



**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, 2025, 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 23, 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.

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.

Honorable Mayor and Members of the City Council
City of Riverside

We identified a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2025-001 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Irvine, California
December 23, 2025

**CITY OF RIVERSIDE
SCHEDULE OF FINDING AND RESPONSE
YEAR ENDED JUNE 30, 2025**

2025 – 001: Prior Period Adjustment

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

Condition: A prior period adjustment was necessary to correct the balances for deposits and construction in progress. Deposits and construction in progress were recorded incorrectly due to the following:

- Deposits were not correctly recognized as revenue in the prior years.
- Refundable fees were not correctly recognized as a deposit in the prior years.
- Completed construction in progress projects were not correctly reclassified to depreciable categories and subsequently depreciated in the prior years.
- Projects included in construction in progress should have been recorded as an expense in prior years.

Criteria or specific requirement: All deposits payable account balances should be reduced when deposits are returned or recorded as revenue when the deposits are forfeited. Assets should be reclassified from construction in progress to a depreciable capital asset class once the projects have been put into service. If it is determined that projects will not be completed, they should be recorded as an expense.

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

- Decrease deposits by approximately \$3.2 million
- Decrease prepaids by approximately \$8.5 million
- Decrease construction in progress by approximately \$91.1 million
- Increase land by approximately \$1.8 million
- Increase capitalizable assets by approximately \$29.6 million

Cause: The discrepancies identified in prior years were primarily the result of legacy accounting practices combined with staff turnover and limited resources during the affected periods.

Recommendation: We recommend that the City improve internal controls over year end close by assigning additional accounting resources to assist with the review of account schedules.

Views of responsible officials and planned corrective actions: Management concurs with the finding. The matters noted relate to legacy accounting practices associated with deposits and construction in progress. The Finance Department has implemented new accounting procedures to enhance the accuracy of accounting records. Additionally, Finance is in the process of hiring experienced staff to support increasing reporting requirements and ongoing organizational needs.