

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

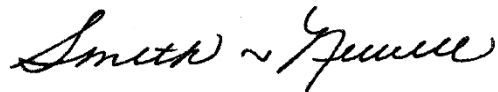
To the Honorable Mayor and Members of the City Council
City of Grass Valley
Grass Valley, California

In planning and performing our audit of the financial statements of the City of Grass Valley, (City) as of and for the year ended June 30, 2025, in accordance with 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, we considered the City's system of internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The appendix that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 25, 2026, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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



Smith & Newell CPAs
Yuba City, California
June 25, 2026

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CITY OF GRASS VALLEY
Appendix A: Management Letter Comments
For the Year Ended June 30, 2025

CURRENT YEAR FINDING AND RECOMMENDATION

Payroll Withholdings

Criteria

Good internal controls over payroll requires that employee payroll tax withholdings agree to the amount authorized on the employee completed W-4.

Condition

During our walkthrough of payroll transactions, we noted that one of the twelve employee-selected federal payroll tax withholdings did not agree to amounts authorized on employee-completed W-4.

Cause

The City did not verify that federal payroll tax withholdings agreed to amounts authorized on employee-completed W-4.

Effect

The City was withholding an amount for federal taxes different than what was authorized by the employee.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

This is a repeat of a prior year finding.

Recommendation

We recommend that the City review employee files to verify that correct payroll tax withholding statuses agree to what is provided by the employee on Form W-4.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

CITY OF GRASS VALLEY
Appendix B: Status of Prior Year Recommendations
For the Year Ended June 30, 2025

STATUS OF PRIOR YEAR RECOMMENDATIONS

Schedule of Expenditures of Federal Awards

Recommendation

We recommend that the City review the requirements of the Uniform Guidance to ensure that the expenditures reported on the SEFA are correctly stated.

Status

Implemented

Payroll Withholdings

Recommendation

We recommend that the City review employee files to verify that correct payroll tax withholding statuses agree to what is provided by the employee on Form W-4 and/or DE-4.

Status

Not Implemented

CITY OF GRASS VALLEY
Appendix C: Management's Corrective Action Plan
For the Year Ended June 30, 2025

Payroll Withholdings

We recommend that the City review employee files to verify that correct payroll tax withholding statuses agree to what is provided by the employee on Form W-4.

Management's Response: Management agrees with the finding. The City notes that this finding is reported as a repeat finding due primarily to the timing of the prior audit and implementation of corrective actions.

The original finding related to Fiscal Year 2023-24 was not reported until completion of the audit in May 2025. Because the fiscal year ended June 30, 2025, the City had limited opportunity to implement and demonstrate the effectiveness of corrective actions during Fiscal Year 2024-25, which is the period under audit for the current finding.

Upon receipt of the Fiscal Year 2023-24 audit findings, the City promptly implemented its corrective action plan and completed all corrective actions by July 31, 2025. These actions include obtaining updated employee withholding forms, implementing a dual-verification process for tax withholding elections, and providing additional training to payroll staff.

Responsible Individual: Finance Director

Corrective Action Plan: The corrective actions identified in response to the Fiscal Year 2023-24 finding were fully implemented as of July 31, 2025. The City will continue to follow these established procedures and perform ongoing monitoring to ensure employee withholding elections are accurately reflected in the payroll system.

Anticipated Completion Date: Implemented as of July 31, 2025; ongoing monitoring thereafter.

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