

CITY OF SURPRISE
Audit Committee Meeting
16000 North Civic Center Plaza
Surprise, AZ 85374
Wednesday, January 22, 2025 – 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:



Connie Bowers, Vice 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