

CITY OF REDONDO BEACH, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS
YEAR ENDED JUNE 30, 2024



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**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**

Honorable Mayor and Members of the City Council
City of Redondo Beach
Redondo Beach, 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 City of Redondo Beach, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Redondo Beach's basic financial statements, and have issued our report thereon dated October 31, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Redondo Beach'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 City of Redondo Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Redondo Beach's internal control.

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 that we consider to be material weaknesses and significant deficiencies.

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.

We consider the deficiencies described in the accompanying schedule of findings and responses as items 2024-001, 2024-002 and 2024-003 to be material weaknesses.

Honorable Mayor and Members of the City Council
City of Redondo Beach, California

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2024-004 and 2024-005 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Redondo Beach'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 that are required to be reported under *Government Auditing Standards*.

City of Redondo Beach's Response to Findings

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Irvine, California
October 31, 2025



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of the City Council
City of Redondo Beach
Redondo Beach, California

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the City of Redondo Beach's, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Redondo Beach's major federal programs for the year ended June 30, 2024. The City of Redondo Beach's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Section 8 Housing Choice Vouchers Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the City of Redondo Beach complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Section 8 Housing Choice Vouchers Program for the year ended June 30, 2024.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City of Redondo Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2024.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Redondo Beach and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the City of Redondo Beach's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Section 8 Housing Choice Vouchers Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Section 8 Housing Choice Vouchers Program as described in finding number 2024-007 and 2024-010 for Reporting.

Compliance with such requirements is necessary, in our opinion, for the City of Redondo Beach to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Redondo Beach's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Redondo Beach's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Redondo Beach's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Redondo Beach's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Redondo Beach's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Redondo Beach's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2024-006, 2024-007, 2024-008, and 2024-010. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards require the auditor to perform limited procedures on the City of Redondo Beach's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City of Redondo Beach's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-007 and 2024-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-006, 2024-008 and 2024-009 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Redondo Beach's response to internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Redondo Beach's

Honorable Mayor and Members of the City Council
City of Redondo Beach, California

response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redondo Beach as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Redondo Beach's basic financial statements. We have issued our report thereon, dated October 31, 2025, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Irvine, California
December 30, 2025

CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2024

Federal Grantor / Pass-Through Grantor / Program / Cluster Title / Project	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grants - Entitlement Grants Cluster:				
Community Development Block Grant/Entitlement Grant	14.218		\$ 381,193	\$ -
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871		9,015,825	-
Total U.S. Department of Housing and Urban Development			9,397,018	-
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Federal Transit Cluster:				
Federal Transit - Formula Grants	20.507		2,462,965	-
Passed-Through the State of CA Office of Traffic Safety:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	XCA4E3XL2KY7 - PT23152	13,726	-
	20.600	XCA4E3XL2KY7 - PT24156	23,138	-
	20.600	XCA4E3XL2KY7 - PS24026	15,195	-
Total State and Community Highway Safety			52,059	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	XCA4E3XL2KY7 - PT23152	26,137	-
	20.608	XCA4E3XL2KY7 - PT24156	45,851	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			71,988	-
Total U.S. Department of Transportation			2,587,012	-
<u>U.S. Department of Justice</u>				
Direct Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		25,029	-
Equitable Sharing	16.922		17,997	-
Bulletproof Vest Partnership Program	16.607		4,096	-
Total U.S. Department of Justice			47,122	-
<u>U.S. Department of Treasury</u>				
Direct Assistance:				
Equitable Sharing	21.016		18,010	-
Total U.S. Department of Justice			18,010	-
<u>U.S. Department of Homeland Security</u>				
Passed-Through County of Los Angeles Office of Emergency Services:				
Homeland Security Grant Program	97.067	2020-0095	29,656	-
Total U.S. Department of Homeland Security			29,656	-
Total Expenditures of Federal Awards			\$ 12,078,818	\$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF REDONDO BEACH, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2024

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Redondo Beach, California (the City), under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024**

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? x yes none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? x yes none reported
2. Type of auditors' report issued on compliance for major federal programs: Qualified for ALN 14.871 Housing Voucher Cluster and unmodified for ALN 20.507 Federal Transit – Formula Grants.
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes no

Identification of Major Federal Programs

Assistance Listing Number(s)

14.871
20.507

Name of Federal Program or Cluster

Housing Voucher Cluster
Federal Transit – Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**CITY OF REDONDO BEACH
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings

2024-001 - Grant Accounting

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The City recorded a material journal entry of approximately \$3.4 million to correct long-standing balances in the Other Intergovernmental Grants special revenue fund, specifically related to grants receivable and unavailable revenue. The adjustment was necessary to eliminate unsupported or outdated balances that had accumulated over multiple reporting periods.

Criteria or specific requirement: The City's management is responsible for establishing and maintaining internal controls for the proper recording of grant revenues and related receivables.

Effect: Amounts due from other governments, related unavailable revenues and beginning fund balance in the Other Intergovernmental Grants special revenue fund were materially overstated.

Cause: The lack of effective monitoring and reconciliation procedures related to grant activity and staff turnover.

Repeat finding: No

Recommendation: We recommend that the City update the internal controls related to the recording of grant activity to ensure the accuracy of affected account balances and the timeliness of monitoring and reconciliations. Such controls should be documented in writing and disseminated to all staff involved with grant activities and should include:

- Monthly reviews of grant activity and receivable aging schedules,
- Documentation of reconciliations and resolution of discrepancies,
- Oversight by finance and grant management to ensure compliance and accuracy.

Views of responsible officials and planned corrective actions:

Management concurs with the finding. The City recognizes the importance of maintaining accurate and timely reconciliations of grant-related receivables and unavailable revenue. Prior to receiving this finding, the City had initiated actions that will correct the identified issue, including the development of a formal reconciliation schedule and associated procedures and the assignment of dedicated staff to oversee grant fund activity. Additionally, the City has initiated a comprehensive review of grant processes and procedures which involve City staff in all Departments who use grant funding. This review will help to ensure a broad understanding of grant management, and the responsibility associated with each role related to grants, with the end goal of ensuring accuracy and compliance with grant accounting requirements. These procedures will be documented and implemented in the upcoming fiscal year to ensure compliance with grant requirements and to strengthen internal controls over financial reporting.

**CITY OF REDONDO BEACH
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings (Continued)

2024-002 - Construction in Progress (CIP) Accounting

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The following misstatements were identified in the capital asset CIP schedules:

- Dredging costs incurred to maintain the navigability of the waterways (approximately \$490,000 related to the prior year and \$3,000,000 related to the current year) were improperly capitalized in the Harbor Tidelands enterprise fund.
- Approximately \$18,000,000 in completed project costs were removed from CIP of the governmental activities since they had remained beyond their completion date and reclassified to their appropriate capital asset classes.
- Approximately, \$14,290,000 in street infrastructure project costs were removed from CIP of the governmental activities since the costs related to preservation and maintenance costs which should be not be capitalized under the modified approach for reporting infrastructure assets.

Criteria or specific requirements: Capital projects costs that do not enhance the use of an asset or extend its useful life should not be capitalized and, therefore, not be included in CIP. Once CIP projects are completed and the assets are placed in service, the project costs should be transferred from CIP to the appropriate capital asset class and depreciation should commence. Governmental entities that have elected to account for one or more of its networks or subsystems of infrastructure assets under the modified approach forego depreciation of those assets by committing to preserving and maintaining a given network or subsystem of infrastructure assets at a specific condition level. The costs of preservation and maintenance at that condition level are expensed when incurred and not capitalized.

Effect: CIP and net position were overstated for governmental activities and the Harbor Tidelands enterprise fund.

Cause: Internal controls to ensure proper classification and timely capitalization of completed capital projects were not functioning properly and staff turnover.

Repeat finding: No

Recommendation: We recommend that internal control policies and procedures over accounting and reporting of CIP be reviewed, updated and documented in writing. In particular, the policies and procedures update should address capitalization thresholds, costs eligible for capitalization, monitoring of CIP activity and timely capitalization and removal of completed projects. In addition, the policies and procedures should address accounting and reporting for street infrastructure assets under the modified approach.

Views of responsible officials and planned corrective actions:

Management concurs with the finding. The City is reviewing its capital asset accounting policies and procedures and will implement additional controls to ensure timely and accurate classification of capital projects. The City plans for staff training and updating the current system for capital asset reporting to improve compliance with GASB 34 and strengthen internal controls over financial reporting.

**CITY OF REDONDO BEACH
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings (Continued)

2024-003 – Accounting for Third-Party Activity

Type of Finding: Material Weakness in Financial Reporting and Ledger Controls

Condition: The City identified two key areas where financial activity was not being properly accounted for in the City's general ledger:

1. **Third-Party Managed Leases:** Revenues and expenditures associated with properties managed by third-party were being reported on a net basis, rather than gross, which obscures the full scope of lease-related financial activity. Additionally, related balance sheet accounts such as cash deposits held by third-party, unamortized leasing commissions, and tenant deposit liabilities were either missing or inaccurately recorded.
2. **Marine Avenue Agreement:** The Authority Reserve Fund (AFR), held externally by the hotel's lender, was not tracked within the City's general ledger accurately. Although the AFR receives City contributions (funded by transient occupancy taxes generated by the agreement's subject properties) and hotel owner/operator draws, its activity was not shown appropriately in the City's financial system.

Criteria or specific requirement: Per Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) Guidelines, entities must report gross revenues and expenditures to ensure transparency and comparability. All material financial transactions, including those managed externally or held off-ledger, must be recorded in the City's general ledger.

Effect: Revenue, expenditures and various balance sheet accounts of the General Fund, Harbor Tidelands Enterprise Fund and Harbor Uplands Enterprise Fund were understated.

Cause: Reliance on third-party management companies without sufficient oversight and misinterpretation of accounting standards related to lease reporting and off-ledger agreements.

Repeat finding: No

Recommendation: We recommend the City establish procedures to ensure all lease-related transactions and long-term financial agreements are fully recorded in the general ledger and strengthen internal controls and oversight over third-party managed assets and off-ledger agreements to ensure consistent and accurate financial reporting.

Views of responsible officials and planned corrective actions: Management concurs with the finding relating to unique third-party relationships. City staff has instituted process changes to address findings, including recording identified revenues and expenditures on a gross basis. Staff is working closely with the identified external third parties to monitor and provide a clear accounting of related activity in the City's general ledger.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings (Continued)

2024-004 – Deposits Payable

Type of Finding: Significant Deficiency in Internal Control Over Financial Reporting

Condition: We noted that some deposit payable accounts are not being reconciled timely resulting in aged balances that lacked adequate supporting documentation. These accounts balances have not been reviewed regularly, and no formal reconciliation procedures seem to be in place.

Criteria or specific requirement: Effective internal control systems should include procedures for the periodic reconciliation of liability accounts, including deposits payable, to ensure accuracy and completeness of accounting and financial reporting.

Effect: The lack of oversight of deposits payable increases the risk of errors, misstatements, or potential misappropriation of funds.

Cause: Lack of monitoring the details of transactions involving deposit payable accounts and staff turnover

Repeat finding: No

Recommendation: We recommend establishing a formal reconciliation process for deposits payable accounts that is performed regularly throughout the year. The reconciliation should include reviewing aged balances for validity, identifying transactions involving deposits and clearing unsupported amounts. The department overseeing the services requiring deposits should be maintaining the documentation supporting the deposits and regular reconciliations and the finance department should provide periodic oversight.

Views of responsible officials and planned corrective actions:

Management concurs with the finding. The City will implement a reconciliation schedule for all deposits payable accounts, including those identified in this finding for which long-standing balances without activity exist, and assign staff to review and resolve aged balances. These procedures will be documented and incorporated into the City's year-end close process to strengthen internal controls and improve financial reporting accuracy.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings (Continued)

2024-005 – Financial Statement Closing Process

Type of Finding: Significant Deficiency in Internal Control Over Financial Reporting

Condition: We observed that several unexpected journal entries were recorded after the delivery of the final trial balance to us, suggesting that the financial statement closing process may benefit from additional refinement to ensure completeness prior to the start of final audit fieldwork.

Criteria or specific requirement: Effective internal control over financial reporting includes timely and well-documented closing procedures that ensure the completeness and accuracy of financial data prior to the start of final audit fieldwork.

Effect: While these entries did not result in a material misstatement of the audited financial statements, the volume and timing of the adjustments indicate opportunities to enhance the City's internal controls over the year-end closing process.

Cause: Certain adjustments and reconciliations were not finalized before the initial close, which contributed to the need for post-close entries to update financial statement balances and staff turnover.

Repeat finding: No

Recommendation: We recommend:

- Reviewing and refining the year-end closing procedures to promote completeness, consistency, and accuracy.
- Developing a formal checklist and timeline to guide the closing process.
- Assigning clear responsibilities for key closing tasks and reconciliations across the organization.
- Conducting a post-close review to identify areas for improvement and reduce reliance on post-close adjustments.

Views of responsible officials and planned corrective actions:

Management agrees with the recommendation and will take steps to strengthen the financial statement closing process. The City plans to enhance its year-end procedures through improved documentation, clearer task assignments, and the use of a structured checklist to support a more efficient and accurate close.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs

2024-006: Housing Quality Standards

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: Section 8 Choice Housing Vouchers

Assistance Listing Number: 14.871

Federal Award Identification Number and Year: CA103AF0154-0160, CA103AFR323, CA103EH0005-0006, CA103VO0201-0206, CA103VO0208-0211, and CA103VOPR23; All 2024

Award Period: July 1, 2023 – June 30, 2024

Compliance Requirement Affected: N Special Tests and Provisions

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria or Specific Requirement: The Public Housing Agency (PHA) must inspect the unit leased to a family at least biennially to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)). For units under a Housing Assistance Payments (HAP) contract that fail to meet HQS, the PHA must require the owner to correct any life threatening deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract (24 CFR sections 982.158(d) and 982.404).

Condition: For one of the HQS reinspections tested, the City-prepared reinspection listing indicated that the reinspection occurred within the required timeframe. However, upon review of the tenant file and underlying support, it was determined that the reinspection did not take place. For two of the HQS failed inspections tested, the City should have abated payments in accordance with the City's Administrative Plan due to owner failure to correct deficiencies in a timely manner. No documentation was maintained to explain why abatement did not occur or whether follow-up inspections were properly extended.

Questioned Costs: Below \$25,000.

Context: 5 HQS reinspections out of a population of 15, and 8 failed inspections out of a population of 32, were selected for testing.

Cause: Due to staff turnover in the Housing Department, the same employee who selected the HQS re-inspections/failed inspections for testing, also performed the re-inspections/failed inspections. There was no indication of another person reviewing the documentation to ensure completeness and compliance with the requirements.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs

2024-006: Housing Quality Standards (Continued)

Effect: The City was not in compliance with the requirements of Housing Quality Standards for inspections and enforcement.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City review and update internal controls to ensure that supporting documentation for re-inspections and failed inspections is complete and properly reviewed and maintained.

Views of Responsible Officials and Corrective Action: Management agrees with this finding. The RBHA is updating the administrative policy which includes a timeline for inspection follow-up within 30 days and scheduling re-inspections within five business days from the date requested. The revised policies include a description of the types of inspections to be conducted by the Housing Authority, the steps that will be taken when units fail, and identifies conditions which are considered to be life-threatening. The current RBHA staff will review and implement the revised policies to ensure inspections are completed in a timely manner and proper follow up is administered. The Housing Manager is already implementing protocols for the review and approval of inspections conducted by staff to ensure compliance. In addition, quality control inspections are regularly conducted by a Team Lead, a process that is also required for the annual Section Eight Management Assessment Program (SEMAP) submitted to HUD. The updated administrative policies include a chapter for the National Standards for the Physical Inspection of Real Estate (NSPIRE) that will sunset and replace the Housing Quality Standards (HQS) inspection process scheduled for February 1, 2027.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-007: Annual Reporting

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: Section 8 Choice Housing Vouchers

Assistance Listing Number: 14.871

Federal Award Identification Number and Year: CA103AF0154-0160, CA103AFR323, CA103EH0005-0006, CA103VO0201-0206, CA103VO0208-0211, and CA103VOPR23; All 2024

Award Period: July 1, 2023 – June 30, 2024

Compliance Requirement Affected: L. Reporting

Type of Finding: Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria or Specific Requirements: 24CFR § 902.33 Financial Reporting requirements: (b) Annual unaudited financial information report filing dates. The unaudited financial information to be submitted to HUD in accordance with paragraph (a) of this section must be submitted to HUD annually, no later than 2 months after the PHA's fiscal year end, with no penalty applying until the 16th day of the 3rd month after the PHA's fiscal year end, in accordance with § 902.62. Also, 24 CFR section 5.801 (c) (1) requires that housing agencies submit timely GAAP-based unaudited and audited financial information electronically to HUD no later than 60 days after the end of the fiscal year.

Condition: The City submitted their Financial Data Schedule (FDS), 3 months after the due date imposed by the federal government. Additionally, due to turnover in the Housing Department, we were unable to observe that the report and underlying documentation were reviewed prior to submission.

Questioned Costs: None noted.

Context: The City submits approximately 4 different reports to HUD with varying frequency and due dates throughout the year. Of these 4 reports, the FDS mentioned above, was the only report that was not submitted within the required due date.

Cause: Due to staff turnover in the Housing Department, City staff were unable to meet the deadline to submit unaudited financial information. Therefore, the FDS was not submitted until 11/15/2024.

Effect: The City was late in their submission of the FDS.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-007: Annual Reporting (Continued)

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City review and update internal controls to ensure that the FDS is completed and submitted in a timely manner.

Views of Responsible Officials and Corrective Action: Management agrees with this finding. The City has contracted a financial consultant to prepare and submit financials monthly and annually. Internally, RBHA staff has established timelines for data preparation in advance of FDS deadlines to ensure the consultant is prepared to submit the financial reports in a timely manner. Staff has set ongoing calendar reminders to monitor and coordinate with all the parties involved the FDS submissions.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-008: Payroll Costs

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: Section 8 Choice Housing Vouchers

Assistance Listing Number: 14.871

Federal Award Identification Number and Year: CA103AF0154-0160, CA103AFR323, CA103EH0005-0006, CA103VO0201-0206, CA103VO0208-0211, and CA103VOPR23; All 2024

Award Period: July 1, 2023 – June 30, 2024

Compliance Requirement Affected: AB Activities Allowed /Allowable Costs

Type of Finding: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria or Specific Requirement: 2 CFR § 200.430: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Condition: The City did not maintain supporting time and effort documentation for certain employees who partially charged their time to the program. The City used a budgeted payroll allocation to charge employee amounts to the program and did not true-up the budgeted payroll allocation to actual time and effort.

Questioned Costs: Costs not supported by time and effort documentation totaled \$32,257 for the year.

Context: 5 of the 20 payroll transactions tested were not supported by time and effort documentation. Due to system limitations, the City could not produce supervisor timesheet approvals that occurred through the electronic workflow process in the City's financial system for 7 of the 20 payroll transactions. Total payroll costs charged to this grant program for the year were \$516,331.

Cause: City used budgeted percentages to determine the allocation of payroll costs for certain employees who provided services to the grant on a part-time basis. The City did not true-up the budgeted amounts to actuals as part of their year-end closing process. In addition, due to system limitations, the City's ERP system was unable to generate a report evidencing the electronic approval of specific time sheets by the employee's supervisor.

Effect: Unsupported payroll charges for time and effort pertaining to grant programs may be disallowed by the grantor.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-008: Payroll Costs (Continued)

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City review and update internal controls to ensure that supporting documentation for allowable time charges to grant programs is properly maintained.

Views of Responsible Officials and Corrective Action: Management agrees with this finding. Staff has updated timekeeping for individuals charging partial time to the Housing Section 8 program to track actual hours spent rather than through budget allocation. Staff has in addition identified a method by which the City can produce supervisor approval documentation through the financial system's electronic workflow.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-009: Internal Control Documentation

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: Section 8 Choice Housing Vouchers

Assistance Listing Number: 14.871

Federal Award Identification Number and Year: CA103AF0154-0160, CA103AFR323, CA103EH0005-0006, CA103VO0201-0206, CA103VO0208-0211, and CA103VOPR23; All 2024

Award Period: July 1, 2023 – June 30, 2024

Compliance Requirements Affected: E. Eligibility, L-Reporting, and N-Special Tests and Provisions

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or Specific Requirement: 2CFR § 200.303 Internal controls require a recipient of federal awards to:

- (a) Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: Evidence of the Housing Manager’s review and approval of certain internal control processes and the timing of those reviews was not clearly documented.

Questioned Costs: None noted.

Context: 40 tenant files were selected to test for various compliance requirements. While the tenant files contained sufficient evidence that the City was in compliance with grant requirements, documentation of the review and approval process for HUD Form 50058, rent reasonableness calculations, and the Housing Authority application (with underlying applicant information) prior to approval of the applicant was not clearly documented.

Cause: The City’s applicant examination process includes a step where the Housing Manager reviews tenant files prepared by the Housing Specialists. However, the City was unable to provide documentation evidencing the Housing Manager’s review and approval process.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-009: Internal Control Documentation (Continued)

Effect: Breakdowns in internal control over compliance may lead to ineligible applicants receiving inaccurate benefits.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the City establish procedures to ensure that the review and approval processes are clearly documented within each tenant file.

Views of Responsible Officials and Corrective Action: Management agrees with this finding. The RBHA will establish procedures to monitor and ensure proper file review. RBHA has created a new checklist for a supervising team member to review intake files for accuracy, to document approval, and to release the Housing Assistance Payment. RBHA will maintain records of the signed checklist for each tenant file.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-010: Monthly Reporting

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: Section 8 Choice Housing Vouchers

Assistance Listing Number: 14.871

Federal Award Identification Number and Year: CA103AF0154-0160, CA103AFR323, CA103EH0005-0006, CA103VO0201-0206, CA103VO0208-0211, and CA103VOPR23; All 2024

Award Period: July 1, 2023 – June 30, 2024

Compliance Requirement Affected: L. Reporting

Type of Finding: Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria or Specific Requirement: 2CFR § 200.303 Internal controls require a recipient of federal awards to:

- (a) Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: The City's system of internal control includes a process where grant management staff prepare, review and approve monthly reports for upload to HUD's VMS system. However, the City was unable to provide documentation about the employee who performed each process or when each process was performed. In addition, the City did not retain documentation that supported the balances reported as part of the original submission to the VMS.

Questioned Costs: None noted.

Context: The 3 monthly reports selected for testing did not have any evidence of who reviewed and approved the reports prior to submission. Additionally, we were unable to trace certain significant information contained in the 3 monthly reports to supporting underlying data due to the City not retaining GL reports used to prepare the reports.

Cause: Due to staff turnover in the Housing Department, evidence of internal controls over compliance and the supporting underlying data were not retained.

**CITY OF REDONDO BEACH, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2024-010: Monthly Reporting (Continued)

Effect: Breakdowns in the internal controls over compliance may lead to inaccurate information being reported to HUD.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City review and update internal controls over the completion and submission of monthly program reports to ensure the accuracy of the information being reported and to ensure that supporting underlying documentation is properly retained. As part of this process, the City should consider utilizing members of the Finance Department as the monthly reports contain certain financial information.

Views of Responsible Officials and Corrective Action: Management agrees with this finding. RBHA has established a process by which Housing will copy Finance on monthly VMS reports provided to the financial consultant for the VMS submissions; this will both document timing and ensure additional review. In addition, RBHA and Finance are coordinating to revise the City's account structure for Housing-related expenses. Better aligning the City's account setup with VMS reporting requirements will help ensure that VMS submissions are adequately supported and tie cleanly to the City's General Ledger.

**CITY OF REDONDO BEACH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings

No matters were reported.

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

No matters were reported.

