



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION**: Quality Control Review on
the Single Audit of the City of Phoenix,
Phoenix, AZ
Report No. QC-2016-092

Date: August 24, 2016

From: George E. Banks, IV
Program Director for Single Audit

Reply to
Attn. of: JA-20

To: Regional Administrator, FTA, Region 9
Regional Administrator, FAA, Western-Pacific Region

The U. S. Department of Transportation (DOT) is the cognizant Federal single audit agency for the City of Phoenix, Phoenix, AZ (the City). This report presents the results of our Quality Control Review (QCR) on DOT's major grant programs included in the single audit of the City that Grant Thornton LLP (Grant Thornton) performed for the City's fiscal year ended June 30, 2014. During this period, the City expended approximately \$184 million from DOT grant programs. Grant Thornton determined that DOT's major programs were the Federal Transit Cluster, the Airport Improvement Program, and the Highway Planning and Construction Cluster. We limited the scope of our QCR to the Federal Transit Cluster and the Airport Improvement Program because no Highway Planning and Construction Cluster funds were awarded directly to the City.

The Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Grant Thornton rendered an unmodified opinion on City's financial statements and compliance with each of DOT's major program requirements and did not question any costs.¹

¹ A copy of Grant Thornton's single audit report is available by request to singleauditrequest@oig.dot.gov.

SCOPE

The purpose of our QCR was to determine: (1) whether the audit work complied with the Single Audit Act of 1984, as amended, and OMB Circular A-133; and (2) the extent to which we could rely on the auditors' work on the two DOT major programs we reviewed.

RESULTS

Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Based on our QCR, we assigned an overall rating of *pass with deficiencies* to Grant Thornton's work. Therefore, Grant Thornton generally met the requirements of the Single Audit Act, OMB Circular A-133, and DOT's major programs. While we found nothing to indicate that Grant Thornton's opinion on each of DOT's major programs reviewed was inappropriate or unreliable, we found the following deficiencies in Grant Thornton's work that should be corrected in future audits:

Compliance Supplement Part 4, Federal Transit Cluster. Grant Thornton did not adequately document its consideration related to some of the compliance requirements in the Federal Transit Cluster's Part 4 Compliance Supplement.

Matching, Level of Effort, Earmarking, Federal Transit Cluster. Grant Thornton incorrectly documented that the City did not have matching requirements related to its Federal Transit Cluster grants. As a result, there was not specific documentation supporting internal controls and compliance testing of the City's matching requirements. However, during our QCR, Grant Thornton informed us they were able to ensure the City met its matching share by reviewing allowable revenue sources and other single audit compliance testing performed.

Special Tests and Provisions, Revenue Diversion, Airport Improvement Program. Grant Thornton did not adequately document its internal control and compliance testing applicable to the compliance requirement for the Special Tests and Provisions, Revenue Diversion.

Furthermore, during our desk review of the City's fiscal year 2014 single audit report package that Grant Thornton submitted to the Federal Audit Clearinghouse (FAC), we identified the following item:

- In the Schedule of Findings and Questioned Costs (SFQC), Grant Thornton incorrectly used "unqualified" as its opinion on the City's financial statements and compliance with major program requirements. Grant Thornton should have used "unmodified" as its opinion on both the financial statements and compliance with program requirements. Grant Thornton has corrected the SFQC and resubmitted its single audit report to the FAC.

If you have any questions concerning this report, please call me at (410) 962-1729, or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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cc: Audit Liaison, FTA, TSO-10
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