



CITY OF SURPRISE
City Audit Committee
16000 N. Civic Center Plaza
Surprise, AZ 85374
Wednesday, April 9, 2025 @ 4:15 PM
COUNCIL OVERFLOW ROOM

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. City Audit Committee Agenda

CALL TO THE PUBLIC:

INSTRUCTIONS: In order to address the Board\Commission, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the Secretary before the meeting begins.

Note: A.R.S. 38-431.01(H) - During this time members of the public may address the Board\Commission only on issues within the jurisdiction of the Board\Commission which are not an item on the agenda. At the conclusion of the open call, the Board\Commission may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|---|--------------|
| 1. | Citywide | Consideration and action pertaining to the January 22, 2025, meeting minutes. | City Auditor |
| 2. | Citywide | Consideration and action pertaining to the March 2025 Association of Local Government Auditors (ALGA) Peer Review Report. | City Auditor |
| 3. | Citywide | Presentation, discussion, and possible action pertaining to the Permit and Development Revenue Audit Report. | City Auditor |
- G. Other Business and Future Agenda Items
 - H. Adjournment

KRISTI PASSARELLI, CITY CLERK

POSTED: Thursday, April 3rd, 2025 @ 3:45 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR CLERK@SURPRISEAZ.GOV, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.



**CITY OF SURPRISE
City Audit Committee**

Council Meeting Date: April 9, 2025
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Consideration and action pertaining to the January 22, 2025, meeting minutes.

Motion:

I move to approve the minutes of the January 22, 2025, City Audit Committee meeting.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2024-2025 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to the city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the city auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs, and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

No financial impact.

Budget Impact:

No budget impact.

FTE Impact:

No FTE impact.

ATTACHMENTS:

1. 2025-01-22 Draft Minutes
-

CITY OF SURPRISE
Audit Committee Meeting
16000 North Civic Center Plaza
Surprise, AZ 85374
Wednesday, January 22, 2024 – 4:15 p.m.

CALL TO ORDER

Chair Tatiana Young called the Audit Committee Meeting to order at 4:21 p.m. on Wednesday, January 22, 2024, at Surprise City Hall, Lobby Conference Room N1-150, 16000 North Civic Center Plaza Surprise, Arizona 85374. Due to technical issues with equipment, the meeting location was changed from the Council Overflow Room to the City Hall Lobby Conference Room N1-150.

ROLL CALL

Chair Tatiana Young, Vice Chair Connie Bowers, Councilmember Chris Judd, Councilmember Earle Greenberg, Committee Member Heavenly Clegg, Deputy City Manager/CFO Andrea Davis, and Parks and Recreation Director Holly Osborn.

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

City Auditor Carol Holley, Internal Auditor Angela Hanson, Internal Auditor Sr. Melissa Moreno, Assistant Director of Finance Erick Martin, Director Sports and Tourism Kendra Pettis, and Accounting Manager Rebecca Chitwood.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

- 1. Consideration and action pertaining to the October 23, 2024, Audit Committee meeting minutes.**

Councilmember Judd moved to approve the October 23, 2024, Audit Committee meeting minutes. Vice Chair Bowers seconded. Chair Young and Councilmember Greenberg abstain. Motion approved 3-0.

- 2. Presentation, discussion, and possible action pertaining to the review and update of the Audit Committee Bylaws.**

Vice Chair Bowers suggested updating the Bylaws during the October 23, 2024, Audit Committee meeting. After reviewing the Bylaws, a motion was made on January 22, 2024, to approve the changes and for all voting members to sign the updated Audit Committee Bylaws.

Vice Chair Bowers moved to approve and sign the updated Audit Committee Bylaws. Councilmember Judd seconded. Motion carried 5-0.

3. Presentation and discussion pertaining to the fiscal year 2023-2024 Annual Comprehensive Financial Report (ACFR) and associated reports.

Staff member Martin presented and discussed the draft copy of the Annual Expenditure Limitation Report Year End June 30, 2024. By the State Constitution, the City of Surprise is required to report that we stayed under the spending limitation of \$1.4 billion. The draft report reflects a spending of \$282 million related to property taxes, sales taxes, and any locally generated revenue. We are under the spending limitation by \$1.1 billion. We are well under the limitation. The required report is due to the Attorney General by March 31st.

Heinfeld, Meech & Co., P.C. Engagement Partner Brittney Williams gave a virtual presentation and overview of the fiscal year 2023-2024 annual audit, the qualifications of Heinfeld, Meech & Co., P.C. staff, and their specialized training. There was no new pronouncement this year for financial reporting. Previous announcements, such as leases, continue to take up a significant amount of time. An auditor opinion and HURF report were issued on December 12, 2024. No findings were observed. The Single Audit report (related to federal dollars) was submitted and issued on January 7, 2025, as well as the Biannual Impact report. There are additional reports to follow in the next month or so. The timeline of the external audit process was discussed.

Councilmember Judd congratulated the Finance team on great leadership and a great job.

Vice Chair Bowers questioned how many years Heinfeld, Meech & Co., P.C. can audit before the City is required to change external auditors. Davis stated that there is no set amount of time. Davis discussed the balancing between when it is too long and too short, about every 10 years. The firm will switch the auditor managers or partners in charge of our audit to provide a fresh set of eyes. The external auditors have an internal quality control partner. We will continue to use the firm for a few more years.

No motion was required for this item.

4. Presentation, discussion, and possible action pertaining to the Tourism Fund Audit Report.

Melissa Moreno presented the Tourism Fund Audit Report to the Audit Committee.

The Fund was established in 2010 to track expenses and revenues associated with the transit lodging tax, also known as the bed tax. State laws require a portion of the tax to be used for tourism. The Fund received approximately \$1.2 million each year in FY23 and FY24 from the bed

tax. Payments are being made in accordance with the agreements. Opportunities for updating the policies were identified.

Councilmember Judd questioned what needed to be changed for the Tourism process. Director of Sports and Tourism Kendra Pettis explained that the language on certain agreements may require more documentation, such as a budget and other items, if Sports and Tourism are putting in more time, while other agreements do not. The current policies and procedures state that certain items “maybe,” while other agreements may state “shall have.”

Chair Young mentioned the increase in tax revenue in certain months, and Pettis explained that it was due to spring training and other events.

Councilmember Judd explained that February and March are the busiest months for restaurants in the City of Surprise.

Davis discussed the various tax revenue trends and the timing of them.

Vice Chair Bowers moved to approve and distribute the Tourism Fund Audit Report. Councilmember Greenberg seconded. Motion carried 5-0.

5. Presentation, discussion, and possible action pertaining to the FY2023-2024 Annual City Auditor Activity Report.

Carol Holley presented to the Audit Committee the FY2023-2024 Annual City Auditor Activity Report, which is required by Governmental Auditing Standards.

During FY2023-2024, the City Auditor Department experienced a decrease in audit time spent on direct hours, which are hours that can be contributed directly to an audit engagement. The decrease in direct hours is due to training for new staff and other administrative activities that are not performed every year, which included the citywide risk assessment.

Council member Judd questioned the projections for direct hours this upcoming fiscal year and the decrease in direct hours over recent years. Holley stated that the goal is 70% for direct hours. Audit staff is reviewing how they spend audit hours to assess if the percentage should be modified. Holley has benchmarked other cities. The City Auditor Department staff are participating in indirect hours activities that they were not participating in previous years. Holley expects to see an increase in direct hours over the next year.

Holly Osborn stated that if you add the citywide risk assessment, you are right at 70%.

Holley stated that audit recommendations are being cleared in a timelier manner. Twenty-two new audit recommendations were made last fiscal year. Carol Holley discussed the most common audit recommendations that are occurring in audit reports.

Carol Holley discussed the City Auditor Department’s online form for reporting fraud, waste, and abuse.

Councilmember Greenberg requested an explanation of the high-risk audit recommendations related to Fire-Medical. Carol Holley provided an explanation.

Carol Holley discussed several items that are on the horizon for FY2024-2025. This includes the March 2025 peer review, updating policies and procedures related to new standards, coordinating West Valley training, and reviewing key performance indicators for the City Auditor Department.

Vice Chair Bowers moved to approve and distribute the FY2023-2024 Annual City Auditor Activity Report. Committee Member Clegg seconded. Motion carried 5-0.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

The next Audit Committee Meeting will be held on **April 9, 2025**, at 4:15 p.m.

EXECUTIVE SESSION

ADJOURNMENT

Chair Young moved to adjourn the meeting, and Councilmember Judd seconded. Motion carried 5-0. The meeting was adjourned at 5:14 p.m.

ATTEST:

Tatiana Young, Chair

Carol Holley, Staff Liaison

CERTIFICATION:

I, Kristi Passarelli, City Clerk for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Audit Committee Meeting of **Wednesday, January 22, 2025**.

Kristi Passarelli, City Clerk, CERA



**CITY OF SURPRISE
City Audit Committee**

Council Meeting Date: April 9, 2025
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Consideration and action pertaining to the March 2025 Association of Local Government Auditors (ALGA) Peer Review Report.

Motion:

I move to approve and distribute the March 2025 ALGA Peer Review Report.

Background:

Generally Accepted Government Auditing Standard (GAGAS) 5.60 requires each organization conducting engagements in accordance with GAGAS to obtain an external peer review conducted by reviewers independent of the audit organization being reviewed. This item has been placed on the agenda to discuss the results of the March 2025 City Auditor Department peer review report coordinated and conducted by members of the ALGA. GAGAS requires audit organizations to have an external peer review at least once every three years. The City Auditor Department's last ALGA peer review was conducted in March 2022 and was awarded a Pass rating.

Objective Analysis:

The scope of the review was to conduct a peer review in accordance with GAGAS peer review requirements following guidelines contained in the ALGA Peer Review Guide, 2018 Revision. The objectives of the review were to determine whether, during the period January 1, 2022, through December 31, 2024, the City Auditor Department's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of complying with applicable GAGAS issued by the Comptroller General of the United States as well as applicable legal and regulatory requirements.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Peer Review Presentation at Audit Committee Meeting
 2. Surprise City Auditor Department-ALGA Peer Review Results 20Mar2025
-

Surprise, Arizona

2025 ALGA Peer Review



Keith Piper, CIA
City of Virginia Beach

Chris Wilson, MPA
City and County of Denver

Purpose

The purpose of the examination was to review the design and operation of your quality control system to provide **reasonable assurance** that your audit shop complies with Government Auditing Standards.

Types of ALGA Peer Review Ratings

- * Pass
- * Pass with Deficiencies
- * Fail

Your audit shop has achieved a rating
of.....**Pass.**

What Did We Do?

- * We reviewed the audit organization background information.
- * We reviewed the design of the quality control system.
- * We reviewed all CPE information for the most recently completed 2-year period for Government Auditing Standards for all staff employed during the 2-year period.
- * We interviewed two audit staff to assess their collective skills in conducting audits and application of the standards in their work.
- * We tested the operation of the quality control system by reviewing three performance audits which were conducted during the review period.

Audits Reviewed:

- * FY 2023-2024:
 - * Procurement
 - * Travel Reimbursement
- * FY 2024-2025:
 - * Tourism Fund

NOTE: These three engagements account for about 22% of the total hours noted for all audits during the review period.

What Did We Find?

We found that the quality control system for the City of Surprise is adequately designed and operating effectively to provide reasonable assurance of compliance with the Government Auditing Standards issued by the Comptroller General of the United States, and applicable legal and regulatory requirements for audits conducted during the period January 1, 2022 through December 31, 2024. There were no written findings to report.

Verbal Comment

Independence: Although the auditor-in-charge completed the independence statement form for the Travel Reimbursement audit, the supervisor's independence statement form was not completed. As a result, conformance with the following Government Auditing Standards related to independence was not documented: 3.18-3.20, 3.27-3.29, 3.30-3.32, and 3.59. Similar issues were not noted during the review of the other two audits. We believe this is an isolated incident and confirmed that there were no actual issues surrounding independence for this audit.

Areas In Which Your Office Excels

- * **Observation Risk Ratings:** The use of the observation risk ratings in your audit reports helps the reader to quickly summarize the severity of issues identified.
- * **Commitment to Training:** We noted a strong commitment to ensuring staff receive proper training. This included support for staff in acquiring skills in new areas, such as the use of the analytic tool IDEA.



Final Thoughts and Questions

- * The next peer review will take place in 2028 and will cover the period of January 1, 2025 through December 31, 2027.
- * Questions?



External Quality Control Review

of the
City of Surprise
City Auditor Department

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period
January 1, 2022 through December 31, 2024



Association of Local Government Auditors

March 19, 2025

Carol Holley, City Auditor
City of Surprise, Arizona City Auditor
16000 North Civic Center Plaza
Surprise, Arizona 85374

Dear Ms. Holley,

We have completed a peer review of the City of Surprise City Auditor Department for the period January 1, 2022 through December 31, 2024. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with Government Auditing Standards* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audits and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing audit staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case but does imply adherence in most situations. Organizations can receive a rating of pass, pass with deficiencies, or fail. City of Surprise City Auditor Department has received a rating of pass.

Based on the results of our review, it is our opinion that the City of Surprise City Auditor Department's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits during the period January 1, 2022 through December 31, 2024.

Keith Piper

Keith Piper, CIA
Senior Auditor
City of Virginia Beach
Office of the City Auditor

Christopher Wilson

Chris Wilson
Audit Analytics Manager
City and County of Denver
Auditor's Office



CITY AUDITOR
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623-222-1027

March 19, 2025

Mr. Keith Piper, Peer Review Lead – City of Virginia Beach Office of the City Auditor
Mr. Chris Wilson, Peer Review Team Member – City and County of Denver Auditor's Office

Dear Peer Review Team Members,

I have reviewed your report dated March 19, 2025, containing the results of your external quality control review of the City of Surprise City Auditor Office for the period January 1, 2022, through December 31, 2024. The process was beneficial and will enhance our quality control related to operations.

As an extremely small internal audit program, I value your time and appreciate your confirmation regarding the state of our quality control system for the period under review. I am excited that you found the City of Surprise City Auditor Office's internal quality control system suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards*.

I extend my appreciation to the peer review team and Lyndon Remias, Virginia Beach City Auditor, who coordinated the peer review on behalf of the Association of Local Government Auditors. I appreciate the time the team and Mr. Remias dedicated to the peer review.

Sincerely,

A handwritten signature in cursive script that reads "Carol Holley".

Carol Holley, CIA, CISA, cRBIA
City of Surprise City Auditor



**CITY OF SURPRISE
City Audit Committee**

Council Meeting Date: April 9, 2025
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Presentation, discussion, and possible action pertaining to the Permit and Development Revenue Audit Report.

Motion:

I move to approve and distribute the Permit and Development Revenue Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2024-2025 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to the city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the city auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs, and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2024-2025 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. FINAL Secured Permit and Development Revenue Audit Report
-



SURPRISE

ARIZONA

**Permit and Development
Revenue Audit Report**

February 27, 2025

Melissa Moreno, Internal Auditor - Sr.

City Auditor Department

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Executive Summary

As part of the City Auditor Department’s (CAD) Fiscal Year (FY) 2025 Annual Audit Plan, an audit of the City of Surprise (City) permit and development revenue funds for July 1, 2022, through June 30, 2024, was performed. The purpose of the audit was to determine whether the revenues were accurately recorded and processed effectively and efficiently in compliance with City policies and procedures. A previous permit processing audit was conducted in FY2020.

Overall, auditors found areas of improvement related to the systems and processes used to process permit and development revenues. Auditors reviewed 380 permit applications over FY2023 and FY2024, out of the 13,950 permit applications that were processed during these years. The process of tracking the changes between the different systems, such as Camino and Land Information System (LIS), appear to be sufficient. In addition, the payments made and updated in LIS are reconciled monthly with Munis to ensure accuracy. However, auditors found instances where users with access to Camino or LIS should not have had access. In addition, of the 380 permit applications sampled, there were four applications where the permit documentation could have been improved to be more accurate. Auditors also found the process for identifying and closing out abandoned permit applications needs to be implemented and followed up on.

Community Development has areas of achievement and opportunities for

- ✓ Manual updates in systems
- ✓ Processing and tracking payments
- ✗ System access
- ✗ Documenting permit data
- ✗ Closing abandoned applications

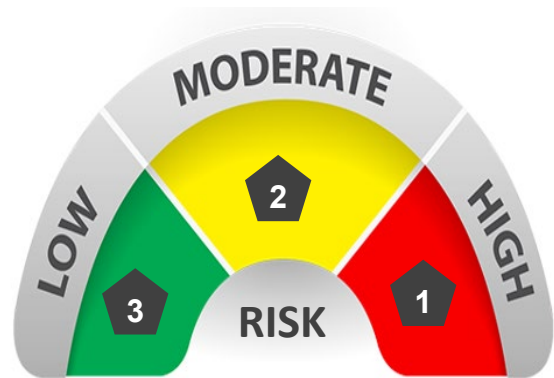
✓ Area of achievement ✗ Area of improvement

As a result, this report documents opportunities for improvement and makes recommendations to the Community Development Department to ensure system access is reviewed at least annually, review permits for accuracy, and implement the policy for abandoned applications.

Observations Summary and Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix B.

1. System user access needs to be reviewed and updated periodically to ensure proper access levels are authorized.
2. Some permit applications should be reviewed to ensure proper documentation of data related to the permit.
3. Policy related to abandoned permits needs to be implemented and followed up to ensure compliance.



Detailed Observations

High Risk - Observation

1. System user access needs to be reviewed and updated periodically to ensure proper access levels are authorized.

According to the City's *Information Security Policies and Procedures Version 3.1*, section 4.5.1 states that "Each user's access privileges must be authorized according to business needs, restricted to least privileges necessary to perform job responsibilities, and assigned based on job classification and function. "

Additionally, industry standards recommend that organizations limit information system access to the minimum necessary for users to accomplish their tasks and to disable access of terminated users to prevent unauthorized access. National Institute of Standards and Technology (NIST) Special Publication 800-53 states that "A periodic review of assigned user privileges is necessary to determine if the rationale for assigning such privileges remains valid" and should remove access if necessary.

Auditors found outdated and inappropriate access levels listed in two systems used to monitor permit applications, Camino and LIS. We reviewed overall system access but did not evaluate the specific level of access within a system. Specifically, auditors identified 15 users with access to systems they did not need:

- Of the 47 users with access to Camino, one was an employee who left employment, and one was a contractor who no longer needed to have access to the system.
- Of the 187 total users with access to LIS, five were employees who left employment, and eight were contractors who no longer needed access to the system.

During the audit, Community Development Department staff contacted the Information Technology (IT) department to request that access for all 15 of these users be removed.

According to Community Development Department staff, the last time they reviewed the system access lists was over two years ago. They rely on the IT department to remove access for employees or contractors when they leave employment. In addition, in instances where an employee does not leave but no longer needs access, since no termination notification is sent to IT, they would not be removed. Through not having a process to review access periodically, these individuals continued to have access to the system.

Risk

Users with access they do not need increases risks related to security, privacy, legal compliance, and operational efficiency.

Recommendations

The Community Development Department should:

- 1A. Review the system access lists for all systems to ensure that the current access and specific levels are appropriate for the business's needs.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/10/2025
The user access and privilege lists for LIS and the Surprise Online Application Portal have been reviewed and updated accordingly.

- 1B. Develop and implement a policy to review system access lists at least annually to ensure updates are made appropriately and identify if any further access changes are necessary.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/10/2025
A policy to review system access lists on a quarterly basis has been created and implemented.

Moderate Risk - Observation

2. Some permit applications should be reviewed to ensure proper documentation of data related to the permit.

According to the Development Services Fee Schedule, permit fees are calculated at \$100 plus \$6 per \$1,000 of the valuation of the project, and administrative fees are 0.5% of the valuation of the project. The Development Services Fee Schedule also provides a table with development impact fees related to water systems and wastewater. However, the Development Agreements related to many of the permit applications require that the City not assess or collect water system or sewer system development fees. As a result of this, credits are provided back to adjust the development impact fees related to these.

Of the 380 permit applications sampled, one permit was potentially charged incorrectly. This permit application was initially submitted, paid, and issued for a project but later requested a modification. Since permit and administrative fees are based on the valuation of the project, the increased scope of the permit modification could have potentially impacted the valuation of the project. However, no documentation noted if staff followed up on any changes to valuation and no additional fees were requested.

In addition, of the 77 permits with credits reviewed, three were not documented properly in LIS. Auditors confirmed that the total amount assessed and collected for these permits was correct. However, the credit was subtracted from the total fees due instead of being entered into LIS as a credit for those permits.

While new staff are provided training from senior staff and make their own notes of how to perform and document tasks, no formal procedures are documented for staff on what they should do, resulting in a higher chance of steps being missed or errors being made.

Risk

Inaccurate permit fees could result in the City overcharging or undercharging permit applicants. In addition, a lack of proper documentation in City systems could result in data loss, making validating data more difficult.

Recommendations

The Community Development Department should:

- 2A. Review currently open permits and ensure that valuation changes are being taken into account and that fees are documented appropriately going forward.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/8/2025
The Building Permit Modification application will be amended to include a valuation of additional work field. A new report will be created and reviewed weekly by the

Development Review Supervisor to verify modification valuations entered into LIS are accurate.

- 2B. Ensure that staff are provided with proper training and have a documented procedure for performing tasks as a reference.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/8/2025

The Development Review Supervisor will continue to create/revise policies and procedures to ensure consistent application of processes. As new policies and procedures are approved, staff will undergo training.

Low Risk - Observation

3. Policy related to abandoned permits needs to be implemented and followed up to ensure compliance.

The Permit Application Abandonment Policy states that a permit application with no activity in the prior 150 days will be notified that their application may be considered abandoned if no action is taken within the next 30 days. After 180 days of no action and having received the notice, a permit application is considered abandoned retaining all fees paid, and requiring payment of any plan review and administrative fees for time spent by City staff if not already paid.

Of the 380 out of 13,950 permit applications sampled by auditors, 12 of the permit applications have had no activity for more than 180 days as of January 2025. One of these permit applications received a notice of potentially being considered abandoned but has not been closed yet. The other 11 permit applications have not received notification or been closed. Specifically:

- Three permit applications have had no activity in more than two years.
- Five permit applications have had no activity in more than one year.
- Four permit applications have had no activity in more than 180 days.

The Community Development Department issued the Permit Application Abandonment Policy on 11/14/2024, and according to staff, they have not had a chance to review all permit applications to apply the policy since it was issued.

Risk

Permit applications that are left open for an extended period of time risk leaving the City open to potential refunds or loss of revenue on plan review and administrative fees. In addition, when permit applications are not kept current, there is a higher risk of not maintaining changes to codes and method changes in the industry.

Recommendations

The Community Development Department should:

- 3A. Review all currently open permit applications and notify ones with no activity in at least 150 days of potential abandonment, per the City policy.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/8/2025
The Business Analyst created a SQL Server Reporting Services (SSRS) report which allows the Development Review Supervisor to easily identify permit applications with no activity for 150 days. Notification has begun.

- 3B. Ensure that going forward, open permit applications and those that have received prior notification are reviewed at least monthly to ensure that notification and closures are implemented according to City policy.

Management Response: Management concurs with the audit recommendation.

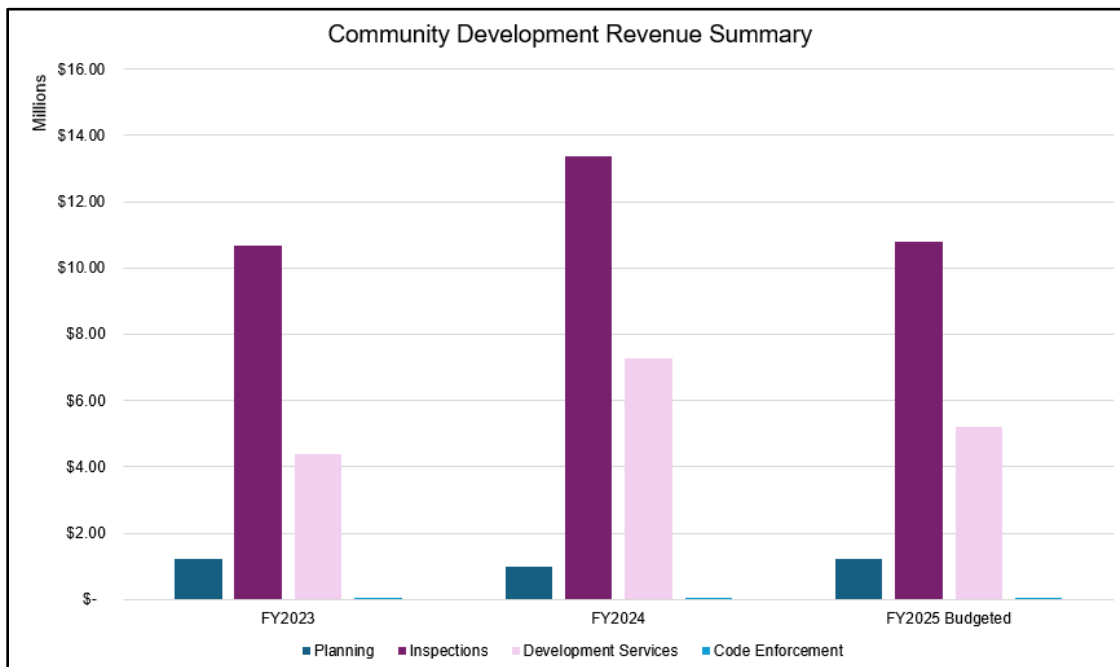
- Recommendation Completion Date: 4/8/2025
The Development Review Supervisor will review applications monthly to ensure notification and closures are implemented according to City policy.

Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

The Community Development Department oversees the processes related to building permits and plan reviews, building inspections, and code compliance of structures located within the City. Private citizens, commercial and residential developers, utility companies, and contractors must obtain a permit to initiate any improvement project within the City. Services provided by the Community Development Department generate an average of about \$18 million per year between FY2023 and FY2025.



Source: Unaudited FY2023, FY2024, and FY2025 Munis COS Revenue Summary by Department reports.

In FY2023, the Community Development Department received 6,720 permit applications, and in FY2024, they received 7,230 permit applications, which staff processed. Applications can be submitted directly in LIS, through Camino, or over the counter. Any application not submitted through LIS is manually entered into LIS by Community Development Department Staff. These applications are then monitored for reviews, approvals, inspections, changes, permit issuance, invoices, and payments.

Objectives, Scope, and Methodology

CAD conducted a performance audit of the Permit and Development Revenue pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on permits and other development fees from July 1, 2022, to June 30, 2024, to evaluate whether City policies and procedures were followed.

Specifically, the CAD evaluated whether:

- Systems used in the process of permit and development revenue have the proper access and monitoring.
- The manual processes between systems have adequate controls to ensure accuracy.
- The fees calculated and charged to applicants are appropriate and applied correctly.
- The fees are being paid appropriately and fully to the City.

The CAD used various methods to review the specific objectives of this audit. These methods included:

- Interviewing Community Development Department Staff.
- Reviewing City and Community Development Department policies, municipal code, and state statutes.
- Analyzing permit documentation maintained in LIS for the sampled permit applications.
- Comparing permit application data in LIS to the applications submitted through Camino or over the counter.
- Reviewing invoices, payments, and adjustments for the sampled permit applications.
- Analyzing the system access reports provided by the IT Department and Munis employment dates.
- Using CaseWare IDEA data analytical software.

Appendix B: Data Reliability and Audit Observation Risk Rating

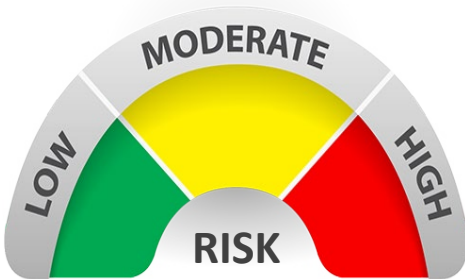
Data Reliability

The data utilized for the work performed was obtained from LIS and where applicable, Munis, the City’s financial system of record. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed by the City’s external auditor.

The CAD selected audit samples to provide sufficient evidence to support our findings and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:



- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.

- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited.

Moderate-risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.

- Low – Represents an observation for consideration by management for correction or implementation associated with the process being audited. Low-risk observations should be implemented to improve the efficiency and effectiveness of operations.

Appendix C: Audit Standards and Acknowledgments

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, the CAD verified that the audit objectives and related controls identified address the five internal control components of the COSO framework. Although some control weaknesses were identified and included in this report's Detailed Observations section, none rose individually or cumulatively to the level of a Citywide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction related to procurement. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgments

The CAD appreciates the time City staff contributed to this review. The City Auditor would like to take this opportunity to thank the City departments and individuals involved in the Permit and Development Revenue Audit for their considerable cooperation and assistance, including the:

- Community Development Department
- Information Technology Department

Surprise City Auditor Department

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- **Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact the City Auditor Department:
<https://surpriseaz.gov/166/City-Auditor>.