

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 Mayor and Members of the City Council
City of Palm Springs, 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 City of Palm Springs, California, (the City) as of and for the year ended June 30, 2015, 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 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 did identify the following deficiency in internal control that we consider to be significant deficiencies:

Accounting for Grantee Receivable Arrangements and Tax Abatements

The City has created certain incentive programs to promote economic development in the City. The programs were established as grants for facade, interior remodel, or major projects. Certain grants were set-up as arrangements where the grantees are provided with funding that are required to be paid back to the City only if certain fulfillments were not meet by the grantees. Under generally accepted accounting principles, such arrangements are required to be recognized as receivables when the monies are granted



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to grantees. In prior periods, the City did not reflect in the financial statements these arrangements for two businesses. The City identified the error during the fiscal year 2014-2015 and has properly reflected the arrangements as receivables in its financial statements at June 30, 2015. In addition, the City conducted its own analysis of the program and also contracted with a third party to review the program compliance. We reviewed a sample of the program files and interviewed selected personnel involved to obtain an understanding of the program. The files reviewed appeared in order and the City has made significant improvements to its controls over the program. However, we recommend that the City document in writing its policies and procedures for the program and communicate them to staff. In addition, programs such as these, which are being handled by departments other than the Finance Department and have financial and accounting implications, should involve the Finance Department to ensure proper treatment in the financial statements and also proper financial internal controls.

The City also has created incentive programs for airline marketing and hotel renovations which provide grants and tax abatements. We reviewed a sample of the program and files. While the City has procedures over the programs, we recommend the Finance Department to document formal written policies and procedures in coordination with the Airport and Economic Development Departments who implement and administer the incentive programs.

We recommend that the City continue to perform internal audits of incentive programs, such as the ones mentioned above, to ensure adherence to written policies and procedures. The audits can be conducted internally or with the assistance of third parties on a periodic basis.

Management's Response

We concur and have already begun documenting the policies and procedures which we already have put in place which the auditors are aware of and approved. We will review draft policies and procedures with the auditors before we disseminate them with staff.

Management's Response to Finding

Management's response to the finding identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. 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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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.

Lance, Solt & Lughard, LLP

Brea, California
December 30, 2015