

City of Phoenix, Arizona

Single Audit Reports

Year Ended June 30, 2020

City of Phoenix, Arizona
Year Ended June 30, 2020

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City of Phoenix, Arizona
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

1. General

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the primary government of the City of Phoenix, Arizona (City) under programs of the federal government for the year ended June 30, 2020. The City's reporting entity is defined in *Note 1* in the City's basic financial statements for the year ended June 30, 2020.

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 City's basic financial statements include the operations of Valley Metro Rail, Inc., a joint use agreement of the City, which expended \$56,030,187 in federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2020.

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, 2020.

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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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)
Year Ended June 30, 2020

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, these loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

The outstanding loan balances as of June 30, 2020, 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	\$ 4,788,728
14.239	Home Investment Partnerships Program	<u>3,232,568</u>
		8,021,296
Loans Subject to Continuing Compliance Requirements		
14.239	Home Investment Partnerships Program	<u>74,592,708</u>
	Total Loans Outstanding	<u><u>\$ 82,614,004</u></u>

4. Personal Protective Equipment (PPP) (Unaudited)

The City has received donated PPE during the year with an approximate fair market value of \$5,265,000.

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, 2020, 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 11, 2020, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 11, 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, 2020. 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 \$56,030,187 in federal awards which are not included in the City's schedule of expenditures of federal awards during the year ended June 30, 2020. 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, 2020.

Other Matters

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 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 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 certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be significant deficiencies.

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. 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 information of the City, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 11, 2020, 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
June 22, 2021

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

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, 2020

7. Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	Home Investment Partnership Program (HOME)
20.106	Airport Improvement Program
20.205	Highway Planning and Construction Cluster
20.513	Transit Services Programs Cluster
21.019	Coronavirus Relief Fund
93.600	Head Start Cluster

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, 2020

Section II – Financial Statement Findings

Reference Number	Finding
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No matters are reportable.

City of Phoenix, Arizona
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
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2020-001 **Finding:** Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching

Federal Programs: National Infrastructure Investments, Transit Services Program Cluster, Highway Planning and Construction Cluster, and Airport Improvement Program

CFDA Nos.: 20.933, 20.513, 20.205, 20.106

Federal Agency: Department of Transportation (DOT)

Pass-Through Entity, Applicable Only to Highway Planning and Construction Cluster: Arizona Department of Transportation

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.

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.

Questioned Costs: Questioned costs were determined by reviewing the 2020 expenditures that occurred for the issue noted above, with the exception of the Highway Planning and Construction Cluster. For the Highway Planning and Construction Cluster, questioned costs were determined by reviewing the 2020 expenditures that occurred for the issue noted above, less actual salaries and pension costs. See costs by applicable assistance listing number below:

<i>Cluster/Program</i>	<i>Assistance Listing No.</i>	<i>Questioned Costs</i>
National Infrastructure Investments	20.933	\$ 340,395
Transit Services Program Cluster	20.513	93,941
Highway Planning and Construction Cluster	20.205	443,530
Airport Improvement Program	20.106	<u>1,474,902</u>
		<u>\$ 2,352,768</u>

Context: Out of 75 expenditures selected for testing under the programs, 17 of the expenditures contained the issue noted above. The sample was not intended to be, and was not, a statistically valid sample. Total federal expenditures during the fiscal year under the applicable programs and known questioned costs are as follows:

<i>Cluster/Program</i>	<i>Assistance Listing No.</i>	<i>Total Federal Expenditures</i>	<i>Questioned Costs</i>	<i>Applicable Compliance Requirement(s)</i>
National Infrastructure Investments	20.933	\$ 2,821,422	\$ 340,395	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching
Transit Services Program Cluster	20.513	3,880,286	93,941	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Highway Planning and Construction Cluster	20.205	4,775,570	443,530	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Airport Improvement Program	20.106	<u>37,959,600</u>	<u>1,474,902</u>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching
		<u>\$ 49,436,878</u>	<u>\$ 2,352,768</u>	

Effect: Absent a formally documented and approved central service CAP, indirect cost expenditures are not allowable costs pursuant to CFR Part 200 and therefore are considered questioned costs.

Cause: Internal controls over indirect costs were not in place to ensure the City had a formally approved central service CAP.

Identification as a Repeat Finding: A similar finding was reported for the National Infrastructure Investments Program in the prior year's audit as finding number 2019-002.

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.

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

City of Phoenix, Arizona

Status of Prior Audit Findings

Year Ended June 30, 2020

Reference Number	Finding	Status
2019-001	<p>Finding: Schedule of Expenditures of Federal Awards Preparation</p> <p>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.</p>	Implemented. See separate auditee document for detail of corrective action taken.
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>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>	Unresolved. See Finding 2020-001