



CITY OF ANAHEIM, CALIFORNIA

Single Audit Reports

June 30, 2017

(With Independent Auditors' Report Thereon)

CITY OF ANAHEIM, CALIFORNIA

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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***

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 City of Anaheim, California (the City), as of and for the year ended June 30, 2017, 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 20, 2017.

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 20, 2017



KPMG LLP
Suite 700
20 Pacifica
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**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 the Uniform Guidance**

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's) compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 a 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the 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, 2017, 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 20, 2017 that contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

KPMG LLP

Irvine, California
February 28, 2018

CITY OF ANAHEIM, CALIFORNIA
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal grantor/program title	Federal CFDA number	Program or grant number	Federal awards	Amounts passed to subrecipients
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-14-MC-060501	\$ 1,912,838	—
Community Development Block Grant/Entitlement Grant	14.218	B-15-MC-060501	607,391	47,500
Community Development Block Grant/Entitlement Grant	14.218	B-16-MC-060501	1,910,259	339,504
Community Development Block Grant/Entitlement Grant	14.218	B-08-MN-060501	2,949	—
Total Community Development Block Grant – Entitlement and Small Cities Cluster			<u>4,433,437</u>	<u>387,004</u>
Direct Programs:				
Housing Opportunities for Persons with AIDS	14.241	CAH15F010	162,964	101,787
Housing Opportunities for Persons with AIDS	14.241	CAH16F010	1,293,981	727,683
			<u>1,456,945</u>	<u>829,470</u>
Direct Programs:				
Emergency Shelter Grant Program (ESG)	14.231	E-15-MC-06-0501	62,781	62,781
Emergency Shelter Grant Program (ESG)	14.231	E-16-MC-06-0501	304,876	276,467
			<u>367,657</u>	<u>339,248</u>
Direct Programs:				
Home Investment Partnerships Program (HOME)	14.239	M-10-MC060502	150,401	137,055
Home Investment Partnerships Program (HOME)	14.239	M-11-MC060502	276,937	19,754
Home Investment Partnerships Program (HOME)	14.239	M-12-MC060502	237,441	98,511
Home Investment Partnerships Program (HOME)	14.239	M-15-MC060502	113,851	62,137
Home Investment Partnerships Program (HOME)	14.239	M-16-MC060502	106,740	—
			<u>885,370</u>	<u>317,457</u>
Direct Programs:				
Community Development Block Grant – Section 108 Loan Guarantees (Capital Projects)	14.248	B-09-MC-06-0501	10,910,000	—
Community Development Block Grant – Section 108 Loan Guarantees (West Gate Project)	14.248	B-02-MC-06-0501	5,653,000	—
			<u>16,563,000</u>	<u>—</u>
Direct Programs:				
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	CA104VO/CA104AF	74,869,920	—
Section 8 Mainstream Vouchers	14.879	CA104DV/CA1048F	2,688,497	—
Total Housing Voucher Cluster			<u>77,558,417</u>	<u>—</u>
Total Department of Housing and Urban Development			<u>101,264,826</u>	<u>1,873,179</u>
Department of Labor:				
Workforce Innovation and Opportunity Act Cluster:				
Passed through California Employment Development Department:				
Workforce Innovation and Opportunity Act – Adult Program	17.258	K698356	8,109	—
Workforce Innovation and Opportunity Act – Adult Program	17.258	K7102025	808,278	—
			<u>816,387</u>	<u>—</u>
Passed through California Employment Development Department:				
Workforce Innovation and Opportunity Act – Youth Activities	17.259	K698356	366,542	254,917
Workforce Innovation and Opportunity Act – Youth Activities	17.259	K7102025	585,561	447,813
			<u>952,103</u>	<u>702,730</u>
Passed through California Employment Development Department:				
Workforce Innovation and Opportunity Act – Dislocated Workers	17.278	K698356	82,467	—
Workforce Innovation and Opportunity Act – Dislocated Workers	17.278	K7102025	633,350	—
Workforce Innovation and Opportunity Act – Rapid Response/Layoff Aversion	17.278	K698356	4,297	—
Workforce Innovation and Opportunity Act – Rapid Response/Layoff Aversion	17.278	K7102025	181,271	—
			<u>901,385</u>	<u>—</u>
Total Workforce Innovation and Opportunity Act Cluster/Department of Labor			<u>2,669,875</u>	<u>702,730</u>
Department of Health and Human Services:				
Passed through Orange County:				
Temporary Assistance for Needy Families – Community Services (CalWorks)	93.558	WRR0315	584,275	—
Direct: Low Income Home Energy Assistance Program (LI – HEAP)	93.568	14Y-1406	649,275	—
Total Department of Health and Human Services			<u>1,233,550</u>	<u>—</u>
Department of Transportation:				
Highway Planning & Construction Cluster:				
Passed through California Department of Transportation:				
Federal Demonstration Program-Gene Autry Highway Improvements	20.205	HP21L-5055 (110)	2,382,327	—
Safe Routes to School – South side of La Palma Avenue from 500 feet west of East Street	20.205	SRTSL-5055 (165)	277,830	—
Section 130 Grade Crossing Improvement Program – Olive Street Railroad Crossing	20.205	STPLR-7500 (234), 79LX274	24,131	—
Congestion Mitigation and Air Quality – Ball Road from Magnolia Avenue to the ARTIC on Douglass Road	20.205	CML-5055 (178)	48,195	—
Highway Safety Improvement Program – South Douglass Road from the Lossan grade separation to south of Katella Avenue	20.205	HSIPL-5055 (179)	63,597	—
Highway Safety Improvement Program – Traffic Signals adjacent to ARTIC East of Katella and South of Douglas	20.205	HSIPL-5055 (185)	9,352	—
Regional Surface Transportation Program – Lincoln Avenue from Brookhurst Street to Euclid Street	20.205	STPL-5055 (183)	27,471	—
Bridge Prevention Maintenance Program -Nine Bridges Located in Anaheim	20.205	BPMP-5055 (175)	149,071	—
Total Highway Planning and Construction Cluster			<u>2,981,974</u>	<u>—</u>
Federal Transit Administration:				
The Passenger Rail Investment and Improvement Act of 2008 (PRIIA):				
Passed through California High-Speed Rail Authority:				
ARRA – California High-Speed Train Program Grant	20.319	FR-HSR-0009-10-01-06	7,697	—
Federal Transit Cluster:				
Passed through Orange County Transportation Authority:				
Federal Transit – Formula Grant – Anaheim Canyon Station	20.507	CA-95X-210	15,511	—
Federal Transit – Formula Grant – Anaheim Rapid Connection (ARC)	20.507	CA-90-9860	1,684,509	—
			<u>1,700,020</u>	<u>—</u>
Passed through California Office of Traffic Safety:				
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT1615	9,710	—
State and Community Highway Safety – Selective Traffic Enforcement Program	20.608	PT1615	44,919	—
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT1701	92,115	—
State and Community Highway Safety – Selective Traffic Enforcement Program	20.608	PT1701	118,376	—
Total Highway Safety Cluster			<u>265,120</u>	<u>—</u>
Total Department of Transportation			<u>4,954,811</u>	<u>—</u>

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Federal grantor/program title	Federal CFDA number	Program or grant number	Federal awards	Amounts passed to subrecipients
Department of Justice:				
Direct Programs:				
Equitable Sharing Program – Asset Forfeiture	16.922	16.CA0300100	\$ 292,131	—
Passed through Orange County Sheriff's Department:				
Edward Byrne Memorial Justice Assistance Program 2016 (JAG) – 2016 Justice Assistance Grant Program	16.738	2016-DJ-BX-0746	85,212	—
Total Department of Justice			<u>377,343</u>	<u>—</u>
Department of Environmental Protection Agency:				
Direct Program:				
EPA Brownfield Assessment – Atchison Assessment	66.818	BF-99957501-0	14,414	—
Department of Health and Human Services:				
Passed through Community Action Partnership of Orange County:				
Orange County Partnerships to Improve Community Health	93.331	1 U58DP005861-01	97,750	—
Orange County Partnerships to Improve Community Health	93.331	5 NU58DP005861-02-00	95,311	—
Orange County Partnerships to Improve Community Health	93.331	5 NU58DP005861-03-00	37,646	—
Total Department of Health and Human Services			<u>230,707</u>	<u>—</u>
Department of Homeland Security:				
Passed through California Office of Emergency Services:				
Hazard Mitigation Grant Program – Earthquake Mitigation at City Hall	97.039	HMGP #4158-269-4R	57,324	—
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2016-0102	178	—
Passed through City of Santa Ana:				
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2015-00078	1,548,289	—
Passed through County of Orange:				
Homeland Security Grant Program – FY 2015	97.067	2015-00078, Cal OES ID #059-00000	52,389	—
Homeland Security Grant Program – FY 2016	97.067	2016-0102, Cal OES ID #059-00000	160,000	—
Passed through County of Orange:				
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	282-00-0050	45,483	—
Emergency Management Performance Grant	97.042	2016-0010, Cal OES #059-00000	55,003	—
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2014-FP-00454	97,477	—
Assistance to Firefighters Grant	97.044	EMW-2015-FO-02556	988,843	—
Total Department of Homeland Security			<u>3,004,986</u>	<u>—</u>
Department of Treasury:				
Direct Program – Equitable Sharing Program – Asset Forfeiture				
	21.000	21.CA0300100	1,307,768	—
Total Department of Treasury			<u>1,307,768</u>	<u>—</u>
Total Federal Awards			<u>\$ 115,058,280</u>	<u>2,575,909</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(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 the State of California and 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 position, or cash flows of the City.

(2) Basis of Accounting

The Schedule is presented using the 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) Community-Based Loan Programs

The City has loans outstanding under the Community Development Block Grants (CDBG) – Entitlement Grants Cluster, Emergency Shelter Grant Program (ESG), Home Investment Partnerships Program, and the Neighborhood Stabilization Programs that contain continuing compliance requirements. The below schedule details the amounts outstanding at June 30, 2017.

Program name	CFDA No.	Outstanding balance at June 30, 2017		
		Principal	Interest	Total
CDBG	14.218	\$ 2,724,121	1,061,417	3,785,538
ESG	14.231	238,338	698,133	936,471
Home Investment Partnerships Program	14.239	4,532,517	1,970,645	6,503,162
Neighborhood Stabilization	14.218	825,000	187,243	1,012,243
Total		\$ 8,319,976	3,917,438	12,237,414

The amounts included in the accompanying Schedule consist of loans advanced to eligible participants of the programs and other administrative costs for the year ended June 30, 2017. Program income of \$1,304,448 was generated from various loan programs, reported to the U.S. Department of Housing and Urban Development (HUD), and used for eligible activities. Program income is used subject to the requirements established by HUD for each grant and when expended is included in the Schedule.

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(5) Guaranteed Loan Outstanding

At June 30, 2017, the City and Successor Agency to the Former Anaheim Redevelopment Agency (Successor Agency) shared a total outstanding guaranteed loan balance of \$16,563,000 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 2017.

	Outstanding balance, July 1, 2016 a	Addition b	Principal payments c	Interest payments d	Total payments e= (c+d)	Outstanding balance, June 30, 2017 f= (a+b-c)
HUD 108 guaranteed loans:						
Successor agency:						
Westgate \$(4M)	\$ 1,898,000	—	240,000	97,247	337,247	1,658,000
Westgate \$(6M)	4,425,000	—	430,000	244,340	674,340	3,995,000
Capital projects \$(7M)	5,359,227	—	335,198	199,262	534,460	5,024,029
Subtotal	11,682,227	—	1,005,198	540,849	1,546,047	10,677,029
City:						
Capital projects \$(8M)	6,205,773	—	319,802	234,069	553,871	5,885,971
Total	\$ 17,888,000	—	1,325,000	774,918	2,099,918	16,563,000

(6) Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance Section 200.414. For the sponsored programs where the City claims indirect costs, the City's internal indirect cost rate is used.

(7) Prior Year Federal Expenditures

Of the federal expenditures reported in the accompanying Schedule for the Highway Planning and Construction Cluster, CFDA 20.205 \$23,613 and \$11,153 was incurred in fiscal years 2014 and 2015, respectively, but recorded in the 2017 Schedule.

Of the federal expenditures reported in the accompanying SEFA for the Federal Transit Cluster, CFDA 20.507 \$192,530, \$919,093, and \$572,886 was incurred in fiscal years 2013, 2014, and 2015, respectively, but recorded in the 2017 Schedule.

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

(1) Summary of Auditors' Results

- (a) Type of auditors' reports issued on whether the financial statement were prepared in accordance with generally accepted accounting principles:
- Governmental activities – **Unmodified**
 - Business-type activities – **Unmodified**
 - Each major fund – **Unmodified**
 - Aggregate remaining fund information – **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
- Material weakness(es) identified: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control over major programs:
- Material weakness (es) identified: **No**
 - Significant deficiencies identified that are not considered to be material weaknesses: **None reported**
- (e) Type of auditors' report issued on compliance for major programs: **Unmodified**
- (f) Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (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 – Housing Voucher Cluster – CFDA 14.871 and 14.879
 - Department of Housing and Urban Development – Community Development Block Grant – Section 108 Loan Guarantees-CFDA 14.248
- (i) Auditee qualified as a low-risk auditee: **Yes**

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

None noted

(3) Findings and Questioned Costs Relating to Federal Awards

None noted