



Elaine M. Howle *State Auditor*

CONTACT: Margarita Fernández | (916) 445-0255 x 343 | MargaritaF@auditor.ca.gov

City of Lincoln

Financial Mismanagement, Insufficient Accountability, and Lax Oversight Threaten the City's Stability

Background

With over 47,000 residents, northern California's city of Lincoln (Lincoln) is governed by a city council composed of five elected officials. The council appoints a city manager to administer the city's operations. The city provides its residents a range of services including public safety, water (obtained from Placer County Water Agency), sewer, garbage collection and disposal, and other general administration. Lincoln also operates a municipal airport and transit system.

Key Recommendations

Lincoln should do the following:

- Immediately review all interfund loans and confirm loans can be repaid, cease using restricted funds to subsidize unrelated funds with deficits, and properly account for revenue and expenditures related to public improvements to ensure it allocates costs appropriately among property owners.
- Ensure that it properly charges developers, builders, and its residents for services and benefits by periodically reviewing its fees and adjusting them as necessary.
- Ensure transparency to the public by specifying in its annual budget what it plans to spend on municipal utilities and how it will pay for these costs.
- Establish and follow policies and procedures for budgeting, approving expenditures, and preparing financial reports.

Key Findings

- Contrary to the city's policies, the city council approved loans from restricted funds—such as a water fund—to other funds that clearly would not be able to repay those loans.
- Lincoln misrepresented its financial position by using the surplus in a restricted fund to offset year-end deficits in other funds—some funds ended most fiscal years over a four-year period with negative fund balances, yet by shifting monies from a fund with a positive balance, those funds appeared solvent.
- Because Lincoln did not properly track the revenue it received from assessments it levied on property owners to pay for public improvements or services that benefit their properties, some property owners subsidized the costs of benefits received by other property owners.
- Lincoln did not accurately charge the public for certain city services.
 - » It overcharged developers and builders for the cost of water infrastructure and capacity when it issued building permits.
 - » It undercharged the public for providing certain services and did not fully recover its costs because it used outdated staff rates.
 - » It violated provisions of the state constitution because it did not pay for its own use of municipal utilities and instead passed these costs on to ratepayers.
- Lincoln did not have key policies and procedures, such as budgeting protocols, to ensure that it managed public funds appropriately and with transparency nor did it follow certain existing policies and procedures, such as when it settled a claim without the city council's approval.

Lincoln Inappropriately Transferred Reserves From a Restricted Fund to Offset Deficits in Other Funds

