

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, 2024

**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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2025.

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.

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 described in the accompanying Schedule of Findings and Responses as items 2024-01 and 2024-02 that we consider to be material weaknesses.

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

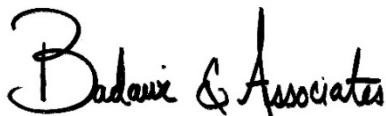
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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. 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 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
Emeryville, California
May 15, 2025

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2024

2024-001 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 resulting in 24 adjusting entries. The most significant of those transactions are listed below:

- Recording of revenue and receivable
- Recording of payroll liabilities
- Adjustment of Capital Assets

Cause: The City's closing process was not comprehensive enough to identify all the journal entries and adjustments needed to ensure the accuracy of the various account balances in a timely manner.

Effect: The City's accounting records needed significant adjustments after the closing of the books and during the audit.

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

Management's Response:

Due to the lack of staff continuity in the Finance Department, there was a large amount of catch-up work to be performed by the new Finance staff, which was the main reason for the City not to be fully prepared for the audit. However, significant improvements have been made to the year-end closing process compared to prior fiscal years. The 24 adjusting entries stated in the finding were mainly related to errors, which the Finance staff discovered and corrected after the audit started. 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.

City of Lemon Grove
Schedule of Findings and Responses
For the year ended June 30, 2024

2024-002 Restatement of Previously Issued Financial Statements (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: The City restated its previously issued financial statements to correct Successor Agency's property held for resale.

Cause: City did not record the classification and disposal of the assets after the dissolution of RDA.

Effect: "Land held for resale" was incorrectly presented in Successor Agency.

Recommendation: We recommend that the City update its policies and procedures to ensure that such transactions are recorded timely and accurately.

Management's Response:

All the land from Successor Agency was transferred to the City in October 2019. It was an oversight from the prior Finance Director that the accounting entries were not recorded accordingly in fiscal year 2020. There is no more land from the Successor Agency to be transferred, therefore, this error will not occur going forward.

The City now has a process in place to review capital asset additions and deletions each fiscal year and to record those accordingly. Finance will develop written procedures.