



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of
Single Audit on the City of Phoenix, Arizona
Report No. QC-2009-089

Date: September 21, 2009

Reply JA-20

To

Attn Of:

From: Earl C. Hedges
Program Director for Single Audit

To: Regional Administrator, FTA, Region IX
Regional Administrator, FAA, Western-Pacific Region
Division Administrator, FHWA, Arizona Division Office

This report presents the results of our Quality Control Review (QCR) of a single audit performed by Clifton Gunderson, LLP on the City of Phoenix (the City) for the fiscal year ending June 30, 2008. During this period of time, the City received funds from five grant programs in the Department of Transportation (DOT).

DOT Operating Administration	CFD A #	Program Name	FY 2008 Expenditures	Major Program	Direct Award
Federal Aviation Administration (FAA)	20.106	Airport Improvement Program	\$21,298,444	Yes	Yes
Federal Highway Administration (FHWA)	20.205	Highway Planning & Construction Program	\$9,145,553	Yes	No
Federal Transit Administration (FTA)	20.500	Capital Investment Grants Program	\$105,133,060	Yes	Yes
Federal Transit Administration (FTA)	20.507	Formula Grants Program	\$65,297,722	Yes	Yes
National Highway Traffic Safety Administration (NHTSA)	20.600-.604	Highway Traffic Safety Programs	\$776,379	No	No

Clifton Gunderson rendered an unqualified (clean) opinion on the City's financial statements and did not question any costs concerning DOT grant programs. However, the auditor identified a significant deficiency in internal control over compliance with the FHWA program--the City did not prepare the Schedule of Expenditures of Federal Awards on an accrual accounting basis.

The purpose of our QCR was to determine: (1) the adequacy of the auditor's work; (2) whether the work complied with Generally Accepted Government Auditing Standards, the Single Audit Act of 1984, as amended (Act), and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations;" and (3) the extent to which we could rely on the auditor's work.¹

RESULTS

Based on our QCR, we determined that Clifton Gunderson's work, as it related to the DOT major programs identified above, generally met the requirements of Generally Accepted Government Auditing Standards, the Act, and OMB Circular A-133. We found nothing to indicate that Clifton Gunderson's opinion on the financial statements or reports on internal control and compliance were inappropriate or unreliable.

However, during our review of Clifton Gunderson's work, we identified audit documentation deficiencies. Clifton Gunderson provided explanations and additional documents in response to our concerns. Based on the information provided, we determined that these documentation deficiencies did not affect Clifton Gunderson's overall audit results. However, to adequately support their audit conclusions, these deficiencies should be corrected in future audits. The deficiencies are related to the following areas:

1. **Compliance Requirements Deemed Not Applicable to DOT Programs.** The OMB Compliance Supplement prescribes 14 specific requirements that need to be tested, unless deemed not applicable to the grant program by the auditor. Clifton Gunderson's audit workpapers did not provide convincing and supportive reason(s) why two compliance requirements for FTA, three compliance requirements for FAA, and two compliance requirements for FHWA were deemed not applicable.
2. **Compliance Review and Testing of Major Program.** Clifton Gunderson's audit workpapers did not clearly explain, document, or sufficiently support the extent of its review and/or testing performed on the following compliance requirements:
 - Requirement F (Equipment & Real Property Management): Clifton Gunderson's audit documentation did not provide evidence that they sampled equipment acquired with DOT funds to ensure it was appropriately safeguarded and maintained. In addition, the audit documentation did not

¹ The Department of Housing and Urban Development (HUD) is the cognizant Federal single audit agency for the City, but does not plan to perform a quality control review of Clifton Gunderson's work. HUD gave us permission to review DOT programs. Our review was limited to the DOT major programs identified by Clifton Gunderson.

specify whether differences existed between physical inventory counts and equipment records.

- Requirement G (Matching): Clifton Gunderson's audit documentation did not explain the work performed on the source(s) of the City's matching contribution and if the funds were from an allowable source.
- Requirement L (Reporting): Clifton Gunderson's audit documentation did not explain the work performed on Disadvantaged Business Enterprise (DBE) reports submitted to FTA.
- Requirement M (Subrecipient Monitoring): Clifton Gunderson's audit documentation did not explain the work performed on the City's monitoring of its subrecipients.

3. Control Deficiencies Not Considered as Material Weaknesses. Clifton Gunderson's audit workpapers did not include an explanation of why the three control deficiencies (2008-1, 2008-2, and 2008-3) identified during the audit were not considered material weaknesses.

During our exit conference, we recommended Clifton Gunderson correct these issues in its single audit of the City for the fiscal year ending June 30, 2009.² Clifton Gunderson concurred with our recommendation and agreed to provide its FY 2009 audit workpapers for our follow-up review.

We appreciate the courtesies and cooperation of Clifton Gunderson, LLP and City of Phoenix representatives during this QCR. 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: Regional Administrator, NHTSA, Region IX
 Audit Liaison, FTA, TBP-11
 Audit Liaison, FHWA, HAIM-11
 Audit Liaison, FAA, ABU-100
 Audit Liaison, FAA, Western-Pacific Region, AWP-620.1
 Audit Liaison, NHTSA, NPO-310
 Audit Liaison, OST, M-1
 Deputy Finance Director, City of Phoenix

² The single audit report issued by Clifton Gunderson is available upon request through the Freedom of Information Act process on <http://www.oig.dot.gov/foia.jsp>.