

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, 2022



**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 13, 2023.

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 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. 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 preceding paragraph 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

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described in the accompanying Schedule of Findings and Responses as items 2022-01 and 2022-02 that we consider to be material weaknesses.

Compliance and Other Matters

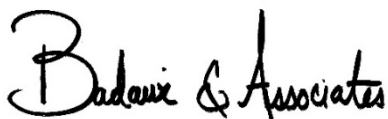
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 questioned costs. 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 entity'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
Berkeley, California
February 13, 2023

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2022

2022-001 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. 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:

- Double booking of repayment of Successor Agency loan and incorrect recording of the payment as a transfer in
- 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

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, 2022

2022-001 Year-End Close and Audit Preparedness (Material Weakness), Continued

Management's Response:

In this year, both staff and audit firm changed. There were difficulties in confirming previous audit processes and current. To this matter;

1. Interpretations of closing entries being made with note "based on audit results" differed from new auditor expectations. This is understandable and entries will be completed prior in the upcoming fiscal years.
2. Supplemental reports from the City's Financial System, i.e. Compensated Absences, require additional revisions to incorporate contractual requirements for reporting. The worksheet from previous years was located and had to be corrected to more accurately reflect the original report sent from the financial system.
3. Capital assets worksheets are separate for General Fund and Sanitation Fund, which is appropriate. These have been updated and will allow staff to make appropriate entries in future.
4. Incorrect entries of interest included past practice of not using market values adjustments unilaterally, which has been updated at auditor's suggestion.
5. American Rescue Plan Act funds were received; however, funds should have been classified as unearned revenue and has been corrected. Revenue will be recognized as the funds are expended.

The City plans to use these audit findings to update its processes and procedures that will help improve internal controls and year end closing procedures. Additionally, with staff turnover and interim staffing, prior process knowledge was lost. Moving forward, and considering the limited staff time, an evaluation of tasks priorities will be completed to help identify areas where realignment of duties can be accomplished to better complete the entries throughout the year and at year-end.

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2022

2022-002 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:

During the past fiscal year, there were several unforeseen staffing challenges whereby experience and knowledge of these grant funds was lost. Remaining staff had to reconstruct that knowledge to better understand each grants individual reimbursement process. . The following billing situations currently exist:

1. TDA (Fund 10) is a reimbursable fund that is paid annually by MTS after their auditors complete a fund audit, advising funds are appropriate and reimbursable. These funds will be requested immediately after the MTS Audit is completed. There will always be a negative cash balance at the end of each year with this fund.
2. Transnet (Fund 14) is a reimbursable account. With the loss of the staff member that made those requests, it was too late in the year to get the accounts up to date. Once the issue was identified, finance staff began preparing requests until the management analyst can be trained to complete this requirement. Year-end estimates will be made in future to assist in minimizing or eliminating negative cash.
3. One CDBG grant was returned by San Diego County, as they had changed their process and staff was waiting on a ruling on how to submit. The new requirements have been published and should allow for collection, reducing negative cash balances.

The City plans to use these findings to update is processes and procedures with new staff to help improve internal controls and year end closing procedures.