



CITY OF ANAHEIM, CALIFORNIA

Single Audit Reports

Year ended June 30, 2014

CITY OF ANAHEIM, CALIFORNIA

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

**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***

The Honorable Mayor and City Council
City of Anaheim, 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 Anaheim, California, (the City), as of and for the year ended June 30, 2014, 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 10, 2014.

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) 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 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 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. 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.



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 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*.

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.

KPMG LLP

Irvine, California
December 10, 2014



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Honorable Mayor and City Council
City of Anaheim, California:

Report on Compliance for Each Major Federal Program

We have audited the City of Anaheim, California's (the City) 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, 2014. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified opinions on compliance. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Equitable Sharing Program—Asset Forfeiture

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City of Anaheim, California with CFDA 16.922 Equitable Sharing Program—Asset Forfeiture as described in finding number 2014-001 for Equipment and Real Property Management, because a complete listing of all equipment purchases made with grant funding was not available. Consequently, we were unable to determine whether the City complied with the requirements applicable to that program.



Qualified Opinion on Equitable Sharing Program—Asset Forfeiture

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the City of Anaheim, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Equitable Sharing Program—Asset Forfeiture for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Anaheim, California 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 other major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-002. Our opinion on the major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weaknesses.



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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 10, 2014, which contained unmodified opinions 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 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 basic 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.

KPMG LLP

Irvine, California
March 27, 2015

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<u>Federal grantor/program title</u>	<u>Federal CFDA Number</u>	<u>Program or Grant Number</u>	<u>Actual June 30, 2014 Expenditures</u>
Department of Housing and Urban Development:			
Community Development Block Grant – Entitlement and Small Cities Cluster:			
Direct Programs:			
Community Development Block Grant/Entitlement Grant	14.218	B-12-MC-060501	\$ 3,697,937
Community Development Block Grant/Entitlement Grant	14.218	B-13-MC-060501	766,532
Total Community Development Block Grant – Entitlement and Small Cities Cluster			<u>4,464,469</u>
Direct Programs:			
Emergency Shelter Grant Program (ESG)	14.231	E-11-MC-06-0501	114,248
Emergency Shelter Grant Program (ESG)	14.231	E-12-MC-06-0501	79,708
Emergency Shelter Grant Program (ESG)	14.231	E-13-MC-06-0501	217,128
			<u>411,084</u>
Direct Programs:			
Home Investment Partnerships Program (HOME)	14.239	M-09-MC060502	703,972
Home Investment Partnerships Program (HOME)	14.239	M-10-MC060502	1,529,884
Home Investment Partnerships Program (HOME)	14.239	M-11-MC060502	21,653
Home Investment Partnerships Program (HOME)	14.239	M-12-MC060502	88,543
Home Investment Partnerships Program (HOME)	14.239	M-13-MC060502	54,213
			<u>2,398,265</u>
Direct Programs:			
Community Development Block Grant – Section 108 Loan Guarantees (Capital Projects)	14.248	B-09-MC-06-0501	12,830,000
Community Development Block Grant – Section 108 Loan Guarantees (West Gate Project)	14.248	B-02-MC-06-0501	7,401,000
			<u>20,231,000</u>
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	CA104VO/CA104AF	67,774,596
Section 8 Mainstream Vouchers	14.879	CA104DV	2,370,201
Total Housing Voucher Cluster			<u>70,144,797</u>
Total Department of Housing and Urban Development			<u>97,649,615</u>
Department of the Interior:			
Passed through California Department of Parks and Recreation:			
Outdoor Recreation, Acquisition, Development, and Planning – Paul Revere Park Development	15.916	06-01750	1,074
Total Department of the Interior			<u>1,074</u>
Department of Labor:			
Passed through California Employment Development Department:			
Workforce Investment Act – Adult Program	17.258	K386291	133,345
Workforce Investment Act – Adult Program	17.258	K491012	827,409
			<u>960,754</u>
Passed through California Employment Development Department:			
Workforce Investment Act – Youth Activities	17.259	K386291	652,965
Workforce Investment Act – Youth Activities	17.259	K491012	566,737
			<u>1,219,702</u>
Passed through California Employment Development Department:			
Workforce Investment Act – Dislocated Workers Formula Grants	17.278	K386291	244,102
Workforce Investment Act – Dislocated Workers Formula Grants	17.278	K491012	619,965
Workforce Investment Act – Dislocated Workers Formula Grants (Rapid Response)	17.278	K386291	2,448
Workforce Investment Act – Dislocated Workers Formula Grants (Rapid Response)	17.278	K491012	185,757
			<u>1,052,272</u>
Total Workforce Investment Act Cluster			<u>3,232,728</u>
Total Department of Labor			<u>3,232,728</u>
Department of Health and Human Services:			
Passed through Orange County			
Temporary Assistance for Needy Families – Community Services (CalWorks)	93.558	WAM0711	533,159
Direct: Low Income Home Energy Assistance Program (LI – HEAP)	93.568	12Y-1406	777,459
Total Department of Health and Human Services			<u>1,310,618</u>
Department of Energy:			
Direct Programs:			
ARRA Electricity Delivery and Energy Reliability, Research, Development, and Analysis – SGIG Project	81.122	DE-OE0000257	1,444,616
Total Department of Energy			<u>1,444,616</u>
Department of Transportation:			
Highway Planning & Construction Cluster:			
Passed through California Department of Transportation:			
Highway Planning and Construction – Federal Demonstration Program (Gene Autry Highway Improvements)	20.205	HP21L-5055 (110)	419,448
Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users:			
Passed through California Department of Transportation:			
Highway Planning and Construction – Federal Intelligent Transportation Systems	20.205	HPLUL-5055 (153)	76,330
Highway Safety Improvement Program			
Passed through California Department of Transportation:			
Highway Planning and Construction – Ball Road from Knott Avenue to Brookhurst Street	20.205	HSIPL-5055 (152)	361,380
Safe Routes to School:			
Passed through California Department of Transportation:			
Highway Planning and Construction – South side of La Palma Avenue from 500 feet west of East Street	20.205	SRTSL-5055 (165)	44,857
Safe Routes to School:			
Passed through California Department of Transportation:			
Highway Planning and Construction – Ball Road from Dale Street to Magnolia Street	20.205	SRTSL-5055 (166)	139,684
Transportation Enhancement Program:			
Passed through California Department of Transportation:			
Highway Planning and Construction – Edison Right of Way Bike Path	20.205	RPSTPLE-5055 (164)	342,391
Passed through California Department of Parks and Recreation:			
Recreation Trails Program – Lincoln Avenue Multiuse Trail Staging Area	20.219	RT-30-022	8,700
Total Highway Planning and Construction Cluster			<u>1,392,790</u>
Federal Transit Administration:			
Passed through Orange County Transportation Authority:			
Federal Transit Capital Investment Grants:			
Federal Transit-Capital Investment Grant (Anaheim Regional Transportation Intermodal Center “ARTIC”)	20.500	CA-04-0178	43,702,648
Total Federal Transit Cluster			<u>43,702,648</u>
Passed through California Office of Traffic Safety:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Avoid DUI Campaign	20.608	AL1440	127,872

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantor/program title	Federal CFDA Number	Program or Grant Number	Actual June 30, 2014 Expenditures
Department of Transportation:			
Passed through California Office of Traffic Safety:			
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT1495	\$ 97,730
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT1331	40,334
State and Community Highway Safety – Avoid the 26 DUI Campaign – Orange County	20.600	AL1325	84,539
State and Community Highway Safety – Sobriety Checkpoint Grant	20.600	SC13010	21,274
State and Community Highway Safety – Sobriety Checkpoint Grant	20.600	SC14010	47,570
Total Highway Safety Cluster			291,447
Total Department of Transportation			45,514,757
Department of Commerce:			
Direct Program:			
Economic Development Cluster – Economic Adjustment Assistance	11.307	07-79-06423	2,170,160
Total Department of Commerce			2,170,160
Department of Justice:			
Direct Programs:			
Equitable Sharing Program – Asset Forfeiture	16.922	16.CA0300100	3,029,575
Services for Trafficking Victims – QVC FY12 Enhanced Collaborative Model to Combat Human Trafficking	16.320	2012-VT-BX-K002	214,509
Congressionally Recommended Awards – Interoperability Communications Project	16.753	2008-DD-BX-0431	1,500
Passed through Orange County Sheriff's Department:			
Edward Byrne Memorial Justice Assistance Program 2010 (JAG)	16.738	2010-DJ-BX-0324	7,613
Edward Byrne Memorial Justice Assistance Program 2011 (JAG)	16.738	2011-DJ-BX-2532	14,300
Edward Byrne Memorial Justice Assistance Program 2012 (JAG)	16.738	2012-DJ-BX-0057	81,348
Edward Byrne Memorial Justice Assistance Program 2013 (JAG)	16.738	2013-DJ-BX-1065	80,500
Passed through California Office of Emergency Services:			
Edward Byrne Memorial Justice Assistance Program – 2011 JAG Antihuman Trafficking Task Force Program	16.738	HF12016129, Cal EMA ID: 059-02000	163,707
Total JAG Program Cluster			347,468
Total Department of Justice			3,593,052
Department of Homeland Security			
Passed through California Office of Emergency Services:			
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2012-00123, Cal EMA ID#059-00000	3,469,903
Passed through City of Santa Ana:			
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2011-SS-0077	1,540,447
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2013-00110	151,976
Passed through County of Orange:			
Homeland Security Grant Program – FY 2012	97.067	2012-SS-00123, Cal EMA ID#059-0000	61,859
Homeland Security Grant Program – FY 2013	97.067	2013-00110, Cal OES ID #059-00000	98,527
Passed through County of Orange:			
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	282-00-0050	185,759
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	2011-SS-0077, Cal EMA ID#059-00000	170,223
Emergency Management Performance Grant	97.042	2013-0047	53,728
Direct Programs:			
Assistance to Firefighters Grant	97.044	EMW-2012-FO-05807	126,400
Total Department of Homeland Security			5,858,822
Department of Treasury:			
Direct Program – Equitable Sharing Program – Asset Forfeiture			
	21.000	21.CA0300100	452,695
Total Department of Treasury			452,695
Total Expenditures of Federal Awards			\$ 161,228,137

See accompanying notes to Schedule of Expenditures of Federal Awards and Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the City of Anaheim, California (the City). The Schedule includes federal awards received directly from federal agencies as well as federal awards passed through other agencies. The City's reporting entity is defined in note 1 to the City's financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the City.

(2) Basis of Accounting

The Schedule is presented using the modified accrual basis of accounting, which is described in the notes to the City's financial statements.

(3) Relationship to Financial Statements and Federal Financial Reports

Information reported in the Schedule agrees with the amounts reported in both the financial statements and related federal financial reports for the major federal programs. Revenues from federal award programs are reported in the financial statements as operating and capital grant revenues in the government-wide financial statements and intergovernmental revenues in the fund statements, except for the Housing and Urban Development (HUD) Section 108 guaranteed loan, which is reported as other financing sources – issuance of debt and long-term debt payable.

(4) Amounts Provided to Subrecipients

Included in the Schedule are the following amounts passed through to subrecipients:

Community Development Block Grant – Entitlement and Small Cities Cluster (CFDA No. 14.218)	\$	429,633
Emergency Shelter Grant Program (CFDA No. 14.231)		194,924
Workforce Investment Act Cluster (CFDA Nos. 17.258, 17.259 and 17.278)		942,130
Edward Bryne Memorial Justice Assistance Grant Program – 2011 JAG Anti-Human Trafficking Task Force (CFDA 16.738)		39,899
Services for Trafficking Victims – OVC FY 2012 Enhanced Collaborative Model to Combat Human Traffic (CFDA 16.320)		11,672
Highway Safety Cluster (CFDA No. 20.600)		66,441
Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Avoid DUI Campaign (CFDA No. 20.608)		96,835
Homeland Security Grant Program – Urban Areas Security Initiative (CFDA No. 97.067)		<u>1,464,731</u>
	\$	<u><u>3,246,265</u></u>

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(5) Guaranteed Loan Outstanding

At June 30, 2014, the City and Successor Agency to the Former Anaheim Redevelopment Agency (Successor Agency) shared a total outstanding guaranteed loan balance of \$20,231,000 with the U.S. Department of Housing and Urban Development under their Section 108 Loan Guarantee Program (CFDA No. 14.248). Below is a breakdown of debt service payments and outstanding balances of respective loans for the fiscal year 2014.

	Outstanding balance, July 1, 2013 a	Addition b	Principal payments c	Interest payments d	Total payments e= (c+d)	Outstanding balance, June 30, 2014 f= (a+b-c)
HUD 108 Guaranteed Loans:						
Successor agency:						
Westgate (\$4M)	\$ 2,564,000	—	\$ 213,000	\$ 131,275	\$ 344,275	\$ 2,351,000
Westgate (\$6M)	5,315,000	—	265,000	295,852	560,852	5,050,000
Capital projects (\$7M)	<u>6,348,640</u>	<u>—</u>	<u>327,583</u>	<u>219,157</u>	<u>546,740</u>	<u>6,021,057</u>
Subtotal	14,227,640	—	805,583	646,284	1,451,867	13,422,057
City:						
Capital projects (\$8M)	<u>7,096,360</u>	<u>—</u>	<u>287,417</u>	<u>252,336</u>	<u>539,753</u>	<u>6,808,943</u>
Total	<u>\$ 21,324,000</u>	<u>—</u>	<u>\$ 1,093,000</u>	<u>\$ 898,620</u>	<u>\$ 1,991,620</u>	<u>\$ 20,231,000</u>

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

- (a) Type of auditors' report issued on basic financial statements:
- Governmental activities – **Unmodified.**
 - Business-type activities – **Unmodified.**
 - Each major fund – **Unmodified.**
 - Aggregate remaining funds – **Unmodified.**
- (b) Internal control findings over financial reporting:
- Material weakness(es) identified: **No.**
 - Significant deficiencies identified that are not considered material weaknesses: **None reported.**
- (c) Noncompliance that is material to the financial statements: **No.**

Federal Awards

- (d) Internal control over major programs:
- Material weakness(es) identified: **2014-001**
 - Significant deficiencies identified that are not considered to be material weaknesses: **2014-002**
- (e) Type of auditors' report issued on compliance for major programs: **Unmodified, except for the Equitable Sharing Program – Asset Forfeiture (CFDA No. 16.922) which is qualified**
- (f) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A-133: **Yes.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (h) Major Programs:
- Department of Housing and Urban Development – Community Development Block Grants – Section 108 Loan Guarantees (CFDA No. 14.248)
 - Department of Housing and Urban Development – Housing Voucher Cluster (CFDA Nos. 14.871 and 14.879)
 - Department of Justice – Equitable Sharing Program – Asset Forfeiture (CFDA No. 16.922)
 - Workforce Investment Act (WIA) Cluster (CFDA Nos. 17.258, 17.259, 17.278)
 - Department of Labor-California Employment Development Department – Workforce Investment Act – Adult Program (CFDA No. 17.258)

CITY OF ANAHEIM, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- Department of Labor-California Employment Development Department – Workforce Investment Act – Youth Activities (CFDA No. 17.259)
- Department of Labor-California Employment Development Department – Workforce Investment Act – Dislocated Workers Formula Grants (CFDA No. 17.278)
- Department of Labor-California Employment Development Department – Workforce Investment Act – Dislocated Workers Formula Grants (Rapid Response) (CFDA No. 17.278)
- Department of Transportation – Federal Transit Administration – Orange County Transportation Authority – Federal Transit – Capital Investment Grant (Anaheim Regional Transportation Intermodal Center “ARTIC”) (CFDA No 20.500)
- Department of Energy – ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project (CFDA No. 81.122)
- Homeland Security Grant Program (CFDA No. 97.067)
 - Department of Homeland Security – California Office of Emergency Services – Homeland Security Grant Program – Urban Areas Security Initiative (UASI) (CFDA No. 97.067)
 - Department of Homeland Security – City of Santa Ana – Homeland Security Grant Program – Urban Areas Security Initiative (UASI) (CFDA No. 97.067)
 - Department of Homeland Security – County of Orange – Homeland Security Grant Program – FY 2012 (CFDA No. 97.067)
 - Department of Homeland Security – County of Orange – Homeland Security Grant Program – FY 2013 (CFDA No. 97.067)
 - Department of Homeland Security – County of Orange – Homeland Security Grant Program – Metropolitan Medical Response System (CFDA No. 97.067)

(i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

(3) Findings and Questioned Costs Relating to Federal Awards as Defined in Section 0.510(a) of OMB Circular A-133

Finding 2014-001 Equipment and Real Property Management

Federal Program Information

<i>Federal Catalog Number:</i>	16.922
<i>Federal Program Name:</i>	Equitable Sharing Program – Asset Forfeiture
<i>Federal Agency:</i>	Department of Justice
<i>Pass-through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	16.CA0300100; 2013-2014

Specific Requirement

28 CFR PART 66-UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS

(c) Post Award Requirements

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(2) A physical inventory of the equipment must be taken and the results reconciled with the equipment records at least once every two years.

Condition and Context

Management is required to establish internal controls and procedures to ensure that a physical inventory of equipment is taken and the results are reconciled with equipment records once every two years. In performance of our testwork over equipment, we obtained the City's physical inventory count records and reconciliation to the accounting records and agreed the equipment held by the City under the Equitable Sharing Program – Asset Forfeiture and noted that equipment purchased through the Narcotics Fund (a subfund of Asset Forfeiture) prior to fiscal year 2013 and 2014 were not included in the physical inventory count performed by the City and, therefore, were not inventoried.

Questioned Costs

Unknown

Cause and Effect

The City does not appear to have adequate controls in place to ensure that all equipment items are inventoried every two years.

CITY OF ANAHEIM, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

The City should enhance its policies and procedures to ensure that a complete physical inventory of all equipment purchased during the life of the grant is completed to ensure that the equipment is safeguarded.

Views of Responsible Officials and Planned Corrective Actions

The police department provided an inventory of equipment purchased with Asset Forfeiture Funds for Fiscal Years 2013 and 2014. However, the auditor clarified the specific requirement for 28 CFR Part 66.32 (d) - Equipment, should include all equipment purchased with Asset Forfeiture Funds since the inception of the Equitable Sharing Program at Anaheim Police Department.

A police department-wide inventory of equipment purchased with the Asset Forfeiture Funds will be completed as a result of this audit and a list of that equipment will be maintained by the Special Operations Division Secretary. Each Division will be required to maintain its own Division-specific inventory and that information is to be maintained by each Divisional Secretary. It is the responsibility of the Division Captain or Division Commander to ensure the equipment is maintained properly and accounted for. In addition, a formal process will be implemented, requiring written verification, to ensure all equipment items are inventoried every two years.

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Finding 2014-002 Matching, Level of Effort and Earmarking

Federal Program Information

<i>Federal Catalog Number:</i>	17.259
<i>Federal Program Name:</i>	Workforce Investment Act Cluster – Youth Activities
<i>Federal Agency:</i>	Department of Labor
<i>Pass Through Entity:</i>	Employment Development Department
<i>Federal Award Number and Award Year:</i>	2012/2013 – K386291; 2013/2014 – K491012

Specific Requirement

29 CFR PART 97-UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS

Subpart C-Post-Award Requirements

Financial Administration

- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes

20 CFR Section 664.220:

Low-Income Youth – A minimum of 95 percent of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth as defined in 29 USC 2801(25).

Condition and Context

In our procedures performed we determined the City’s control over the low-income youth earmarking requirement as noted in part IV of the compliance supplement was not designed properly.

The City’s utilizes exception reports generated from CalJOBS database system to ensure compliance with the low income youth earmarking requirement. This exception report is generated based on the fiscal year that program participants enter the program and not for program participants that participated during the fiscal year. Therefore, when the City ran the exception report for the fiscal year 13/14, it only included participants that entered the program during the fiscal year and not the residual population that entered in prior years. As such, the City would not be able to properly determine if the 95% requirement was achieved based on the report utilized as it does not contain all youth who participated in the program.

CITY OF ANAHEIM, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Although the control was not designed properly, we were able to verify that the City had met the requirement and 95% of eligible participants in Youth Activities meet the criteria of disadvantaged low-income youth.

Questioned Costs

None

Cause and Effect

The CalJOBS exception report configuration was changed with the upgrade of the CalJOBS system. In prior years, the exception report was properly configured to generate data based on all participants in the program for the queried fiscal year. For the fiscal year 13/14, the exception report was configured to generate data for participants based on the fiscal year they entered the program. This change in the system configuration was not accounted for in the design of the control. Therefore, the control was not designed and implemented effectively to ensure the City was in compliance with the low-income youth earmarking requirement noted in Part IV of the Compliance Supplement.

Recommendation

The City should run the exception report to include all youth who participate in the program in order to determine that the City is in compliance with the 95% earmarking requirement noted in Part IV of the compliance supplement.

Views of Responsible Officials and Planned Corrective Actions

The City did run the “WIA Youth 5% Enrollment Exception Report” for FY 13/14. However, due to conversion issues between the previous State data base system, Job Training Automation (JTA), and the new State CalJobs system, there were data inconsistencies with the exception report as noted by KPMG. The State has fixed the problem and, based on an exception report the City recently ran for FY 14/15, the report does now generate data based on all program participants for the queried fiscal year.

Effective immediately, the City will generate and review a 5% exception report on a quarterly basis to monitor and assure compliance with the 95% low-income requirement. The City will also file hard-copies of the report and date and sign the review.