



City of Needles
Single Audit Report
Year Ended June 30, 2023
with Independent Auditor's Report

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**Independent Auditor's 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***

**The Honorable Mayor and the Members of the City Council
City of Needles, 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 28, 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 FS 2023-001, FS 2023-002, and FS 2023-003 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 deficiencies described in the accompanying schedule of findings and questioned costs as items FS 2023-004 and FS 2023-005 to be significant deficiencies.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**Glendale, California
July 28, 2025**



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Independent Auditor's Report on Compliance for Each Major Federal Program; on Internal Control Over Compliance; and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

**The Honorable Mayor and the Members of the City Council
City of Needles, California**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Needles, California's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items SA 2023-001, SA 2023-002 and SA 2023-003. Our opinion on each major federal program is not modified with respect to these matters.



Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies in internal control may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 2023-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA 2023-002 and SA 2023-003 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit 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 compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated July 28, 2025, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Glendale, California
July 28, 2025**

City of Needles
Schedule of Expenditures of Federal Awards
Year ended June 30, 2023

Federal Grantor/Pass-through Grantor/Cluster/Program	Assistance Listing Number	Grant Identifying Number	Passed-through to Subrecipients	Federal Award Expenditures
U.S. Department of Housing and Urban Development				
Passed-through the San Bernardino County Community Development and Housing Community Development Block Grants (CDBG)				
- Entitlement Grants Cluster				
Senior Transportation Program	14.218	NEED-23-1-05E/1539	\$ -	\$ 7,896
Total U.S. Department of Housing and Urban Development			-	7,896
U.S. Department of Transportation				
Passed-through the State of California Department of Transportation				
Highway Planning and Construction	20.205	BPML-5220(007)	-	1,137,444 *
Formula Grants for Rural Areas	20.509	64BA22-02065	-	62,366
Total U.S. Department of Transportation			-	1,199,810
U.S. Department of Interior				
WaterSMART (Sustain and Manager America's Resources for Tomorrow)	15.507	R20AP00081-02	-	212,826
Total U.S. Department of Interior			-	212,826
U.S. Department of the Treasury				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	1,040,044
Total U.S. Department of the Treasury			-	1,040,044 *
Total Expenditures of Federal Awards			\$ -	\$ 2,460,576

* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards.

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of the City of Needles (the City) under programs of the federal government for the year ended June 30, 2023. For purposes of this schedule, financial awards include federal awards received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized, if any, or the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's Annual Financial Report (AFR).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying SEFA is presented using the modified accrual basis of accounting, which is described in Note 1 of the notes to the City's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

NOTE 3 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports for the year ended June 30, 2023, which have been submitted to grantor agencies, will, in some cases, differ from the amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 4 RELATIONSHIP TO ANNUAL FINANCIAL REPORT

Amounts reported in the accompanying SEFA agree, in all material respects, with amounts reported within the City's AFR.

City of Needles
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified
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Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes

Noncompliance material to financial statements noted	No
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Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes

Type of auditors' report issued on compliance with respect to major federal programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	Yes
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Identification of Major Program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as a low-risk auditee?	No
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Section II – Financial Statement Findings

Finding No. FS 2023-001: Internal Control Over Financial Reporting – Significant Delay in Completing the Audit (Material Weakness)

Criteria:

California Government Code Section 6505 requires that municipalities conduct an annual audit of their accounts and records, either internally or through an independent certified public accountant. The audit must adhere to generally accepted auditing standards and be filed as a public record within 12 months of the fiscal year's end.

Additionally, municipalities that expend \$750,000 or more in federal awards in a single fiscal year are subject to the Single Audit Act, which mandates an annual audit to ensure accountability for federal funds. Under 2 CFR 200.512, single audit reporting packages must be submitted within nine months after the entity's fiscal year-end.

Condition:

The City failed to complete its required annual audit for Fiscal Year 2023 within the mandated 12-month deadline. As of July 1, 2024, no audit report has been issued or filed, resulting in noncompliance with California Government Code Section 6505.

The City also failed to complete its Single Audit for Fiscal Year 2023 within the required nine-month deadline under 2 CFR 200.512. As of March 31, 2024, no single audit report has been issued or filed, resulting in noncompliance with federal audit requirements.

Cause and Effect:

The City's audit delays stem from significant management turnover in key financial leadership positions. The transition among multiple interim finance officials and auditors disrupted record collection, transaction verification, and report finalization.

Noncompliance may trigger funding restrictions, stricter oversight, and increased regulatory scrutiny, potentially leading to corrective actions or financial penalties. Additionally, the delayed audit has increased costs, requiring extended engagements, additional staff hours, and expedited review fees to meet compliance requirements.

Recommendation:

To ensure future compliance, the City should:

1. Establish a continuity plan for management to mitigate the impact of turnover, including written, detailed transition procedures and backup financial officers.
2. Hire or designate a permanent financial officer responsible for overseeing the audit process and maintaining compliance with Government Code Section 6505 and federal requirements.
3. Implement an audit tracking system to monitor progress and deadlines, ensuring timely completion regardless of personnel changes.
4. Engage an external audit firm earlier in the fiscal year to allow sufficient time for data collection and report preparation.

Finding No. FS 2023-001: Internal Control Over Financial Reporting – Significant Delay in Completing the Audit (Material Weakness) (Continued)

Views of Responsible Personnel and Corrective Action Plan:

In January 2023, the City's Finance Director was placed on paid leave for a period of one year, pending an investigation. The City was unable to begin recruiting for a new Finance Director during the investigation period. The Director was eventually terminated on December 29, 2023. Of note here, the City has no reason to believe at this time that there was any fraud, abuse or malfeasance connected with the former Finance Director; the employee was terminated for other reasons.

After the termination, the City conducted three traditional recruitments without finding a qualified candidate. Over the three rounds, the City received 26 applications. Of the 26, none of the applicants had municipal finance administration or governmental accounting experience, and less than half were identified as potential interview candidates. After three rounds of interviews, none were found to be suitable for the position.

In November 2024, the City then contracted with Tripepi Smith Talent Solutions for a 4th recruitment. However, Tripepi was only to find four possible candidates and only one with municipal accounting experience. After the interviews of all four, the candidate with municipal experience was offered a position. She accepted the position but withdrew prior to her start date. Two more Tripepi candidates were reinterviewed, and neither was found to be suitable. The City has hired a second Interim Finance Director through August 2025 and a 5th recruitment to find a permanent Finance Director is underway.

The Interim Finance Director is overseeing the correction of deficiencies and weaknesses identified by the auditors so they will be resolved going forward. However, because of the delay in finalizing the fiscal year 2023 audit and, considering that as of the date of this letter fiscal year 2026 has already begun, the Interim Finance Director has implemented corrective measures, such as staff training, appropriate reviews, and best practices, but findings may be evident for the audits for fiscal years 2024 and 2025. The Finance Director is also preparing procedures lists and manuals and scheduling important finance tasks for staff to follow until a permanent Director is hired, including training on such tasks.

Specific training has been identified for Finance staff (the Senior Accountant and Account Clerk, both of whom perform general accounting duties). As the training courses are held over the next 6 months, staff will attend. The courses will be completed in the first half of fiscal year 2025-2026 to ensure that during the Finance Director vacancy or any other Finance staff vacancy, staff is cross-trained on duties and better able to manage transition periods to meet required deadlines. As of the date of this letter, both staff have completed at least one training in fiscal year 2026. Management will also continue to hire high-level consultants (Interim Finance Directors) when the Finance Director position is vacant to assist with audit preparation so future audits will be completed in a timely manner.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director
Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. FS 2023-002: Internal Control Over Financial Reporting – Corrections of Financial Reporting Errors (Material Weakness)

Criteria:

Local governments must establish and maintain effective internal controls to ensure accurate financial reporting, compliance with applicable laws and regulations, and protection of public funds. These internal controls must align with the Standards for Internal Control in the Federal Government (Green Book) issued by the Comptroller General of the United States or the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Per the Governmental Accounting Standards Board (GASB) Statement No. 34, interfund activities must be properly recorded to ensure financial transparency and compliance with governmental accounting standards. GASB defines interfund activities as financial interactions between funds within a government entity, requiring that each transaction be offset by an equal and opposite entry in the corresponding fund to maintain balance. Additionally, accounting principles generally accepted in the United States (U.S. GAAP) mandates that interfund activities be classified as reciprocal or nonreciprocal and properly reconciled so that total debits equal total credits, preventing discrepancies in financial statements.

Additionally, GASB standards and U.S. GAAP require proper classification, recognition, measurement, and disclosure of financial transactions to ensure transparency, consistency, and accountability in financial reporting.

Condition:

During our audit of the City accounts, we noted the following:

1. The City failed to record pension and other postemployment benefits (OPEB) allocations in the Golf Course Fund and General Long-term Debt Account Group upon receiving the final trial balance. As a result, adjustments were necessary to accurately reflect the liabilities, requiring a reduction of \$2,211 in the Golf Course Fund and an increase of \$4,154,836 in the General Long-term Debt Account Group.
2. The City pools its cash and investments across all funds but did not reclassify negative cash balances as a liability, leading to inaccurate financial reporting. We proposed an adjustment to reclassify \$1,192,851 as a liability to ensure proper financial statement presentation.
3. The City received \$105,496 from third parties but inadvertently reduced its capital outlay expenditures instead of recognizing the amount as income. This resulted in an audit adjustment to properly recognize the funds as revenue and align capital outlay expenditures with the capital asset roll forward.
4. The City does not assess the fair value of its investments as of the end of the year. To properly report the fair value of the investments, we proposed an adjustment to reduce investment balances by \$22,634.
5. The City authorized the transfer of \$158,238 in American Rescue Plan Act (ARPA) funds to offset revenue losses across various funds. While the disbursing fund correctly recorded the transaction as a transfers out, the corresponding receiving funds did not recognize the transfers in.

Finding No. FS 2023-002: Internal Control Over Financial Reporting – Corrections of Financial Reporting Errors (Material Weakness) (Continued)

Condition (Continued):

6. The City approved the transfer of \$75,000 from General Fund reserves to the Public Utility Fund to cover customer credits. While the General Fund properly recorded the transaction as a transfers out, the Public Utility Fund incorrectly classified it as charges for services rather than a transfers in.

Audit adjustments were proposed to correct these errors and ensure proper alignment of fund balances.

Cause and Effect:

The City's financial reporting challenges primarily result from management turnover. Frequent transitions in financial leadership have disrupted established accounting procedures, while limited training on GASB standards and U.S. GAAP has contributed to reporting errors. Additionally, the lack of comprehensive documentation has led to inconsistencies in pension and OPEB allocation, revenue recognition, investment valuation, and cash reclassification. As a result, financial statements require significant audit adjustments to ensure accuracy and compliance with the local government's financial reporting standards.

The reporting discrepancies in interfund transfers were primarily due to a lack of proper review and oversight. These errors indicate deficiencies in financial review processes, where transactions were not properly verified before recording. The absence of thorough oversight increases the risk of misstatements, which can potentially impact fund balances, budgeting decisions, and compliance with accounting standards.

Recommendation:

Establishing clear documentation for accounting procedures, including pension and OPEB allocations, revenue recognition, investment valuation, interfund transactions, and cash management, will improve accuracy and consistency in financial reporting. Providing specialized training on GASB standards and U.S. GAAP will equip staff with the necessary expertise to review financial statements effectively. Additionally, appointing dedicated financial leadership will promote oversight and stability and minimize disruptions caused by management turnover. Strengthening these measures will improve financial transparency, reduce errors, and mitigate the need for extensive audit adjustments in the future.

Views of Responsible Personnel and Corrective Action Plan:

As a result of the Finance Director vacancy, Finance staff made errors in recording financial transactions due to a lack of basic knowledge of municipal accounting. No managerial-level review of journal entries was possible when the fiscal year 2023 year-end closing was performed due to the Finance Director vacancy. Both the Senior Accountant and the Account Clerk are scheduled to complete multiple courses in governmental accounting by December 31, 2025. In the interim, journal entries will be reviewed by the Interim Finance Director to ensure accuracy. Additionally, management is in the process of hiring a consulting accounting manager to help Finance with audit readiness and assistance for the audits for fiscal years 2024 and 2025.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director

Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. FS 2023-003: Internal Control Over Financial Reporting – Proper Application of Basis of Accounting (Material Weakness)

Criteria:

Per GASB Statement No. 33 and GASB Statement No. 65, unavailable revenue is recognized only under the modified accrual basis of accounting for governmental funds. GASB 33 establishes that revenue should be recognized when it is measurable and available, meaning it is collectible within the government's defined availability period. GASB 65 further refines this treatment by requiring unavailable revenue to be reported as deferred inflows of resources until it becomes available. Under the full accrual basis of accounting, revenues are recognized when they are earned, regardless of availability, making the concept of unavailable revenue inapplicable in that context.

Condition:

During our audit, we found that the City incorrectly recognized \$1,242,143 in unavailable revenue within the Public Utility Fund, despite the fund being reported under the full accrual basis of accounting.

Cause and Effect:

A lack of proper financial review and misapplication of accounting principles can result in inaccurate reporting, leading to misstatements in fund balances.

Recommendation:

The City should implement stronger review processes to ensure accurate classification of transactions. Providing targeted training for finance personnel on accounting principles, including revenue recognition and fund classification, will help minimize errors and improve compliance with accounting standards.

Views of Responsible Personnel and Corrective Action Plan:

In meeting with the City's auditors, management understands that the material weakness was a result of a single improper journal entry, albeit a significant one, that was booked according to the modified basis of accounting into an Enterprise Fund. The Senior Accountant has been educated, understands the error and will maintain compliance with accounting standards in the future. The Senior Accountant will also attend governmental accounting training as previously described. Lastly, the Finance Director is responsible for reviewing journal entries, particularly year-end closing entries. But due to the extended vacancy, having a reviewer in fiscal year 2023 was not possible. This will be fixed going forward.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director

Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. FS 2023-004: Internal Control Over Financial Reporting – Proper Implementation of GASB 87, Leases (Significant Deficiency)

Criteria:

GASB Statement No. 87 standardizes lease accounting by requiring lessees to recognize lease liabilities and right-to-use assets while lessors record lease receivables and deferred inflows of resources, eliminating the distinction between operating and capital leases. Under the current financial resources measurement focus, lessors recognize lease receivables and deferred inflows, while lessees report an expenditure and other financing source upon initial recognition. Subsequent lease payments in governmental funds follow debt service principles for long-term obligations. In government-wide statements, all leases adhere to full accrual accounting, ensuring comprehensive financial reporting across all activities.

Condition:

During our audit of the City's lease contracts, we identified several instances of noncompliance with GASB Statement No. 87:

1. The City failed to recognize an existing lease receivable and deferred inflow of resources in the General Fund's Balance Sheet, totaling \$310,554 and \$306,180, respectively.
2. A new lease contract entered during the year was not accounted for in accordance with GASB Statement No. 87, resulting in the omission of a lease receivable and deferred inflow of \$138,539 in the General Fund's Balance Sheet.
3. The City did not properly record inflows of resources and corresponding reductions in lease receivables for all leases in the current year, amounting to \$45,923 and \$40,459, respectively.
4. Subsequent lease payments, totaling \$20,151, were improperly classified as functional expenditures rather than debt service payments in the General Fund's Statement of Revenues, Expenditures, and Changes in Fund Balance.

To ensure compliance with GASB Statement No. 87, adjustments were proposed to correct these errors and align financial reporting with the prescribed standards.

Cause and Effect:

The City's lack of familiarity with GASB Statement No. 87 led to misstatements in financial reporting, including unrecognized lease receivables, deferred inflows, and misclassified expenditures.

Recommendation:

To improve compliance with GASB 87, the City should:

1. Enhance staff training. Provide targeted training on GASB Statement No. 87 to ensure personnel understand lease recognition, measurement, and reporting requirements.
2. Implement a lease tracking system. Establish a centralized system to monitor lease agreements, ensuring timely recognition and proper classification.

Finding No. FS 2023-004: Internal Control Over Financial Reporting – Proper Implementation of GASB 87, Leases (Significant Deficiency) (Continued)

Recommendation (Continued):

3. Conduct periodic reviews. Regularly assess lease accounting practices to identify and correct misstatements before financial reporting deadlines.
4. Strengthen internal controls. Develop clear policies and procedures for lease accounting to prevent errors and ensure consistency.
5. Engage external expertise. Consult with GASB specialists or auditors to validate compliance and address complex lease arrangements.

Views of Responsible Personnel and Corrective Action Plan:

As a result of the Finance Director vacancy, staff was not knowledgeable or properly trained on the implementation of new GASB standards. The Senior Accountant will work with the City auditors for information on new GASB standards that must be implemented each year and request assistance as needed in preparing accurate journal entries required to conform to new GASB standards. Additionally, the Senior Accountant and Account Clerk will complete multiple trainings on all aspects of governmental accounting practices and procedures by December 31, 2025.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director

Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. FS 2023-005: Internal Control Over Financial Reporting – Submission of Investment Reports (Significant Deficiency)

Criteria:

Under California Government Code section 53646, local agency treasurers must submit quarterly investment reports within 45 days of the end of each quarter. These reports must include details on investment types, issuers, maturity dates, amounts, compliance with the agency's investment policy, and an assessment of the agency's ability to meet financial obligations for the next six months. Additionally, the City's investment policy requires the annual submission of the Statement of Investment Policy and mandates monthly reporting of all investments held in the City's portfolio to the City Council within 60 days after the end of the monthly reporting period.

Condition:

The City failed to submit the Statement of Investment Policy to the City Council annually as required, with the most recent policy dated January 2000. Additionally, monthly investment reports were not provided for Fiscal Year 2023, resulting in noncompliance with the reporting requirements of the California Government Code and the City.

Cause and Effect:

The failure to submit the Statement of Investment Policy and monthly investment reports for the fiscal year 2023 appears to be primarily due to management turnover, which disrupted established reporting processes.

Finding No. FS 2023-005: Internal Control Over Financial Reporting – Submission of Investment Reports (Significant Deficiency) (Continued)

Recommendation:

To ensure compliance with California Government Code section 53646 and the City's investment policy, the following actions are recommended:

1. Reinforce Reporting Protocols. Clearly define and document investment reporting procedures to maintain consistency despite management turnover.
2. Enhance Transition Planning. Implement structured handover processes to ensure new personnel understand reporting requirements and deadlines.
3. Strengthen Oversight. Designate a compliance officer or team to track reporting deadlines and verify adherence to regulations.
4. Automate Reporting Systems. Utilize digital tools to monitor submission schedules and send timely reminders.
5. Conduct Regular Training. Provide ongoing training for financial staff to ensure awareness of reporting obligations.
6. Improve Communication with the City Council. Establish routine updates and transparent reporting practices to maintain accountability.

Implementing these recommendations will help prevent future reporting lapses, safeguard financial transparency, and ensure continued regulatory compliance.

Views of Responsible Personnel and Corrective Action Plan:

As background, California Government Code Section 53646 states "In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting."

Furthermore, California Government Code Section 53607 states that if the legislative body delegates investment authority to the City Treasurer, the City Treasurer "... shall make a monthly report of those transactions to the legislative body."

While past practice followed minimum statutory compliance, the City acknowledges the lack of clarity and outdated policy, and has since modernized its reporting to meet current standards. Management disagrees with the auditor's finding that a quarterly investment report is required under Section 53646 because the quarterly report was not a requirement of the City Council, nor required under state law. Under the previous Investment Policy, only monthly reporting was required (under Section 53607), and this was done. The City's report is called the Treasurer's Report, not an "investment report", as has been the City's nomenclature according to past practice. The City Treasurer submitted monthly Treasurer's Reports to City Council by memorandum every month in fiscal year 2023; however, the prior Treasurer's Reports did not report the investments at "Cost" or the "Yield at 365" as required by Section 53607. All reports are on file in the Finance Department and were submitted in a timely manner.

Finding No. FS 2023-005: Internal Control Over Financial Reporting – Submission of Investment Reports (Significant Deficiency) (Continued)

Views of Responsible Personnel and Corrective Action Plan (Continued):

There is no requirement that the report be made at a public meeting, unlike the requirement in Government Code Section 53646 when, if a quarterly report is elected, it shall be considered at a public meeting.

With that said, the monthly Treasurer's Report was revised in June 2025 to be in full compliance with the Investment Policy and state law. It was first presented at a public meeting for Council's acceptance on July 8, 2025, rather than by memo, clearly demonstrating the City's ongoing commitment to financial transparency and timeliness of reporting. It will continue to be presented monthly at public meetings in the future.

Management agrees that the updated Investment Policy was not taken to Council each year as required. This was due to management turnover. This finding was immediately corrected by the Interim Finance Director. The updated Annual Statement of Investment Policy, which conforms in all respects with state law, was adopted by Council on July 8, 2025, and will continue to be adopted by Council annually in the future.

The process and reporting requirements are now clearly understood by Finance staff and well documented. The Senior Accountant and Account Clerk have been educated about complying with all investment reporting requirements until the permanent Finance Director is hired, who will take over responsibility for Finance's Treasury Management duties.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director
Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Section III – Federal Award Findings

Finding No. SA 2023-001: Internal Control and Compliance – Untimely Completion and Submission of Single Audit Report (Material Weakness)

Criteria:

According to 2 CFR 200.512(a), recipients and subrecipients expending \$750,000 or more in federal awards must submit their audit report to the Federal Audit Clearinghouse within nine months of the fiscal year-end.

Condition:

The City did not complete and submit the Single Audit report within the required timeframe as outlined in 2 CFR 200.512(a), which mandates submission within nine months after the fiscal year end, June 30, 2023.

Questioned Cost:

None.

Cause and Effect:

The City experienced significant management turnover, which contributed to delays in completing and submitting the Single Audit report within the required timeframe outlined in 2 CFR 200.512(a). Frequent leadership changes disrupted oversight and continuity, leading to gaps in communication, delayed decision-making, and difficulties in coordinating audit activities. As a result, critical deadlines were missed, increasing the risk of noncompliance with federal regulations. The failure to submit the audit timely manner may lead to heightened scrutiny from oversight agencies, potential funding repercussions, and diminished confidence among stakeholders.

Recommendation:

To prevent future delays in Single Audit submissions, the City should establish strong internal controls and ensure leadership stability during transitions. Implementing a clear audit timeline with designated accountability, providing adequate training for staff handling federal compliance requirements, and maintaining continuity in key financial roles will help mitigate disruptions caused by management turnover. Additionally, enhancing communication between departments and external auditors can facilitate a more efficient audit process.

Views of Responsible Personnel and Corrective Action Plan:

As indicated in Finding No. FS 2023-001, in January 2023, the City's Finance Director was placed on paid leave for a period of one year pending an investigation. The City was unable to recruit for a new Finance Director during the leave period. The Director was eventually terminated on December 29, 2023, and the City has conducted four unsuccessful recruitments and hired three different Interim Finance Directors since that time. Ongoing recruitment efforts continue. Again, resolution of identified deficiencies and corrective actions actively continues under the guidance of the Interim Finance Director, as well as the implementation of best practices in Finance's operations. The Senior Accountant and the Account Clerk are actively attending training on governmental accounting and municipal finance administration which will be completed by December 31, 2025.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director
Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. SA 2023-002: Internal Control and Compliance over Reporting – Inaccurate Reporting of Federal Expenditures (Significant Deficiency)

Federal Program Information:

<i>Federal Assistance Listing Number:</i>	21.027
<i>Federal Program Name:</i>	Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)
<i>Federal Agency:</i>	U.S. Department of Treasury
<i>Federal Award Number:</i>	None
<i>Federal Award Year:</i>	March 3, 2021 to December 31, 2024

Criteria:

2 CFR 200.328, *Financial Reporting*, emphasizes the importance of submitting performance and financial reports that are complete, accurate, and consistent with the accounting records. Specifically:

- Financial data must be derived from and consistent with the recipient's accounting records.
- Reports must include all financial information in accordance with federal requirements.

Additionally, 2 CFR 200.303, *Internal Controls*, mandates the implementation of effective internal controls, including proper segregation of duties, to maintain financial integrity and ensure compliance with federal regulations.

Condition:

The City's Annual Project and Expenditure Report (P&E) did not properly report federal expenditures for fiscal year 2023, as it does not align with the City's accounting records. Specifically, \$98,428 in eligible fiscal year 2024 expenditures were incorrectly reported as fiscal year 2023 expenditures. While this amount is considered an eligible cost under the program, it was not reported properly in the correct accounting and reporting period. Additionally, the lack of segregation of duties, where the same personnel handled both preparation and review, raises concerns about internal control deficiencies and the risk of reporting errors.

Questioned Cost:

None.

Cause and Effect:

The City Council authorized federal expenditures for the CSLFRF project as a lump sum, resulting in the reporting of all eligible expenditures in a single reporting period, rather than aligning them with the appropriate fiscal year. Additionally, since CSLFRF was newly established in response to COVID-19 in 2021, the City had limited experience with managing and reporting such grants. The lack of prior exposure, coupled with an insufficient number of qualified staff, contributed to inaccuracies in financial reporting and deficiencies in internal controls.

Recommendation:

To ensure compliance with federal reporting requirements and strengthen internal controls, the City should:

1. Establish a reconciliation procedure to ensure all reported expenditures in the Annual Project and Expenditure Report (P&E) align with the City's accounting records.

Finding No. SA 2023-002: Internal Control and Compliance over Reporting – Inaccurate Reporting of Federal Expenditures (Significant Deficiency) (Continued)

Recommendation (Continued):

2. Implement a structured review process that requires independent verification of financial reports. Assign separate personnel for the preparation and review of reports to address concerns regarding segregation of duties.
3. Conduct regular training sessions for finance and grant management staff to improve understanding of federal grant reporting requirements and best practices, ensuring the accuracy of future submissions.

Views of Responsible Personnel and Corrective Action Plan:

Management has instructed the department managers involved with grants to work with the Finance Director and Senior Accountant for all future grant accounting and reporting to ensure that grant expenditures are properly recorded and reported in the correct period. The Senior Accountant will complete GFOA's Generally Accepted Accounting Principles for Grants in August 2026. As of the date of this letter, Management is working to identify other grants-related training appropriate for the Senior Accountant, the Utility Manager, and the Director of Development Services and Capital Projects, all of whom are involved in grant proposals, management, expenditures, accounting and required reporting. Meetings with all three department managers will be scheduled to coordinate administration and deadlines for the City's new and existing grants as grant reporting deadlines occur.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director
Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

Finding No. SA 2023-003: Internal Control and Compliance over Period of Performance – Misclassification of Expenditures Outside the Period of Performance (Significant Deficiency)

Federal Program Information:

<i>Federal Assistance Listing Number:</i>	21.027
<i>Federal Program Name:</i>	Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)
<i>Federal Agency:</i>	U.S. Department of Treasury
<i>Federal Award Number:</i>	None
<i>Federal Award Year:</i>	March 3, 2021 to December 31, 2024

Criteria:

The American Rescue Plan Act (ARPA) specifies that eligible expenditures must align with the period of performance requirements established by the U.S. Department of the Treasury (Treasury). According to Treasury guidelines, the period of performance for CSLFRF begins on March 3, 2021, meaning recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021, pursuant to the Final Rule at 31 CFR section 35.5(a).

Finding No. SA 2023-003: Internal Control and Compliance over Period of Performance – Misclassification of Expenditures Outside the Period of Performance (Significant Deficiency) (Continued)

Condition:

During the audit of CSLFRF expenditures, we identified \$13,834 in costs that were incurred before March 3, 2021, which is outside the allowable period of performance established under the Treasury guidelines.

Cause and Effect:

The CSLFRF program, introduced under ARPA in 2021, presented new grant management and reporting challenges for the City, which had no prior experience navigating these requirements. As a result, \$13,834 in expenditures incurred before March 3, 2021, were misclassified, falling outside the allowable performance period defined by Treasury guidelines. However, the City has since identified and allocated other eligible expenditures to appropriately replace the \$13,834. The City attempted to update the expenditures report filed with the Treasury Department but was unsuccessful.

Questioned Cost:

None.

Recommendation:

To ensure compliance with Treasury guidelines, the City should strengthen its grant management procedures by verifying that expenditures align with the approved period of performance before reporting. Staff training on CSLFRF requirements will help improve accuracy, while enhanced internal controls, including independent expenditure reviews, will reduce the risk of misclassification. Lastly, establishing a process for consulting federal grant administrators when needed will ensure clarity and compliance in expenditure reporting.

Views of Responsible Officials and Planned Corrective Action:

Consistent with Management's Response to Audit Finding SA 2023-002, the City's grant processes have been updated to ensure that grants administration and reporting are compliant with individual grant requirements and that there is interdepartmental coordination to ensure appropriate monitoring, reviews, and reporting. Training will also be provided to all departmental managers and Finance staff involved in grants administration, accounting, and reporting.

Responsible Personnel Name and Position: Jill Taura, Interim Finance Director

Expected Implementation Date of Corrective Action Plan: Fiscal year 2026

City of Needles
Summary Schedule of Prior Audit Findings
Year ended June 30, 2023

Identifying No.	Audit Finding	Planned Corrective Action	Current Status	Explanation if not fully implemented
2022-01 – Significant Audit Adjustment over Construction Expenditures Type of Finding: Significant deficiency in internal control	<p>There were significant amounts of missing documentation relating to the Arizona Bridge Project at the commencement of the engagement. Through extended procedures during the course of audit fieldwork, we were able to determine that the City's payments to the Arizona Department of Transportation during fiscal year 2021-22 fell outside the scope of the agreement with the California Department of Transportation, only serving as prepayment for an upcoming project that had not yet commenced. No approved expenditure of federal awards had been issued, and no actual work had been completed until the fiscal year ended June 30, 2023, and beyond. An audit adjustment was necessary to reclassify the \$1.2 million of expenditures to prepaid expense in order to account for the disbursement in accordance with Generally Accepted Accounting Principles (GAAP).</p>	<p>The City of Needles found itself in a unique position beginning in FY 22. They were awarded grants for multiple large projects. At the time, they did not have sufficient staff for all the additional planning and paperwork involved. They realized quickly that they needed a Project Manager and hired one early FY 23. They also added a position in Finance that can help track project expenses and reimbursements received.</p> <p>The Project Manager has been able to plan and organize all of their grant and other large projects. She sends reimbursement requests timely and has been successful at receiving the grant funds they are due.</p> <p>The Project Manager, with the help of Department heads, will maintain a comprehensive list of open and ongoing grants that include the primary contacts, and any performance obligations required.</p>	Fully implemented.	Not applicable.



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