



CITY OF ANAHEIM, CALIFORNIA

Single Audit Reports

Year ended June 30, 2013

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anaheim (the City), as of and for the year ended June 30, 2013, 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 17, 2013.

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 17, 2013



KPMG LLP
Suite 700
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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, 2013. 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 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.

Basis for Qualified Opinion on Equitable Sharing Program – Asset Forfeiture

As described in the accompanying schedule of findings and questioned costs, the City of Anaheim did not comply with requirements regarding CFDA 16.922 the Equitable Sharing Program – Asset Forfeiture as described in finding numbers 2013-002 for Equipment and Real Property Management and 2013-004 for Suspension & Debarment. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.



Qualified Opinion on Equitable Sharing Program – Asset Forfeiture

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Anaheim complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on for Equitable Sharing Program – Asset Forfeiture the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Anaheim 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, 2013.

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 items 2013-003 and 2013-005 to 2013-009. Our opinion on each 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 items 2013-002, 2013-004 and 2013-006 to be 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 items 2013-001, 2013-003, 2013-005, 2013-007 to 2013-010 to be significant deficiencies.

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, 2013, and have issued our report thereon dated December 17, 2013, which 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 OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Irvine, California
March 28, 2014

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Federal grantor/program title	CFDA number	Program or grant number	Expenditures
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-11-MC-060501	\$ 3,086,951
Community Development Block Grant/Entitlement Grant	14.218	B-12-MC-060501	858,604
Community Development Block Grant/Entitlement Grant/ Neighborhood Stabilization Program	14.218	B-08-MN-060501	159,000
Total Community Development Block Grant-Entitlement and Small Cities Cluster			4,104,555
Direct Programs:			
Emergency Shelter Grant Program (ESG)	14.231	E-11-MC-06-0501	8,484
Emergency Shelter Grant Program (ESG)	14.231	E-12-MC-06-0501	212,796
			221,280
Direct Programs:			
Home Investment Partnerships Program (HOME)	14.239	M-09-MC060502	33,476
Home Investment Partnerships Program (HOME)	14.239	M-10-MC060502	157,583
Home Investment Partnerships Program (HOME)	14.239	M-11-MC060502	118,581
			309,640
Direct Programs:			
Community Development Block Grant – Section 108 Guaranteed Loan (Capital Projects)	14.248	B-09-MC-06-0501	13,445,000
Community Development Block Grant – Section 108 Guaranteed Loan (West Gate Project)	14.248	B-02-MC-06-0501	7,879,000
			21,324,000
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	CA104VO/CA104AF	71,694,954
Section 8 Mainstream Vouchers	14.879	CA104DV	2,423,751
Total Housing Voucher Cluster			74,118,705
Total Department of Housing and Urban Development			100,078,180
Department of the Interior:			
Direct Programs:			
Water Reclamation and Reuse Program -Ball Road Recycled/Nonpotable Water Project Feasibility Study	15.504	R11AC35302	17,742
Water Conservation Field Services Program (WCFSF) – Water Use Efficiency Master Planning Grant	15.530	R11AP35300	58,845
Total Department of the Interior			76,587
Department of Labor:			
Passed through California Employment Development Department:			
Workforce Investment Act – Adult Program	17.258	K282469	171,921
Workforce Investment Act – Adult Program	17.258	K386291	1,200,993
			1,372,914
Passed through California State University Fullerton:			
Workforce Investment Act – Adult Program/ CSU Fullerton Teacher Pathway Partnership (CalGRIP)	17.258	S-5260 (PO-12SP0519)	25,422
Passed through California Employment Development Department:			
Workforce Investment Act – Youth Activities	17.259	K282469	707,120
Workforce Investment Act – Youth Activities	17.259	K386291	358,890
			1,066,010
Passed through California Employment Development Department:			
Workforce Investment Act – Dislocated Workers	17.278	K386291	403,441
Workforce Investment Act – Dislocated Workers	17.278	K282469	375,016
Workforce Investment Act – Rapid Response	17.278	K386291	190,800
Workforce Investment Act – Rapid Response	17.278	K282469	227
			969,484
Total Workforce Investment Act Cluster			3,433,830
Total Department of Labor			3,433,830
Department of Health and Human Services:			
Passed through Orange County:			
Temporary Assistance for Needy Families – Community Services (CalWorks)	93.558	WAM0711	525,254
Passed through Orange County Health Care Agency:			
Public Health Emergency Preparedness	93.069	CDC-RFA-TP12-1201	14,190
Direct: Low Income Home Energy Assistance Program (LI-HEAP)	93.568	09-1355	659,882
Total Department of Health and Human Services			1,199,326

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Federal grantor/program title	CFDA number	Program or grant number	Expenditures
Department of Environmental Protection Agency:			
Capitalization Grants for Clean Water State Revolving Funds:			
Passed through State Water Resources Control Board:			
Capitalization Grants for Clean Water State Revolving Funds - Reconstruction at Mountain View, Orangewood Avenue, Simmons	66.458	CS-060001-10	\$ 380,543
Capitalization Grants for Clean Water State Revolving Funds - Reconstruction at Ball Road, Beach Boulevard, Orange Avenue, Dale Avenue	66.458	CS-060001-10	78,796
Capitalization Grants for Clean Water State Revolving Funds - Reconstruction at Broadway from Brookhurst Street to Gilbert Street	66.458	CS-060001-10	4,927
Capitalization Grants for Clean Water State Revolving Funds - Reconstruction at Ward Terrace and Underhill	66.458	CS-060001-10	10,289
			<u>474,555</u>
Total Department of Environmental Protection Agency			<u>474,555</u>
Department of Energy:			
Direct Programs:			
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project	81.122	DE-OE0000257	735,414
ARRA Energy Efficiency and Conservation Block Grant (EECBG)	81.128	DE-EE0000861	681,545
			<u>1,416,959</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)	8,446,196
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)	34,567
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)	83,308
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)	28,269
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)	51,984
Transportation Enhancement Program:			
Passed through California Department of Transportation:			
Highway Planning and Construction – Edison Right of Way Bike Path	20.205	RPSTPLE-5055 (164)	25,801
Passed through California Department of Parks and Recreation:			
Recreation Trails Program – Lincoln Avenue Multi-Use Trail Staging Area	20.219	RT-30-022	62,300
			<u>8,732,425</u>
Federal Transit Administration:			
Passed through Orange County Transportation Authority:			
Federal Transit Capital Investment Grants			
Anaheim Regional Transportation Intermodal Center (ARTIC)	20.500	CA-04-0178	771,643
			<u>771,643</u>
Passed through California Office of Traffic Safety:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Avoid DUI Campaign	20.608	AL20656	87,310
Passed through California Office of Traffic Safety:			
State and Community Highway Safety	20.600	PT1135	20,790
State and Community Highway Safety	20.600	PT1331	80,048
State and Community Highway Safety	20.600	AL1325	115,047
State and Community Highway Safety	20.600	SC13010	42,702
			<u>258,587</u>
Total Highway Safety Cluster			
Passed through California Emergency Management Agency:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP 2361101, Cal EMA ID #059-02000	3,806
			<u>9,853,771</u>
Total Department of Transportation			
Department of Commerce:			
Direct Program:			
Economic Development Cluster -Economic Adjustment Assistance	11.307	07-79-06423	575,468
			<u>575,468</u>
Total Department of Commerce			
Department of Justice:			
Direct Programs:			
Equitable Sharing Program – Asset Forfeiture	16.922	16.CA0300100	5,156,689
Services for Trafficking Victims – OVC FY 10 Enhanced Collaborative			
Model to Combat Human Trafficking	16.320	2010-VT-BX-K012	48,436
Services for Trafficking Victims -OVC FY 12 Enhanced Collaborative			
Model to Combat Human Trafficking	16.320	2012-VT-BX-K002	128,849

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Federal grantor/program title	CFDA number	Program or grant number	Expenditures
Department of Justice:			
Passed through Orange County Sheriff's Department:			
Edward Bryne Memorial Justice Assistance Grant Program 2009 (JAG)	16.738	2009-DJ-BX-0033	\$ 31,499
Edward Bryne Memorial Justice Assistance Grant Program 2010 (JAG)	16.738	2010-DJ-BX-0324	125,371
Edward Bryne Memorial Justice Assistance Grant Program 2011 (JAG)	16.738	2011-DJ-BX-2532	49,183
Passed through California Office of Emergency Services:			
Edward Bryne Memorial Justice Assistance Grant Program – 2011 JAG Anti-Human Trafficking Task Force Program	16.738	HF12016129, Cal EMA ID: 059-02000	52,531
Total JAG Program Cluster			<u>258,584</u>
Total Department of Justice			<u>5,592,558</u>
Department of Homeland Security:			
Passed through California Office of Emergency Services:			
		DHS-10-GPD-067-001-01; 2010-0085; Cal EMA ID#059-95010	6,477,418
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2012-00123, Cal EMA ID#059-00000	453,011
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2011-SS-0077	494,251
Passed through City of Santa Ana:			
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067		195,000
Passed through Orange County Sheriff's Department:			
FY 2010 Buffer Protection Program	97.078	2010-BF-T0-0020, Cal EMA ID#059-00000	515
Passed through County of Orange:			
Homeland Security Grant Program – FY 2011	97.067	2011-SS-0077, Cal EMA ID#059-00000	151,848
Homeland Security Grant Program – FY 2009	97.067	2009-0019, Cal EMA ID#059-00000	126,209
Homeland Security Grant Program – FY 2011	97.067	2011-SS-0077, Cal EMA ID#059-00000	267,135
Passed through County of Orange:			
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	2010-0085, Cal EMA ID #059-00000	117,203
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	2011-SS-0077, Cal EMA ID#059-00000	66,606
Emergency Management Performance Grant	97.042	2012-0027; Cal EMA ID #059-00000	<u>8,349,196</u>
Total Department of Homeland Security			
Department of Treasury:			
Direct Program – Equitable Sharing Program -Asset Forfeiture	21.000	21.CA0300100	176,227
Total Department of Treasury			<u>176,227</u>
Total Expenditures of Federal Awards			<u>\$ 131,226,657</u>

See accompanying notes to schedule of expenditures of federal awards and 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.

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(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 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)	\$	403,764
Emergency Shelter Grant (CFDA No. 14.231)		194,305
Workforce Investment Act Cluster (CFDA Nos. 17.258, 17.259 and 17.278)		843,588
Avoid the 26 DUI Campaign – Orange County (CFDA No. 20.600)		89,377
Avoid DUI Campaign (CFDA No. 20.608)		75,241
Services for Trafficking Victims (CFDA 16.320)		6,940
Urban Areas Security Initiative (CFDA No. 97.067)		3,545,516
	\$	<u>5,158,731</u>

CITY OF ANAHEIM, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(5) Guaranteed Loan Outstanding

At June 30, 2013, the City and Successor Agency to the Former Anaheim Redevelopment Agency (Successor Agency) shared a total outstanding guaranteed loan balance of \$21,324,000 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 2013.

	Outstanding Balance, July 1, 2012 a	Addition b	Principal payments c	Interest payments d	Total payments e= (c+d)	Outstanding Balance, June 30, 2013 f= (a+b-c)
HUD 108 Guaranteed Loans:						
Successor agency:						
Westgate (\$4M)	\$ 2,769,000	—	205,000	141,196	346,196	2,564,000
Westgate (\$6M)	5,545,000	—	230,000	308,287	538,287	5,315,000
Capital projects (\$7M)	<u>6,674,320</u>	<u>—</u>	<u>325,680</u>	<u>222,752</u>	<u>548,432</u>	<u>6,348,640</u>
Subtotal	14,988,320	—	760,680	672,235	1,432,915	14,227,640
City:						
Capital projects (\$8M)	<u>7,375,680</u>	<u>—</u>	<u>279,320</u>	<u>255,463</u>	<u>534,783</u>	<u>7,096,360</u>
Total	<u>\$ 22,364,000</u>	<u>—</u>	<u>1,040,000</u>	<u>927,698</u>	<u>1,967,698</u>	<u>21,324,000</u>

CITY OF ANAHEIM, CALIFORNIA
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2013

(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: **2013-002, 2013-004 and 2013-006.**
- Significant deficiencies identified that are not considered to be material weaknesses: **2013-001, 2013-003, 2013-005, 2013-007 to 2013-010.**

(e) Type of auditors' report issued on compliance for major programs:

Program name	CFDA No.	Opinion
Community Development Block Grant – Entitlement and Small Cities Cluster	14.218	Unmodified
Housing Voucher Cluster	14.871 and 14.879	Unmodified
Equitable Sharing Program – Asset Forfeiture	16.922	Modified
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project	81.122	Unmodified
ARRA Energy Efficiency and Conservation Block Grant	81.128	Unmodified

(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**

CITY OF ANAHEIM, CALIFORNIA
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2013

(h) Major Programs:

- Department of Housing and Urban Development – Community Development Block Grant – Entitlement and Small Cities Cluster (CFDA No. 14.218)
- 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)
- Department of Energy – ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project (CFDA No. 81.122)
- Department of Energy – ARRA Energy Efficiency and Conservation Block Grant (EECBG) (CFDA No. 81.128)

(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.

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

Finding 2013-001 Activities Allowed or Unallowed

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; 2012-2013

Specific Requirement

Title 2: PART 225 COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS APPENDIX A TO PART 225 GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS C. BASIC GUIDELINES.

1. Factors affecting allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of federal awards.

CITY OF ANAHEIM, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- b. Be allocable to federal awards under the provisions of 2 CFR part 225.
 - c. Be authorized or not prohibited under state or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
 - g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.
2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:
- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the federal award.
 - b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; federal, state, and other laws and regulations; and terms and conditions of the federal award.
 - c. Market prices for comparable goods or services.
 - d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government.
 - e. Significant deviations from the established practices of the governmental unit, which may unjustifiably increase the federal award's cost.

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Condition and Context

Management is required to establish internal controls to ensure that an expenditure made from federal funds is allowable. In performance of our testwork over the controls implemented by the City over allowable costs, we selected a sample of 40 expenditures and noted that for 6 expenditures, there was no evidence of review for allowability by someone who is knowledgeable about the compliance requirements, and therefore, it appears the control was not operating effectively.

Questioned Costs

None noted

Cause and Effect

The City does not appear to have adequate controls in place to ensure that all items are reviewed by a supervisor that is knowledgeable of the compliance requirements.

Recommendation

The City should enhance its policies and procedures to ensure that management continue to review and strengthen their policies and procedures, as needed, to properly support the review of expenditures by someone knowledgeable of the compliance requirements.

Views of Responsible Officials and Planned Corrective Actions

The 6 expenditures in question are related to City credit card purchases. A procedure is now in place for the oversight of credit card expenses linked to the Asset Forfeiture account. Only designated personnel familiar with the Asset Forfeiture guidelines are allowed to approve expenditures on credit card purchases that utilize money from the Asset Forfeiture account. This approval process is vetted and confirmed through the Special Operations Division Staff Analyst prior to moving forward with use of Asset Forfeiture funds to settle credit card purchases.

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Finding 2013-002 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; 2012-2013

Specific Requirement

Title 2: PART 215.34 – EQUIPMENT

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

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) were not included in the physical inventory count performed by the City and, therefore, were not inventoried.

Questioned Costs

\$307,136 (which represents the reported value of equipment in the Narcotics Fund)

Cause and Effect

The City does not appear to have adequate controls in place to ensure that all equipment items are inventoried each year.

Recommendation

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

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Views of Responsible Officials and Planned Corrective Actions

A Police department-wide inventory of equipment purchased with Asset Forfeiture funds was completed during this audit and a list of that equipment is maintained by the Special Operations Division Secretary. Each Division is now required to maintain its own Division-specific inventory and that information is 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.

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Finding 2013-003 Procurement, Suspension, and Debarment - Procurement Records

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; 2012-2013

Specific Requirement

Title 2: PART 215.43 – Competition

28 CFR Part 66.36 - Procurement

(b) Procurement standards.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of § 66.36.

(d) *Methods of procurement to be followed—*

(1) *Procurement by small purchase procedures.* Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(4) Procurement by *noncompetitive proposals* is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

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- (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- (C) The awarding agency authorizes noncompetitive proposals; or
- (D) After solicitation of a number of sources, competition is determined inadequate.

Condition and Context

In our procedures performed over procurement, we noted 17 vendors accounted for 95% of the expenditures. We tested a total of 29 procurement samples, which included expenditures from the aforementioned vendors, and noted 8 samples which represented small purchases (i.e., less than \$100,000) where there was no evidence provided that an adequate number of qualified sources were evaluated for price or rate quotations. The expenditures from our sampled vendors totaled \$3,726,700 of which \$97,105 related to the sample exceptions noted above.

Questioned Costs

\$97,105 (the amount of costs associated with procurement transactions for the 8 exceptions noted above).

Cause and Effect

The City does not appear to have the appropriate policies and procedures in place to provide for open and free competition or to document why competition was limited for all of its federal expenditures.

Recommendation

The City should enhance its policies and procedures to ensure that open and free competition is provided or that appropriate documentation why competition was limited is maintained in the contract file.

Views of Responsible Officials and Planned Corrective Actions

The Police department (Department) follows the Administrative Regulations for the City of Anaheim pertaining to purchasing. The Department of Justice (DOJ) specific procurement procedures which were highlighted in this audit require obtaining multiple price quotes for all purchases. The Department was unaware of this regulation that is actually more stringent than the City's purchasing policies. There is therefore an additional need for all personnel involved in the purchasing of equipment using Asset Forfeiture funds, to be aware of all policies and procedures governing those purchases. Moving forward, the Department will ensure that these critical personnel are well-versed in the City's Administrative Regulations related to purchasing as well as the various federal and Asset Forfeiture guidelines related to this area.

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**Finding 2013-004 Procurement, Suspension, and Debarment - Suspension and Debarment
Certifications**

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; 2012-2013

Specific Requirement

Title 2: Grants and Agreements PART 180-OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT) Subpart C-Responsibilities of Participants Regarding Transactions Doing Business with Other Persons

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Condition and Context

In our procedures performed over the City's procurement transactions, we selected a sample of expenditures that exceeded the small purchase threshold of \$25,000 and requested the City's documentation to support that it either a) obtained a signed certification from the vendor of its nonsuspension or debarment, b) obtained a verification of a clause or condition related to that covered person, or c) reviewed the sam.gov Web site and verified that the vendor had not been suspended or debarred. The City was unable to provide documentation to support that it had performed any of the procedures noted above for any of the 17 of the vendors that were sampled, which represented 100% of the population. However, we independently reviewed the vendor names from our sample on the sam.gov web site and did not find any of the vendors listed as suspended or debarred.

Questioned Costs

None noted

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Cause and Effect

The City does not appear to have policies and procedures to ensure that required certifications are obtained or verification of sam.gov is performed and that required documentation is retained as required for federal audit purposes.

Recommendation

The City should enhance its policies and procedures to ensure that required suspension and debarment checks are performed or certifications obtained and this documentation is retained for the required retention period to comply with federal requirements.

Views of Responsible Officials and Planned Corrective Actions

New procedures have been created to ensure that current personnel designated to perform Asset Forfeiture duties along with the Budget Analyst for the Division now check the EPLS website when purchases are made using Asset Forfeiture funds over the indicated amount. This list is updated periodically throughout the year to ensure its accuracy. Confirmation through the EPLS website along with any other supporting documentation from the actual vendor indicating they are current and usable will be retained along with the request for funds by personnel designated to perform Asset Forfeiture duties.

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Finding 2013-005 Reporting

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; 2012-2013

Specific Requirement

GUIDE TO EQUITABLE SHARING FOR STATE AND LOCAL LAW ENFORCEMENT AGENCIES X. WHAT ARE THE REPORTING AND AUDIT REQUIREMENTS.

A. Federal Equitable Sharing Agreement and Certification Form

As a prerequisite to participating in the Department of Justice Equitable Sharing Program – Asset Forfeiture, a state or local law enforcement agency must annually submit to AFMLS a signed Equitable Sharing Agreement and Certification form. The agreement must be signed by the head of the law enforcement agency and designated official of the governing body.

State and local law enforcement agencies must submit this form within 60 days after the end of an agency’s fiscal year, regardless of whether funds were received or maintained during the fiscal year.

Condition and Context

In our procedures performed over the City’s reporting requirement, we obtained the completed and executed Equitable Sharing Agreement and Certification Form and tested the amounts reported on the form for completeness and accuracy noting that \$52,416 in expenditures included in the reports were not purchased with federal funds. In addition, we noted \$41,731 in expenditures purchased with federal funds that were not included in the report. The form was approved by the appropriate personnel and submitted within the required timeframe.

Questioned Costs

None noted

Cause and Effect

The City does not appear to have adequate policies and procedures to ensure that submission to the Department of Justice is accurate.

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Recommendation

The City should enhance its policies and procedures to ensure that the review of the submitted form is at a level of precision that would identify inaccuracies in the amounts reported in the Equitable Sharing Agreement and Certification form.

Views of Responsible Officials and Planned Corrective Actions

Current personnel designated to perform Asset Forfeiture duties have received additional training through internal means as well as via the Department of Justice. This training focused on the differences between the types of purchases that can be funded by general fund versus Asset Forfeiture funds. Personnel designated to perform Asset Forfeiture duties are assigned to work with several funding sources, some of which include grants, state and federal money. Designated personnel now confirm the funding sources of the various expenditures with the Vice, Narcotics Criminal Intelligence (VNCI) Bureau Commander and the Special Operations Budget Analyst.

During this audit, corrections were made to the Certification report and re-submitted to DOJ for approval. Approval was given by Supervisor Brian Boykin (DOJ) in February 2014, maintaining the Anaheim Police Department's compliance with the Asset Forfeiture Program.

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Finding 2013-006 Special Tests and Provisions

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; 2012-2013

Specific Requirement

GUIDE TO EQUITABLE SHARING FOR STATE AND LOCAL LAW ENFORCEMENT AGENCIES IX.A.2.

The state or local participating law enforcement agency must:

Not commingle Department of Justice equitable sharing funds with funds from any other source. Corrective measures must be taken if this occurs.

Maintain a log and copies of all Forms DAG-71 forwarded to the Department of Justice. A consecutive numbering system should be used for control purposes. The log should contain seizure type (property or currency), amount, share amount requested, amount received, and date received.

Condition and Context

In our procedures performed over the special test and provision requirement, we determined that there were deposits into the Narcotics Fund totaling \$215,208, which were inappropriate as the amounts were from the City's General Fund. However, we also noted that there were \$175,208 of general city purchases from the Narcotics Fund which were funded by the deposits noted above.

Additionally, in our procedures performed over the special test and provision requirement, we determined that the City did not maintain a log of the DAG-71 forms consecutively numbered with the seizure type, amount, share amount requested, amount received, and date received. However, we note that the City did retain copies of the forms.

Questioned Costs

None noted

Cause and Effect

The City does not appear to have the appropriate policies in place to ensure that management has complied with the requirements of the guide to equitable sharing for state and local law enforcement agencies IX A.2.

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Recommendation

The City should enhance its policies and procedures to ensure that management is in compliance with the requirements of the guide to equitable sharing for state and local law enforcement agencies IX A.2.

Views of Responsible Officials and Planned Corrective Actions

Procedures have been put in place to ensure Asset Forfeiture guidelines are adhered to when purchasing items through that funding source. This process includes multiple layers of oversight and signatures from personnel familiar with the guidelines. By utilizing this process of multiple signatures and approvals, it ensures that guidelines are adhered to and the expenditures are in compliance.

In addition, the commingling of Asset Forfeiture and general funds no longer occurs. Now, general fund money is cashed through a separate account used specifically for general funds checks only, while Asset Forfeiture funds are deposited into its own separate account with no other deposits or check cashing activities related to other funds.

Copies of DAG-71 forms are retained by current personnel designated to perform Asset Forfeiture duties and identified by specific numbers assigned through the appropriate filing agency. Seizure amounts are now logged and tracked pending final disbursement by designated Asset Forfeiture personnel. Additionally, when funds are received, the amounts are logged and tracked via an internal computer based program maintained by assigned Asset Forfeiture personnel.

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Finding 2013-007 Davis Bacon

Federal Program Information

Federal Catalog Number: 81.122
Federal Program Name: ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project
Federal Agency: Department of Energy
Pass-through Entity: N/A
Federal Award Number and Award Year: DE-OE0000257; 2010

Specific Requirement

Title 29: Labor

PART 5-LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING FEDERALLY FINANCED AND ASSISTED CONSTRUCTION (ALSO LABOR STANDARDS PROVISIONS APPLICABLE TO NONCONSTRUCTION CONTRACTS SUBJECT TO THE CONTRACT WORK HOURS AND SAFETY STANDARDS ACT)

Subpart A-Davis-Bacon and Related Acts Provisions and Procedures

(3) Payrolls and basic records. (i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work (or under the United States Housing Act of 1937, or under the Housing Act of 1949, in the construction or development of the project). Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in Section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made, and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5(a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in Section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that the commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs.

(ii) (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls

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submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead, the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at <http://www.dol.gov/esa/whd/forms/wh347instr.htm> or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Contractors and subcontractors shall maintain the full social security number and current address of each covered worker, and shall provide them upon request to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit them to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency), the contractor, or the Wage and Hour Division of the Department of Labor for purposes of an investigation or audit of compliance with prevailing wage requirements. It is not a violation of this section for a prime contractor to require a subcontractor to provide addresses and social security numbers to the prime contractor for its own records, without weekly submission to the sponsoring government agency (or the applicant, sponsor, or owner).

- (B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:
- (1) That the payroll for the payroll period contains the information required to be provided under § 5.5 (a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained under § 5.5 (a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;
 - (2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
 - (3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.
- (C) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph (a)(3)(ii)(B) of this section.
- (D) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under Section 1001 of title 18 and Section 231 of title 31 of the United States Code.
- (iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the (write the name of the agency) or the Department of Labor, and shall permit such representatives to

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interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12.

Condition and Context

Management is required to obtain, on a weekly basis, certified payrolls and statements of compliance from each contractor for each week in which contracted work is performed under the Davis-Bacon Act. In our sample of 26 submissions, which was 100% of the population, we noted that management did not timely obtain certified payrolls or statements of compliance for one contractor used for four weekly submissions.

During the 2012 single audit, we had noted that management did not have a process to request and review these submissions. During fiscal 2013, management implemented procedures to obtain and review all certified payrolls or statements of compliance incurred after the implementation date of the new process. The exceptions noted above relate to contractor submissions before management implemented their controls in fiscal 2013. Management ultimately obtained all certified payrolls or statements of compliance for the 26 samples noted above.

Questioned Costs

None noted

Cause and Effect

Although management implemented adequate controls to ensure that management complies with the provisions under the Davis-Bacon Act, the controls were implemented mid-year and not in place for all transactions during the year. Therefore, certain compliance statements and certified payrolls were not obtained timely and reviewed for compliance with the Davis-Bacon Act, as required.

Recommendation

We recommend that management continue to follow the controls that were implemented during 2013 regarding obtaining and reviewing compliance statements and certified payrolls from each contractor and subcontractor to ensure compliance with the provisions under the Davis-Bacon Act.

Views of Responsible Officials and Planned Corrective Actions

New procedures were created and implemented in January 2013 over the compliance requirements of the Davis-Bacon Act. Contractor scope of work documents contain modified language clarifying the weekly timesheet requirements. The Electric System Designer/Engineer assigned to a particular project relating to the Smart Grid Investment Grant receives weekly emails or other time stamped documentation containing the certified weekly payroll for that contractor. These compliance statements and certified payrolls are reviewed for compliance by the appropriate Electric System Designer/Engineer as evidenced by email or signature. Original copies are kept in the particular project's folder. These new procedures fully corrected the finding.

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Finding 2013-008 – Procurement Suspension and Debarment – Procurement Records

Federal Program Information

<i>Federal Catalog Number:</i>	81.122
<i>Federal Program Name:</i>	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project
<i>Federal Agency:</i>	Department of Energy
<i>Pass-through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	DE-OE0000257; 2010

Criteria

Title 2: Grants and Agreements PART 176-AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, PUBLIC LAW 111-5 Subpart B-Buy American Requirement under Section 1605 of the American Recovery and Reinvestment Act of 2009

Section 1605 of the Recovery Act prohibits use of recovery funds for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The law requires that this prohibition be applied in a manner consistent with U.S. obligations under international agreements, and it provides for waiver under three circumstances:

- (a) Iron, steel, or relevant manufactured goods are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality;
- (b) Inclusion of iron, steel, or manufactured goods produced in the United States will increase the cost of the overall project by more than 25%; or
- (c) Applying the domestic preference would be inconsistent with the public interest

Condition and Context

In our procedures performed over the City’s procurement transactions, we selected a sample of 4 contracts, which is 100% of the population, and requested documentation to support its compliance with the Buy America requirement. We noted the City was unable to provide adequate supporting documentation regarding compliance with this requirement for one of the items tested.

During the 2012 single audit, we had noted that management did not have a process to ensure that all procurement transactions included the necessary Buy America requirements. During fiscal 2013, management implemented procedures to ensure that all items purchased include the required Buy America requirements after the implementation date of the new process. The exception noted above relate to procurement submissions before management implemented their controls in fiscal 2013. Management

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ultimately obtained verification from the vendor that all material complied with the Buy America requirement.

Questioned Costs

None noted

Cause and Effect

Although management implemented adequate controls to ensure that management complies with the provisions of the Buy America Act, the controls were implemented mid-year and not in place for all transactions during the year. Therefore, the requirement to ensure compliance with the Buy America Act was not met for one vendor.

Recommendation

We recommend that management continue to follow the controls that were implemented during 2013 regarding obtaining and provisions of the Buy America Act to ensure compliance with the provisions.

Views of Responsible Officials and Planned Corrective Actions

New procedures were created and implemented in January 2013 to address the Buy America compliance requirements. Project material is purchased through normal Department and City procedures, but additional language and certification is required for materials specific to the Smart Grid Investment Grant projects. The material is received, with the appropriate certification, into the Utility's warehouse and staged in a separate area and marked for use only for specific Smart Grid Investment Grant projects. In addition, major materials purchased before the implementation of this procedure have been retroactively certified as Buy America compliant. The Buy America requirement is also included in the scope of work language for contractor provided material. The same certification documentation is required and provided by the contractor for all material provided by the contractor. These new procedures fully corrected the finding.

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Finding 2013-009 Procurement and Suspension and Debarment – Suspension and Debarment Certifications

Federal Program Information

Federal Catalog Number: 81.122
Federal Program Name: ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project
Federal Agency: Department of Energy
Pass-through Entity: N/A
Federal Award Number and Award Year: DE-OE0000257; 2010

Criteria

Title 2: Grants and Agreements PART 180-OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT) Subpart C-Responsibilities of Participants Regarding Transactions Doing Business with Other Persons

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Condition and Context

In our procedures performed over the City's procurement transactions, we selected a sample of expenditures that exceeded the small purchase threshold of \$25,000 and requested the City's documentation to support that it either a) obtained a signed certification from the vendor of its nonsuspension or debarment, b) obtained a verification of a clause or condition related to that covered person or c) reviewed the sam.gov Web site and verified that the vendor had not been suspended or debarred. The City was unable to provide documentation to support that it had performed any of the procedures noted above for one of the six vendors that were sampled, which represented 100% of the population. However, we independently reviewed the one vendor confirming that the vendor was not listed as suspended or debarred.

During the 2012 single audit, we had noted that management did not have a process to request and review vendor suspension and debarment. During fiscal 2013, management implemented procedures to perform suspension and debarment reviews on purchases incurred after the implementation date of the new process. The exception noted above relate to purchases before management implemented their controls in fiscal 2013. Management ultimately obtained all verification of each vendor's suspension and debarment status for the six samples noted above.

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Questioned Costs

None noted

Cause and Effect

Although management implemented adequate controls to ensure that management complies with the provisions under the Suspension and Debarment requirements, the controls were implemented mid-year and not in place for all transactions during the year. Therefore, certain purchases were not verified to ensure compliance with the Suspension and Debarment requirements.

Recommendation

We recommend that management continue to follow the controls that were implemented during 2013 regarding Suspension and Debarment requirements from each vendor to ensure compliance.

Views of Responsible Officials and Planned Corrective Actions

New procedures were created and implemented in January 2013 over the Suspension and Debarment Certifications requirement. The Electric System Designer/Engineer is required to search the EPLS database for the lowest responsive contractor for received bids prior to issuing a notice to proceed. The procedure requires that a screenshot is printed showing that there are no suspensions, etc. for the contractor and then signed by the Project Manager. If the contractor is listed in the EPLS database, then the contractor is notified of their EPLS status and the next lowest responsive contractor is chosen for the work. The same procedure is performed for the next contractor. In addition, language is included in the scope of work documentation stating that if the contractor appears in the EPLS database, their bids will be deemed non-responsive. These new procedures fully corrected the finding.

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
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Finding 2013-010 – Reporting – Financial Status Reports

Federal Program Information

<i>Federal Catalog Number:</i>	81.122
<i>Federal Program Name:</i>	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis – SGIG Project
<i>Federal Agency:</i>	Department of Energy
<i>Pass-through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	DE-OE0000257; 2010

Criteria

DEPARTMENT OF ENERGY [AWARD NO. DE-OE000027] ATTACHMENT B, FEDERAL ASSISTANCE REPORTING CHECKLIST AND INSTRUCTIONS

The Recovery Act requires grantees to submit quarterly reports. It also requires grantees to have systems and internal controls in place that allow them to separately track and report on Recovery Act funds. These reporting requirements are outlined in Section 1512 of the Recovery Act.

The recipient must report the cumulative jobs created/retained data specified in this section on a quarterly basis beginning with the first quarter of the effective date of the award. The report is due within 30 days after the end of the reporting period.

The recipient is required to report Build Metrics on a quarterly basis and Impact metrics on a semiannual basis following the award date. Baseline data will be provided as specified within the Metrics and Benefit Reporting Plan. The reports are due 30 days after the end of the reporting period.

Condition and Context

In our procedures performed over the City’s reporting requirements, we selected a sample of 8 reports, which is 100% of the population. The sampled reports include the ARRA 1512 and the cumulative jobs created/retained. In our samples selected, we noted the there was no internal control in place to ensure that the reports were complete and accurate for 4 of the items samples.

During the 2012 single audit, we had noted that management did not have a process to ensure that all report submissions are reviewed by someone other than the preparer to ensure the information is complete and accurate. During fiscal 2013, management implemented procedures to perform a review of all reports submitted incurred after the implementation date of the new process. The exceptions noted above relate to report submissions before management implemented their controls in fiscal 2013.

Questioned Costs

None noted

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Cause and Effect

Although management implemented adequate controls to ensure that management complies with the provisions under the Reporting requirements, the controls were implemented mid-year and not in place for all transactions during the year. Therefore, certain reports were not reviewed prior to submission, as required

Recommendation

We recommend that management continue to follow the controls that were implemented during 2013 regarding reviews of report submissions to ensure complete and accurate data.

Views of Responsible Officials and Planned Corrective Actions

New procedures were created and implemented in January 2013 to ensure adequate controls are in place for all reports that are submitted to the Department of Energy. The process states that either the Project Manager or Utilities Financial Services Manager will review all reports prior to submission in order to ensure report accuracy and timeliness. The Project Manager or Utilities Financial Services Manager will verify by email or signature that the reports appear to be accurate prior to submission. These new procedures fully corrected the finding.