be removed from the asset listing and deemed obsolete.

We noted two instances where leased assets were not properly included in the capital asset schedule. We recommend the City enhance procedures to ensure that all capital assets are accounted for and included in the City's inventory and properly tracked. In addition, leased assets should be accounted for using the relevant and appropriate accounting standards.

Support Service Department Organization

(Repeat) 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

(Repeat) 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. The Finance & Investment Committee and the City Council have taken action this year to implement several of the recommendations provided to the City during the fiscal year 2018-2019. We have obtained and reviewed a City Council report dated July 2, 2019 logging the status of implementation of these recommendations, and roughly 44% of our recommendations were implemented, 50% were either pending or in process, and 6% have yet to be implemented. We continue to recommend that the status log should be reviewed at every quarterly meeting to ensure proper accountability for implementing these recommendations and that no issues have been overlooked before custody of the log is rotated to the next Committee member.

Financial Close

In fiscal year 2019, the City implemented processes for financial close and reporting; however due to turnover in the finance department, these procedures were not adequately performed. Approximately five journal entries relating to misclassification of revenue or expenses were posted subsequent to the City providing the trial balance for audit. Although our finding did not result in a net effect in the City's fund balance or net position, we recommend the City enforce current procedures, or implement alternatives in light of the current staffing situation.

When reviewing the City's beginning fund balance, we identified differences in the beginning fund balance between the City's trial balance and prior year audited financial statements. We recommend the City incorporate into their financial close process a reconciliation of the beginning fund balance to the prior year audited financial statements and correct any variances noted.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations
June 30, 2019

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 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.

Status: Not fully implemented in FY'18/19. Implementation occurred in May 2019.

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.

Status: Implemented.

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.

Status: Not fully implemented in FY'18/19. Implementation occurred in May 2019.

Cash Disbursements

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.

Status: Not Implemented in FY 18/19. City is in the process of implementing this recommendation for FY 19/20.

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.

Status: Implemented.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2019

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.

Status: Not implemented.

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.

Status: Implemented.

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.

Status: Implemented.

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.

Status: Implemented.

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.

Status: Implemented.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2019

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.

Status: Implemented.

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.

Status: Implementation in process.

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.

Status: Not implemented.

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.

Status: Implementation in process.

City of Lincoln
Status of Prior Year
Control Deficiencies and Internal Control Recommendations (Continued)
June 30, 2019

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.

Status: Implemented.