



**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***

City Council
City of Lemon Grove
Lemon Grove, 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, business-type activities, each major fund and the aggregate remaining fund information of the City of Lemon Grove (City), as of and for the year ended June 30, 2019, 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 10, 2019.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-1, 2019-2, and 2019-3 that we consider to be significant deficiencies.

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 of Lemon Grove's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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.

Van Lant + Fankhanel, LLP

December 10, 2019

CITY OF LEMON GROVE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-1 Segregation of Incompatible Duties

Condition:

This finding is carried forward from our prior year report dated December 10, 2018. Our audit procedures included a review and evaluation of the City's business license function, including the billing and collection of business license fees. Based on our procedures, we noted that the cash receipts clerk at City Hall is responsible for administering the business license program. This includes the billing and collection functions, and maintaining the business license database.

Criteria:

In a strong internal control environment, the billing and collection functions should be segregated. The individual responsible for administering the business license function should not also be handling incoming payments. If this is not practical, personnel independent of the business license function should periodically reconcile the information in the business license software with the revenue recorded in the general ledger and also the bank deposits.

Cause of Condition:

Incompatible duties performed by the same individual creates opportunity for business license revenues to be received but not recorded in the City's general ledger.

Potential Effect of Condition:

Lack of internal controls in the City's business license function could result in payments being collected that are not ultimately recorded in the City's general ledger and deposited into the City's bank accounts.

Recommendation:

We recommend the City evaluate the business license function to determine if the collection function could be segregated from the administration/billing function. At a minimum, City management should establish procedures for independent personnel to reconcile the business license activity to the revenue in the general ledger and bank deposits.

Management's Response:

The City agrees that in a strong internal control environment, billing and collection functions should be segregated. The City's Finance Department has limited staff and complete segregation of duties is not always achievable. The City has instituted several mitigating controls (for example: tasking the Accounting Analyst the responsibility of matching the business license reports with bank deposits on a monthly basis) to reduce the risks of fraud and errors that can occur with weak internal controls.

**CITY OF LEMON GROVE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

2019-2 Reconciliation of Building/Planning/Engineering Permits

Condition:

Based on audit procedures performed for the 2018-2019 audit, we noted certain conditions indicating a lack of oversight and internal control in the Development Services Department. We confirmed with permit technicians at the City that permits can be issued and marked as “final” without a corresponding cash receipt; we were unable to identify controls within the City’s permit software that would require an applicant to pay their fees prior to the issuance of a permit. We found no indication of an employee performing a reconciliation between the permits issued and the cash receipts collected.

We also noted that when permits were issued, they were not necessarily marked as closed/finalized in the system.

Criteria:

It is important for the City to maintain strong internal controls over the collection of fees in the Building and Planning Departments.

Cause of Condition:

The City experienced turnover and vacancies in certain key positions in previous fiscal years, which may have contributed to the lack of oversight in this area. Current management has been taking steps to address this issue.

Potential Effect of Condition:

A permit could be issued without a corresponding cash receipt.

Recommendation:

We recommend that the City implement procedures that include the reconciliation of the permits issued to the revenue collected and recorded.

Management’s Response:

Strong internal controls over the collection of fees in the Development Services Department is essential for consistency and public trust. Currently, the Accounting Analyst prepares a weekly cash receipt report for building permit activity. The Building Permit Technician then reconciles the permits issued to the cash receipts report. The cash receipts report and the reconciliation are then reviewed by the Associate Planner. Although the recommended reconciliation is already taking place, the employee completing the reconciliation is the same person who issues and finalizes most permits. To improve this internal control procedure, moving forward the Accounting Analyst or Associate Planner will separately reconcile the permit activity to the cash receipt activity during their weekly review. In addition, the new Community Development Manager has been taught how to generate reports on open permits from the software in order to enforce timely recording of permit activity in the system.

CITY OF LEMON GROVE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-3 Allocation of Overhead to Restricted Funds

Condition:

This finding is carried forward from our prior year report dated December 20, 2018. Based on our testing of costs charged to funds with restricted revenue, the City is charging both direct salaries and indirect overhead costs to certain funds. Various percentages are used to allocate the salaries of certain positions, including Finance and Human Resources personnel. However, the City had not yet established a formal cost allocation plan for the 2018-19 fiscal year, as recommended in the prior year, but has done so for subsequent fiscal years.

Criteria:

Certain revenues received by the City have specific restrictions on the costs that can be charged to these revenues, including indirect costs. For the sake of transparency, the City should ensure that all costs charged to restricted funds, including overhead costs, are adequately documented. This documentation should include evidence that overhead costs are equitable and reasonable, in relation to all costs incurred by the City.

Cause of Condition:

The City did not have a formal cost allocation plan in place for the 2018-19 fiscal year, but has taken appropriate steps for the 2019-20 fiscal year.

Potential Effect of Condition:

Unallowable costs could be charged to restricted funds, including the Gas Tax Fund. In addition, the City might not be allocating allowable costs to restricted funds, resulting in higher expenditures of discretionary money, including General Fund revenues.

Recommendation:

Based on discussions with City staff and review of the minutes of the City Council meetings, the City has implemented a formal cost allocation plan in FY 2019-2020.

Management's Response:

The City recognized the need for a formal overhead cost allocation plan and during FY 2018-2019 worked with a professional consulting firm to prepare a cost allocation plan based on best practices in the field. The results of the plan were discussed at a public meeting of City Council and the plan was formally adopted in June 2019. The allocation percentages detailed in the formal cost allocation plan were incorporated into the adopted FY 2019-2020 budget. In addition, the consultants trained City staff on how to update the cost allocation model so that it can continue to be accurate and applicable for future fiscal years.