



**City of Tempe, Arizona**  
**Single Audit Reporting Package**  
Year Ended June 30, 2017

**CITY OF TEMPE, ARIZONA  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2017**

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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, 2017, 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 15, 2017. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement Nos. 74 and 77.

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 15, 2017

**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, 2017. 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 Community Development Block/Entitlement Grants, Home Investment Partnerships Program, and Section 8 Housing Choice Vouchers***

As described in Findings 2017-001, 2017-002, 2017-003 and 2017-004 in the accompanying schedule of findings and questioned costs, City of Tempe, Arizona did not comply with requirements regarding the following:

Finding Number:	CFDA Number:	Program (or Cluster) Name	Compliance Requirement
2017-001	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions
2017-002	14.871	Section 8 Housing Choice Vouchers	Special Tests and Provisions
2017-003	14.218	Community Development Block/Entitlement Grants	Subrecipient Monitoring
2017-003	14.239	Home Investment Partnerships Program	Subrecipient Monitoring
2017-004	14.218	Community Development Block/Entitlement Grants	Equipment and Real Property Management

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 Community Development Block/Entitlement Grants, Home Investment Partnerships Program, and 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 Community Development Block/Entitlement Grants, Home Investment Partnerships Program, and Section 8 Housing Choice Vouchers for the year ended June 30, 2017.

***Unmodified Opinion on Highway Planning and Construction and Federal Transit Formula Grants***

In our opinion, 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 each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which 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 items 2017-005, 2017-006 and 2017-007. Our opinion on each major federal program is not modified with respect to these matters.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, 2017-003 and 2017-004 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-007 to be a significant deficiencies.

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, 2017, 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 15, 2017, 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. 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  
December 15, 2017



**CITY OF TEMPE, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Program Title	CFDA Number	Contract Number	Expenditures	Payment to Subrecipients
<b><u>U.S. Department of Agriculture</u></b>				
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	97,084	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C-86-13-031-3-04	192,284	
Total Supplemental Nutrition Assistance Program Cluster			289,368	
Total Department of Agriculture			289,368	
<b><u>U.S. Department of Housing and Urban Development</u></b>				
Direct programs:				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		1,512,939	30,623
Total CDBG - Entitlement Grants Cluster			1,512,939	
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers	14.871		8,058,021	
Section 8 Housing Choice Vouchers	14.871		593,917	
Total Housing Voucher Cluster			8,651,938	
Family Self-Sufficiency Program	14.896		62,612	
Passed through Maricopa County:				
Home Investment Partnerships Program	14.239		1,106,231	509,378
Total Department of Housing and Urban Development			11,333,720	540,001
<b><u>U.S. Department of the Interior</u></b>				
Passed through State of Arizona Historic Preservation Office:				
Historic Preservation Fund Grants-In-Aid	15.904		200	
Historic Preservation Fund Grants-In-Aid	15.904		1,904	
Total Department of the Interior			2,104	
<b><u>U.S. Department of Justice</u></b>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-1010	48,191	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-1000	16,325	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-4078-005-001	153,851	
Total Edward Byrne Memorial Justice Assistance Grant Program			218,367	
Organized Crime Drug Enforcement Task Force	16.Unknown		4,138	
Joint Terrorism Task Force	16.Unknown		15,527	
Passed through AZ Department of Public Safety:				
Crime Victim Assistance	16.575	2014-VA-GX	217,628	
Passed through AARP Foundation:				
Juvenile Mentoring Program	16.726	EC-2016-02-0007	87,489	
Total Department of Justice			543,149	
<b><u>U.S. Department of Transportation</u></b>				
Passed through AZ Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	CM-TMP-0(234)	296,252	
Highway Planning and Construction	20.205	CM-TMP-0(238)	374,959	
Highway Planning and Construction	20.205	CM-TMP-0(210)	180,725	
Highway Planning and Construction	20.205	CMAQ-TMP-0(242)	493,676	
Highway Planning and Construction	20.205	CMAQ-TMP-0(244)	1,118,893	
Total Highway Planning and Construction Cluster			2,464,505	

See accompanying independent auditor's report on schedule of expenditures of federal awards and notes to schedule of expenditures of federal awards.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Payment to Subrecipients</u>
<b>Federal Transit Cluster</b>				
Passed through City of Phoenix:				
Federal Transit Formula Grants	20.507	AZ-90-X124	1,331,966	
Federal Transit Formula Grants	20.507	VM-Rail	279,995	
Passed through City of Phoenix and the Regional Public Transit Authority:				
Federal Transit Formula Grants	20.507	VM-RPTA	2,946,131	
Total Federal Transit Cluster			4,558,092	
<b>Passed through AZ Governor's Office of Highway Safety:</b>				
<b>Highway Safety Cluster</b>				
State and Community Highway Safety	20.600	2016-AL-046	10,455	
State and Community Highway Safety	20.600	2016-PT-042	32,318	
State and Community Highway Safety	20.600	2016-AL-045	75,466	
State and Community Highway Safety	20.600	2016-OP-006	9,186	
State and Community Highway Safety	20.600	2017-PT-058	48,739	
State and Community Highway Safety	20.600	2017-AL-046	36,176	
State and Community Highway Safety	20.600	2017-OP-016	11,563	
State and Community Highway Safety	20.600	2017-CIOT-021	10,000	
National Priority Safety Programs	20.616	2017-405d-034	69,604	
Total Highway Safety Cluster			303,507	
Total Department of Transportation			7,326,104	
<b><u>National Endowment for the Humanities</u></b>				
Passed through AZ Humanities Council:				
Promotion of the Humanities Federal/State Partnership	45.129	70402016	1,740	
Total National Endowment for the Humanities			1,740	
<b><u>Institute of Museum and Library Services</u></b>				
Passed through State of AZ Library, Archives and Public Records:				
Grants to States	45.310	2016-36001-08	11,906	
Passed through Westchester Library System:				
National Leadership Grants	45.312	LG-07-13-0374-13	1,081	
Total Institute of Museum and Library Services			12,987	
<b><u>U.S. Department of Health and Human Services</u></b>				
Passed through the AZ Department of Health Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959		2,276	
Total Department of Health and Human Services			2,276	
<b><u>Executive Office of the President</u></b>				
Passed through the City of Tucson:				
High Intensity Drug Trafficking Areas Program	95.001	HT-16-2616	158,262	
Total Executive Office of the President			158,262	
<b><u>U.S. Department of the Homeland Security</u></b>				
Passed through AZ Department of Homeland Security:				
Homeland Security Grant Program	97.067	150524-02	4,240	
Homeland Security Grant Program	97.067	150824-01	2,330	
Homeland Security Grant Program	97.067	16-AZDOHS-HSGP-160825-C	68,231	
Homeland Security Grant Program	97.067	16-AZDOHS-HSGP-160825-C	10,073	
Homeland Security Grant Program	97.067	140812-01	111	
Homeland Security Grant Program	97.067	150823-02	164	
Homeland Security Grant Program	97.067	160211-02	346	
Homeland Security Grant Program	97.067	160824-01	85,739	
Homeland Security Grant Program	97.067	160211-01	2,571	
Homeland Security Grant Program	97.067	150823-03	61,242	
Total Homeland Security Grant Program			235,047	
Total Department of the Homeland Security			235,047	
Total Expenditures of Federal Awards			\$19,904,757	\$540,001

See accompanying independent auditor's report on schedule of expenditures of federal awards and notes to schedule of expenditures of federal awards.

**CITY OF TEMPE, ARIZONA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

**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, 2017. 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 2017 *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, 2017**

**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: Yes
- Material weakness(es) identified: Yes

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block/Entitlement Grants
14.239	Home Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction
20.507	Federal Transit Formula Grants

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

Auditee qualified as low-risk auditee: No

**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, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-001

**Repeat Finding:** Yes – 2016-006

**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 Agency (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 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.

EFFECT

The City's methodology to determine rent reasonableness was not in compliance with federal regulations. Moreover, there is the potential that rent could be calculated incorrectly and not be reasonable.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-001

CONTEXT

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.

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, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-002

**Repeat Finding:** Yes - 2016-003

**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) is 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 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

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 for the entire fiscal year. In addition, the PHA's Administrative Plan was not properly approved in a timely manner.

CAUSE

The City lacked the proper internal controls to ensure compliance with the federal regulations over General Depository Agreement and Administrative Plan.

EFFECT

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

CONTEXT

An updated GDA was approved in December 2016. In addition, the PHA had been updating the Administrative Plan annually, but was not taking it to HUD or the City council for approval. The City council approved an updated Administrative Plan in March 2017.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-002

RECOMMENDATION

The City must execute an updated General Depository Agreement and Administrative Plan at the beginning of the fiscal year.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.



**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-003

**Repeat Finding:** No

<b>Program Names/CFDA Titles:</b>	<b>CFDA Numbers:</b>	<b>Federal Award No.'s:</b>	<b>Questioned Costs:</b>
Community Development Block Grants/Entitlement Grants	14.218	N/A	N/A
HOME Investment Partnerships Program	14.239	N/A	N/A

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

**Pass-Through Agency:** N/A for Community Development Block Grants/Entitlement Grants  
and Maricopa County for HOME Investments Partnership Program

**Type of Finding:** Noncompliance, Material Weakness

**Compliance Requirements:** Subrecipient Monitoring

**CRITERIA**

Before disbursing any CDBG or HOME funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning the statement of work, records and reports, program income, and uniform administrative requirements (24 CFR section 570.503). Further, if the subrecipient provides HOME funds to for-profit owners or developers, non-profit organizations, subrecipients, homeowners, homebuyers, tenants receiving tenant-based rental assistance, or contractors, the subrecipient must have a written agreement that contains the applicable provisions in 24 CFR section 92.504(c). Also, in accordance with 2 CFR section 200.331, pass-through entities must monitor activities of the subrecipient to ensure the subaward is properly used.

**CONDITION**

For subrecipients that received HOME and CDBG monies, the City did not always have written agreements with the subrecipient before disbursing monies. Moreover, proper monitoring of the subrecipient on an annual basis was not performed. Also, the City's subrecipient monitoring tool had not been updated since 2011.

**CAUSE**

The City lacked the proper internal controls to ensure compliance with subrecipient monitoring.

**EFFECT**

The City was not in compliance with all subrecipient monitoring requirements.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-003

CONTEXT

For two of three subrecipients that received CDBG monies, monies were disbursed before official contracts/agreements were signed. For all three subrecipients that received CDBG monies and for one subrecipient that received HOME monies, there was a general lack of subrecipient monitoring. First, there were no procedures performed to determine reasonable assurance that the subrecipient administers federal awards in compliance with federal requirement. Additionally, single audit reports were not maintained for the most recent fiscal year.

RECOMMENDATION

The City should enhance its internal controls and monitoring procedures over subrecipients.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-004

**Repeat Finding:** No

**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, Material Weakness

**Compliance Requirement:** Equipment and Real Property Management

**CRITERIA**

Real Property Management regulations as stated in 24 CFR 570.505 apply to real property within the recipient's control which were acquired or improved in whole or in part using CDBG funds in excess of \$25,000. The following are the requirements for properties that are applicable:

- (a) A recipient may not change the use or planned use of any such property (including the beneficiaries of such use) from that for which the acquisition or improvement was made unless the recipient provides affected citizens with reasonable notice of, and opportunity to comment on, any proposed change, and either:
  - (1) The new use of such property qualifies as meeting one of the national objectives in §570.208 (formerly § 570.901) and is not a building for the general conduct of government; or
  - (2) The requirements in paragraph (b) of this section are met.
- (b) If the recipient determines, after consultation with affected citizens, that it is appropriate to change the use of the property to a use which does not qualify under paragraph (a)(1) of this section, it may retain or dispose of the property for the changed use if the recipient's CDBG program is reimbursed in the amount of the current fair market value of the property, less any portion of the value attributable to expenditures of non-CDBG funds for acquisition of, and improvements to, the property.
- (c) If the change of use occurs after closeout, the provisions governing income from the disposition of the real property in § 570.504(b)(4) or (5), as applicable, shall apply to the use of funds reimbursed.
- (d) Following the reimbursement of the CDBG program in accordance with paragraph (b) of this section, the property no longer will be subject to any CDBG requirements.

**CONDITION**

The City did not ensure properties purchased with CDBG monies were utilized for their intended purposes in a reasonable amount of time. Additionally, that fact was not communicated to affected citizens with reasonable notice.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-004

CAUSE

The City lacked the proper internal controls over real property management.

EFFECT

The City was not in compliance with federal regulations.

CONTEXT

The CDBG program was not properly utilizing properties purchased with CDBG monies. The City has approximately 10 properties that were purchased between 1998 and 2006 that have not been used for their original purpose. Therefore, the planned use for those properties has not been fulfilled.

RECOMMENDATION

Properties purchased with CDBG must be used for program purposes in a timely manner. For the properties mentioned above, they must be utilized or disposed of under allowable methods.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-005

**Repeat Finding:** Yes – 2016-004

**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, Significant Deficiency

**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.

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.

CONTEXT

For two of 10 failed inspections reviewed, the reinspection was not completed within 30 days.

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, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-006

**Repeat Finding:** Yes – 2016-007

**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 2016 C04PR26 – CDBG Financial Summary Report did not disclose program income or funds disbursed in IDIS for section 108 repayments.

CAUSE

The City has not worked with HUD to ensure proper reporting can be completed related to section 108 repayments.

EFFECT

An incomplete CDBG Financial Summary Report was submitted to the U. S. Department of Housing and Urban Development for the 2016 program year.

CONTEXT

The C04PR26 – CDBG Financial Summary Report is filed annually. The program year 2016 covers the July 1, 2016 – June 30, 2017 time period and was submitted by the September 30, 2017 deadline.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

**CITY OF TEMPE, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2017-007

**Repeat Finding:** No

**Program Name/CFDA Title:** HOME Investment Partnerships Program

**CFDA Number:** 14.239

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

**Federal Award No.:** N/A

**Pass-Through Agency:** Maricopa County

**Questioned Costs:** N/A

**Type of Finding:** Noncompliance, Significant Deficiency

**Compliance Requirement:** Special Tests and Provisions

CRITERIA

During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than (a) every 3 years for projects containing 1 to 4 units, (b) every two years for projects containing five to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.209(i), 92.251(f), and 92.504(d)).

CONDITION

The City has not been performing on-site inspections within the required amount of time for properties that are in the period of affordability.

CAUSE

Due to turnover at the City, monitoring procedures to ensure compliance were not in effect.

EFFECT

The City was not in compliance with federal regulations.

CONTEXT

For all three properties that are in the period of affordability, the properties required on-site inspections every two years. Prior to the current fiscal year, one property had not had an on-site inspection since 2014 and the other two properties had not had an on-site inspection at all. All three properties have had or are in the process of having on-site inspections in fiscal year 2017.

RECOMMENDATION

The City must ensure on-site inspections are done within required time intervals.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

City of Tempe  
Housing Services  
Mail Stop 25-02  
PO Box 5002  
Tempe, AZ 85280  
www.tempe.gov



December 15, 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, 2017**

**Findings and Questioned Costs Related to Federal Awards**

Finding Number: 2017-001

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: LeVon Lamy

Anticipated Completion Date: July 26, 2017

Planned Corrective Action: The Tempe Housing Authority has changed software providers to determine rent comparability. The new software was implemented on July 26, 2017 and has been determined compliant with all guidelines by our HUD Phoenix Field Office Representative. All rent reasonableness determinations as of the implementation date have utilized the new software.

Finding Number: 2017-002

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: LeVon Lamy

Anticipated Completion Date: February 13, 2017

Planned Corrective Action: The Tempe Housing Authority fully executed the required General Depository Agreements (GDA's) for all accounts as required by the Annual Contributions Contract on February 13, 2017. Additionally, updated GDA's were executed on September 7, 2017. The next updated GDA is scheduled to be executed on October 1, 2018 as the HUD Form 51999 is expected to be updated prior to that date. The October execution of the GDA allows for the annual execution to include the most current verbiage from HUD.

Finding Number: 2017-003

<u>Program Names/CFDA Titles:</u>	<u>CFDA Numbers:</u>
Community Development Block Grants/Entitlement Grants	14.218
HOME Investment Partnerships Program	14.239

Contact Person: LeVon Lamy

Anticipated Completion Date: December 1, 2017

Planned Corrective Action: Staff began updating policy and procedure manuals around June of 2016 to assess the (then) current process of monitoring sub-recipients. On December 1, 2017 an updated policy and procedure manual was implemented to ensure appropriate sub-recipient monitoring. Additionally, on December 1, 2017 a schedule was created detailing the sub-recipient monitoring risk analysis. To further enhance the oversight and internal controls, the monitoring of sub-recipients was integrated as a primary function of their job duties. There is a quarterly review of all current sub-recipients, when the next monitoring is scheduled and the results of the previous monitoring (if applicable). Additionally, as requests for reimbursement are received from sub-recipients all submitted documentation is reviewed and any questions are addressed at that time. As part of the reimbursement process, we are also monitoring program accomplishments to ensure effective utilization of funds.

**CITY OF TEMPE, ARIZONA  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2017**

**Findings and Questioned Costs Related to Federal Awards**

Finding Number: 2017-004

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

CFDA Number: 14.218

Contact Person: LeVon Lamy

Anticipated Completion Date: June 30, 2018

Planned Corrective Action: Staff has updated the policy and procedure manual following best practice and HUD guidance. Any future properties will have an identified and documented eligible activity in place prior to purchase. Additionally, all currently held CDBG properties either have fully executed development agreements or are in the process of negotiating a development agreement. At this time, no properties have been identified as having been used for ineligible purposes and staff is working to ensure the properties fulfill their purpose in a timely manner. It is important to note that the intended purpose of the properties has not changed, and we are continuing with the pursuit of the development of affordable housing.

Finding Number: 2017-005

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Contact Person: Levon Lamy

Anticipated Completion Date: November 26, 2017

Planned Corrective Action: Tempe Housing Authority has updated its procedures and the HQS Inspector attended a HQS Certification training. Additionally, there is a daily review of any 24/30 failures to ensure that all are being addressed as regulatorily required. Further, an annual training rotation has been implemented, and all HQS inspectors are going to annual Certification Trainings. There are currently 4 staff members scheduled for March 7-9, 2018 for the new UPCS-V standards training. Additionally, the HUD Phoenix Field Office Representative has approved our updated procedures and this item is closed.

Finding Number: 2017-006

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

CFDA Number: 14.218

Contact Person: LeVon Lamy

Anticipated Completion Date: June 30, 2018

Planned Corrective Action: Staff will be working with the HUD Phoenix Field Office CPD representative and IDIS technical support to address the Section 108 reporting.

**CITY OF TEMPE, ARIZONA  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2017**

**Findings and Questioned Costs Related to Federal Awards**

Finding Number: 2017-007

Program Name/CFDA Title: HOME Investment Partnerships Program

CFDA Number: 14.239

Contact Person: LeVon Lamy

Anticipated Completion Date: December 1, 2017

Planned Corrective Action: Staff began updating policy and procedure manuals around June of 2016 to assess the (then) current process of on-site multi-family monitoring unit inspections. On December 1, 2017 an updated policy and procedure manual was implemented to ensure appropriate on-site unit monitoring. Additionally, on December 1, 2017 a schedule was created detailing the sub-recipient monitoring risk analysis. To further enhance the oversight and internal controls, the monitoring of multi-family units was integrated as a primary function of their job duties. There is an annual review of all current complexes, when the next monitoring is scheduled and the results of the previous monitoring (if applicable).

**CITY OF TEMPE, ARIZONA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2017**

**Status of 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

Status: Fully corrected.

Finding Number: 2016-002

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Fully corrected.

Finding Number: 2016-003

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Partially corrected.

Planned Corrective Action: See Corrective Action Plan located at current year finding 2017-002.

Finding Number: 2016-004

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Not corrected.

Planned Corrective Action: See Corrective Action Plan located at current year finding 2017-005.

Finding Number: 2016-005

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Fully corrected.

Finding Number: 2016-006

Program Name/CFDA Title: Section 8 Housing Choice Vouchers

CFDA Number: 14.871

Status: Not corrected.

Planned Corrective Action: See Corrective Action Plan located at current year finding 2017-001.

Finding Number: 2016-007

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

CFDA Number: 14.218

Status: Not corrected.

Planned Corrective Action: See Corrective Action Plan located at current year finding 2017-006.