

BLUE FOLDER ITEM

Blue folder items are additional back up material to administrative reports and/or public comments received after the printing and distribution of the agenda packet for receive and file.

CITY COUNCIL MEETING SEPTEMBER 16, 2025

H.14 DISCUSSION AND POSSIBLE ACTION REGARDING THE ANNUAL FINANCIAL
REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2024

CONTACT: STEPHANIE MEYER, FINANCE DIRECTOR

- **INMATE TRUST FUND REPORT**
- **INTERNAL CONTROLS LETTER**
- **GOVERNANCE LETTER**

**CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2024

Draft

**CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2024**

INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	6
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	7
NOTES TO FINANCIAL STATEMENTS	8

Draft

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Inmate Trust Fund of the City of Redondo Beach as of and for the year ended June 30, 2024 and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inmate Trust Fund of the City of Redondo Beach as of June 30, 2024, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements 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 the 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 audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Inmate Trust Fund and do not purport to, and do not, present fairly the financial position of the City of Redondo Beach, as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, 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 amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Redondo Beach's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated REPORT DATE, on our consideration of the City of Redondo Beach's internal control over the Inmate Trust Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Redondo Beach's internal control over the Inmate Trust Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Redondo Beach's internal control over the Inmate Trust Fund's financial reporting and compliance.

CliftonLarsonAllen LLP

Irvine, California
REPORT DATE

Draft

**CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND
BALANCE SHEET
JUNE 30, 2024**

ASSETS

Cash and Investments	<u>\$ 84,416</u>
Total Assets	<u><u>\$ 84,416</u></u>

FUND BALANCE

Restricted	<u>\$ 84,416</u>
Total Fund Balance	<u><u>\$ 84,416</u></u>

Draft

**CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2024**

REVENUES

Interest Income	<u>\$ 1,436</u>
Total Revenues	<u>1,436</u>

EXCESS OF REVENUES OVER EXPENDITURES

1,436

Fund Balance - Beginning of Year

82,980

FUND BALANCE - END OF YEAR

\$ 84,416

Draft

CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying balance sheet and statement of revenues, expenditures, and changes in fund balance were presented in a format required by the City of Redondo Beach (the City) Inmate Trust Fund (the Fund). The purpose of the financial statements is to present in summary form the financial position and the revenues and expenditures of the Fund.

The accompanying financial statements are not intended to present the financial position or results of operations of the City, taken as a whole.

Financial Reporting Entity

This Fund is a project within the City's General Fund. The purpose of the Fund is to accumulate funds from revenues of pay telephones used in the jail facilities for the benefit, education, and welfare of the inmates, as well as for the maintenance of the jail facilities.

Basis of Accounting and Measurement Focus

The Fund is accounted for on a spending or current financial resources measurement focus. Operating statements of the Fund present increases (revenues and other financial sources) and decrease (expenditures and other financial uses) in net current assets.

The Fund is accounted for using the modified accrual basis of accounting wherein revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Cash, Cash Equivalents, and Investments

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investments balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

For more information on the City's cash and investments as of June 30, 2024, please see the City of Redondo Beach's audited financial statements.

Fund Balances

In the Governmental Fund Financial Statements, fund balances are classified in the following category:

Restricted – Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by external providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

**CITY OF REDONDO BEACH, CALIFORNIA
INMATE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024**

NOTE 2 CASH AND INVESTMENTS

The Fund has the following cash and investments at June 30, 2024:

Cash and Cash Equivalents	<u>\$ 84,416</u>
---------------------------	------------------

The Fund does not own specifically identifiable securities and their cash is pooled with the other funds of the City.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investments balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

For more information on the City's cash and investments as of June 30, 2024, please see the City of Redondo Beach's audited financial statements.

**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.

The Honorable City Council
of the City of Redondo Beach
Redondo Beach, California

We have audited 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 have issued our report thereon dated REPORT DATE. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Redondo Beach are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2023-2024.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The actuarially determined contribution, Other Postemployment Benefit (OPEB) expense, net OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based on actuarial valuations provided by a third-party consultant.
- Management's estimate for claims payable liabilities related to general and workers' compensation liability are based on estimates by the claims administrators and actuarial valuation provided by a third-party consultant.

We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of the OPEB commitments reported in Note 12 to the financial statements.
- The disclosure of the claims liabilities reported in Note 11 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Significant unusual transactions

We identified no significant unusual transactions.

Difficulties encountered in performing the audit

The completion of our audit was delayed due to turnover in staff in the City's finance department.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

The following material misstatements detected as a result of audit procedures were corrected by management:

- Amounts due from other governments and related unavailable revenues in the Other Intergovernmental Grants special revenue fund were overstated by approximately \$3.5 million.
- Construction in Progress (CIP) in the Harbor Tidelands enterprise fund and in the City's governmental activities were overstated by approximately \$3.5 million and \$33 million, respectively.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Circumstances that affect the form and content of the auditors' report

As previously communicated to you, the report was modified to include an emphasis of matter paragraph relating to several restatements of beginning net position/fund balance.

Management representations

We have requested certain representations from management that are included in the management representation letter dated REPORT DATE.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. We were informed by management that there were no consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Required supplementary information

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Supplementary information in relation to the financial statements as a whole

With respect to the combining and individual nonmajor fund financial statements and schedules (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated REPORT DATE.

Other information included in annual reports

Other information (financial or nonfinancial information other than the financial statements and our auditors’ report thereon) is being included in your annual report and is comprised of the introductory and statistical sections. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report.

We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

* * *

This communication is intended solely for the information and use of the City and management of City of Redondo Beach and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Irvine, California
REPORT DATE

Draft