

**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 REPORT DATE.

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

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.

CliftonLarsonAllen LLP

Irvine, California
REPORT DATE

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

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
YEAR ENDED JUNE 30, 2024**

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
YEAR ENDED JUNE 30, 2024**

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

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

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.