



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*

To the Honorable Mayor and Members of the City Council
City of Rialto, 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 Rialto, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, 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 questioned costs as items 2024-001 and 2024-003 to be material weaknesses.

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 deficiency described in the accompanying schedule of findings and questioned costs as items 2024-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2024-001.



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City's Response to Findings

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

LSL, LLP

Irvine, California
June 27, 2025

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2024-001: Timeliness of Financial Reporting (Material Weakness/Noncompliance)

Condition:

The City did not complete the financial close and reporting process in a timely manner, resulting in a delay in the submission of the audited financial statements and the single audit report to the federal awarding agencies. The City's financial statements and the single audit report were due on March 31, 2025, as required by the Uniform Guidance. However, the information and documentation, including the trial balance, provided to the external auditors required multiple corrections and revisions to balance and audit, and therefore, the audited financial statements and the single audit report were not issued until past the required deadline.

Criteria:

According to the Uniform Guidance, §200.508, non-federal entities that expend \$750,000 or more in a year in federal awards must have a single audit conducted for that year in accordance with the provisions of this part. The audit must be completed, and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. The Uniform Guidance also requires non-federal entities to submit their audited financial statements to the federal awarding agencies within the same time frame.

Cause of Condition:

The cause of the condition was the lack of management oversight and internal controls over the financial close and reporting process. Turnover at key positions within the Finance Department did not allow for the timely preparation and review of the financial statements and the SEFA. Key information required to be audited also needed multiple corrections, revisions, and versions to be suitable for audit purposes, including the trial balance and bank reconciliations which added to the time necessary to complete the audit.

Effect or Potential Effect of Condition:

The effect of the condition was the noncompliance with the Uniform Guidance and there exists the potential loss of federal funding. The City risks sanctions from the federal awarding agencies, such as withholding of payments, suspension or termination of awards, or disallowance of costs.

Recommendation:

We recommend that the City:

- Review and update its policies and procedures for the financial close and reporting process to ensure compliance with the GAAP and the Uniform Guidance.
- Assess its staffing and resource needs and allocate sufficient personnel and funds to perform the financial close and reporting process efficiently and effectively.
- Maintain accurate and complete records and reconciliations of the various general ledger accounts and ensure that they are consistent with the financial statements and the SEFA.
- Develop and implement a realistic timeline for the financial close and reporting process and monitor the progress regularly.
- Communicate and coordinate with the external auditors throughout the audit process and respond to their requests promptly and accurately.

Management's Response and Corrective Action:

The City acknowledges that the financial information and documentation, including the trial balance, was not prepared in a timely manner. This prevented the auditors from completing the audit, and the Single Audit, by March 31, 2025. The implementation of the new financial software system, which went live on July 1, 2023, necessitated almost all of the Finance Department's staff hours to be allocated to ensuring the software system was accurate in its financial reporting. This allocation of resources prevented the City from producing timely financial information.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2024-002: Bank Summary and Reconciling items (Significant Deficiency)

Condition:

At the time of the audit, the City did not have completed records summarizing cash held by individual banks or detail of certain reconciling items. These records had to be developed in order for the audit to be completed.

Criteria:

The City should have complete and accurate records and reconciliations to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Cause of Condition:

Records of cash by bank and certain reconciling items were not completed timely in support of financial statements at year end.

Effect or Potential Effect of Condition:

This resulted in the delays in completing the financial audit and uncertainty in the monitoring of cash positions at year end. These records needed to be developed during the audit.

Recommendation:

We recommend that the City perform the compilation of the bank summary and reconciling items shortly after year end to ensure that the records for cash and the presentation of cash in the financial statements is complete and accurate. We also recommend that the entity perform periodic reconciliations of the pooled cash account and the individual fund balances to detect and correct any errors in a timely manner.

Management's Response and Corrective Action:

The City acknowledges that the cash by bank listing and reconciling items were not completed timely. The overall cash balances were never incorrectly stated. These records were corrected and completed during the audit process.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2024-003: SEFA Preparation (Material Weakness)

Condition:

The federal expenditures included in the Schedule of Expenditures of Federal Awards for the 16.738 Edward Byrne Memorial Justice Assistance Grant were not complete. An increase of \$642,570 was added to the existing expenditures as a result of audit procedures.

Criteria:

According to the Uniform Guidance, recipients of federal awards are required to prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA), which must include all federal awards expended, program names, federal award identification numbers, and other required details. The SEFA serves as a primary document for compliance audits and is necessary for risk assessment and the determination of major funds for audit.

Cause of Condition:

The identified issues appear to stem from not having implemented or fully completed a reconciliation process for federal grants at the time the SEFA was prepared. This resulted in certain grants being missed in the SEFA presentation.

Effect:

As a result of the incomplete preparation of the SEFA, a major program was missed during the initial risk assessment and major program determination. In addition the presentation of the SEFA was missing a material amount of expenditures which may have resulted in noncompliance with federal reporting standards and reduced transparency and accountability in the organization's use of federal funds.

CITY OF RIALTO, CALIFORNIA
Schedule of Findings and Management Responses
For the Year Ended June 30, 2024

RECOMMENDATION:

To resolve the identified control deficiency, it's recommended that the City implement or modify their internal control policy to ensure the timely reconciliation of all intergovernmental grants and the SEFA preparation, including detailed reconciliation procedures with the general ledger for both expenditures and revenues for reimbursement based grants.

Management's Response:

The organization acknowledges the finding and is committed to addressing the identified issues. A corrective action plan will be developed to enhance internal controls around SEFA preparation. This plan will include staff training initiatives, procedural updates, and a timeline for implementation to ensure compliance with federal guidelines.