



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

To the Honorable Members of the City Council
City of Culver City, 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 Culver City, California (hereafter, 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 March 27, 2026.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a significant deficiency.

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*.



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

LSL, LLP

Irvine, California
March 27, 2026



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SCHEDULE OF FINDINGS AND RESPONSES

Reference No.: 2025-001 – Financial Close and Reporting

Evaluation of Finding:
Significant Deficiency

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Condition:

During the audit, we found that the year-end closing process was not timely and did not ensure that account balances were reconciled and accurate in advance of the audit requiring a postponement and rescheduling of audit fieldwork and a significant number of adjusting journal entries to correct the final financial statements. It appears these adjustments were primarily due to the trial balance being prepared from data that was not always complete, contained errors often caused by peculiarities of the ERP system, and without the benefit of appropriate and prompt year end reconciliations.

Cause of Condition:

The City is short staffed in some key Finance Department positions particularly in the Accounting Division, resulting in a large part of the responsibility for the financial close and reporting process to fall on a handful of individuals. This bottleneck in available, qualified personnel to perform this critical procedure does not allow for a proper review and reconciliation of accounts prior to providing the trial balance to the external auditors.

Effect or Potential Effect of Condition:

Due to the cause described above, internal controls were either lacking or not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due to error, prior to the closing of the books and records.

In addition, the City did not have in place a systematic method for ensuring that timely and complete year-end closing procedures were in operation before presenting the trial balance to the auditors, resulting in over 50 journal entries made to correct or to reclassify balances in the financial statements that should normally be captured through the closing process. All those adjustments have been reported and posted by the City.

Context:

Various financial statement accounts were not accurate and were either under or overstated by a financially significant amount after the audit began and the books were not closed. Misstatements in financial statements can rise to a material amount when aggregated and/or when they can reasonably be expected to influence the decisions of the financial statement users.

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not adhering to formal policies and procedures regarding internal control over individual transaction classes could lead to inconsistency in processing transactions and increase the risk that errors will not be detected and corrected in a timely manner.



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Recommendation:

The Finance Department should consider increasing the amount of experienced finance staff to help facilitate year-end closing procedures; this includes consideration of hiring external accounting consultants to assist in the closing process. The City should also put in place formalized year-end close procedures to ensure the close is complete and reduce the amount of journal entries needed and errors found after the closing process has been completed. We suggest management also establish effective review policies and procedures, including but not limited to, applying analytical procedures on the trial balance numbers and perform reconciliations of all significant accounts.

Management's Response and Corrective Action:

The City understands the importance of timeliness in financial reporting and has been striving to improve processes to meet and exceed minimum standards. Personnel shortages in the Finance Department, particularly the vacancy of a critical position in the Accounting Division, have created a backlog of work that slows the year-end closing process. The City has been recruiting for a vacant Accounting Supervisor position that has proved challenging to fill. Management expects this position to be filled by the end of the current fiscal year. The City will be contracting in the current fiscal year with outside accounting consultants to develop, document and train staff on improved monthly and year-end closing procedures. These outside accounting services will also include staff support to reduce the backlog of work in advance of the closing of Fiscal Year 2025-2026. Finally, Management will be working with the City's ERP provider to correct some of the system issues that have caused errors and incorrect variances.

The City appreciates the auditors' thorough review and acknowledges the confirmation that the financial statements are free of any material misstatements. This reflects the City's commitment to accurate reporting and overall fiscal integrity. Regarding the identified deficiency in timeliness of year-end accounting close processes, management acknowledges the auditors' findings and has developed a plan to resolve this issue. To strengthen the City's processes, the City will initiate the following Corrective Action Plan below. The City believes these steps will properly remediate the issue and further improve the quality of our financial operations.

Resource Allocation & Capacity Building

- **Recruitment:** The City will prioritize filling vacancies in key Accounting Division positions and consider adding additional staffing to eliminate the current bottleneck.
- **Cross-Training:** The City will implement a cross-training program for existing staff to ensure that critical closing tasks are not dependent on a single individual, providing redundancy and internal review capacity.
- **Interim Support:** Management is securing qualified external consultants to provide surge capacity in the current fiscal year and through the next fiscal year-end close while permanent positions are filled and staff receives additional training.

Standardized Closing Schedule & Checklist

- **Formalized Calendar:** The City will develop a comprehensive "Year-End Closing Manual" that outlines specific deadlines which will timely reconciliations throughout the year and identify necessary steps to be taken beginning 30 days prior to fiscal year-end.
- **Process Improvement:** The City will update its internal standard operating procedures to ensure the fiscal year-end close is completed within 60 days of fiscal-year-end.
- **Management Certification:** The Accounting Supervisor and/or Accounting Manager will review and sign off on deliverables, in accordance with the established calendar, which will then be reviewed by the Chief Financial Officer before the trial balance is released to auditors.

Monitoring and Accountability

- **Audit Readiness Milestone:** The City will establish a deadline for all general ledger activities to ensure a stable trial balance is achieved before audit fieldwork begins.
- **Pre-Audit Preparation:** the City will begin early preparation of document deliverables included on the PBC list at least a month before audit fieldwork begins.
- **Pre-Audit Review:** A new secondary review layer will be implemented to verify documentation status before year-end closing.



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- Regular Reporting: Prepare regular budget to actuals report to flag imbalances or unposted transactions, ensuring the trial balance is "audit-ready" well in advance of fieldwork.
- Status Reporting: The Finance Department will provide regular updates to City Management on the progress of staffing levels and the implementation of these new internal controls.

ERP System Optimization & Data Integrity

- System Review: Staff will conduct a functional review of the ERP system to identify the "peculiarities" noted by the auditors. This includes automating recurring journal entries where possible and improving report parameters to ensure data completeness and avoid system-generated discrepancies.