

City of Phoenix, Arizona

Single Audit Reports

Year Ended June 30, 2017



City of Phoenix, Arizona
Year Ended June 30, 2017

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City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

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 Department of Health Services				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551	C-86-13-037-3-02	\$ 44,387	\$ -
		C-86-13-037-3-04	95,169	-
<i>Total SNAP Cluster</i>			<u>139,556</u>	<u>-</u>
<i>Child Nutrition Cluster</i>				
Special Milk Program for Children	10.556	ADHS-12-030676	29,508	-
		ADHS-16-106455	39,984	-
<i>Total Child Nutrition Cluster</i>			<u>69,492</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>209,048</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	19,664,727	2,303,946
Neighborhood Stabilization Program 1 - HERA	14.218	N/A	17,384	-
Neighborhood Stabilization Program 3 - Dodd-Frank Wall Street	14.218	N/A	16,850	-
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>19,698,961</u>	<u>2,303,946</u>
<i>Section 8 Project -Based Cluster</i>				
Section 8 Housing Assistance Payments Program	14.195	N/A	1,437,352	-
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	N/A	446,814	-
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	43,751	-
<i>Total Section 8 Project -Based Cluster</i>			<u>1,927,917</u>	<u>-</u>
Emergency Solutions Grant Program	14.231	N/A	1,155,862	395,882
Home Investment Partnerships Program	14.239	N/A	4,360,313	420,000
Home Investment Partnerships Program Loan and Loan Guarantees *	14.239	N/A	60,595,453	-
<i>Total Home Investment Partnerships Program</i>			<u>64,955,766</u>	<u>420,000</u>
Housing Opportunities for Persons with AIDS	14.241	N/A	2,673,128	-
Neighborhood Stabilization Program 2 (Recovery Act Funded)	14.256	N/A	2,788,941	-
Fair Housing Assistance Program State and Local	14.401	N/A	125,918	-
Public and Indian Housing	14.850	N/A	8,450,191	-
<i>Hope VI Cluster</i>				
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)				
Hope VI - CSS Endowment Funds *	14.866	N/A	2,836,502	-
	14.866	N/A	2,879,835	-
<i>Total Hope VI Cluster</i>			<u>5,716,337</u>	<u>-</u>
Resident Opportunity and Supportive Services - Service Coordinators	14.870	N/A	131,301	-
Public Housing Capital Fund	14.872	N/A	1,944,784	-

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

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	\$ 57,045,403	\$ -
Mainstream Vouchers	14.879	N/A	550,239	-
<i>Total Housing Voucher Cluster</i>			<u>57,595,642</u>	<u>-</u>
Family Unification Program (FUP)	14.880	N/A	692,977	-
Jobs-Plus Pilot Initiative	14.895	N/A	152,339	-
Family Self-Sufficiency Program	14.896	N/A	217,526	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	N/A	1,185,124	132,372
Total Department of Housing and Urban Development (HUD)			<u>169,412,714</u>	<u>3,252,200</u>
Department of Justice				
Direct Programs:				
Services for Trafficking Victims	16.320	N/A	37,244	-
Missing Children's Assistance	16.543	N/A	354,383	69,768
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	N/A	96,021	-
Public Safety Partnership and Community Policing Grants	16.710	N/A	1,700,549	-
Special Data Collections and Statistical Studies	16.734	N/A	10,263	-
DNA Backlog Reduction Program	16.741	N/A	250,174	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	N/A	43,139	-
Edward Byrne Memorial Competitive Grant Program	16.751	N/A	268,693	-
Economic High-Tech and Cyber Crime Prevention	16.752	N/A	100,354	-
Byrne Criminal Justice Innovation Program	16.817	N/A	150,417	-
National Sexual Assault Kit Initiative	16.833	N/A	5,138	-
Equitable Sharing Program	16.922	N/A	1,030,922	-
Passed through from:				
Arizona Department of Public Safety (A. D. P. S.)				
Crime Victim Assistance	16.575	2014-VA-GX-0018	81,778	-
		2015-VA-GX-0032	337,496	-
		2014-258	78,251	-
		2015-359	181,291	-
			<u>678,816</u>	<u>-</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Crime Victim Assistance/Discretionary Grants	16.582	2015-215	\$ 143,493	\$ -
		2014-282	352,973	-
		2015-216	23,731	-
		2015-361	64,093	-
		2015-360	9,109	-
			<u>593,399</u>	<u>-</u>
Passed through from:				
Arizona Criminal Justice Commission (A. C. J. C.)				
Project Safe Neighborhoods	16.609	PSN-15-001	119,904	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CV-16-17-004	24,652	-
		CV-15-15-004	32,774	-
			<u>57,426</u>	<u>-</u>
Passed through from:				
Maricopa County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-1164	9,564	-
		2014-DJ-BX-1197	53,461	-
		2015-DJ-BX-0227	204,301	-
		2016-DJ-BX-0801	122,643	-
			<u>389,969</u>	<u>-</u>
Total Department of Justice			<u>5,886,811</u>	<u>69,768</u>
Department of Labor				
Direct Programs:				
H-1B Job Training Grants	17.268	N/A	239,372	-
YouthBuild	17.274	N/A	445,972	354,096
Passed through from:				
Arizona Department of Economic Security - WIOA				
WIOA Cluster				
WIA/WIAO Adult Program	17.258	D116-002127-1	620,707	79,730
		D116-002127-005	3,688,447	600,000
			<u>4,309,154</u>	<u>679,730</u>
WIA/WIAO Youth Activities	17.259	ADES14-052744-1	490	-
		D116-002127	1,359,980	301,812
		D116-002127-005	1,961,021	2,707,712
			<u>3,321,491</u>	<u>3,009,524</u>
WIA/WIOA Dislocated Worker Formula Grants	17.278	D116-002127	2,845,823	-
		D116-002127-005	1,479,263	-
			<u>4,325,086</u>	<u>-</u>
Total WIOA Cluster			<u>11,955,731</u>	<u>3,689,254</u>
Total Department of Labor			<u>12,641,075</u>	<u>4,043,350</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

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 Program:				
Airport Improvement Program	20.106	N/A	\$ 19,747,728	\$ -
<i>Federal Transit Cluster</i>				
Federal Transit - Capital Investment Grants	20.500	N/A	1,715,518	418,358
Federal Transit - Formula Grants	20.507	N/A	107,348,778	64,516,441
State of Good Repair Grants Program	20.525	N/A	1,128,285	818,512
Bus and Bus Facilities Formula Program	20.526	N/A	9,591,180	-
<i>Total Federal Transit Cluster</i>			<u>119,783,761</u>	<u>65,753,311</u>
<i>Transit Service Programs Cluster</i>				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	N/A	4,545,013	4,302,680
Job Access and Reverse Commute Program	20.516	N/A	146,590	146,590
New Freedom Program	20.521	N/A	135,858	14,830
<i>Total Transit Services Programs Cluster</i>			<u>4,827,461</u>	<u>4,464,100</u>
National Infrastructure Investments	20.933	N/A	282,135	282,135
<i>Highway Planning and Construction Cluster</i>				
Passed through from:				
Arizona Department of Transportation				
Highway Planning and Construction	20.205	CM PHX-0(285)D	39,336	-
		STP PHX-0(248)A	18,129	-
		STP PHX-0(250)A	2,357	-
		SRTS PHX-0(278)D	167,182	-
		STP PHX-0(251)A	103,296	-
		STP PHX-0(252)A	163,122	-
		STP PHX-0(331)D	3,562	-
		HPS-PHX-0(055)A	5,370,449	-
		STP-PHX-0(333) D	115,376	-
		STP-PHX-0(334)D	51,378	-
		CM PHX-0-(284)D	107,960	-
		CM-PHX-0(264)D	109,651	-
		HISP-PHX-0(273)A	2,739	-
		CM-PHX-0(262)D	715,725	-
		CM-PHX-0(290)D	261,996	-
		HPS-PHX-0(055)D	7,136,479	-
		TEA PHX-0(269)	10,116	-
		CM PHX-0(288)D	1,179,070	-
		SRS PHX-0(279)D	404,881	-
		STP-0006(185)	113,187	-
		CMAQ PHX-0(293)D	8,453	-
		TAP PHX-0(328)D	6,291	-
		TAP PHX-0(297)D	9,631	-
		TAP PHX-0(296)D	228,601	-
			<u>16,328,967</u>	<u>-</u>
Passed through from:				
Maricopa Association of Governments				
Highway Planning and Construction	20.205	None Provided	445,570	-
<i>Total Highway Planning and Construction Cluster</i>			<u>16,774,537</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, 2017

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	2016-AL-025	\$ 11,643	\$ -
		2016-AL-026	54,701	-
		2016-AL-027	30,896	-
		2016-OP-004	15,165	-
		2016-PS-002	16,099	-
		2016-PT-025	12,055	-
		2016-MC-003	9,223	-
		2017-PT-039	40,000	-
		2017-OP-013	21,577	-
		2017-AL-034	91,007	-
		2017-AL-033	22,449	-
		2017-MC-003	13,160	-
		2017-AL-035	50,495	-
		2017-CIOT-016	12,000	-
			<u>400,470</u>	<u>-</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2016-405D-010	27,632	-
		2017-405D-025	103,534	-
			<u>131,166</u>	<u>-</u>
National Priority Safety Programs	20.616	2017-405h-002	40,540	-
<i>Total Highway Safety Cluster</i>			<u>572,176</u>	<u>-</u>
Total Department of Transportation			<u>161,987,798</u>	<u>70,499,546</u>
National Endowment for the Arts				
Direct Program:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	36,755	-
Total National Endowment for the Arts			<u>36,755</u>	<u>-</u>
Environmental Protection Agency				
Direct Program:				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	N/A	83,506	-
Total Environmental Protection Agency			<u>83,506</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	33,875	-
Total Department of Energy			<u>33,875</u>	<u>-</u>
Department of Health and Human Services (HHS)				
Direct Programs:				
Head Start	93.600	N/A	32,024,930	14,414,736

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

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 Department of Health PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539	ADHS13-039133	\$ 11,240	\$ -
Passed through from:				
Arizona Department of Economic Security <i>TANF Cluster</i> Temporary Assistance for Needy Families	93.558	ADES15-089118	991,822	-
<i>Total TANF Cluster</i>			<u>991,822</u>	<u>-</u>
Community Services Block Grant	93.569	ADES15-089118	1,286,962	-
Passed through from:				
Arizona Department of Economic Security Social Services Block Grant	93.667	ADES15-089118	574,714	-
Passed through from:				
Area Agency on Aging (AAA) Social Services Block Grant	93.667	2016-32-PHX	238,322	-
<i>Total Social Services Block Grant</i>			<u>813,036</u>	<u>-</u>
Passed through from:				
Arizona Governor's Office of Energy Policy Low-Income Home Energy Assistance	93.568	G043-10-06	454,017	-
Passed through from:				
Arizona Department of Economic Security Low-Income Home Energy Assistance	93.568	ADES15-089118	5,119,493	-
<i>Total Low-Income Home Energy Assistance Program</i>			<u>5,573,510</u>	<u>-</u>
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	1,012,869	-
Nutrition Services Incentive Program	93.053	2016-32-PHX	178,742	-
<i>Total Aging Cluster</i>			<u>1,191,611</u>	<u>-</u>
Total Department of Health and Human Services			<u>41,893,111</u>	<u>14,414,736</u>
Executive Office of the President				
Direct Program:				
High Intensity Drug Trafficking Areas Program	95.001	N/A	1,525,465	-
Total Executive Office of the President			<u>1,525,465</u>	<u>-</u>

City of Phoenix, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

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	\$ 1,032,428	\$ -
Assistance to Firefighters Grant	97.044	N/A	553,412	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	699,384	-
Passed through from:				
Arizona Department of Emergency Management Homeland Security Grant Program	97.067	140809-05	14,295	-
		150818-01, 150818-03, 150818-04, 150818-05, 150818-06, 150818-07	240,113	-
		160819-01, 160819-02, 160819-03, 160819-04	496,233	-
		140207-04	42,821	-
		150208-01, 150208-02, 150208-03	45,503	-
		160209-01	82,589	-
		73027/4203	60,955	-
			<u>982,509</u>	-
Passed through from:				
Arizona Department of Homeland Security Homeland Security Grant Program	97.067	140822-01	105,773	-
		150817-01	201,497	-
		150817-01	22,839	-
		150207-04	13,701	-
		150207-02	9,521	-
		150207-03	377,822	-
		160208-01	63,489	-
		160208-02	46,164	-
		160208-03	16,508	-
		160208-04	4,236	-
		150816-02	36,972	-
		150816-04	93,173	-
		150816-07	14,876	-
		160817-02	95,405	-
		160817-03	169,413	-
		160817-04	53,897	-
		150816-06	7,156	-
		140808-02	11,626	-
		140808-08	68,176	-
		130819-09	27,999	-
			<u>1,440,243</u>	-
			2,422,752	-
<i>Total Homeland Security Grant Program</i>			<u>4,707,976</u>	-
Total Department of Homeland Security			4,707,976	-
Total Federal Awards Expended			\$ 398,418,134	\$ 92,279,600

* Denotes non-cash awards

City of Phoenix, Arizona
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

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, 2017.

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.

2. Basis of Accounting

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.

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, 2017. 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.

3. Federal Loan Program

The City has certain revolving loan funds, which were originally financed with federal financial assistance through the 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.

City of Phoenix, Arizona
Notes to the Schedule of Expenditures of Federal Awards (Continued)
June 30, 2017

The outstanding loan balances as of June 30, 2017, are as follows:

Loans not subject to continuing compliance requirements	\$ 13,211,989
Loans subject to continuing compliance requirements	<u>62,000,928</u>
Total Loans Outstanding	<u>\$ 75,212,917</u>

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

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

We have audited, in accordance with 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 2017, which contained a reference to the reports of other auditors and an emphasis of a matter paragraph regarding a change in accounting principle. Our report includes a reference to other auditors who audited the financial statements of the Phoenix Industrial Development Authority (IDA), 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*.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the City's 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to the City's management in a separate letter dated December 29, 2017.

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 and/or corrective action plan. 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 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.

BKD, LLP

Dallas, Texas
December 29, 2017

Independent Auditor's 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

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, 2017. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. 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 our 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 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 29, 2017, which contained unmodified opinions on those financial statements, a reference to the reports of other auditors and an emphasis of a matter paragraph regarding a change in accounting principle. 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 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
January 30, 2018

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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 (Continued)
Year Ended June 30, 2017

7. Identification of major federal programs:

CFDA Number	Name of Federal Program/Cluster
14.239	Home Investment Partnerships Program
20.106	Airport Improvement Program
	<i>Highway Planning and Construction Cluster</i>
20.205	Highway Planning and Construction
	<i>Federal Transit Cluster</i>
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.525	State of Good Repair Grants Program
20.526	Bus and Bus Facilities Formula Program

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 (Continued)
Year Ended June 30, 2017

Section II - Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2017-001 **Finding:** Schedule of Expenditures of Federal Awards Preparation

Criteria: In accordance with 2 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, including certain information relating to non-cash awards. 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. As described in the footnotes to the SEFA it is the City's policy to report the expenditures on the modified accrual or accrual basis of accounting depending on the basis of accounting used by the respective fund in which the grant activity is recorded.

Condition: The City does not have adequate internal controls to ensure the SEFA accurately reports all federal assistance, including non-cash awards, the City receives as required by Federal guidelines.

Context: We noted the schedule improperly excluded non-cash awards including the beginning balance of the loans in which continuing compliance requirements have been imposed relating to the Home Investment Partnerships program (approximately \$60.6 million) and the cumulative ending balance of federally restricted amounts held in endowments of the Hope VI cluster (approximately \$2.9 million). In addition, we noted a portion of the federal expenditure amounts included in the Highway Planning and Construction cluster were reported on the cash basis of accounting (approximately \$2 million). Finally, we noted expenditures reported by the Head Start program improperly included encumbrances (approximately \$600 thousand) and expenditures reported by the Community Development Block Grants were improperly understated (approximately \$1 million). Total expenditures reported on the SEFA are \$398.4 million.

Effect: Errors in the SEFA effect the accuracy of information reported to the federal government in the City's data collection form. In addition, appropriate major program determination by the auditor is dependent upon the accuracy and completeness of the information included in the SEFA.

Cause: Grant management at the City is decentralized and thus the various departments receiving Federal awards are responsible for providing the required information to the City's Finance Department for SEFA preparation. The City was not aware of the Federal requirements to include non-cash assistance on the SEFA. Additionally, the City lacks standardized policies and procedures detailing how this information should be prepared by the departments and departments were relying on reports that were not reconciled to the general ledger. An overall review by the Finance Department was not completed to ensure the accuracy of information provided.

Identification as a Repeat Finding: Not applicable.

Recommendation: We recommend that the City provide training to all grant managers on Federal guidelines emphasizing the information necessary for SEFA preparation and establish standardized policies and procedures that will help the departments prepare and compile this information. Finally, we recommend the Finance Department analyze and review all reports submitted by the departments to ensure accuracy and completeness of the amounts reported on the SEFA.

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 (Continued)
Year Ended June 30, 2017

Section III - Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2017-002	<p>Finding: Subrecipient Monitoring</p> <p>Federal Transit Cluster CFDA No. 20.500 - Federal Transit - Capital Investment Grants Department of Transportation, Award Number AZ-04-0008-00, Award Year 2010 Department of Transportation, Award Number AZ-05-0203-00, Award Year 2011 CFDA No. 20.507 - Federal Transit - Formula Grants Department of Transportation, Award Number AZ-90-X114-00, Award Year 2013 Department of Transportation, Award Number AZ-90-X136-00, Award Year 2015 Department of Transportation, Award Number AZ-95-X111-00, Award Year 2015</p> <p>Criteria: In accordance with 2 CFR Section 200.331(e)(2) the pass-through entity must perform on-site reviews of the subrecipient's program operations as determined by the pass-through entity's assessment of risk posed by the subrecipient.</p> <p>Condition: We noted the City did not perform a risk assessment analysis or any on-site monitoring reviews for the subrecipients selected for testing. Additionally, upon discussion management represented that risk assessment analyses and on-site monitoring was not performed for any of its subrecipients during the year ended June 30, 2017.</p> <p>Questioned Costs: None.</p> <p>Context: We tested 5 of the 42 subrecipients for the year ended June 30, 2017 and noted the issue as described above. A non-statistical sampling methodology was used to select the sample.</p> <p>Effect: Failure to perform risk assessments could lead to awarding funds to risky subrecipients or improper monitoring of subrecipients. In addition, failure to conduct timely on-site monitoring reviews and take appropriate corrective action could result in non-compliance by the subrecipient continuing for an inappropriate length of time.</p> <p>Cause: Controls over subrecipient monitoring were not sufficiently operating during the year primarily due to significant staffing issues and turnover within the Public Transit Department.</p> <p>Identification as a Repeat Finding: Not applicable.</p> <p>Recommendation: We recommend that the City prepare a risk assessment analysis for each subrecipient to determine the level of risk and the types and frequency of monitoring required. Once the risk assessment analysis has been completed, we recommend the City develop a monitoring plan for each subrecipient as well as develop a process to track all monitoring performed on for each subrecipient.</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, 2017

Reference Number	Summary of Finding	Status
2016-001	<i>Grants Receivable</i> - We recommend a complete review of amounts included in appropriations be performed as the amounts are converted at year-end to ensure they meet the criteria for recognition under US GAAP.	Implemented. See separate auditee document for detail of corrective action taken.