



**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 Clearlake
Clearlake, 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, each major fund and the aggregate remaining fund information of the City of Clearlake (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 May 31, 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.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a material weakness.

Van Lant & Fankhanel, LLP

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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 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 Clearlake's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Clearlake'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 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Van Lant + Fankhanel, LLP". The signature is written in a cursive style.

May 31, 2023

CITY OF CLEARLAKE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2022

2022-001 Timeliness of Accounting Records

Condition:

The City's accounting records were not reconciled and ready to be audited until March 2023, approximately 9 months after the end of the fiscal year.

Criteria:

The City's management is responsible for establishing and maintaining effective internal controls over financial reporting to help ensure that appropriate goals and objectives are met. This responsibility includes the selection and application of accounting principles, ensuring that financial information is reliable and properly recorded, and evaluating and monitoring ongoing activities in a timely manner.

Cause of Condition:

Turnover in the Finance Department and delays in completing the year-end financial close process due to COVID-19.

Recommendation:

Therefore, in order to maintain the integrity of the accounting and financial reporting system, and to ensure timely reporting, we recommend that all balance sheet accounts and other selected accounts be analyzed on a monthly, quarterly or other periodic basis as appropriate. We suggest a schedule of accounting functions to be performed monthly, quarterly, etc., be prepared with the provision for signing off by date and initials when the procedure is complete. We understand significant turnover in the finance department along with the onset of the COVID-19 pandemic were contributing factors to the finding described above.

Views of Responsible Officials:

Management concurs with the auditor's recommendations. The City has stabilized staffing in the finance department and is also in the process of bringing on an additional Account Clerk. Due to an increase in grant funded capital projects, the City requires additional support to manage grant reporting requirements and financial resource tracking.

The Finance Department has also established a monthly and quarterly review process that will allow for a seamless year-end close. The FYE 22 audit has been completed in time to start preparing for the FYE 23 audit which will be completed in the standard annual audit cycle.