

**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*
City of Needles, California
*Year Ended June 30, 2024***





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**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, 2024, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2026.

Our report includes a reference to other auditors who audited the financial statements of the Housing Authority of the City of Needles, a component unit of the City, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 below, we identified certain deficiencies in internal control that we consider to be a material weakness 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 following deficiency to be a material weakness.

Significant Delay in Completing the Audit

Observation

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.

The City failed to complete its required annual audit for Fiscal Year 2024 within the mandated 12-month deadline. As of June 30, 2025, no audit report has been issued or filed, resulting in noncompliance with California Government Code Section 6505.

Cause and Effect

The City's audit delays stem from 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 support the timely completion of future audits and ensure continued compliance with California Government Code Section 6505, the City should focus on strengthening the stability and structure of its financial management and reporting processes. Establishing permanent leadership in key finance roles will provide the continuity necessary to maintain accurate records and prepare audit materials throughout the fiscal year. Developing a formal audit timeline, with defined milestones for year-end close, documentation preparation, and auditor coordination, will help keep the process organized and predictable. Enhancing internal controls related to record retention and transaction review will further reduce delays by ensuring that information is complete and readily accessible. Consistent communication with the external audit team will also allow potential issues to be identified and resolved early. Together, these steps will help the City improve audit readiness, reduce unnecessary costs, and maintain compliance with state requirements.

Management response

The City acknowledges the delay in completing the Fiscal Year 2024 audit and recognizes the importance of timely financial reporting. To address this issue, the City has implemented structural and procedural improvements to strengthen audit readiness and ensure compliance moving forward. Documented finance procedures, task schedules, and closing checklists have been developed to guide staff through year-end processes and audit preparation. A formal annual audit timeline has been established with defined milestones for reconciliations, financial statement preparation, and coordination with external auditors. Key balance sheet accounts are now reconciled on a monthly basis, and management-level review procedures have been formalized for journal entries and year-end adjustments.



Finance staff continue to participate in governmental accounting training, and cross-training within the department has been implemented to ensure continuity of critical reporting functions during staffing transitions. These measures establish a structured internal control framework designed to ensure future audits are completed within statutory deadlines and that financial reporting processes remain consistent and reliable.

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 following deficiencies to be significant deficiencies.

1. Submission of Investment Reports

Observation

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.

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, investment reports for Fiscal Year 2024 were not submitted to the City Council.

Cause and Effect

The failure to submit the Statement of Investment Policy and monthly investment reports for the fiscal year 2024 appears to be primarily due to management turnover, which disrupted established reporting processes.

Recommendation

To strengthen compliance with state requirements and the City's investment policy, the City should reestablish a structured and reliable investment reporting process supported by consistent financial leadership. Updating and formally presenting the Statement of Investment Policy on an annual basis should be incorporated into the City's regular governance cycle, with clear internal deadlines and assigned responsibilities. Designating a specific finance staff member to oversee investment reporting, supported by cross-training to ensure continuity during staffing transitions, will help maintain the timely preparation of monthly and quarterly reports. Implementing a standardized reporting calendar and internal review procedures will further support accuracy, transparency, and timely submission to the City Council. These steps will help the City restore compliance, improve oversight, and reduce the risk of future reporting lapses.



Management response

The City has updated its Investment Policy and obtained City Council approval to ensure alignment with current legal and reporting requirements. In addition, the City has addressed prior delays in monthly and quarterly reporting by establishing a formal reporting schedule and clearly assigning preparation and review responsibilities within the Finance Department. Written procedures now guide the timely completion and internal review of all required investment reports before submission to the City Council. These improvements strengthen oversight, promote consistency, and ensure ongoing compliance with statutory and policy requirements, supported by experienced financial leadership and structured internal processes.

2. Fiduciary Fund Reporting

Observation

During the audit, it was noted that the City did not report the Water Quality Maintenance Fund as a custodial fund in the prior year, even though the activity met the criteria for fiduciary reporting under Governmental Accounting Standards Board (GASB) standards. The fund accounts for restricted trust resources dedicated to the Water Quality Maintenance of the All-American Canal. These trust assets, totaling \$9,349,382, are held by the Trustee, Zions Bank, for canal capital maintenance and improvements. The City is responsible for the annual operation of the canal under its contract with the Bureau of Reclamation and the Metropolitan Water District of Southern California.

Cause and Effect

The omission occurred because the City did not have adequate controls in place to identify and evaluate activities that met the criteria for fiduciary reporting. As a result, the Water Quality Maintenance Fund was not reported as a custodial fund in the prior year, leading to a misstatement of the fiduciary financial statements and an understatement of the City's Fiduciary Net Position by \$9,349,382.

Recommendation

The City should strengthen its internal controls over fund classification and fiduciary reporting by implementing a formal process to review all trust-related and custodial activities each year to ensure they are evaluated in accordance with GASB requirements. Staff involved in financial reporting should receive periodic training on fiduciary fund criteria, and communication between Finance and external trustees, such as Zions Bank, should be improved to ensure all fiduciary activities are identified and assessed in a timely manner. Enhancing these procedures will help ensure that fiduciary resources are properly recognized and reported in future financial statements.

Management response

The City has corrected this inadvertent reporting error and has implemented formal review procedures to prevent recurrence. An annual evaluation of fund classifications and related activities has been incorporated into the year-end closing process to ensure compliance with GASB reporting requirements. Documented financial reporting checklists and management-level review of fiduciary and custodial accounts have been established to strengthen oversight and accuracy. In addition, Finance staff have received updated training on fund classification and fiduciary reporting standards to reinforce proper application of accounting guidance. These procedural and training improvements create a structured internal control framework to ensure similar issues do not occur in the future.



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 the Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described previously. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

**Glendale, California
January 28, 2026**



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