

# 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 City of Manhattan Beach, 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 February 12, 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2024-001 that we consider to be material weaknesses.

# **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





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# City's Response to Findings

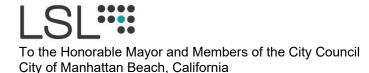
Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit 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 February 12, 2025



### SCHEDULE OF FINDINGS AND RESPONSES

# Reference Number 2024-001

# **Evaluation of Finding**

Material Weakness - Financial Reporting

#### Criteria:

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

#### Condition:

The year-end closing process was not fully completed and required a significant number of post-close journal entries to correct financial statement balances and revised audit schedules required for testing during the audit. These errors were primarily caused by the trial balance being prepared from data that was not complete and appropriate year-end reconciliations had not been performed. Significant revisions included:

- The City did not perform timely reconciliation of capital outlay records with the capital asset roll-forward.
   This led to capital outlay expenditures being recorded in expense accounts, and prior year's capital outlay expenses not being reflected in the beginning net position balance.
- The City did not perform timely reconciliations of GASB 87 and GASB 96 transactions. This resulted in revisions provided by the City after the start of the audit, affecting capital assets, long-term debt, and income statement activity.
- Numerous post-close adjustments identified by the City's finance team after providing the trial balance led
  to multiple revisions to initial schedules required for completion of audit fieldwork.

#### Cause:

The finance department was unable to complete timely reconciliations or review year-end closing activities for all transaction cycles affecting the fiscal year prior to the commencement of the audit.

#### Effect:

The trial balance provided at the beginning of the audit contained misstatements which resulted in a number of City provided journal entries made to correct or to reclassify balances in the financial statements that should normally be captured through the closing process. These adjustments impacted reconciliations provided by the City, leading to multiple revisions provided during the audit process. Additionally, the improper capitalization led to an error in the beginning net position and prior period adjustment included in fiscal year 2024 financial statements.

#### Context:

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not following formal policies and procedures regarding internal control over individual transaction classes could lead to inconsistency in processing transactions and also increase the risk that errors will not be detected and corrected in a timely manner.

# Repeat Finding:

No



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#### Recommendation:

The Finance Department should look at increasing the amount of experienced finance staff to help facilitate year-end closing procedures. The City should also put in place formalized year end close procedures to ensure the close is complete and reduce the amount of journal entries needed and errors found after the closing process has been completed. We suggest management also establish effective review policies and procedures, including but not limited to: apply analytical procedures on the trial balance numbers and perform reconciliations of all significant accounts.

# Management Response and Corrective Action:

Due to the implementation of an increasing number of accounting standards, coupled with the City maintaining the same staffing levels for the audit for over ten years, the Finance Department has encountered challenges in promptly analyzing and inputting all journal entries. To address these issues, the City is developing a plan to secure additional personnel to manage the increased audit/GASB requirements. This will also allow us to implement additional internal control procedures, ensuring timely year-end closure in the future.