



CITY OF ANAHEIM, CALIFORNIA

Single Audit Reports

June 30, 2018

(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, 2018, 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 19, 2018.

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 19, 2018



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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 the City's major federal program for the year ended June 30, 2018. The City's major federal program is 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2018.

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, 2018, 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 19, 2018, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
February 27, 2019

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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 (CDBG) Entitlement Grants Cluster:				
Direct Programs:				
Community Development Block Grant/Entitlement Grant	14.218	B-14-MC-060501	\$ 873,358	—
Community Development Block Grant/Entitlement Grant	14.218	B-15-MC-060501	483,914	—
Community Development Block Grant/Entitlement Grant	14.218	B-16-MC-060501	389,985	10,000
Community Development Block Grant/Entitlement Grant	14.218	B-17-MC-060501	4,878,900	368,934
Total Community Development Block Grant (CDBG) Entitlement Grants Cluster			<u>6,626,157</u>	<u>378,934</u>
Direct Programs:				
Housing Opportunities for Persons with AIDS	14.241	CAH15F010	131,651	131,651
Housing Opportunities for Persons with AIDS	14.241	CAH16F010	198,211	198,211
Housing Opportunities for Persons with AIDS	14.241	CAH17F010	1,119,056	507,104
			<u>1,448,918</u>	<u>836,966</u>
Direct Programs:				
Emergency Solutions Grant Program (ESG)	14.231	E-16-MC-06-0501	75,205	75,205
Emergency Solutions Grant Program (ESG)	14.231	E-17-MC-06-0501	276,881	249,557
			<u>352,086</u>	<u>324,762</u>
Direct Programs:				
Home Investment Partnerships Program (HOME)	14.239	M-12-MC060502	371,704	361,547
Home Investment Partnerships Program (HOME)	14.239	M-13-MC060502	170,904	169,083
Home Investment Partnerships Program (HOME)	14.239	M-17-MC060502	106,007	—
			<u>648,615</u>	<u>530,630</u>
Direct Programs:				
Community Development Block Grant – Section 108 Loan Guarantees (Capital Projects)	14.248	B-09-MC-06-0501	10,240,000	—
Community Development Block Grant – Section 108 Loan Guarantees (West Gate Project)	14.248	B-02-MC-06-0501	4,968,000	—
			<u>15,208,000</u>	<u>—</u>
Direct Programs:				
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	CA104VO/CA104AF	76,245,927	—
Section 8 Mainstream Vouchers	14.879	CA104DV/CA1048F	2,701,284	—
Total Housing Voucher Cluster			<u>78,947,211</u>	<u>—</u>
Total Department of Housing and Urban Development			<u>103,230,987</u>	<u>2,071,292</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	K7102025	123,187	—
Workforce Innovation and Opportunity Act – Adult Program	17.258	K8106026	802,062	—
Workforce Innovation and Opportunity Act – Adult Program – High Performance Board	17.258	K7102025	16,417	—
Workforce Innovation and Opportunity Act – Adult Program – VOS Enhancement	17.258	K7102025	3,000	—
			<u>944,666</u>	<u>—</u>
Passed through California Employment Development Department:				
Workforce Innovation and Opportunity Act – Youth Activities	17.259	K7102025	279,696	157,594
Workforce Innovation and Opportunity Act – Youth Activities	17.259	K6106026	723,814	532,307
			<u>1,003,510</u>	<u>689,901</u>
Passed through California Employment Development Department:				
Workforce Innovation and Opportunity Act – Dislocated Worker Formula Grants	17.278	K7102025	9,837	—
Workforce Innovation and Opportunity Act – Dislocated Worker Formula Grants	17.278	K8106026	389,337	—
Workforce Innovation and Opportunity Act – Dislocated Worker Formula Grants – Rapid Response/Layoff Aversion	17.278	K7102025	56,358	—
Workforce Innovation and Opportunity Act – Dislocated Worker Formula Grants – Rapid Response/Layoff Aversion	17.278	K8106026	119,226	—
			<u>574,758</u>	<u>—</u>
Passed through County of Orange Department of Community Resources:				
Workforce Innovation and Opportunity Act – Adult Program – Sling Shot	17.258	17-28-0041-RWS	100,000	—
Workforce Innovation and Opportunity Act – Dislocated Worker Formula Grants – Regional Planning and Implementation (RII)	17.278	17-28-0041-RWS	75,000	—
Workforce Innovation and Opportunity Act – Adult Program – Regional Planning and Implementation (RII-2)	17.258	17-28-0041-RWS	85,091	—
			<u>260,091</u>	<u>—</u>
Total Workforce Innovation and Opportunity Act Cluster/Department of Labor			<u>2,783,025</u>	<u>689,901</u>
Department of Health and Human Services:				
Passed through Orange County Social Services Agency:				
Temporary Assistance for Needy Families – Community Services (CalWorks)/Total TANF Cluster	93.558	WRR0315	514,522	—
Direct: Low Income Home Energy Assistance Program (LI – HEAP)	93.568	17Y-1406	561,702	—
Total Department of Health and Human Services			<u>1,076,224</u>	<u>—</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)	45,875	—
Highway Planning and Construction – Safe Routes to School – South side of La Palma Avenue from 500 feet west of East Street	20.205	SRTSL-5055 (165)	31,994	—
Highway Planning and Construction – Active Transportation Program – West Street/Citron Street Sidewalk Gap Closure	20.205	ATPL-5055 (186)	61,215	—
Highway Planning and Construction – Section 130 Grade Crossing Improvement Program – Olive Street Railroad Crossing	20.205	STPLR-7500 (234), 75LX274	18,970	—
Highway Planning and Construction – Congestion Mitigation and Air Quality – Ball Road from Magnolia Avenue to the ARTIC on Douglass Road	20.205	CML-5055 (178)	126,851	—
Highway Planning and Construction – Guardrail Reconstruction Project	20.205	HSIPL-5055 (191)	7	—
Highway Planning and Construction – Traffic Signals adjacent to ARTIC East of Katella and South of Douglas	20.205	HSIPL-5055 (185)	12,988	—
Highway Planning and Construction – Euclid Street Median and Signal Modification: Crescent Avenue to Glenoaks Avenue	20.205	HSIPL-5055 (187)	63,520	—
Highway Planning and Construction – Bridge Prevention Maintenance Program – Nine Bridges Located in Anaheim	20.205	BPMP-5055 (175)	97,470	—
Total Highway Planning and Construction Cluster			<u>458,890</u>	<u>—</u>
Federal Transit Administration:				
The Passenger Rail Investment and Improvement Act of 2008 (PRIIA):				
Passed through California High-Speed Rail Authority:				
ARRA – High-Speed Rail Corridor and Intercity Passafe Rail Service Capital Assistance Grant – California High-Speed Train Program Grant	20.319	FR-HSR-0009-10-01-06	6,701	—
Federal Transit Cluster:				
Passed through Orange County Transportation Authority:				
Federal Transit – Formula Grant – Anaheim Canyon Station	20.507	CA-95X-210	15,531	—
Transit Services Program Cluster:				
Passed through California Department of Transportation:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	64AC16-00097	183,600	—
Passed through California Office of Traffic Safety:				
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT1701	122,090	—
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT18002	127,673	—
State and Community Highway Safety – Selective Traffic Enforcement Program	20.600	PT18004	36,270	—
Total Highway Safety Cluster			<u>286,033</u>	<u>—</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1701	77,453	—
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18002	152,778	—
			<u>230,231</u>	<u>—</u>
Total Department of Transportation			<u>1,180,986</u>	<u>—</u>

CITY OF ANAHEIM, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

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	\$ 1,345,916	—
Services for Trafficking Victims – FY 2014 Trafficking Protection Act (TVPA) Funds	16.320	2012-VT-BX-K002	26,494	—
Services for Trafficking Victims – Orange County Human Trafficking Task Force	16.320	2017-VT-BX-K027	50,623	7,523
Total Department of Justice			<u>1,423,033</u>	<u>7,523</u>
Department of Environmental Protection Agency:				
Direct Program:				
Brownfields Assessment and Cleanup Cooperative Agreements – Atchison Assessment	66.818	BF-99957501-0	145,546	—
Total Department of Environmental Protection Agency			<u>145,546</u>	<u>—</u>
Department of Health and Human Services:				
Passed through Community Action Partnership of Orange County:				
Partnerships to Improve Community Health – Orange County	93.331	5 NU58DP005861-03-00	33,837	—
Total Department of Health and Human Services			<u>33,837</u>	<u>—</u>
Department of Homeland Security:				
Passed through California Office of Emergency Services:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters) – Canyon 2 Fires	97.036	FEMA-4344-DR-CA, Cal OES ID: 059-02000	468,118	—
Hazard Mitigation Grant Program – Earthquake Mitigation at City Hall	97.039	HMGP #4158-269-4R	947,400	—
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2016-0102	1,545,106	348,732
Passed through City of Santa Ana:				
Homeland Security Grant Program – Urban Areas Security Initiative (UASI)	97.067	2015-00078	558,217	—
Passed through Orange County Sherrifs Department:				
Homeland Security Grant Program – FY 2015	97.067	2015-00078, Cal OES ID #059-00000	160,000	—
Homeland Security Grant Program – FY 2016	97.067	2016-0102, Cal OES ID #059-00000	250,000	—
Passed through Orange County Sherrifs Department:				
Homeland Security Grant Program – Metropolitan Medical Response System	97.067	282-00-0050	13,844	—
Emergency Management Performance Grant	97.042	2017-0007, Cal OES #059-00000	51,483	—
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2014-FP-00454	6,453	—
Assistance to Firefighters Grant	97.044	EMW-2016-FO-02012	117,752	—
Total Department of Homeland Security			<u>4,118,373</u>	<u>348,732</u>
Department of Treasury:				
Direct Program – Asset Forfeiture				
	21.000	21.CA0300100	1,402,381	—
Total Department of Treasury			<u>1,402,381</u>	<u>—</u>
Total Federal Awards			<u>\$ 115,394,392</u>	<u>3,117,448</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, 2018

(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, 2018.

Program name	CFDA No.	Outstanding balance at June 30, 2018		
		Principal	Interest	Total
CDBG	14.218	\$ 1,383,248	727,265	2,110,513
ESG	14.231	238,338	721,966	960,304
Home Investment Partnerships Program	14.239	4,358,721	2,011,255	6,369,976
Neighborhood Stabilization	14.218	725,000	186,974	911,974
Total		\$ 6,705,307	3,647,460	10,352,767

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, 2018. Program income of \$2,047,903 was primarily 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, 2018

(5) Guaranteed Loan Outstanding

At June 30, 2018, the City and Successor Agency to the Former Anaheim Redevelopment Agency (Successor Agency) shared a total outstanding guaranteed loan balance of \$15,208,000 with the HUD 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 2018.

	Outstanding balance, July 1, 2017 a	Addition b	Principal payments c	Interest payments d	Total payments e= (c+d)	Outstanding balance, June 30, 2018 f= (a+b-c)
HUD 108 guaranteed loans:						
Successor agency:						
Westgate \$(4M)	\$ 1,658,000	—	250,000	84,407	334,407	1,408,000
Westgate \$(6M)	3,995,000	—	435,000	220,400	655,400	3,560,000
Capital projects \$(7M)	5,024,029	—	338,054	189,885	527,939	4,685,975
Subtotal	10,677,029	—	1,023,054	494,692	1,517,746	9,653,975
City:						
Capital projects \$(8M)	5,885,971	—	331,946	224,986	556,932	5,554,025
Total	\$ 16,563,000	—	1,355,000	719,678	2,074,678	15,208,000

(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.

CITY OF ANAHEIM, CALIFORNIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

(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
- (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