



INDEPENDENT AUDITORS' 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*

To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, 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 Lake Elsinore, California (the "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 December 22, 2022.

**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 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 2022-001 that we consider to be material weaknesses.

**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-001.



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City of Lake Elsinore, California

### **City of Lake Elsinore, California'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 audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lance, Solt &amp; Loughard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
December 22, 2022



To the Honorable Mayor and Members of the City Council  
City of Lake Elsinore, California

## SCHEDULE OF FINDINGS AND RESPONSES

**Reference No.:** 2022-001 – Inadequate Controls Over Financial Reporting

**Evaluation of Finding:**

Material weakness.

**Criteria:**

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

**Condition:**

During the audit, we found the following conditions that resulted in significant audit adjustments to the financial statements:

*Accuracy in External Financial Reporting*

The year-end closing process did not ensure that account balances were reconciled and accurate in advance of the audit requiring adjusting journal entries to correct the final financial statements. It appears these errors were primarily caused by the trial balance being prepared from data that was not always complete. The more significant entries identified include:

- Adjustments to record assets not properly capitalized in the Launch Pointe Fund (approximately \$19 million) and the City General Fixed Asset Fund (approximately \$13.4 million).
- Current year and prior period adjustments to record accumulated depreciation related to the assets previously mentioned in the Launch Pointe Fund (approximately \$1.5 million) and the City General Fixed Asset Fund (approximately \$562,000).
- Adjustment to record unavailable revenues instead of revenues for grant programs (approximately \$6.4 million) and for Prop 65 fees (approximately \$1.1 million) for cash receipts that were not received within the revenue recognition period.

**Effect or Potential Effect of Condition:**

Unavailable Revenues: Revenues would have been overstated as of June 30, 2022.

Capital Assets: Assets were overstated at FYE 2021 and expenses were understated. Assets would have been further overstated at FY 2022 and expenses would have been further understated.

**Recommendation:**

The City should include in their year-end close process a review of capital assets not being depreciate to ensure they have not been placed in service. In addition, the City should evaluate whether revenues were collected within the availability period to ensure proper revenue recognition.

**Client Response:**

Thank you for your review and recommendation of putting in place formalized year end close procedures. The City does have formalized year end close procedures for unavailable revenue and capitalization of assets; however, perhaps in these instances for the year ending 06-30-2022, our procedures need some details added to our list as well as additional instructional notes to help close the gap to mitigate errors.