

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

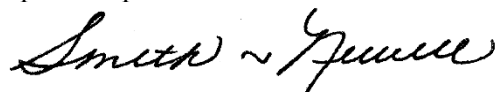
To the Honorable Mayor and Members of the City Council
City of Grass Valley
Grass Valley, California

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, 2024, 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 10, 2025, 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 10, 2025

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CITY OF GRASS VALLEY
Appendix A: Management Letter Comments
For the Year Ended June 30, 2024

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Schedule of Expenditures of Federal Awards

Criteria

Uniform Guidance Title 2 Section 200.510(b) requires that the City prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the City's financial statements. Section 200.502 states that the determination of when a federal award is expended should be based on when the activity related to the federal award occurs.

Condition

Expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) as presented at the beginning of audit fieldwork was understated by \$105,788.

Cause

The City did not provide accurate information to include on the SEFA that was provided to us at the beginning of the audit.

Effect

Expenditures reported on the SEFA prepared by the City were incorrectly stated and required adjustment.

Questioned Cost

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

Context

Not applicable.

Repeat Finding

This is a repeat finding from prior year.

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.

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 A: Management Letter Comments
For the Year Ended June 30, 2024

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

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 and/or DE-4.

Condition

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

Cause

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

Effect

The City was withholding an amount for federal and/or state 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 not a repeat 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 and/or DE-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: Management's Corrective Action Plan
For the Year Ended June 30, 2024

Schedule of Expenditures of Federal Awards

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

Management's Response: Management acknowledges the finding and agrees with the recommendation. The City recognizes the importance of accurately preparing the Schedule of Expenditures of Federal Awards (SEFA) in accordance with Uniform Guidance requirements.

Responsible Individual: Finance Director

Corrective Action Plan: To address this issue, the City will implement the following corrective actions:

- **Strengthen Internal Review Processes:** The Finance Department will enhance its internal review procedures to ensure that all federal expenditures are properly captured and reconciled prior to finalizing the SEFA.
- **Staff Training:** Relevant staff will receive training on the requirements of 2 CFR §200.502 and §200.510 to ensure a clear understanding of the criteria for recognizing expenditures and the proper preparation of the SEFA.
- **Timeline and Responsibility:** A designated staff member will be assigned responsibility for compiling and reviewing the SEFA, with an oversight from the Finance Director. This process will be completed earlier in the annual audit timeline to allow sufficient time for review and adjustments if needed.

Anticipated Completion Date: These corrective measures will be in place prior to the preparation of the SEFA for the next audit cycle.

CITY OF GRASS VALLEY
Appendix B: Management's Corrective Action Plan
For the Year Ended June 30, 2024

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 and/or DE-4.

Management's Response: Management agrees with the finding. The City acknowledges the errors in payroll tax withholdings and is committed to improving internal controls to ensure employee-selected withholding statuses are accurately implemented.

Responsible Individual: Finance Director

Corrective Action Plan: The City will take the following steps to prevent recurrence:

- Require all employees to submit 2025 W-4 and DE-4 forms through the employee portal or by submission of paper forms.
- Implement a dual-verification procedure for all new and updated employee tax withholding elections.
- Provide refresher training to payroll and HR staff on withholding requirements and form accuracy.

Anticipated Completion Date: July 31, 2025