



City of Tempe, Arizona
Single Audit Reporting Package
Year Ended June 30, 2016

**CITY OF TEMPE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2016**

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**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

The Honorable Mayor and Members of the City Council
City of Tempe, 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, each major fund, and the aggregate remaining fund information of City of Tempe, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Tempe, Arizona's basic financial statements, and have issued our report thereon dated December 9, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tempe, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Tempe, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tempe, Arizona's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 9, 2016

**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

The Honorable Mayor and Members of the City Council
City of Tempe, Arizona

Report on Compliance for Each Major Federal Program

We have audited City of Tempe, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Tempe, Arizona's major federal programs for the year ended June 30, 2016. City of Tempe, Arizona'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 the requirements of 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 City of Tempe, Arizona'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 City of Tempe, Arizona'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 City of Tempe, Arizona's compliance.

Basis for Qualified Opinion on Section 8 Housing Choice Vouchers

As described in Findings 2016-001, 2016-002, 2016-003, 2016-004, 2016-005 and 2016-006 in the accompanying schedule of findings and questioned costs, City of Tempe, Arizona did not comply with requirements regarding the following.

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2016-001	14.871	Section 8 Housing Choice Vouchers	Eligibility
2016-002	14.871	Section 8 Housing Choice Vouchers	Reporting
2016-003	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions
2016-004	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions
2016-005	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions
2016-006	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for City of Tempe, Arizona to comply with the requirements applicable to that program.

Qualified Opinion on Section 8 Housing Choice Vouchers

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City of Tempe, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Section 8 Housing Choice Vouchers for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed another 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 2016-007. Our opinion on each major federal program is not modified with respect to this matter.

City of Tempe, Arizona’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Tempe, Arizona’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of City of Tempe, Arizona 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 City of Tempe, Arizona’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 City of Tempe, Arizona’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 identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005 and 2016-006, that we consider to be material weaknesses.

City of Tempe, Arizona's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Tempe, Arizona's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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, each major fund, and the aggregate remaining fund information of City of Tempe, Arizona as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Tempe, Arizona's basic financial statements. We issued our report thereon dated December 9, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 9, 2016. 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 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.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

March 21, 2017

CITY OF TEMPE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures	Payment to Subrecipients
<u>U.S. Department of Agriculture</u>				
Passed through Arizona Department of Health Services:				
Supplemental Nutrition Assistance Program Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C-86-13-031-3-03	224,974	\$
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C-86-13-031-3-02	218,830	
Total Supplemental Nutrition Assistance Program Cluster			<u>443,804</u>	
Total Department of Agriculture			<u>443,804</u>	
<u>U.S. Department of Housing and Urban Development</u>				
Direct program:				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	N/A	1,130,125	153,258
Total CDBG - Entitlement Grants Cluster			<u>1,130,125</u>	<u>153,258</u>
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers	14.871	N/A	9,148,081	
Total Housing Voucher Cluster			<u>9,148,081</u>	
Family Self-Sufficiency Program				
	14.896	N/A	91,222	
Passed through Maricopa County:				
Home Investment Partnerships Program				
	14.239	N/A	514,450	
Total Department of Housing and Urban Development			<u>10,883,878</u>	<u>153,258</u>
<u>U.S. Department of the Interior</u>				
Passed through National Park Service:				
Historic Preservation Fund Grants-In-Aid				
	15.904	N/A	1,792	
Total Department of the Interior			<u>1,792</u>	
<u>U.S. Department of Justice</u>				
Direct program:				
Organized Crime Drug Enforcement Task Force				
	16.Unknown	N/A	22,999	
Joint Terrorism Task Force				
	16.Unknown	N/A	6,024	
Passed through AZ Department of Public Safety:				
Crime Victim Assistance				
	16.575	2014-VA-GX	160,562	
Edward Byrne Memorial Justice Assistance Grant Program				
	16.738	Unknown	138,793	
Edward Byrne Memorial Justice Assistance Grant Program				
	16.738	2014-H1867-AZ-DJ	65,524	
Edward Byrne Memorial Justice Assistance Grant Program				
	16.738	2015-DJ-BX-1000	50,847	
Passed through Arizona Governor's Division for Children:				
Juvenile Mentoring Program				
	16.726	N/A	30,444	
Total Department of Justice			<u>475,193</u>	
<u>U.S. Department of Transportation</u>				
Passed through AZ Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	STP 000-6 (171)	86,269	
Highway Planning and Construction	20.205	CM-TMP-0(210)	3,649,563	
Highway Planning and Construction	20.205	CM-TMP-0(235)	438,855	
Highway Planning and Construction	20.205	AZ-90-X124	189,132	
Total Highway Planning and Construction Cluster			<u>4,363,819</u>	
Federal Transit Cluster:				
Passed through City of Phoenix and the Regional Public Transit Authority:				
Federal Transit: Formula Grants				
	20.507	N/A	2,459,797	
Passed through City of Phoenix:				
Federal Transit: Formula Grants				
	20.507	AZ-90-X124	98,626	
Federal Transit: Formula Grants				
	20.507	N/A	302,105	
Total Federal Transit Cluster			<u>2,860,528</u>	

**CITY OF TEMPE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures	Payment to Subrecipients
<u>U.S. Department of Transportation (continued)</u>				
Passed through AZ Governor's Office of Highway Safety:				
Highway Safety Cluster				
State and Community Highway Safety	20.600	2016-AL-046	49,545	
State and Community Highway Safety	20.600	2016-PT-042	22,682	
State and Community Highway Safety	20.600	2016-AL-045	49,534	
State and Community Highway Safety	20.600	2016-OP-006	10,350	
State and Community Highway Safety	20.600	2015-PT-043	17,103	
State and Community Highway Safety	20.600	2015-AI-011	2,850	
State and Community Highway Safety	20.600	2015-AL-019	21,411	
State and Community Highway Safety	20.600	2015-OP-008	33,423	
State and Community Highway Safety	20.600	2015-AL-018	40,608	
State and Community Highway Safety	20.600	2015A-404d-042	14,036	
State and Community Highway Safety	20.600	2016-CJOT-017	8,730	
National Priority Safety Programs	20.616	2015A-404d-042	11,214	
Total Highway Safety Cluster			<u>281,486</u>	
Total Department of Transportation			<u>7,505,833</u>	
<u>National Endowment for the Humanities</u>				
Direct Program:				
Promotion of the Humanities-Federal/State Partnership	45.129	N/A	6,244	
Total National Endowment for the Humanities			<u>6,244</u>	
<u>Institute of Museum and Library Services</u>				
Direct Program:				
Grants to States	45.310	N/A	1,184	
National Leadership Grants	45.312	N/A	6,419	
Total Institute of Museum and Library Services			<u>7,603</u>	
<u>U.S. Department of Health and Human Services</u>				
Direct Program:				
Substance Abuse and Mental Health Services	93.243	N/A	26,891	
Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	93.959	N/A	211,933	
Total Department of Health and Human Services			<u>238,824</u>	
<u>Executive Office of the President</u>				
High Intensity Drug Trafficking Areas Program	95.001	N/A	60,672	
Total Executive Office of the President			<u>60,672</u>	
<u>U.S. Department of the Homeland Security</u>				
Direct Programs:				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	30,742	
Passed through the Arizona Department of Homeland Security:				
Homeland Security Grant Program	97.067	140813-02	2,181	
Homeland Security Grant Program	97.067	150524-02	90,451	
Homeland Security Grant Program	97.067	150824-01	7,058	
Homeland Security Grant Program	97.067	140209-02	39,513	
Homeland Security Grant Program	97.067	130826-03	164	
Homeland Security Grant Program	97.067	888828-02	20,370	
Homeland Security Grant Program	97.067	140812-02	21,238	
Total Homeland Security Grant Program			<u>180,975</u>	
Total U.S. Department of the Homeland Security			<u>211,717</u>	
Total Expenditures of Federal Awards			<u>19,835,560</u>	<u>\$153,258</u>

CITY OF TEMPE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Tempe, Arizona under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of the 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 or cash flows of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the applicable Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

NOTE 4 – INDIRECT COST RATE

The City has not elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: Yes

Identification of major programs:

CFDA Numbers

14.871

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: Yes

Summary Schedule of Prior Audit Findings required to be reported: Yes

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-001

Repeat Finding: No

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U.S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: \$31,320

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Eligibility

CRITERIA

For public housing agencies (PHA) participating the Section 8 Housing Choice Vouchers program, the PHA must do the following in relation to eligibility for individuals:

1. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).
2. For both family income examinations and reexaminations, obtain and document in the family file third-party verification of (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 982.516).
3. Determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR part 5 subpart F (24 CFR section 5.601 et seq.) (24 CFR sections 982.201, 982.515, and 982.516).
4. Select tenants from the HCVP waiting list (24 CFR sections 982.202 through 982.207).
5. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR section 982.516).

CONDITION

A review of the PHA's participation in the Section 8 Housing Choice Vouchers program detected several instances of noncompliance related to tenant files.

CAUSE

The City lacked proper internal controls over the quality control of tenant files.

EFFECT

The City was not always in compliance with eligibility requirements.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-001

CONTEXT

During the review of eligibility of individuals participating in the Section 8 Housing Choice Voucher program, the following was noted:

- For four of 40 tenant files reviewed, the HUD Form 50058 was either not completed or did not contain all relevant information for the time period reviewed. It therefore could not be determined that the third-party verification of income was performed as the documentation could not be located. Moreover, it could not be verified that the tenant rent payment was calculated correctly based on eligibility. Finally, it could not be verified that the housing assistance payment (HAP) contracts and/or contract amendments agree with the amount recorded on the amount on 12u of the HUD Form 50058.
- As a result of the incomplete documentation noted in the previous bullet, for three of 40 tenant files reviewed, it could not be verified that the City examined the family income and composition at least annually and adjusted tenant rent and housing assistance payments as necessary.
- For four of 40 tenant files reviewed, an up to date utility allowance schedule (HUD Form 52667) could not be located.
- As a result of the HUD Form 52580 not being located, for two of 40 tenant files reviewed, it could not be verified annual HQS quality control re-inspections were performed.

RECOMMENDATION

The City must develop policies and procedures to ensure compliance with eligibility requirements.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-002

Repeat Finding: No

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U.S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Reporting

CRITERIA

The public housing authority (PHA) is required to submit form HUD 52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169). The PHA submits this form monthly to HUD electronically via the voucher management system (VMS). HUD uses VMS data for other funding, monitoring, and SEMAP-related decisions.

CONDITION

The City lacked adequate internal controls over financial reporting of the program. Specifically, the financial records in the VMS system did not agree to the financial records in the City's general ledger. For two of the three months reviewed, the general ledger expenditure amounts did not agree to amounts reported in the VMS system. Moreover, errors and discrepancies from prior periods were identified by the City.

CAUSE

The City lacked the proper internal controls over financial reporting of the program.

EFFECT

The City was not always in compliance with reporting requirements. This leaves the PHA at risk of breaching its annual contributions contract. In addition, the discrepancies in financial reporting leave the PHA susceptible to inappropriate use of funds, incorrect funding calculations and insufficient cash balances, all of which could result in the PHA failing to house as many eligible families as it otherwise could.

CONTEXT

For the month of November 2015, VMS did not properly reconcile to the City general ledger expenditures which were higher than the VMS expenditures by approximately \$3,600. Additionally, per review of the February 2016 reconciliation, the City general ledger expenditures were approximately \$5,100 higher than the VMS expenditures.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-002

RECOMMENDATION

The City must develop procedures to ensure accurate financial reporting of the program.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-003

Repeat Finding: No

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U.S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Special Tests and Provisions

CRITERIA

The public housing authority (PHA) must pay a monthly housing assistance payment (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register. (24 CFR section 982.158 and 24 CFR part 982, subpart K). In addition, PHAs are required to enter into depository agreements with their financial institutions in the form required by HUD. The agreements serve as safeguards for Federal funds and provide third-party rights to HUD. Among the terms in many agreements are requirements for funds to be placed in an interest-bearing account (24 CFR section 982.156). Moreover, PHAs are required to maintain complete and accurate accounts. In addition, the ACC requires PHA to properly account for program activity. Proper accounting requires that (1) account balances are properly maintained, (2) records and accounting transactions support a proper roll-forward of equity, and (3) errors are corrected as detected. Finally, the PHA must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements (24 CFR 982.54).

CONDITION

Noncompliance was noted with the roll forward of equity balances, the General Depository Agreement, Administrative Plan, and housing assistance payments.

CAUSE

The City lacked the proper internal controls to ensure compliance with the roll forward of equity balances, the General Depository Agreement, Administrative Plan, and housing assistance payments requirements.

EFFECT

The City was not in compliance with all special test and provisions requirements.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-003

CONTEXT

The following were noted during the review of the PHA's compliance with the Section 8 Housing Choice Voucher program:

- The PHA's general ledger was not properly maintained in relation to housing activity and prior year audited FDS schedules were deemed to have errors. Therefore, equity balances were not rolled forward correctly.
- The PHA did not have a current General Depository Agreement (GDA) (form HUD 51999) as required by the Annual Contributions Contract (ACC, form HUD 52520) for all financial institution accounts where HCV funds are maintained.
- The PHA's Administrative Plan was not properly approved. The PHA had been updating the plan annually, but was not taking it to HUD or the City council for approval.
- For four of 40 housing assistance payments reviewed, the family report or lease report could not be located for the month reviewed. Therefore, it could not be determined rent was reviewed and approved prior to issuance of payment and that the expenditure did not exceed the authorized HAP per line 12u on the family report. In addition, it also could not be verified that the payment register detail matched participant file information.

RECOMMENDATION

The City must execute an updated General Depository Agreement and Administrative Plan. In addition, corrections should be made to the general ledger to ensure accurate equity balances. Finally, corrections should be made to ensure compliance with housing assistance payments.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Reference Number: 2016-004

Repeat Finding: Yes- 2015-001

Program: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U. S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Special Tests and Provisions

CRITERIA

For units under a housing assistance payment contract that fail to meet Housing Quality Standards (HQS), the public housing agency (PHA) must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension (24 CFR Sections 982.158(d) and 982.404).

CONDITION

The City did not have an internal control system in place to ensure reinspections were performed in a timely manner.

CAUSE

Due to a lack of knowledge and training provided to inspectors, some inspections were not re-examined within the required amount of time as stated in Housing Quality Standards.

CONTEXT

For five of 10 failed inspections reviewed, four reinspections were not completed and one reinspection was completed within 35 days.

EFFECT

Reinspections were not completed within the required time for failed inspections. The City did not have proper internal controls to ensure compliance with enforcement requirements under Housing Quality Standards.

RECOMMENDATION

The City should ensure enforcement of Housing Quality Standards is followed in line with City policy. Staff trainings over compliance should be completed.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Reference Number: 2016-005

Repeat Finding: No

Program: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U. S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Special Tests and Provisions

CRITERIA

The PHA must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list. This includes selection and admission of applicants from the PHA waiting list, including any PHA admission preferences, procedures for removing applicant names from the waiting list, and procedures for closing and reopening the PHA waiting list (24 CFR 982.54(d)(1)).

CONDITION

The City did not select applicants in accordance with its own tenant selection policies in the Administrative Plan.

CAUSE

The City lacked the proper internal controls over the management of the waiting list. Moreover, the PHA lacked a dedicated, knowledgeable staff person to manage the waiting list to ensure compliance.

CONTEXT

The following were noted during the review of the PHA's compliance related to the waiting list with the Section 8 Housing Choice Vouchers program:

- The PHA incorrectly selected waiting list applicants by household income, date and time and in some cases randomly.
- The PHA incorrectly determined eligibility/ineligibility when verifying household income of over-income applicants.

EFFECT

The City was not in compliance with its tenant selection policies in the Administrative Plan.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Reference Number: 2016-005

RECOMMENDATION

The City must ensure that the method for selecting applicants from a preference category leaves a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Reference Number: 2016-006

Repeat Finding: No

Program: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Federal Agency: U. S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Special Tests and Provisions

CRITERIA

The PHA's administrative plan must state the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance, and utilities provided by the owner. The PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner, and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

CONDITION

The PHA did not implement a compliant rent comparability methodology and for examinations as stated in the Administrative Plan.

CAUSE

The City lacked the proper internal controls over the management of the determination of reasonable rent.

CONTEXT

As noted in 2016-001, due to the PHA not locating tenant files, we could not determine rent was calculated correctly. Additionally, for 40 of 40 tenant files reviewed, the PHA utilized a third party vendor computerized database where the rent comparability methodology does not compare similar units. Incomplete information related to 'Census Tracts' were on the rent comparability forms. Moreover, the PHA utilized a rent comparability form that uses factors that are not defined correctly. For example, the factor 'Size' only indicated if the unit was small or large, instead of utilizing square footage. As a result of these issues, the PHA is also inconsistently conducting rent reasonableness at every annual reexamination as required in the PHA Administrative Plan.

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Reference Number: 2016-006

EFFECT

The City was not in compliance with its determination of reasonable rent in the Administrative Plan. Moreover, there is the potential that rent could be calculated incorrectly and not be reasonable.

RECOMMENDATION

The City must update its policy and methodology for determining and documenting rent reasonableness. The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units and in accordance with the Administrative Plan. The PHA should consider the nine factors addressed in 24 CFR 982.507(b) in the development of their rent reasonableness program and also ensure the third party vendor computerized database includes all necessary data points.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan

**CITY OF TEMPE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2016-007

Repeat Finding: Yes – 2015-002

Program Name/CFDA Title: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Agency: U.S. Department of Housing and Urban Development

Federal Award No.: N/A

Pass-Through Agency: N/A

Questioned Costs: N/A

Type of Finding: Noncompliance

Compliance Requirement: Reporting

CRITERIA

Grantees of the Community Development Block Grant Entitlement Program utilize the Integrated Disbursement and Information System (IDIS) to complete annual performance and evaluation reports. Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the Program 90 days after the end of a grantee's program year.

CONDITION

The program year 2015 C04PR26 – CDBG Financial Summary Report did not disclose program income or funds disbursed in IDIS for section 108 repayments.

CAUSE

Due to turnover in the housing department at the City, the reports were not completed correctly.

EFFECT

An incomplete CDBG Financial Summary Report was submitted to the U. S. Department of Housing and Urban Development for the 2015 program year.

CONTEXT

The C04PR26 – CDBG Financial Summary Report is filed annually. The program year 2015 covers the July 1, 2015 – June 30, 2016 time period and was submitted by the September 30, 2016 deadline.

RECOMMENDATION

The City should ensure financial reports are complete and accurate before submission.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

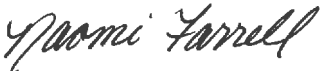
March 21, 2017

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The name of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

In addition, we have also prepared the accompanying Summary Schedule of Prior Audit Findings which includes the status of audit findings reported in the prior year's audit.

Sincerely,

A handwritten signature in cursive script that reads 'Naomi Farrell'.

Naomi Farrell
Human Services Director

**CITY OF TEMPE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-001

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: Naomi Farrell, Human Services Director

Anticipated Completion Date: May 2017

Planned Corrective Action:

With the implementation of the approved updated Administration Plan, staff will receive clarity on the policy and procedures for the EIV system. Specifically, staff will review the policies as part of their weekly staff meetings. The EIV system provides the Housing Authority with information from multiple sources (IRS, DES, HHS, etc) that allow for the accurate calculation of subsidy.

HUD Notice PIH 2010-19 and as updated through Notice PIH 2015-02 - Administrative Guidance for Effective and Mandated Use of the Enterprise Income Verification (EIV) System. This Notice will be provided to staff and discussed. Specifically, staff will be informed of the mandated use of HUD's verification hierarchy and the need for documenting the method of income verification used – with EIV #6 of the hierarchy being the primary method. And, second, discussion on use of the Income Discrepancy Report - to ensure the accuracy/ non-accuracy of tenant income, and determine the corrective action for each discrepancy of more than \$2,400 or more.

THA implemented a “file checklist” recently, which incorporates EIV report and review of income discrepancies. This checklist will ensure that the EIV report is present for interim required/requested income changes; and will ensure that the income verification hierarchy is consistently used.

The reviewer indicated that “non-third party” verification (tenant declarations) was relied upon without being notarized or sworn affidavits. THA developed a “Self-Certification” form for Assets, Alimony and Child Support, for families that claimed that they did not have any of the above income. The “Self-Certification” form is a written statement that confirms or is an affirmation, which can be used in any court, or in our case, as our due diligence for verification.

THA will begin pulling monthly required reports beginning April 1, 2017 and will calendarize pulling the required quarterly reports as stated in the corrective action. Discrepancies will be investigated, discussed with clients, and outcomes and dispositions will be documented in client files.

THA has reviewed all users of EIV and determined that only authorized and certified users have access to the EIV system. As of fall 2016, management ensured that all utilizors of the EIV system completed the required annual security training, created a file to store staff certifications and committed to completing this training on an annual basis. Additionally, management will review the Secure Systems users on a quarterly basis to recertify all staff and confirm the deletion of non-essential users.

**CITY OF TEMPE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-002
Program Name/CFDA Title: Section 8 Housing Choice Vouchers
CFDA Number: 14.871
Contact Person: Naomi Farrell, Human Services Director
Anticipated Completion Date: Unknown at this time
Planned Corrective Action:

The Housing Authority has completed a reconciliation of all accounting records from July 2009 forward. This reconciliation was completed in September 2016, and a reconciliation of the records was provided to the HUD Financial Management Center at that time. Currently the Housing Authority is awaiting the scheduling of a confirmatory audit with the Quality Assurance Division of HUD so that all financial records will be concurred upon by both the Housing Authority and HUD.

Additionally, the Housing Authority has implemented a monthly update policy with Executive Management to review all financial reporting and ensure compliance with applicable regulations.

Finding Number: 2016-003
Program Name/CFDA Title: Section 8 Housing Choice Vouchers
CFDA Number: 14.871
Contact Person: Naomi Farrell, Human Services Director
Anticipated Completion Date: Completed
Planned Corrective Action:

An updated General Depository Agreement was executed December 6, 2016 and was filed with the HUD Field Office at that time.

The Administrative Plan was approved by the Tempe City Council acting in its capacity as the Tempe Housing Authority on March 16, 2017 and this document has been filed with the HUD Field Office.

The Housing Authority has implemented a file check list that the Housing Supervisor will be utilizing to ensure that all client files contain the required information.

**CITY OF TEMPE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-004

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: Naomi Farrell, Human Services Director

Anticipated Completion Date: February 28, 2017

Planned Corrective Action:

THA scheduled HQS training in early April 2017 for the HCV inspector and one other person from the department. This training will ensure a better understanding of life-threatening and non-life-threatening deficiencies and the requirements to enforce them. A tracking log was developed to identify 24 hr. deficiencies and 30 day deficiencies. The log states the inspection date, re-inspection date and action(s) taken; it also identifies the party responsible for the deficiency. In addition to the log, the HQS letters have been revised with the requisite notices for abatement, termination and/or program termination, as appropriate.

For 24 hr./30 day deficiencies, copies of inspections, re-inspections, action letters to owners/tenants will be copied and provided to the supervisor to keep and provide as evidence of compliance; copies of 50058 transactions to support a “pass” inspection will also be provided to the supervisor. Contract termination and/or program termination letters as well will be reviewed by the supervisor.

THA had additional WebEx training for staff with Housing Pro to review their HQS portal. This included a review of their reports and the Dashboard for a quick glance of outstanding inspections, by type, for a better understanding of tracking and monitoring unit deficiencies.

The “Universe” will be written at the top of the Quality Control report however; since the agency is small there are not many life-threatening (24 hr.) deficiencies. Therefore, all of those deficiencies will be QC’ed.

**CITY OF TEMPE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-005

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: Naomi Farrell, Human Services Director

Anticipated Completion Date: May 2017

Planned Corrective Action:

THA Governing Board adopted the updated Administrative Plan on March 16, 2017, with staff training on the policies beginning on March 23, 2017 and continuing to review chapter by chapter at each staff meeting to ensure total understanding of the policies and to discuss issues that may have arrived from implementation.

Staff training is scheduled for the week of March 27, 2017 for the Housing Choice Voucher Occupancy, Eligibility, Income and Rent Calculations program, to further ensure staff knowledge and understanding of selecting applicants for admission. Further, the selection Policies as addressed in the Administrative Plan will be a highlighted topic of the training.

For the Waiting List, the THA will utilize the tracking log provided by the HUD reviewer to verify placement on the waiting list. It will also be utilized to determine and verify new admissions throughout the fiscal year and at each time applicants are selected for admission. However, since the THA is currently working on the last of the “old” waiting list, with no ‘preferenced’ families, we will provide the appropriate number used for the “Universe” and the number used for the random number selected. The QC sample will include the applicants selected, those admitted, those notified, those denied/removed and those leased.

**CITY OF TEMPE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-006

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: Naomi Farrell, Human Services Director

Anticipated Completion Date: July 2017

Planned Corrective Action:

THA contacted their current Rent Reasonableness vendor to discuss their policies/procedures used to develop their software program. The company provided their statement of compliance, step by step explanation of procedures, and their analysis of program procedures. After review of the document, it appears that their program is in compliance with 24 CFR 982.507 and 24 CFR Section 985.3 (b) Reasonable Rent – “for the Agency to utilize unassisted units as comparable units and to consider all nine characteristics for each determination”. Therefore, the reasonable rent system utilized uses only unassisted units for comparable units. It also considers the following characteristics for each determination: a) location; b) quality; c) size (# of bedrooms, # of bathrooms); d) unit type; e) age of contract unit; f) amenities; g) housing services; h) maintenance; and i) utilities provided by owner.

The Reasonable Rent Determination (RRD) system utilizes a value point system to each HUD required characteristic, providing a greater or higher point value or impact on rent to location. The RRD system is also set up to have the inspector or analyst assign the assisted and comparable unit a high, medium or low rental location. The description of each rental location is described within the RRD Policy document for the City of Tempe.

Unfortunately, the RRD Policy was not available for staff to understand and use. THA is making this RRD Policy part of the training for the inspector and will become a Policy incorporated in the next iteration of the Administrative Plan.

THA also reached out to another vendor to determine if their Rent Reasonableness Program was a better, less cumbersome program. We are waiting for a trial run on that program. In the meantime, we have a software program that appears to have the necessary HUD requirements. However, we will require further staff training on its complete use, as the inspections area acquires this task.

Finding Number: 2016-007

Program Name/CFDA Title: Community Development Block Grant, Entitlement Grants

CFDA Number: 14.218

Contact Person: Naomi Farrell, Human Services Director

Anticipated Completion Date: August 2017

Planned Corrective Action:

The Tempe Housing Authority will be working with the local Field Office in an effort to make the required changes to the IDIS system prior to the next reporting deadline of September 30, 2017

**CITY OF TEMPE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

Status of Findings and Questioned Costs Related to Federal Awards

Finding Number: 2015-001

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Not corrected. See current year finding 2016-004.

Finding Number: 2015-002

Program Name/CFDA Title: Community Development Block Grant, Entitlement Grants

CFDA Number: 14.218

Status: Not corrected. See current year finding 2016-007.