

City of Phoenix, Arizona

Single Audit Reports

Year Ended June 30, 2019

City of Phoenix, Arizona
Year Ended June 30, 2019

Contents

Schedule of Expenditures of Federal Awards	1
Notes to the Schedule of Expenditures of Federal Awards	8
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> - Independent Auditor's Report	10
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 - Independent Auditor's Report	12
Schedule of Findings and Questioned Costs	16
Status of Prior Audit Findings	20

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture (USDA)				
Passed through from:				
Arizona Nutrition Network - University of Arizona				
<i>Child Nutrition Cluster</i>				
Special Milk Program for Children (SMP)	10.556	ADHS-16-106455	\$ 24,216	\$ -
<i>Total Child Nutrition Cluster</i>			<u>24,216</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>24,216</u>	<u>-</u>
Department of Housing and Urban Development (HUD)				
Direct Programs:				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	12,962,589	562,591
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>12,962,589</u>	<u>562,591</u>
<i>Section 8 Project -Based Cluster</i>				
Section 8 Housing Assistance Payments Program	14.195	N/A	1,503,734	-
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	N/A	468,191	-
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	<u>46,310</u>	<u>-</u>
<i>Total Section 8 Project-Based Cluster</i>			2,018,235	-
Emergency Solutions Grant Program	14.231	N/A	1,474,717	1,040,280
Home Investment Partnerships Program	14.239	N/A	5,232,050	30,000
Home Investment Partnerships Program Loan and Loan Guarantees *	14.239	N/A	<u>61,960,211</u>	<u>-</u>
<i>Total Home Investment Partnerships Program</i>			67,192,261	30,000
Housing Opportunities for Persons with AIDS	14.241	N/A	2,107,500	-
Fair Housing Assistance Program State and Local	14.401	N/A	29,265	-
Public and Indian Housing	14.850	N/A	8,799,667	-
<i>Hope VI Cluster</i>				
Demolition and Revitalization of Severely Distressed Public				
Housing (HOPE VI)	14.866	N/A	734,450	-
Hope VI - CSS Endowment Funds *	14.866	N/A	591,312	-
Choice Neighborhood Implementation Grants	14.889	N/A	<u>532,914</u>	<u>-</u>
<i>Total Hope VI Cluster</i>			1,858,676	-
Resident Opportunity and Supportive Services - Service Coordinators	14.870	N/A	108,886	-
Public Housing Capital Fund	14.872	N/A	3,244,970	-

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<i>Housing Voucher Cluster</i>				
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 59,872,893	\$ -
Mainstream Vouchers	14.879	N/A	<u>569,966</u>	<u>-</u>
<i>Total Housing Voucher Cluster</i>			<u>60,442,859</u>	<u>-</u>
Family Unification Program (FUP)	14.880	N/A	979,823	-
Choice Neighborhoods Planning Grants	14.892	N/A	8,981	-
Jobs-Plus Pilot Initiative	14.895	N/A	337,421	-
Family Self-Sufficiency Program	14.896	N/A	117,163	-
ROSS Supportive Services Programs	14.898	N/A	178,355	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	N/A	<u>797,268</u>	<u>87,213</u>
Total Department of Housing and Urban Development (HUD)			<u>162,658,636</u>	<u>1,720,084</u>
Department of the Interior				
Direct Program:				
Native American Graves Protection and Repatriation Act	15.922	N/A	<u>38,462</u>	<u>-</u>
Total Department of the Interior			<u>38,462</u>	<u>-</u>
Department of Justice				
Direct Programs:				
Services for Trafficking Victims	16.320	N/A	356,558	2,312
Missing Children's Assistance	16.543	N/A	457,814	15,000
Public Safety Partnership and Community Policing Grants	16.710	N/A	617,366	-
Special Data Collections and Statistical Studies	16.734	N/A	82,872	-
DNA Backlog Reduction Program	16.741	N/A	301,827	-
Edward Byrne Memorial Competitive Grant Program	16.751	N/A	673,168	144,614
Economic, High-Tech, and Cyber Crime Prevention	16.752	N/A	173,964	4,381
Innovations in Community-Based Crime Reduction	16.817	N/A	37,647	-
National Sexual Assault Kit Initiative	16.833	N/A	509,186	-
Equitable Sharing Program	16.922	N/A	1,101,927	-
Passed through from:				
Arizona Department of Public Safety (A.D.P.S.)				
Crime Victim Assistance	16.575	2016-VA-GX-0046	572,467	-
		VOCA-2018-PXFAC-00177	495,710	-
		2018-260	473,767	-
		2018-261	<u>90,110</u>	<u>-</u>
			<u>1,632,054</u>	<u>-</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Passed through from:				
Arizona Criminal Justice Commission (A.C.J.C.)				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CV-17-18-002	\$ 30,515	\$ -
		CV 18-19-002	<u>44,880</u>	<u>-</u>
			75,395	-
Passed through from:				
Maricopa County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-1197	417,677	-
		2015-DJ-BX-0227	11,252	-
		2016-DJ-BX-0801	<u>223,039</u>	<u>-</u>
			651,968	-
Total Department of Justice			<u>6,671,746</u>	<u>166,307</u>
Department of Labor				
Direct Programs:				
H-1B Job Training Grants	17.268	N/A	676,422	123,523
YouthBuild	17.274	N/A	130,724	27,452
Passed through from:				
Arizona Department of Economic Security				
<i>WIOA Cluster</i>				
WIOA Adult Program	17.258	D116-002127	830,519	28,419
		D119-002200	<u>1,778,917</u>	<u>120,275</u>
			2,609,436	148,694
WIOA Youth Activities	17.259	D116-002127	2,199,184	2,072,196
		D119-002200	<u>1,465,033</u>	<u>712,052</u>
			3,664,217	2,784,248
WIOA Dislocated Worker Formula Grants	17.278	D116-002127	3,214,113	-
		D119-002200	<u>1,592,411</u>	<u>-</u>
			4,806,524	-
<i>Total WIOA Cluster</i>			<u>11,080,177</u>	<u>2,932,942</u>
Total Department of Labor			<u>11,887,323</u>	<u>3,083,917</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Department of Transportation				
Direct Programs:				
Airport Improvement Program	20.106	N/A	\$ 24,822,487	\$ -
<i>Federal Transit Cluster</i>				
Federal Transit - Capital Investment Grants	20.500	N/A	5,748,314	839,361
Federal Transit - Formula Grants	20.507	N/A	120,121,640	87,020,755
State of Good Repair Grants Program	20.525	N/A	645,434	640,466
Bus and Bus Facilities Formula Program	20.526	N/A	3,592,864	746,944
<i>Total Federal Transit Cluster</i>			<u>130,108,252</u>	<u>89,247,526</u>
<i>Transit Service Programs Cluster</i>				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	N/A	1,972,012	1,649,446
<i>Total Transit Services Programs Cluster</i>			<u>1,972,012</u>	<u>1,649,446</u>
Public Transportation Research, Technical Assistance, and Training	20.514	N/A	126,234	126,234
National Infrastructure Investments	20.933	N/A	5,441,947	-
Passed through from:				
Arizona Department of Transportation				
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction	20.205	HSIP PHX-0(301) D	1,494,705	-
		PHX-0(341)D	1,553,147	-
		CM-PHX-0(276)	273,270	-
		CMAQ PHX-0(293) D	1,251,085	-
		STP PHX-0(340)D	4,951	-
		TA PHX-0(302)D	217,376	-
		HPS-PHX-0(055) A	224,620	-
		PHX-0(249)A	15,961	-
		PHX0337	10,338	-
		PHX0345	15,420	-
		PHX0346	408,889	-
		PHX0338	8,079	-
			<u>5,477,841</u>	<u>-</u>
Maricopa Association of Governments				
Highway Planning and Construction	20.205	None Provided	755,855	-
<i>Total Highway Planning and Construction Cluster</i>			<u>6,233,696</u>	<u>-</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Passed through from:				
Governor's Office of Highway Safety (G.O.H.S.)				
<i>Highway Safety Cluster</i>				
State and Community Highway Safety	20.600	2018-PTS-047	\$ 17,026	\$ -
		2019-PTS-036	49,091	-
		2018-MC-003	1,774	-
		2018-405H-012	3,086	-
		2019-405H-014	23,895	-
		2019-AL-022	101,407	-
			<u>196,279</u>	<u>-</u>
National Priority Safety Programs	20.616	2019-405D-028	64,880	-
		2019-405B-006	140,266	-
		2019-405H-013	25,153	-
		2018-405h-011	5,102	-
		2018-405b-005	9,150	-
		2018-CIOT-019	12,000	-
			<u>256,551</u>	<u>-</u>
<i>Total Highway Safety Cluster</i>			<u>452,830</u>	<u>-</u>
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614	2018-PB-005	41,254	-
Total Department of Transportation			<u>169,198,712</u>	<u>91,023,206</u>
National Endowment for the Arts				
Direct Programs:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	53,241	-
Promotion of the Humanities Division of Preservation and Access	45.149	N/A	5,388	-
Grants to States	45.310	N/A	31,450	-
Total National Endowment for the Arts			<u>90,079</u>	<u>-</u>
Environmental Protection Agency				
Direct Program:				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	N/A	67,671	-
Total Environmental Protection Agency			<u>67,671</u>	<u>-</u>
Department of Energy				
Passed through from:				
Governor's Office of Energy Policy Weatherization Assistance for Low-Income Persons	81.042	C051-09-06	57,743	-
Total Department of Energy			<u>57,743</u>	<u>-</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Department of Health and Human Services (HHS)				
Direct Programs:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	\$ 297,620	\$ -
Head Start	93.600	N/A	34,673,035	20,248,899
HIV Care Formula Grants	93.917	N/A	505,359	-
Passed through from:				
Area Agency on Aging (AAA)				
<i>Aging Cluster</i>				
Special Programs for the Aging --Title III, Part C --Nutrition Services	93.045	2016-32-PHX	1,125,444	-
Nutrition Services Incentive Program	93.053	2016-32-PHX	251,965	-
<i>Total Aging Cluster</i>			<u>1,377,409</u>	-
Passed through from:				
Arizona Department of Health				
Immunization Cooperative Agreements	93.268	ADHS18-176571	10,000	-
Passed through from:				
Arizona Department of Economic Security				
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families	93.558	ADES15-089118	965,855	-
<i>Total TANF Cluster</i>			<u>965,855</u>	-
Passed through from:				
Arizona Governor's Office of Energy Policy				
Low-Income Home Energy Assistance	93.568	G043-10-06	306,427	-
Passed through from:				
Arizona Department of Economic Security				
Low-Income Home Energy Assistance	93.568	ADES15-089118	6,434,080	-
<i>Total Low-Income Home Energy Assistance</i>			<u>6,740,507</u>	-
Passed through from:				
Arizona Department of Economic Security				
Community Services Block Grant	93.569	ADES15-089118	1,411,745	-
Passed through from:				
Arizona Department of Economic Security				
Social Services Block Grant	93.667	ADES15-089118	628,100	-
Passed through from:				
Area Agency on Aging (AAA)				
Social Services Block Grant	93.667	2016-32-PHX	235,167	-
<i>Total Social Services Block Grant</i>			<u>863,267</u>	-
Total Department of Health and Human Services			<u>46,844,797</u>	<u>20,248,899</u>
Executive Office of the President				
Direct Program:				
High Intensity Drug Trafficking Areas Program	95.001	N/A	1,597,017	-
Total Executive Office of the President			<u>1,597,017</u>	<u>-</u>

The accompanying notes are an integral part of this Schedule.

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Department of Homeland Security (DHS)				
Direct Programs:				
National Urban Search and Rescue (US&R) Response System	97.025	N/A	\$ 3,767,204	\$ -
Assistance to Firefighters Grant	97.044	N/A	13,679	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	5,797,912	-
Preparing for Emerging Threats and Hazards	97.133	N/A	677,184	-
Passed through from:				
Arizona Department of Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	73027/4203	107,480	-
Homeland Security Grant Program	97.067	170818-01, 170818- 02, 170818-03, 170818- 02, 180817-03, 180817- 04	376,918	-
		170210-01, 170210-02	144,919	-
		180210-01, 180210- 02, 180210-03	186,057	-
			<u>219,992</u>	-
			927,886	-
Passed through from:				
Arizona Department of Homeland Security Homeland Security Grant Program	97.067	150817-01	1,089	-
		160818-01	50,000	-
		160818-02	190,267	-
		170817-01	63,315	-
		170817-04	2,696	-
		170817-03	4,198	-
		180816-03	58,968	-
		180816-01	7,157	-
		180816-04	16,178	-
		180816-02	64,817	-
		170208-02	11,471	-
		170208-03	6,998	-
		170816-01	32,357	-
		170816-02	19,360	-
		170816-03	331,060	-
		170816-04	4,639	-
		160814-03	7,097	-
		180209-01	64,488	-
		180209-02	19,218	-
		180209-03	27,322	-
		180815-01	82,749	-
		180815-02	2,854	-
		180815-03	5,556	-
			<u>1,073,854</u>	-
			<u>2,001,740</u>	-
<i>Total Homeland Security Grant Program</i>			<u>12,365,199</u>	-
Total Department of Homeland Security			<u>12,365,199</u>	-
Total Federal Awards Expended			<u>\$ 411,501,601</u>	<u>\$ 116,242,413</u>

City of Phoenix, Arizona
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

1. General

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the primary government of the City of Phoenix, Arizona (City). The City's reporting entity is defined in *Note 1* in the City's basic financial statements for the year ended June 30, 2019.

The information in this Schedule is presented in accordance with the 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). 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/fund balance or cash flows of the City. The Schedule includes federally funded projects received directly from federal agencies and the federal amount of pass-through awards received by the City through the State of Arizona or other non-federal entities.

The City's basic financial statements include the operations of Valley Metro Rail, Inc., a joint use agreement of the City, which expended \$76,539,499 in federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2019.

2. Basis of Accounting

The City's summary of significant accounting policies is presented in *Note 1* to the City's basic financial statements for the year ended June 30, 2019.

Governmental funds and proprietary funds account for the City's federal grant activity. Amounts reported in the Schedule are recognized on the modified accrual basis when they become a demand on current available federal resources and eligibility requirements are met, or on the accrual basis at the time liabilities are incurred and all eligibility requirements are met, depending on the basis of accounting used by the respective fund.

Such expenditures are recognized following, as applicable, the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements or reports to federal agencies. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

City of Phoenix, Arizona
Notes to the Schedule of Expenditures of Federal Awards (Continued)
June 30, 2019

3. Federal Loan Programs

The City has certain revolving loan funds, which were originally financed with federal financial assistance through the Community Development Block Grants/Entitlement Grants Cluster (CFDA Number 14.218) and HOME Investment Partnership Program (CFDA Number 14.239). Under these loan agreements, the City has either loaned money to nonprofit corporations for the purpose of establishing and/or improving public housing units or to single families providing affordable housing. Certain loans under this program have no continuing compliance requirements other than continued loan payments, therefore, the outstanding loan balances of such loans have not been included in the Schedule and major program determination. Certain loans are subject to continuing compliance requirements and as such the beginning balance of those loans is included in the Schedule and the major program determination. The Schedule also includes all new loans executed during the year under this program.

The outstanding loan balances as of June 30, 2019, are as follows:

CFDA Number	Program Name	Outstanding Balance
Loans Not Subject to Continuing Compliance Requirements		
14.218	Community Development Block Grants/Entitlement Grants Cluster	\$ 8,652,106
14.239	Home Investment Partnerships Program	3,408,177
		<u>12,060,283</u>
Loans Subject to Continuing Compliance Requirements		
14.239	Home Investment Partnerships Program	<u>69,546,066</u>
	Total Loans Outstanding	<u><u>\$ 81,606,349</u></u>

4. Restatement

This Schedule has been restated due to the identification of expenditures under the CFDA #20.933, National Infrastructure Investments, requiring the program to be considered a federal major program and tested as such. Changes from the previously issued Schedule include an increase in federal expenditures reported under National Infrastructure Investments from \$0 to \$5,441,947 along with a related decrease in the Highway Planning and Construction Cluster from \$11,675,643 to \$6,233,696, with total federal awards expended remaining at \$411,501,601, as previously included in the Schedule. Additionally, the National Infrastructure Investments has been included as a federal major program in the Summary of Auditor's Results and a material weakness in internal control over financial reporting is included as finding 2019-001.

**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***

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Phoenix, Arizona
Phoenix, Arizona

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Phoenix, Arizona (City), as of and for the year ended June 30, 2019, 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 13, 2019, which contained a reference to the reports of other auditors. Our report includes a reference to other auditors who audited the financial statements of the Industrial Development Authority of the City of Phoenix, Arizona, a component unit included in the financial statements of the aggregate discretely presented component units, and Multi-City Subregional Operating Group (SROG) and Valley Metro Rail, Inc., joint use agreements of the City, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Regional Wireless Cooperative, a joint use agreement of the City, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Regional Wireless Cooperative.

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) as a basis for designing 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the finding 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 the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas

December 13, 2019, except as it relates to finding 2019-001 and related response to finding, as to which the date is November 17, 2020

**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**

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Phoenix, Arizona
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Phoenix, Arizona's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of Valley Metro Rail, Inc., a joint use agreement of the City, which expended \$76,539,499 in federal awards which are not included in the City's schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of Valley Metro Rail, Inc. because they engaged other auditors to perform an audit in accordance with the Uniform Guidance.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

This report is replacing a previously issued report dated December 13, 2019, due to the identification of expenditures under the CFDA #20.933 National Infrastructure Investments requiring the program to be considered a major program and tested as such. Changes from the previously issued Schedule of Federal Expenditures (Schedule) include an increase in federal expenditures reported under National Infrastructure Investments from \$0 to \$5,441,947 along with a related decrease in the Highway Planning and Construction Cluster from \$11,675,643 to \$6,233,696, with total federal awards expended remaining at \$411,501,601, as previously included in the Schedule. Additionally, the National Infrastructure Investments has been included as a major program in the Summary of Auditor's Results and a material weakness in internal control over financial reporting is included as finding 2019-001.

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

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 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 13, 2019, which contained unmodified opinions on those financial statements and a reference to the reports of other auditors. 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.

BKD, LLP

Dallas, Texas

December 13, 2019, except for the *Other Matters* Section of the Report on Compliance for Each Major Federal Program, finding 2019-002 and *Note 4* of the Schedule of Expenditures of Federal Awards, as to which the date is November 17, 2020

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs – As Restated
Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

3. Noncompliance material to the financial statements noted?

Yes No

Federal Awards

4. Internal control over compliance for major federal programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

5. Type of auditor's report issued on compliance for major federal programs:

Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs – As Restated (Continued)
Year Ended June 30, 2019

7. Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.850	Public and Indian Housing
14.872	Public Housing Capital Fund
	<i>Housing Voucher Cluster</i>
14.871	Section 8 Housing Choice Vouchers
14.879	Mainstream Vouchers
20.933	National Infrastructure Investments
93.600	Head Start
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

8. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000.

9. Auditee qualified as a low-risk auditee? Yes No

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs – As Restated (Continued)
Year Ended June 30, 2019

Section II – Financial Statement Findings

**Reference
Number**

Finding

2019-001 **Finding:** Schedule of Expenditures of Federal Awards Preparation

Criteria: In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.510, auditees receiving federal funds must prepare an annual Schedule of Expenditure of Federal Awards (SEFA) detailing the value and type of federal assistance received each year. The federal Office of Management and Budget issues instructions on how to prepare this schedule. Key information to be reported includes the catalog of federal domestic assistance (CFDA) number provided in the federal awards/subaward agreements and associated expenditures incurred in the fiscal year. At the City, the SEFA is prepared by the Finance Department based on information provided by the grant managers of the various departments receiving Federal funds and information contained in the accounting system.

Condition: One federal award was incorrectly reported under CFDA #20.205, Highway Planning and Construction, that should have been reported under CFDA #20.933, National Infrastructure Investments. Total expenditures of \$11.7 million originally reported for the Highway Planning and Construction Cluster were reduced by \$5.4 million to bring the final expenditures total for the cluster to \$6.2 million for the year ended June 30, 2019. No expenditures were originally reported for the National Infrastructure Investments Program, to bring the final expenditures total for the program to \$5.4 million for the year ended June 30, 2019.

Cause: Internal controls and review processes were not in place to ensure the accuracy of federal CFDA numbers reported on the annual SEFA.

Effect: The federal government and pass-through entities rely on the SEFA information to be reported accurately. In addition, accurate SEFA information is relied upon by the auditors in order to perform the major program determination utilized to select the federal programs subjected to single audit procedures. The condition resulted in the reissuance of the City's 2019 Single Audit Report for restatement of the SEFA and inclusion of the CFDA # 20.933, National Infrastructure Investments, as a major program.

Recommendation: Management should implement procedures to help ensure that controls are in place that will allow for the accurate preparation of the SEFA. We recommend that the City perform a detailed analysis of CFDA numbers for all significant awards on an annual basis.

Views of Responsible Officials: We agree with the finding. See separate report for planned corrective actions.

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs – As Restated (Continued)
Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
2019-002	<p>Finding: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching</p> <p>Federal Program: National Infrastructure Investments CFDA No.: 20.933 Agency: Department of Transportation (DOT)</p> <p>Criteria: In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Appendix V, the City is required to submit a central service cost allocation plan (CAP) to its cognizant agency for indirect costs annually. In addition, the central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under federal awards. All plans and related documentation used as a basis for claiming costs under federal awards must be retained for audit.</p> <p>Condition: The City does not have a formally documented and approved central service CAP. As a result, cost allocations were not in accordance with central service CAPs approved by the cognizant agency for indirect costs.</p> <p>Questioned costs: \$369,214. Questioned costs were determined by reviewing the 2019 payments that occurred for the issue noted above.</p> <p>Context: Out of 25 expenditures selected for testing, 6 of the expenditures contained the issue noted above. A non-statistical sampling methodology was used to select the sample. Furthermore, total federal expenditures during the fiscal year were \$5,441,947 under the National Infrastructure Investments program, of which \$369,214 in federal expenditures were determined to be known questioned costs as noted above.</p> <p>Cause: Internal controls over indirect costs were not in place to ensure the City had a formally approved central service CAP.</p> <p>Effect: Indirect cost expenditures are not allowable costs pursuant to CFR Part 200 and therefore are considered questioned costs.</p> <p>Recommendation: Management should implement procedures to ensure that a formal central service CAP is prepared and submitted to its cognizant agency on an annual basis.</p> <p>Views of Responsible Officials: We agree with the finding. See separate report for planned corrective actions.</p>

City of Phoenix, Arizona
Status of Prior Audit Findings
Year Ended June 30, 2019

Reference Number	Summary of Finding	Status
2018-001	<i>Federal Transit Cluster</i> Finding: Subrecipient Monitoring We recommend the City perform the required on-site monitoring for each subrecipient based on the risk assessment performed and monitoring plan established as well as develop a process to track all monitoring performed for each subrecipient.	Implemented.