



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 Manhattan 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 the Manhattan Beach, California (hereafter, the City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 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.

*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. *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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider 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 an instance 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 responses as item 2025-001.



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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 responses. 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*LSL, LLP*

Irvine, California  
December 22, 2025



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## SCHEDULE OF FINDINGS AND RESPONSES

**Reference Number: 2025-001**

### **Schedule of Expenditures of Federal Awards Preparation**

Significant Deficiency and Noncompliance

#### ***Condition***

The audit found that the client did not include a Federal Emergency Management Agency (FEMA) award, assistance listing number 97.036, totaling \$101,355, on the Schedule of Expenditures of Federal Awards (SEFA). The FEMA funds were obligated during fiscal year 2025, after the related expenditures had been incurred and approved, so they should have been reported on the SEFA for the June 30, 2025 year-end audit according to the Office of Management and Budget Compliance Supplement. Consequently, the total federal expenditures were initially reported as less than the actual amount.

#### ***Criteria***

All federal awards, including those provided by FEMA, must be reported on the SEFA. According to 2 CFR § 200.510(b) of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), the auditee must prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. This schedule must include all federal awards expended as defined in 2 CFR § 200.502. Excluding federal awards from this reporting may result in noncompliance with federal regulations and audit requirements.

#### ***Cause***

The exclusion of the FEMA award from the SEFA was due to a misinterpretation of the reporting requirements for federal disaster assistance.

#### ***Effect or Potential Effect***

Omitting any federal awards from the SEFA can result in the failure to recognize when a single audit is required, potentially leading to the City missing this crucial audit. Without a complete SEFA and the associated single audit, there is a heightened risk of noncompliance with federal regulations, which may jeopardize the City's eligibility for future federal funding. Additionally, the absence of a single audit increases the likelihood that mismanagement or misuse of federal funds remain undetected. Federal agencies may also respond by imposing sanctions or demanding repayment of any costs deemed questionable due to incomplete reporting and lack of proper oversight.

#### ***Recommendation***

It is recommended that the City:

- Review and update policies and procedures for identifying, recording, and reporting all federal awards, including disaster assistance.
- Implement a formal review process to ensure completeness and accuracy of the SEFA prior to submission and annual audit engagement.
- Consult with external auditors or grant specialists when uncertainty exists regarding the inclusion of specific awards.

#### ***Management's Response***

The expenditure occurred in calendar year 2020 and 2021. Since these funds were emergency funds, no deferred revenue was accrued since staff was uncertain of whether costs would be eligible for reimbursement. Final revenues of \$101,355 were received in FY 2025, and staff recorded the revenue received on the SEFA, but not the expenditure. Going forward, staff will report expenditures on the SEFA when eligible expenditures are approved by FEMA.