



# CITY OF PALM SPRINGS

## JUNE 30, 2015

SINGLE AUDIT REPORT

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CITY OF PALM SPRINGS, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2015

CITY OF PALM SPRINGS

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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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2015-001 that we consider to be a significant deficiency.



To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

### **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*.

### **City's Response to Finding**

The City'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.

### **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, Soll & Lughard, LLP*

Brea, California  
December 30, 2015



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palm Springs, California (the City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palm Springs, California, 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. We issued our report thereon dated December 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California

March 21, 2016 (except for the Schedule of Expenditures of Federal Awards which is as of December 30, 2015)

CITY OF PALM SPRINGS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>                            | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Grantor's<br/>Number</u>   | <u>Expenditures</u>  |
|--|------------------------------------|--|--|
| <u>U.S. Department of Housing and Urban Development</u>                              |                                    |  |  |
| Direct Program:  |                                    |  |  |
| Community Development Block Grant  | 14.218                             | B-14-MC06-0561<br>B-13-MC06-0561   | \$ 290,896<br>247,189  |
| <b>Total U.S. Department of Housing<br/>and Urban Development</b>                    |                                    |  | <b>538,085</b>   |
| <u>U.S. Department of Justice</u>  |                                    |  |  |
| Direct Program:  |                                    |  |  |
| Bulletproof Vest Partnership Program   | 16.607                             | 2013-BU-BX-13065276  | 11,513   |
| Program Total  |                                    |  | 11,513   |
| Direct Program:  |                                    |  |  |
| ARRA - Edward Byrne Memorial Justice Assistance Grant                                | 16.803                             | 2014-DJ-BX-0296  | 22,951   |
| Program Total  |                                    |  | 22,951   |
| <b>Total U.S. Department of Justice</b>  |                                    |  | <b>34,464</b>  |
| <u>U.S. Department of Transportation</u>   |                                    |  |  |
| Direct Program:  |                                    |  |  |
| Airport Improvement Program*   | 20.106                             | 03-06-0181-46<br>03-06-0181-51<br>03-06-0181-52<br>03-06-0181-53<br>HSTS04-13-H-CT1041   | 28,962<br>1,226,783<br>341,228<br>1,656,574<br>8,131   |
| Program Total  |                                    |  | 3,261,678  |
| Passed through from the State of California<br>and the Department of Transportation: |                                    |  |  |
| Highway Planning and Construction  | 20.205                             | BR-NBIL<br>BHLO-5282<br>BHLS-5282<br>PLHDL06-5282<br>NBIL(513)<br>HP21L-5282<br>SRTSL<br>BRLO-5282<br>HP21L-5282<br>BHLS-5282<br>BRLS-5282 | 127,757<br>1,070,310<br>143,749<br>3,556<br>172,606<br>10,008<br>7,860<br>4,563<br>9,130<br>226,863<br>179,843 |
| Program Total  |                                    |  | 1,956,245  |
| Passed through from the State of California<br>and the Department of Transportation: |                                    |  |  |
| Alcohol Traffic Safety & Drunk Driving Prevention<br>Incentive Programs              | 20.601                             | SC14303<br>PT1471<br>PT1518  | 2,292<br>12,863<br>81,851  |
| Program Total  |                                    |  | 97,006   |
| <b>Total U.S. Department of Transportation</b>                                       |                                    |  | <b>5,314,929</b>   |

CITY OF PALM SPRINGS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Grantor's<br/>Number</u> | <u>Expenditures</u>        |
|---|------------------------------------|--|----------------------------|
| <u>U.S. Department of Homeland Security</u>               |                                    |  |                            |
| Direct Program:   |                                    |  |                            |
| Emergency Management Performance Grant                    | 97.042                             | 2013-0070                                    | 14,888                     |
| Program Total   |                                    |  | <u>14,888</u>              |
| Direct Program:   |                                    |  |                            |
| Homeland Security Grant Program                           | 97.067                             | 2014-SS-00093<br>2013-00110                  | 10,863                     |
| Program Total   |                                    |  | <u>6,030</u>               |
| <b>Total U.S. Department of Homeland Security</b>         |                                    |  | <b><u>31,781</u></b>       |
| <b>Total Federal Expenditures</b>                         |                                    |  | <b><u>\$ 5,919,259</u></b> |

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$494,134.

**CITY OF PALM SPRINGS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Palm Springs, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**Note 2: Payments to Subrecipients**

For the year ended June 30, 2015, payments to sub-recipients consisted of the following:

| <u>CFDA #</u> | <u>Program Name</u>               | <u>Amount</u> |
|---------------|-----------------------------------|---------------|
| 14.218        | Community Development Block Grant | \$ 494,134    |

CITY OF PALM SPRINGS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified?  yes  no
  - Material weaknesses identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 20.106                | Airport Improvement Program               |

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee?  yes  no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2015-001: Accounting for Grantee Receivable Arrangements and Tax Abatements**

Significant Deficiency

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 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.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**CITY OF PALM SPRINGS**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**SECTION IV - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.