



City of Phoenix

Mission Statement

To improve the quality
of life in Phoenix
through efficient
delivery of outstanding
public services.

Project Team

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Project Number

1230036

This report can be made
available in alternate
format upon request.

Citywide American Rescue Plan Act (ARPA) Grant Management

October 10, 2023

Report Highlights

Some ARPA program monitoring elements were not performed or could be improved.

Control processes to ensure ARPA funded programs and expenditures aligned with certain U.S. Treasury requirements were strong for most programs reviewed. Improvements could be made in subrecipient monitoring procedures.

All required reporting was submitted in accordance with certain U.S. Treasury requirements.

All required reports were submitted timely through the U.S. Treasury portal. No exceptions were noted.

***City Auditor Department
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Executive Summary

Purpose

Our purpose was to evaluate the City's ARPA grant administration and other required program elements against applicable U.S. Treasury Final Rule (Final Rule) criteria for the period July 1, 2021, to June 30, 2022. Final Rule is the document issued by the U.S. Treasury on April 1, 2022 that governed spending guidelines applicable to the American Rescue Plan Fiscal Recovery Funds Program.

Background

The City of Phoenix received an allocation of \$396 million from the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program as part of the American Rescue Plan Act (ARPA). The funding was received over two years in two separate distributions, or tranches. Phoenix City Council approved the strategic plans for both tranches, the first occurring in June 2021 and the second in July 2022. The funds are being used to support a variety of community programs that provide aid to Phoenix residents impacted by the COVID-19 pandemic. We noted that departments we selected for review were able to transition quickly from notification of grant award to provision of services to deliver timely relief to Phoenix residents. The Final Rule took effect on April 1, 2022, when these three programs were substantially in process.

Each department that received funding has assigned staff responsible for the overall management of their respective programs. Many programs required contracts with vendors to provide services; other programs were carried out using City staff resources. In all cases, each respective department that received funds was tasked with identifying program criteria, distributing funds logistically, monitoring performance, and reporting data to the City's centralized ARPA reporting function.

The City's management of ARPA funds is ongoing. Program funds must be obligated by December 31, 2024, and expended by December 31, 2026.

We judgmentally selected eight programs Citywide for testing based on perceived risk, maturity, and program size. Many programs were not started or had just begun. The programs selected were as follows:

ARPA Programs Selected for Testing

Department	Programs	Budget
Office of Environmental Programs	Economic Development & Innovation - Contract with Local First Arizona Foundation (LFAF)	\$3,065,000

Office of Environmental Programs	Food Banks and Pantries Support – Contract with AZ Food Bank Network	\$1,432,500
Office of Environmental Programs	Equity & Inclusion – Contract with Local Initiatives Support Corporation (LISC)	\$2,565,000
Public Works	Better Health Outcomes and Community Testing and Vaccines	\$23,500,000
Public Works	Technology and Capital Needs - 27th Ave Replacement	\$10,000,000
Community & Economic Development	Micro and Small Business Assistance Program – Contract with ACF	\$8,000,000
Public Transit	Bus Card Subsidy Program	\$1,000,000
Office of Arts & Culture	Nonprofits Arts & Culture Stabilization	\$2,750,000

The total program budget selected for testing was \$52,312,500.

Results in Brief

Administration controls for ARPA program funds tested were mostly adequate to maintain compliance with criteria set forth in Final Rule and individual program guidelines. Some program monitoring elements were not performed or could be improved.

We tested eight ARPA programs to evaluate the City's ARPA grant administration and other required program elements against applicable Final Rule criteria. Some departments had policies and procedures governing ARPA grant program management, structure, and program monitoring oversight for maintaining compliance with Final Rule, while others did not. Control processes around procedures for documenting the allowability of ARPA funded expenditures were strong. However, improvement could be made in subrecipient monitoring procedures.

All required reporting was submitted in accordance with Final Rule.

We reviewed the Interim Report, the Project and Expenditure Reports, and Recovery Plan Performance Reports for the applicable scope period. All reports were submitted timely through the Treasury portal. No exceptions were noted.

Department Responses to Recommendations

Rec. #1.1: Office of Environmental Programs – Work with the City Manager’s Office to ensure all compliance related requirements are performed for subrecipient contracts, including preparation of risk assessments.	
Response: OEP completed and submitted risk assessments to City Manager’s Office on September 19, 2023 for subrecipient contracts. OEP is working with CMO to ensure compliance on a regular basis and will be providing CMO with a schedule for the required audit reviews of subrecipients by 12/31/2023.	<u>Target Date:</u> 12/31/2023
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.2: Office of Environmental Programs – Reconcile all invoices submitted from LFAF to ensure accuracy and attempt to collect on overpayments. Work with the Finance Department to ensure program reporting is accurate.	
Response: OEP has reconciled all invoices from LFAF, made the final payment in April 2023 and closed out the agreement.	<u>Target Date:</u> 11/6/2023
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.3: Office of Environmental Programs – Establish and document procedures to conduct more frequent monitoring to include analysis of administrative spending versus grant award disbursements to help identify and resolve period of performance issues quickly.	
Response: OEP has initiated development of a document for monitoring subrecipient expenditures, including resolution of discrepancies on a regular basis and has been testing the process for efficiency. Any revisions required will be updated in the document and completed by 12/31/2023.	<u>Target Date:</u> 12/31/2023
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.4: Office of Environmental Programs – Work with the City Manager’s Office to align policies for the obtaining and retention of supporting documents from subrecipients.	
Response: OEP has worked with CMO and understands the requirements for obtaining and retention of supporting documents and will inform, again, all subrecipients of the requirements via email and/or virtual meetings. OEP’s	<u>Target Date:</u> 11/30/2023

expects all subrecipients to be communicated with, including newly awarded Grantees, by November 30, 2023.	
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.5: Community and Economic Development – Perform a true up of the program accounting to include a reconciliation of uncashed award checks, salaries, and administrative costs allocated to the program, and recalculate the final percentage of administrative expenses owed to the contractor. Work with the Finance Department to ensure program reporting is accurate.	
Response: CED is in the process of doing a reconciliation of the program awards, salaries, and administrative costs allocated to the program and will provide final results of the audit by the target date.	<u>Target Date:</u> 12/29/2023
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.6: Community and Economic Development – Retain documentation that supports the City payroll costs charged to the ARPA grant program and work with the City Manager's Office to ensure the documentation meets grant requirements.	
Response: CED is in the process of collecting documentation related to the staffing costs of the ARPA funded positions and will collaborate with CMO to ensure compliance.	<u>Target Date:</u> 12/29/2023
Explanation, Target Date > 90 Days: [Type response here]	
Rec. #1.7: Office of Arts and Culture – Establish and document procedures to monitor awardees to address related party concerns when other than nonprofit entities apply for nonprofit grants.	
Response: The Phoenix Office of Arts and Culture will document a procedure that enhances its grant guidelines for applicants who do not have 501(c)3 status are eligible to apply for a grant by using a fiscal sponsor. However, applicants cannot change their fiscal sponsor after applying.	<u>Target Date:</u> 10/31/2023
Explanation, Target Date > 90 Days:	
Rec. #1.8: Office of Arts and Culture – Ensure all final reports for awardees have been collected and reviewed for program compliance.	
Response: The Phoenix Office of Arts and Culture will send reminders to the three organizations that didn't submit their final report information by the end of the grant period. The	<u>Target Date:</u> 12/31/2023

reminder will include that these entities cannot apply for future arts grants until the final report is submitted.	
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<i>Explanation, Target Date > 90 Days:</i>
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1 – Program Testing

Background

Program administration, as defined by the Final Rule, describes processes and requirements for administering each program on an ongoing basis, specifically as it relates to the following: distribution of funds, timeline for use of funds, transfer of funds from a recipient to different organizations, use of funds for program administration, reporting on use of funds, and remediation and recoupment of funds used for ineligible purposes. We noted that departments we selected for review were able to transition quickly from notification of grant award to provision of services to deliver timely relief to Phoenix residents. The Final Rule took effect on April 1, 2022, when these three programs were substantially in process.

Subrecipient monitoring is a requirement in the Final Rule for a condition where the recipient of funds (the City) provides funds to another entity to carry out eligible uses of the funds. The City is required to oversee the subrecipient's use of funds and other activities related to the award to ensure that the subrecipient complies with the regulatory requirements of the award.

The City is also required to comply with the Final Rule with respect to the allowable use of ARPA funds. There is broad latitude for which use of the funds can occur, but the use must fit into one of the following categories:

- To respond to the COVID-19 public health emergency or its negative economic impacts;
- To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the recipient that are performing such essential work or by providing grants to eligible employers that have eligible workers who perform essential work;
- For the provision of government services, to the extent of the reduction in revenue of such recipient due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year of the recipient prior to the emergency; or,
- To make the necessary investment in water, sewer, or broadband infrastructure.

We reviewed the City department policies and procedures governing ARPA grant program management, structure, and program oversight for adequacy in maintaining compliance with the Code of Federal Regulations (CFR) Part 35 (Pandemic Relief Programs), the Final Rule, and CFR Part 200 (Grants and Agreements). Additionally, we reviewed control processes around vendor, subrecipient, and departmental procedures for documenting the allowability of ARPA funded expenditures. Lastly, we evaluated processes and controls around eligibility criteria for City awards of ARPA funds to recipients.

Results

Office of Environmental Programs administration controls for ARPA program funds were mostly adequate to maintain compliance with criteria set forth in the Final Rule for the three programs tested. Some program monitoring elements were not performed.

Award funds for the three Office of Environmental Programs (OEP) ARPA programs were used primarily to pay for food to help disadvantaged people affected by the COVID-19 pandemic. All three OEP programs were contracted with subrecipients. Our testing consisted of comparing contractual requirements for reporting to actual reports submitted, and testing compliance with monitoring procedures performed by the City for each program subrecipient. The three programs selected for testing were as follows:

Economic Development & Innovation – Contract with LFAF - \$3,065,000

Food Banks and Pantries Support – Contract with AZ Food Bank Network - \$1,432,500

Equity & Inclusion – Contract with LISC - \$2,565,000

Detailed monthly expenditure reports were provided by the subrecipients to OEP monthly as required by the contracts. Invoices were submitted to OEP from each vendor for both award funds and administrative expenses. For our testing, we agreed a total of six monthly invoices presented to OEP to the contract terms and to proper supporting documents, and we reached out to eleven award recipients in total to independently verify the amounts of the awards they received. Given the criteria, we noted the following exceptions:

- For LFAF, some footing errors were discovered, with one invoice overbilled by approximately \$1,500. In addition, a footing error was present in the October 2021 administrative expense detail submitted. The amount was approximately \$26 overbilled.
- For LISC, we noted that approximately 84% of the allocated administrative expenses were expended by the end of the first contract term, with a corresponding grantee award disbursement rate of 47%. A subsequent contract amendment extended the time for LISC to process awards; however, the rate at which the administrative expense portion was exhausted did not track with the grant awards disbursed for the contract term. ARPA funds must be obligated by December 31, 2024, so performance monitoring in this area is critical for awards to be put into the hands of the intended recipients in a timely manner.
- Award management and monitoring procedures performed by OEP were documented in accordance with 2 CFR 200.332 and the SLFRF, except for a risk assessment. OEP did not document a risk assessment for any of the three programs. This non-compliance results in a heightened risk of misappropriation of funds and is a required element stipulated by the Final Rule.

- For all three programs tested, backup documentation for eligibility determination and for administrative expenses was contractually required to be submitted to OEP. In many cases, only summary reports were provided monthly to OEP. During testing, documents were able to be provided upon request; however, the provision requiring submission of these documents to OEP was not met. In the near future, Treasury is expected to conduct desk audits of ARPA programs, and having the documentation of subrecipient activity is essential in being able to respond to these audits appropriately.

Public Works controls for ARPA program funds were adequate to maintain compliance with the criteria set forth in the Final Rule for the two programs tested.

Better Health Outcomes and Community Testing and Vaccines - \$23,500,000

Award funds for this program were used primarily to pay for contracted vaccine and COVID-19 testing events. Accordingly, no subrecipient requirements were applicable. Monitoring procedures consisted of reviewing invoices and comparing contracted rates to invoice billings and proper supporting documents. The City contracted with four vendors in total to provide these services to the community. We selected a sample of ten invoices totaling approximately \$125,000 to test for contracted rates and the proper approval process. All invoices tested agreed to contracted rates and were properly approved by the Public Works program manager and a supervisor. No exceptions were noted.

Technology and Capital Needs - 27th Ave Replacement - \$10,000,000

The ARPA Technology and Capital Needs program was used to fund a portion of the 27th Avenue MRF (Materials Recovery Facility) building reconstruction project. An MRF is a specialized facility that receives, separates, and prepares recyclable materials. The City allocated this award to Public Works due to a significant rise in the volume of recyclable materials collected as a result of people working and staying home during the COVID-19 pandemic. Initially, funds were used for conceptual planning, design, analysis, permitting support, and construction administration and support for tasks that the City of Phoenix accomplished before the vendor began deconstruction of the existing equipment in the facility. The remainder of the program funds were expended towards the manufacture of custom recycling equipment. The agreement with the vendor was approved by City Council for a fee not to exceed \$25,000,000. There were two payments from the City to the vendor manufacturing the custom equipment that used all the ARPA funds allocated to the project. Our testing verified that these invoices matched contracted rates and were properly approved by the program manager and a supervisor. No exceptions were noted.

Community and Economic Development controls for ARPA program funds were adequate to maintain compliance with the criteria set forth in the Final Rule for the program tested. However, the contracted administrative fee was overpaid, and payroll costs allocated to the award have not been fully documented.

Micro and Small Business Assistance Program - \$8,000,000

Award funds for the Micro and Small Business Assistance program were used to help micro businesses comprised of sole owners and small businesses with few employees who had a large reduction in revenue as a result of the COVID-19 pandemic. Award amounts were fixed depending on the size of the business.

Community and Economic Development (CED) contracted with a vendor to market the award availability, collect applications, and report back with the information. CED controlled the process for determining eligibility and submitting the funds to the vendor to process the individual awards. All criteria from the contract were present in the applications selected for testing. Criteria included the following:

- An application was completed.
- The applicant's address was in the City of Phoenix.
- The applicant's employee count was < 25.
- The applicant's gross sales were less than \$3,000,000 annually.
- The applicant's sales loss was greater than or equal to 25%.
- A signed, completed W-9 form was attached.
- The applicant's TIN had not been awarded a City grant from this program.

Using the award tier provided by CED, all recalculations matched the award given. Administrative fees for the vendor were allowed to be 3.25% of grants awarded, but we recalculated administrative fees paid at 3.28%, which amounted to an overpayment of \$2,241. Through the date of this report, at least one check for an individual award had not been cashed.

CED allocated approximately \$268,000 in City staff salaries and fringe expenses against the award for costs to administrate the program. This is allowable; however, CED did not maintain backup documentation that supported hours and/or costs that related specifically to the program. The program has been fully expended since August 2022. The net effect of not closing out the grant fully is the possibility that the grant has been either overspent or award monies might remain to be spent. Program funds must be obligated by December 31, 2024, and must be spent by December 31, 2025.

Public Transit controls for ARPA program funds were adequate to maintain compliance with criteria set forth in the Final Rule for the program tested.

Bus Pass Subsidy Program - \$1,000,000

Award funds for the Bus Pass Subsidy program were used by Public Transit (PTD) to provide fare assistance to residents that rely on public transportation. City Council identified several Phoenix-area nonprofit groups that serve low-income families as recipients for the passes. In total, 31,250 31-day bus passes were purchased using ARPA funds, and large batches were shipped to nonprofit groups and other City departments who subsequently handed them out to individual recipients. There were no contracts to define how the bus passes needed to be distributed to end users or to define eligibility requirements.

We selected a sample of six organizations/City departments that received bus passes, which comprised 63% of all available bus passes. PTD used a master order form for all pass requests. All order forms (60 forms in total) selected for testing were accounted for, and totals of bus passes were tied between the master listing and the order forms. All order forms except one were signed by the PTD employee packaging the bus passes and the staff verifying the order. We noted most order forms were not signed by the requestor, as many orders were phoned in. Processing these forms without a requestor's signature creates a risk that the passes could be sent to unintended recipients. As part of our testing, we checked local second-hand markets, Craigslist and OfferUp to see if any of the bus passes could be found for sale. City of Phoenix bus passes were found for sale on both sites, and the photos of the passes were detailed enough to reveal the serial numbers of the passes. We could tie the serial numbers in the photos from both sites to ranges in the test sample from one vendor. PTD stated they were not responsible for the passes after they left their custody and that they do not have the capability to track the use of the passes. PTD stated that once an end user activates the passes, the fare system automatically codes the passes to expire in 31 days.

Office of Arts and Culture controls for ARPA program funds were adequate to maintain compliance with some criteria set forth in the Final Rule for the program tested, except for controls for fiscal monitors.

Nonprofits Arts & Culture Stabilization Program - \$2,750,000

Award funds for the Nonprofits Arts & Culture Stabilization Program provided aid to help nonprofit arts and culture organizations manage their operations, personnel, and programming as they welcomed back audiences, guests, and patrons to their services. The program awarded recovery grants to eligible organizations of all sizes. Organizations must have been in operation prior to March 1, 2020, and had to complete an online application process to demonstrate need. Organizations that applied for and were recommended an FY22 Community Arts Grant (CAG) from the Phoenix Office of Arts and Culture were eligible to apply for relief funding. Additionally, on a case-by-case basis, organizations were allowed to apply that were not previously vetted during the CAG process. In our sample of 10 applications, three applications were allowed that were not part of the CAG vetting process. OAC determined eligibility and subsequently presented these three to the Phoenix Arts and Culture Commission executive committee for final approval in August, 2021.

ARPA awards ranged between \$7,500 and \$75,000, depending on the size of the operating budget of the applicant. In total, 84 awards were granted totaling \$2,750,000. Our testing consisted of reviewing a sample of ten applications for required eligibility elements and documentation of approval by the Phoenix Arts and Culture Commission. One required element for all awardees, a final report prepared by the receiving organization due Summer 2022, was not provided by the Office of Arts and Culture after multiple requests. This missing element is a key concept for the department to perform and document, as it validates that award monies were used to fund allowable activities. OAC stated they try to maintain relationships with their grant awardees and indicated that they conversationally validated that the awards were used for allowable purposes for seven of the ten awards sampled.

Except for one situation, all other testing results were within prescribed rules and regulations. When a for-profit entity applies for a grant where only nonprofits are eligible, the Office of Arts and Culture allows a for-profit entity to apply with a nonprofit fiscal monitor to receive the funding. The concept allows the for-profit entity to contract with the fiscal monitor to oversee the use of funds, ensuring the proper use of funding. During testing, a for-profit entity applied and was approved for an ARPA grant award, and the fiscal monitor used was a related party to the entity. Although not required by policy, no contract or agreement was submitted to the Office of Arts and Culture for this arrangement. Further, OAC stated that they have not been able to reach out and connect with this awardee with respect to the use of award funds. With the absence of a final report or other evidence of monitoring, no reliance could be made that any oversight had occurred.

Recommendations

- 1.1 Office of Environmental Programs – Work with the City Manager's Office to ensure all compliance related requirements are performed for subrecipient contracts, including preparation of risk assessments.
- 1.2 Office of Environmental Programs – Reconcile all invoices submitted from LFAF to ensure accuracy and attempt to collect on overpayments. Work with the Finance Department to ensure program reporting is accurate.
- 1.3 Office of Environmental Programs – Establish and document procedures to conduct more frequent monitoring to include analysis of administrative spending versus grant award disbursements to help identify and resolve period of performance issues quickly.
- 1.4 Office of Environmental Programs – Work with the City Manager's Office to align policies for the obtaining and retention of supporting documents from subrecipients.
- 1.5 Community and Economic Development – Perform a true up of the program accounting to include a reconciliation of uncashed award checks, salaries, and administrative costs allocated to the program, and recalculate the final percentage

of administrative expenses owed to the contractor. Work with the Finance Department to ensure program reporting is accurate.

- 1.6 Community and Economic Development – Retain documentation that supports the City payroll costs charged to the ARPA grant program and work with the City Manager’s Office to ensure the documentation meets grant requirements.
- 1.7 Office of Arts and Culture – Establish and document procedures to monitor awardees to address related party concerns when other than nonprofit entities apply for nonprofit grants.
- 1.8 Office of Arts and Culture – Ensure all final reports for awardees have been collected and reviewed for program compliance.

2 – Reporting

Background

As a recipient of ARPA funds, the City is required to submit periodic reports with current performance data and financial information with details of obligations, expenditures, payments, and subawards.

The City Manager's Office coordinated with the Finance Department to prepare the reporting to Treasury. Information regarding programs, such as KPI's, program purpose, and other items, is documented for each program. Finance transmits this information to Treasury through a portal administrated by the U.S. Department of Treasury.

We assessed the adequacy of the City's procedures to ensure compliance with ARPA reporting requirements and tested the timeliness of report submission.

Results

All required reporting was submitted in accordance with the Final Rule.

There are three levels of reporting for ARPA funds applicable to the City. They are as follows:

- Interim Reporting
- Project and Expenditure Reporting
- Recovery Plan Performance Reporting

Reporting deadlines are as follows for the City of Phoenix:

Interim Report	Project and Expenditure Report	Recovery Plan Performance Report
By August 21, 2021	By January 31, 2022, and then by the month after the end of each quarter thereafter.	By August 31, 2021, and annually thereafter.

We reviewed the Interim Report, the Project and Expenditure Reports, and Recovery Plan Performance Reports for the applicable scope period. All reports were submitted timely through the Treasury portal. No exceptions were noted.

The City's procedures for ARPA reporting were adequate to ensure compliance with ARPA reporting requirements.

The City is required to account for every ARPA dollar spent and provide detailed information to Treasury on how funds are used. For each ARPA program, Finance

entered information into the City's SAP general ledger with a unique account number in order to be captured and reported to Treasury accurately. To ensure this happened, we tied program budget figures and project descriptions, for all eight programs selected for testing, to the City's ARPA Project and Expenditure reports without exception.

Recommendation

None

Scope, Methods, and Standards

Scope

We evaluated the City's ARPA grant administration and other required program elements against applicable Treasury criteria for the period July 1, 2021, to June 30, 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor internal control systems and evaluate the results.
- Information and Communication
 - Management should use quality information to achieve the entity's objectives.

Methods

We used the following methods to complete this audit:

- We interviewed City management and staff.
- We reviewed departmental ARPA policies.
- We tested grant awards and spending against eligibility, allowable cost, and reporting criteria.
- We performed data validation procedures on SAP reports.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The SAP data we used was previously determined to be reliable through an independent audit review.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.