

City of Lemon Grove

Lemon Grove, California

*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*

For the year ended June 30, 2023

**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**

Independent Auditor's Report

To the Honorable Mayor and Members of City Council
of the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove, California (City), as of and for the year ended June 30, 2023 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 16, 2024.

Report on 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) as a basis for designing 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 City of Lemon Grove'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 over financial reporting 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. We identified certain deficiencies in internal control described in the accompanying *schedule of findings and responses* as item 2023-001 and 2023-002 that we consider to be material weakness.

To the Honorable Mayor and Members of City Council
of the City of Lemon Grove
Lemon Grove, California
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Report on Compliance and Other Matters

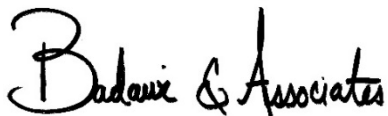
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our engagement and described in the accompanying schedule of findings and responses. 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 the response.

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.



Badawi & Associates, CPAs
Emeryville, California
December 16, 2024

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2023

2023-001 Restatement of previously issued financial statements, Year-End Close and Audit Preparedness (Material Weakness)

Criteria: The City is responsible for fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over financial closing and reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition: During the performance of the audit, we noted that the City was not fully prepared for the audit and the accounting records presented to us did not include a significant number of transactions that were missed by the City and should have been recorded throughout the year and as part of the year-end closing process resulting in 42 adjusting entries and Significant prior period adjustments. We have also noted many errors in transactions recorded by the City for which the City had to record audit adjusting entries to correct the errors. The most significant of those transactions are listed below:

- Incorrect recording and revenue recognition of the American Rescue Plan Act funds
- Missed recording of activities in the retirement trust fund (PARS)
- No recording of interest payable in the Successor Agency
- No recording of amortization of bond premium in the Successor Agency
- Incorrect recording of claims liability
- Incorrect recording of interest receivable on loans receivable
- No capital assets activities recorded in the Sanitation Fund including depreciation.
- Several assets that should have been capitalized were missed.
- No pension, OPEB or compensated absences activities were recorded in the Sanitation Fund
- No reversal of last year entries
- No recording of payroll accruals
- Significant PPA in Lease Receivable, Claims payable and Revenue

Cause: The City's closing process was not comprehensive enough to identify timely all the journal entries and adjustments needed to ensure the accuracy of the various account balances. Also, some information and documents provided to the auditor were either inaccurate or incomplete.

Effect: The City's accounting records needed significant adjustments after the closing of the books and during the audit. Also, the inaccurate and incomplete information provided to the auditor caused delays in the audit and added more complexity to the audit.

Recommendation: We recommend that the City update its closing process to ensure all transactions and adjustments are accounted for timely before the audit starts, and have the information and documents reviewed before submitting to the auditors.

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2023

2023-001 Restatement of previously issued financial statements, Year-End Close and Audit Preparedness (Material Weakness), Continued

Management's Response:

The City's Finance Department was not fully prepared for the audit because of extraneous circumstances. The Department experienced unanticipated staff turnover due to unplanned retirements and resignation in April 2023, resulted in significant institutional knowledge loss. New Finance staff hired in June and July 2023 were new to governmental accounting and year-end audits. The Finance Director was mostly absent from September 2023 to March 2024 due to a personal tragedy. In the meantime, the new Finance staff made their best efforts in preparing for the audit using outdated written procedures and learning on their own. A part-time interim Finance Director was hired in April 2024 to guide the Finance staff. A new full-time permanent Finance Director was hired in late June 2024 and wrapped up the audit. The Finance Director is in the process of preparing a comprehensive year-end closing checklist and procedures to ensure all the accrual and adjusting entries will be recorded before the audit begins and will make sure the information and documents will be reviewed before submitting to the auditors.

2023-002 Grant billing and Negative Cash Balances (Material Weakness)

Criteria: The City is responsible for fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over financial closing and reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition: During the performance of the audit, we noted that the City had significant deficit cash balances in multiple funds such as the Transnet, TDA, CDBG and Sundry Grants Funds. Those deficits have been accumulating and increasing for a few years.

Cause: The City is not being billing the grantors and other governments timely to get reimbursed for expenditures incurred which led to the cash deficit.

Effect: The City is not getting reimbursed timely for the expenditures incurred by these funds and programs and the General Fund have been making up the deficit for the last few years.

Recommendation: We recommend that the City update its policies and procedures to ensure that timely billing is being performed to ensure timely reimbursement of city funds.

Management's Response:

The City has experienced high staff turnover in Finance and Public Works in the past few years. In addition, certain funding or grant requirements limit the amount and frequency of fund can be requested for reimbursement.

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2023

2023-002 Grant Billing and Negative Cash Balances (Material Weakness), Continued

Management's Response, Continued:

For the TDA fund, the City does not receive advance funding and is limited to once a year request for expenditures reimbursement, after the year ended; therefore, the TDA fund will consistently have cash deficit. Finance has been and will continue to request reimbursement yearly. This TDA fund is subject to annual compliance audit from San Diego Association of Governments (SANDAG) and has not received findings.

For the TransNet fund, SANDAG limits once a month draw of fund at a limited amount. This TransNet fund is also subject to annual compliance audit from SANDAG. Careful cash management is required to ensure cash on hand is not excessive, which could result in compliance audit findings. Finance Director and Public Works Director are now coordinating and making efforts to request the proper amount of fund to avoid future cash deficit and any potential excessive cash on hand.

For the CDBG and Sundry Grants funds, most of the grants are reimbursement grants, which mean there will always be cash deficits. Some reimbursement requests may take a few months to be processed by the granting agencies. City staff from Finance, City Manager's Office, and Public Works are making efforts to minimize the impact to the General Fund by timely billing the granting agencies.