



**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***

Honorable Mayor and Members of the City Council
City of Riverside
Riverside, 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 Riverside (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 December 16, 2024.

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.

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We identified a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2024-001 that we consider to be a material weakness.

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 Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City’s response to the finding identified in our audit and described in the accompanying schedule of finding and response. 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 entity’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.



CliftonLarsonAllen LLP

Irvine, California
December 16, 2024

**CITY OF RIVERSIDE
SCHEDULE OF FINDING AND RESPONSE
YEAR ENDED JUNE 30, 2024**

2024 – 001: Prior Period Adjustment

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: As a result of our audit procedures over leases receivable, a prior period adjustment was necessary to correct the balances for two leases. The lease receivable and related deferred inflows were calculated incorrectly due to the following:

- Lease payments during the term of the lease were incorrectly reduced by incorrect rent credits.
- During the lease term, scheduled increases in minimum lease payments were not considered.
- Lease term incorrectly included an additional 55 years.
- Amounts received prior to the initial lease term that are related to future periods were not included in the calculation of deferred inflow of resources.

Criteria or specific requirement: GASB Statement No. 87, *Leases*, requires lessors to recognize a lease receivable and a deferred inflow of receivables at the beginning of the lease term. Lease receivables are measured using a present value of lease payments to be received for the lease term (less estimates for uncollectible amounts). This measurement should include fixed, variable, variable payments that are fixed in substance, and residual value guarantee payments that are fixed in substance. In addition, deferred inflows of resources are measured using the initial value of the lease receivable (less any amount for uncollectible amounts). Deferred inflows also include any amounts received prior to the initial lease term that are related to future period.

Effect: The following adjustments were made to correct beginning balances:

- Increase lease receivables by approximately \$4.2 million
- Decrease other assets by approximately \$2.6 million
- Increase deferred inflow of resources – lease related items by approximately \$17.9 million
- Decrease note payable by approximately \$16.2 million
- Increase net position by approximately \$2.2 million in the water fund

Cause: The errors occurred during the implementation of GASB 87, which was effective during fiscal year ended June 30, 2022. The City evaluated hundreds of leases and the errors described were discovered on two of the leases. At that time, the City was facing staff shortages, which made it challenging to evaluate hundreds of leases within a short timeframe with limited personnel.

Recommendation: We recommend that the City assigns additional accounting resources to assist with the implementation of new accounting standards as they become effective.

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Views of responsible officials and planned corrective actions: Agree with finding. Management acknowledges the finding outlined above, which pertains to two leases that were incorrectly calculated during the implementation of GASB 87 in fiscal year 2022. Given the scope of GASB 87 and the high volume of leases involved, the finance team engaged an external consultant to assist with the implementation. This process included a review of approximately 440 leases, of which over 270 were applicable to GASB 87 reporting requirements. Furthermore, these leases were audited by the City's external audit firm during fiscal year 2022, with no discrepancies or findings identified.

Since that time, finance has taken proactive corrective measures, including the hiring of additional staff in fiscal year 2024 to address the increased workload arising from new accounting standards and regulations. As a result, there were no audit findings related to newly implemented leases or leases requiring modification or termination during the current audit period. Management is confident that the current processes and procedures are strong and will ensure the continued accuracy of GASB 87 lease calculations moving forward.