

May 3, 2021

City Council  
City of Rialto  
Rialto, 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 the City of Rialto, California (the “City”) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 11, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to Statement of Governmental Accounting Standards (GASB Statement) No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in the 2020 fiscal year. We noted no transactions entered into by the City 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 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:

Management’s estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that fair value is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of capital assets depreciation is based on historical estimates of each capitalized item’s useful life. The initial value of the City’s infrastructure is based on estimates of fair value on the date the assets were contributed to the City. We evaluated the key factors and assumptions used to develop these estimates to determine they are reasonable in relation to the financial statements taken as whole.

Management's estimate of the net pension liability and related pension deferred outflows and inflows of resources are based on an actuarial valuation and pension contributions made during the year. We evaluated the key factors and assumptions used to develop the net pension liability and related pension deferred outflows and inflows of resources in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the net other postemployment benefits (OPEB) liability and related OPEB deferred outflows and inflow are based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net OPEB liability and related OPEB deferred outflows and inflows in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimates of the claims payable liabilities related to general liability and workers' compensation claims are based on an actuarial valuation.

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 fair value of investments in Note 2 represents amounts susceptible to market fluctuation.

The disclosure of accumulated depreciation for capital assets in Note 7 is based on estimated useful lives which could differ from actual useful lives of each capitalized item.

The disclosure of the pension plans, net pension liability and related pension deferred outflows and inflows of resources in Note 11 to the financial statements represents management's estimates based on an actuarial valuation and pension contributions made during the year. Actual results could differ depending on the key factors and assumptions used for the actuarial valuation.

The disclosure of other postemployment benefits, net OPEB liability and related OPEB deferred outflows and inflows of resources in Note 12 to the financial statements represents management's estimate based on an actuarial valuation. Actual results could differ depending on the key factors and assumptions used for the actuarial valuation.

The disclosure of the claims payable liabilities in Notes 9 and 17 represents management's estimate based on an actuarial valuation. Actual results could differ depending on the key factors and assumptions used for the valuation.

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

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 3, 2021.

### *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 City's financial statements or a determination of the type of auditor's 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.

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to the management's discussion and analysis and the required supplementary information section, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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, 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 were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

As part of the audit, we assisted with the preparation of the financial statements, schedule of expenditures of federal awards and related notes. However, these services, does not constitute an audit under *Government Auditing Standards* and are considered nonaudit services. Management has reviewed, approved, and accepted responsibility for the results of these services.

During our audit, we became aware of matters other than significant deficiencies and material weaknesses in internal controls that warrant the attention of the City Council. These matters are attached to this letter.

#### Restriction on Use

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

Very truly yours,

*Seaman Ramirez & Smith, Inc.*

**City of Rialto**  
**Other Matters**  
June 30, 2020

(1)  
Investment Policy Approval Timing

*Observation:*

During our audit we noted that the Investment Policy requires approval by the City Council on an annual basis. The Investment Policy for 2020 was not approved until July 2020 (more than 6 months late) and is typically approved in January of each year.

(2)  
Investment Reporting

*Observation:*

During our audit we noted that the monthly Treasurers Reports were not sent to the City Council for review on a timely basis. The City's investment policy requires investment reports to be provided to the City Council on a monthly basis. The Treasurer's Reports for September 2019 through March 2020 were not received by the City Council until June 2020.

(3)  
Investment Rating

*Observation:*

During our audit we noted that one investment (Medium-term Corporate Note) was rated 'BBB-' as of the end of the fiscal year. The City's investment policy requires at least an 'A' rating. The investments original purchase was at an 'A' rating, however, the City's policy, as currently written, does not make that as an allowable circumstance.