



CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
 Tuesday, April 7, 2026 @ 4:30 PM
COUNCIL CHAMBERS
 Agenda Amended on 4/6/26*

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Regular City Council Work Session Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| 1. | Citywide | * Presentation and discussion pertaining to internal audit reports approved by the City of Surprise Audit Committee. | Melissa Moreno
City Auditor |
| 2. | Citywide | * Presentation and discussion pertaining to the FY2027 Budget | Sandy Simmons
Finance |
| 3. | Citywide | Presentation and discussion regarding an update on the City's water resources. | Michael Boule
Water Resource
Management |
- E. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));
- discussion or consultation for legal advice with the city's attorneys (A.R.S. §38-431.03 (A)(3));
- discussion or consultation with the city's attorneys regarding the city's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid or resolve litigation (A.R.S. §38-431.03 (a)(4));
- discussion or consultation with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations with employee organizations (A.R.S. §38-431.03 (A)(5)); or
- discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town. A.R.S. §38-401.03 (A)(6)).
- discussing or consulting with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property (A.R.S. §38-431.03 (A)(7)).

Confidentiality Requirements Pursuant to A.R.S. §38-431.03(C)(D): Any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney by agreement of the City Council, or as otherwise ordered by a court of competent jurisdiction.

The council may vote to hold an executive session for the purpose of obtaining legal advice from the Board's attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

F. Adjournment

KRISTI PASSARELLI, CITY CLERK

POSTED: Thursday, April 2nd, 2026 @ 10:30 AM
*Agenda Amended on 4/6/26 @ 3:00 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
Regular City Council Work Session

Council Meeting Date: April 7, 2026

Contact Person: Melissa Moreno, Internal Auditor - Senior

Submitting Department: City Auditor

District: Citywide

Staff Recommendations:

Consent: No

Regular: No

Public Hearing: No

Report/Discussion: No

Agenda Wording:

* Presentation and discussion pertaining to internal audit reports approved by the City of Surprise Audit Committee.

Motion:

For discussion only.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the Annual Audit Plan, which was approved by the Audit Committee.

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:

There is no anticipated financial impact related to this item.

Budget Impact:

There is no anticipated budget impact related to this item.

FTE Impact:

This item does not have an impact on current staff levels.

ATTACHMENTS:

1. FINAL Secured Permit and Development Revenue Audit Report
 2. Final Secured Special Events and Facility Rentals Audit Report
 3. FINAL Secured Tourism Fund Audit Report
 4. SECURED Capital Improvement Plan Projects Audit Report
 5. SECURED Fire-Medical Payroll Audit Report
 6. City Auditor Department 4-7-26
-



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

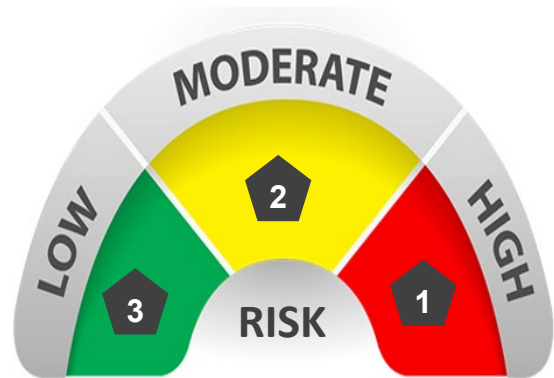
✓ Area of achievement ✗ Area of improvement

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.

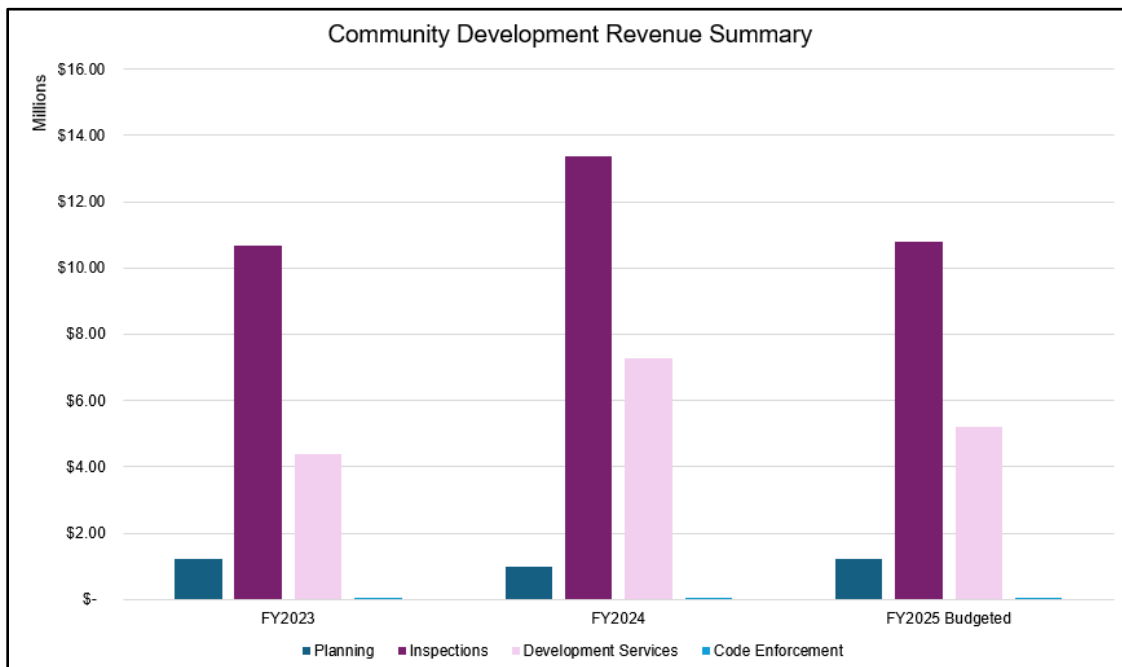
- Recommendation Completion Date: 4/8/2025
The Development Review Supervisor will review applications monthly to ensure notification and closures are implemented according to City policy.

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

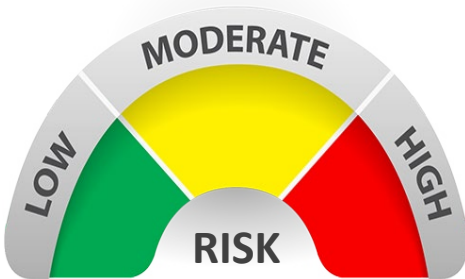
Data Reliability

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

- **Vision**—The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.
- **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>.



SURPRISE

ARIZONA

Special Events and Facility Rentals Audit Report

May 29, 2025

Angela Hanson, Internal Auditor

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) special events and facility rentals for July 1, 2023, through June 30, 2024, was performed. The purpose of the audit was to determine whether special events and facility revenue were accurately recorded and processed effectively and efficiently in compliance with city policies, procedures, and municipal code.

Overall, auditors found some areas of improvement related to special event and facility rental revenue for FY2024. Auditors sampled seven of 14 special events, and 58 of 2038 facility rentals identified with the Parks and Recreation Department. In addition, auditors sampled eight out of 16 facility rentals and special events identified with the Sports and Tourism Department. Auditors found that deposits were being made in a timely manner, both departments used benchmarking to determine appropriate fees to set, and physical safeguards for cash and cash equivalents appear sufficient. However, auditors found that the Parks and Recreation Department did not retain complete documentation, and the Sports and Tourism Department did not collect all facility use revenue it was owed.

Parks and Recreation and Sports and Tourism have areas of achievement and opportunities for improvement

- ✓ Ensuring deposits are timely.
- ✓ Benchmarking when setting fees.
- ✓ Applying physical safeguards for cash.
- ✗ Maintaining proper record retention.
- ✗ Collecting all revenue.

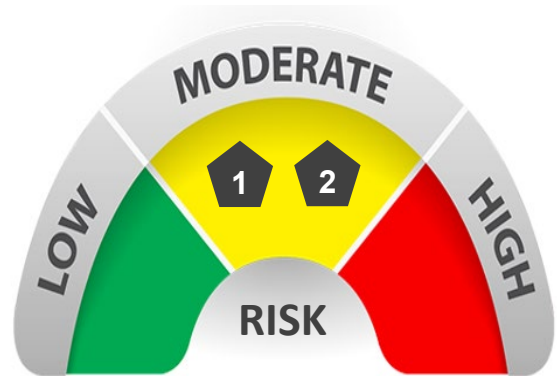
✓ Area of achievement ✗ Area of improvement

As a result, this report documents opportunities for improvement and makes recommendations to the respective departments to ensure documentation is retained and to improve the revenue collection process.

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. Some Parks and Recreation Department records were not retained according to the Arizona General Retention Schedule.
2. Revenue for one facility rental was not fully collected by the Sports and Tourism Department.



Moderate Risk - Observation

1. Some Parks and Recreation Department records were not retained according to the Arizona General Retention Schedule.

According to the Arizona General Retention Schedule created by the Arizona State Library, Archives, and Public Records¹, financial records must be retained for three years after the fiscal year in which it was created or received.

Auditors found that the Parks and Recreation Department did not maintain invoices, receipts, credit card authorization records, or cash transaction records for the transactions processed in the CivicRec system for the prior three years, including the audit period of FY2024.

The Parks and Recreation Department had recently switched from its prior system of CivicRec to ActiveNet in FY2025. During the transition from the prior system, they attempted to extract all data. However, they were only able to easily pull data if there was a default report already available in the system. Pulling detailed data from the system would require staff to export each individual transaction that took place over the years, which was not feasible according to the department staff.

Risk

Not maintaining complete documentation results in noncompliance with state law, along with potential legal consequences and reputational harm. Further, incomplete documentation makes it difficult to verify or resolve questions or disputes related to transactions from that period.

Recommendations

The Parks and Recreation Department should:

- 1A. Maintain all current documentation in accordance with the State's General Retention Schedule.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/18/2025

The Parks and Recreation Department acknowledges the importance of maintaining records in compliance with the Arizona General Retention Schedule and has reviewed applicable retention schedules during the audit to ensure compliance with all other documentation. During a recent transition between software vendors, we faced challenges related to storing the required level of

¹ A.R.S. §41-151.12 grants the Arizona State Library, Archives, and Public Records the authority to set records retention periods. Further, A.R.S. §41-151.14 requires cities to comply with the rules, standards, and procedures adopted by the Arizona State Library, Archives, and Public Records. Arizona State Library, Archives, and Public Records Schedule Number GS-1017, Record Series Number 10057.

documentation due to limitations with the old and new systems' architecture. Specifically, the volume and complexity of the data made it operationally difficult to retain.

- 1B. Verify that all current and future systems used to maintain documentation include an option to retain required documentation after usage of the system is terminated.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/18/2025

We recognize the necessity of ensuring long-term access to required documentation, even beyond the operational lifecycle of the systems used to create or manage it. Business Services has worked with IT during the selection of the current system, and will continue to work closely with IT to verify that all current and future systems include features or workflows to extract and retain necessary records upon system retirement or transition. This proactive approach will ensure that we maintain full compliance with retention requirements regardless of system changes.

2. Revenue for one facility rental was not fully collected by the Sports and Tourism Department.

According to a facility use license agreement signed by the City and a Licensee, the Licensee would have access to City facilities for games played in the fall of 2023. The fees and rates for each game and service were specified in the agreement. Full payment was required within 30 days after the end of the month in which the events took place.

However, the Licensee did not pay the City in full due to a billing error. Specifically, the total amount due was \$30,990, with a deposit of \$6,350 paid prior to the event and the remaining balance due after the event. However, after the event, the City incorrectly subtracted the deposit a second time and invoiced the Licensee \$18,290 instead of \$24,640, resulting in an underpayment of \$6,350.

Facility Use Agreement Payment Collection			
Payment Collection Sequence	Correct	Actual	
Total Amount Due	\$ 30,990	\$ 30,990	
Deposit Collected	\$ 6,350	\$ 6,350	
Balance Due	\$ 24,640	\$ 24,640	
		\$ 6,350	Deposit subtracted erroneously
Amount Collected	\$ 24,640	\$ 18,290	
	\$ -	\$ 6,350	Underpayment

Source: Munis invoice and receipt records for FY2024.

The process for invoicing facility use agreements had recently shifted during FY2024 from the Sports and Tourism Department to the Finance Department. As a result, only one invoice was created to include both deposits and final payments, making payment amounts unclear. In addition, the process did not have the Sports and Tourism Department review invoices before being sent by Finance, and the reconciliation process by the Sports and Tourism Department was not as developed as it needed to be. Although the process has been updated since FY2024 to ensure a separate invoice is issued for deposits and final payment to reduce the risk of this occurring, this was not in place at the time, and the underpayment went undetected.

Risk

Not collecting the full revenue due for facility use agreements could result in the City not obtaining the funding required to cover the costs of the events that take place and a loss of revenue.

Recommendations

The Sports and Tourism Department should:

- 2A. Review the underpayment for the facility use agreement and determine if it would be beneficial to recoup the revenue from the Licensee.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/20/2025

The Sports and Tourism Department reviewed the underpayment for the facility use agreement and determined it was not beneficial to recoup the revenue from the Licensee since the billing error was on the City's side and the event took place almost two years ago. The Licensee is a long-standing partner and the future revenue opportunities will be more beneficial to the City compared to the underpayment amount.

- 2B. Ensure that the reconciliation process includes comparing invoices to internal department records to make sure the full amount is being invoiced and collected.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/20/2025

The Sports and Tourism and Finance Departments have already changed the process for both deposits and invoicing. There will no longer be a deposit request, instead there may be a set pre-payment invoice for required Licensees based on the facility use agreement and a separate post-event invoice. The Finance Department now also notifies the Sports and Tourism Business Administrator of any invoices prior to them being sent to the Licensees for review so that the Department can compare to the internal department records before they are sent out. In addition, the Sports and Tourism Business Administrator reconciles the actual payment in MUNIS to the internal department records.

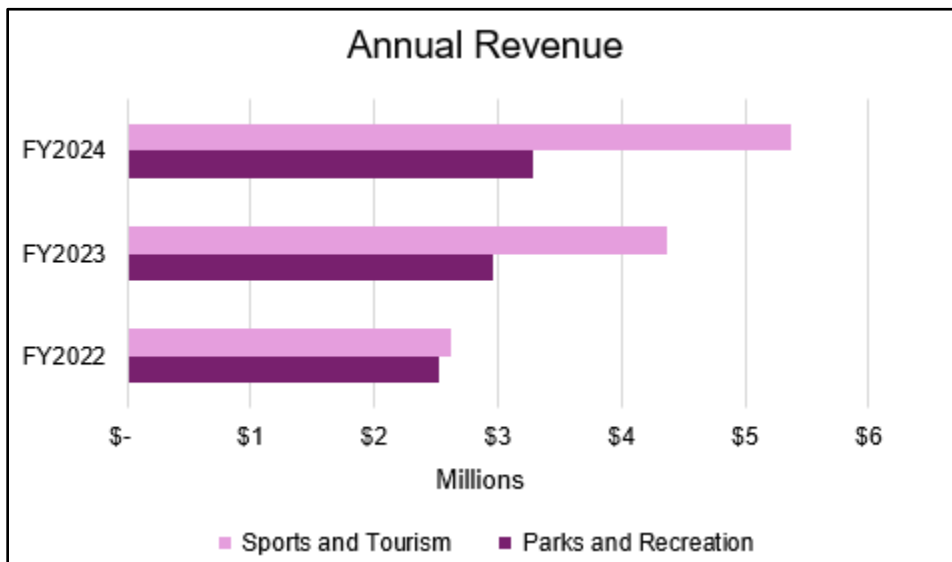
Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

According to the FY2024 and FY2025 budget books, the Parks and Recreation Department divisions include administration and support, aquatics, park maintenance, racquet sports, special events, sports leagues, and youth services. This includes marketing, planning, and implementing community events such as the Surprise Party, Sundays in the Park, Veterans Day, Spring Eggstravaganza, and more.

The Sports and Tourism Department divisions include administration, campus, tennis and pickleball, and tourism events. They also support spring training and third-party events and tournaments.



Source: Unaudited FY2022, FY2023, and FY2024 Munis COS Revenue Summary by Department Reports

Services provided by the Sports and Tourism Department brought in an average of a little over \$4 million between FY2022 and FY2024, and the Parks and Recreation Department brought in an average of just under \$3 million. Fee schedules related to rentals and events have been developed based on benchmarking with other cities and considering the City's costs. Neither department charges for event parking, citing the overall benefit to City residents and the financial and logistical challenges associated with implementing such fees.

Objectives, Scope, and Methodology

We conducted a performance audit of Special Events and Facility Rentals pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on special events and facility rentals from July 1, 2023, to June 30, 2024.

Specifically, the CAD evaluated whether:

- Revenue from special events and facility rentals was accurately recorded, fully collected, and timely deposited.
- Processes were efficient, effective, and compliant with applicable laws, regulations, policies, and contractual agreements.
- Internal controls were effective in safeguarding revenue, preventing fraud, and ensuring proper authorization.
- Departments benchmarked other cities to minimize missed revenue opportunities.

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

- Interviewing Parks and Recreation Department and Sports and Tourism Department staff.
- Reviewing COS and department policies, municipal code, and state statutes.
- Analyzing revenue records from facility rentals and special events from FY2024.
- Randomly and judgmentally sampling seven special events and 58 facility rentals identified with the Parks and Recreation Department, and eight facility rentals and special events identified with the Sports and Tourism Department to test compliance with COS policies.
- Reconciling facility rental and special event records with Munis.
- Comparing rates and fees charged to the City fee schedules and agreements.
- Using CaseWare IDEA data analytical software.

Appendix B: Data Reliability and Audit Observation Risk Rating

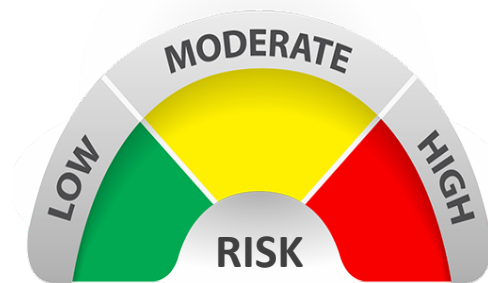
Data Reliability

The data utilized for the work performed was obtained from CivicRec 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 facility rental and special event revenue. 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 Special Events and Facility Rentals Audit for their considerable cooperation and assistance, including the:

- Parks and Recreation Department,
- Sports and Tourism Department.

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SURPRISE

ARIZONA

Tourism Fund Audit Report

September 30, 2024

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) Tourism Fund for July 1, 2022, through June 30, 2024, was performed. The purpose of the audit was to determine whether the Tourism Fund is being used effectively and efficiently to accomplish its key initiatives in compliance with City policies and procedures. The CAD has not previously audited the Tourism Fund.

Overall, auditors found the process the Sports and Tourism Department was following when processing Tourism Fund applications was not always in compliance with their written process. Auditors reviewed five events that took place over FY2023 and FY2024, two of which took place in both years. The proper approval process was followed for all events, and the amounts that were

reimbursed for the events were accurate according to the policy and the approved agreements. Auditors also reviewed the goals related to the Tourism Fund in the Sports and Tourism Strategic Plan and found that these goals had been met by FY2023. However, auditors found the process that the Sports and Tourism Department was following when processing Tourism Fund applications was not always in compliance with their written process. Auditors identified some areas where the Tourism Fund Application Process should be updated to reflect current needs.

As a result, this report documents opportunities for improvement and makes recommendations to the Sports and Tourism Department to ensure they review and update the Tourism Fund Application Process for specific areas identified and ensure it is reviewed every one to three years.

The Tourism Fund has areas of achievement and opportunities for improvement

- ✓ Obtained all proper approvals
- ✓ Reimbursed proper amount according to agreements
- ✓ Met or exceeded goals related to Tourism Fund
- ✗ Documented Tourism Fund Process

Area of achievement Area of improvement

Observation Summary and Risk Rating

Audit observation has 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. The documented application process has areas of improvement to more accurately reflect actual processes.



Detailed Observation

Moderate Risk - Observation

1. The documented application process has areas of improvement to more accurately reflect actual processes.

According to the Government Finance Officers Association (GFOA), best practice requires that policies be reviewed and updated every one to three years, depending on the organization's needs, to ensure that they reflect the current regulations and systems in place.

In a review of the Tourism Fund Application Process for July 1, 2022, through June 30, 2024, auditors found instances where the written process does not reflect the actual processes that are taking place, including:

- The Tourism Fund Application Process has a list of required items and states that these items must be included in the application for consideration, as well as a list of documents required after the event. However, most of these items are not being collected, and according to interviews with staff, they often don't need all of the items to make a determination and will only follow up if needed.
- The Tourism Fund Application Process requires a final report after the event, which must include a fully completed final report submission form. However, there is no form that is provided to be completed.
- The Tourism Fund Application Process restricts funds related to "any salary supplements, staffing costs, or any personnel payments". However, there was at least one instance where staffing costs were authorized in the contract when they were related to direct operational costs.

The current process was last updated in 2018. However, with no policy in place to require a periodic review, it has not been reviewed or updated since then to ensure it is still consistent with the needs of the Tourism Fund.

Risk

When the written process doesn't reflect what is actually occurring, important steps might be overlooked by City staff or applicants might not have a clear understanding of expectations.

Recommendations

The Sports and Tourism Department should:

- 1A. Review the written process to ensure that it reflects the current needs of the Tourism Fund.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2025

Sports and Tourism staff will review and update the application process and bring it to the Tourism Fund Subcommittee and City Council for approval.

- 1B. Ensure that the written process is reviewed and updated as needed on a schedule of every one to three years.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2025

Sports and Tourism staff will review and update the written process at least every three years.

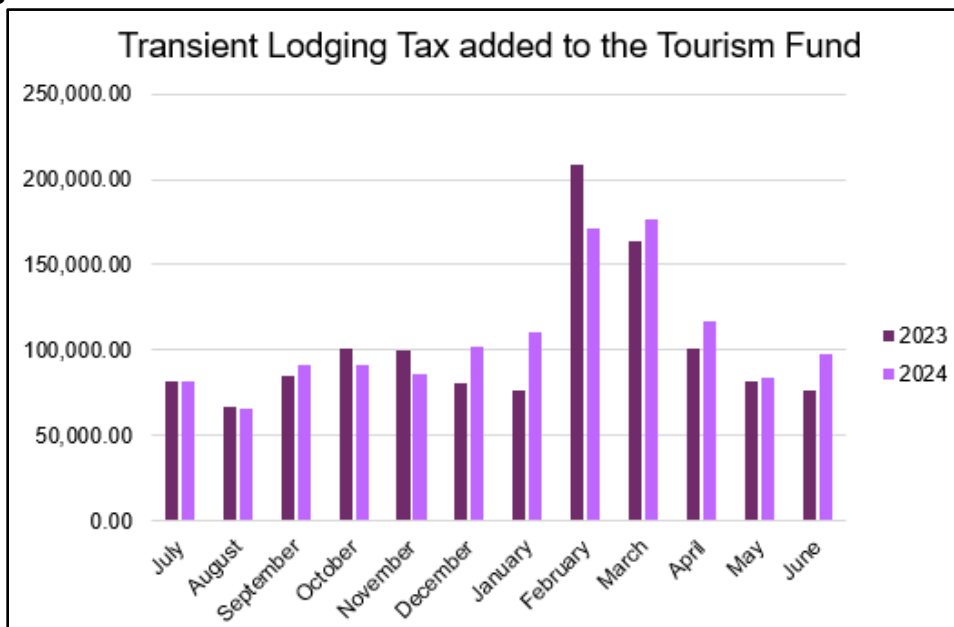
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Appendix A: Background, Objectives, Scope, and Methodology

Background

The Tourism Fund was first established in FY2010 to track the expenses and revenues associated with the Transient Lodging Tax (Bed Tax) and promote tourism activities within the City. In August 2015, the Mayor and City Council approved increasing the total Bed Tax rate to 4.52%. To ensure compliance with A.R.S. §9-500.06, 1% is included in the General Fund, with the remaining 3.52% included in the Tourism Fund to be used to promote and market tourism for the City. These rates have not changed since then, and the distribution to the Tourism Fund has been approved in each subsequent year in the Comprehensive Financial Management Policies.

Figure 1



Source: Transient Lodging Tax Fund Allocations Reports for FY2023 and FY2024. Increased transient lodging tax in February and March was due to Spring Training events that took place during that time.

The Sports and Tourism Department oversees the Tourism Fund. It develops criteria for activities and then reviews applications or solicits events that meet the Tourism Fund's objectives. Events that meet the key initiatives are then presented to the City Tourism Subcommittee (Subcommittee). The Subcommittee will decide which events to recommend to the City Council, who will provide final approval on them.

Objectives, Scope, and Methodology

We conducted a performance audit of the Tourism Fund pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on events funded by the Tourism Fund from July 1, 2022, to June 30, 2024, and evaluated whether City policies and procedures were followed.

Specifically, the CAD evaluated whether:

- Tourism Fund policies and procedures were being followed appropriately.
- Reimbursements were accurate and in accordance with the signed agreements.
- Goals for the Sports and Tourism Department related to the Tourism Fund were being met.
- The Tourism Fund was funded appropriately and correctly based on approved rates.

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

- Interviewing Sports and Tourism Department staff.
- Reviewing City policies, municipal code, and state statutes.
- Analyzing application documentation related to each Tourism Fund event that took place between July 1, 2022, and June 30, 2024.
- Reviewing post event documentation related to each Tourism Fund event that took place between July 1, 2022, and June 30, 2024.
- Analyzing financial reports for the Tourism Fund between July 1, 2022, and June 30, 2024.
- Reviewing Subcommittee and City Council Agendas and meeting minutes.
- Using CaseWare IDEA data analytical software.

Appendix B: Data Reliability and Audit Observation Risk Rating

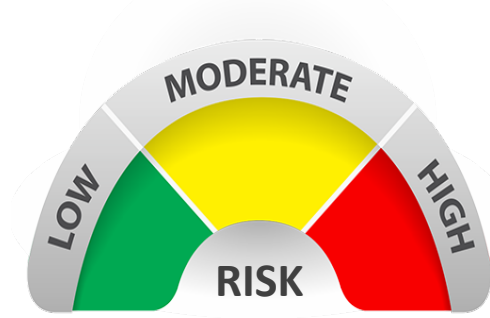
Data Reliability

The data utilized for the work performed was obtained directly from the Sports and Tourism Department 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 determined the data utilized is sufficiently reliable given its intended use.

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 Observation 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 Tourism Fund Audit for their considerable cooperation and assistance, including the:

- Sports and Tourism Department
- Finance Department

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SURPRISE

ARIZONA

Capital Improvement Plan Audit Report

June 30, 2025

Angela Hanson, Internal Auditor

City Auditor Department

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Executive Summary

As part of the City Auditor Department’s (CAD) fiscal year 2025 Annual Audit Plan, we conducted an audit of the City of Surprise’s (City) Capital Improvement Plan (CIP) projects for fiscal year 2023. The general purpose of the audit was to determine whether CIP projects were managed effectively and efficiently in compliance with best practices, City policies and procedures, municipal code, and applicable laws and regulations. In fiscal year 2023, the Adopted Budget Book presented 219¹ capital projects, of which, 100 were funded, 59 were planned, and 60 were unfunded. As part of this audit, two funded projects were judgmentally sampled.

Consistent with best practices, the City’s Finance Department prepares and reports the annual CIP and operating budget. Overall, we found that the Finance Department implemented some but not all of the capital planning practices recommended by the Government Finance Officers Association (GFOA). Specifically, the City’s capital planning policies did not include guidance for monitoring and evaluating projects after approval, and documentation across procurement and change order processes was incomplete.

Finance Department has areas of achievement and opportunities for improvement

- ✓ Annual CIP reporting
- ✓ Informal CIP monitoring
- ✗ No formal CIP monitoring policy
- ✗ Incomplete CIP supporting documentation

Area of achievement Area of improvement

Although we observed informal efforts by staff to monitor project progress and discuss lessons learned, the absence of a formal policy limits the City’s ability to apply a framework to assess project outcomes and ensure accountability. Further, we identified undocumented procurement method determinations and a change order that did not have the effective date of a project oversight change.

As a result, this report documents opportunities for improvement and makes recommendations to the Finance Department to develop a formal monitoring and evaluation policy for CIP projects and to strengthen documentation procedures.

Refer to Appendix A for more information about CIP.

¹ Project G51730 is listed in the fiscal year 2023 Adopted Budget Book as G51730A and G51730B to distinguish different funding sources. Because the project represents one project, it is counted once in the total capital project count and once in the funded project count.

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. The Finance Department’s capital planning policies did not include project monitoring and evaluation.
- 2. The Finance Department did not have sufficient controls to ensure complete capital project documentation.



Detailed Observations

1. Moderate Risk – The Finance Department’s capital planning policies did not include project monitoring and evaluation.

The GFOA recommends that governments develop and adopt capital planning policies. These policies are intended to provide consistent guidance throughout the capital planning process. Specifically, GFOA recommends that capital planning policies include a component for monitoring and evaluating CIP projects.

The Finance Department’s fiscal year 2023 Adopted Budget Book (Budget Book) does not include guidance on how CIP projects should be monitored and evaluated after approval. As a result, the Finance Department’s capital planning policies partially reflect the practices recommended by GFOA. The Budget Book includes policies related to prioritization, funding, and long-range planning, but it does not describe how project performance should be tracked or reviewed once a project is in progress or completed.

Although the Finance Department does not have a formal policy for monitoring and evaluating CIP projects, we observed evidence of informal monitoring during the audit. Additionally, according to staff, project managers often debrief with their teams to discuss lessons learned, challenges encountered, and opportunities for improvement. However, these practices are not required or documented through formal policy.

According to management, a monitoring and evaluation policy has not been established due to the varying nature of CIP projects, where the specific steps in the process are driven by the type of purchase, dollar value, funding source, and project scope. Although this explanation reflects the complexity of capital projects, GFOA best practices emphasize that a high-level policy framework can still provide structured monitoring and evaluation across all projects. Standardized components—such as reporting requirements, progress tracking, variance analysis, and post-project assessment—can be scaled and tailored based on the project, while providing the consistent oversight and accountability that a policy is intended to ensure.

Risk

Without a formal monitoring and evaluation policy for CIP projects, the Finance Department has no consistent framework to measure and assess whether projects meet their intended scope and schedule. This increases the risk of delays and cost overruns. Further, when monitoring practices are not standardized, transparency and accountability in capital spending may be reduced, which can hinder the City’s ability to make informed decisions for future projects. Although some informal monitoring practices are in place, they are not formally documented, limiting verifiability.

Recommendations

The Finance Department should:

1A. Develop and implement a formal policy for monitoring and evaluating CIP projects after approval.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 9/30/2025

Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update our Capital Management Policy accordingly.

1B. Include guidance in the policy that establishes oversight expectations and allows the level of monitoring and evaluation to be scaled based on project size, complexity, and risk.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 9/30/2025

Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update the policy accordingly to include oversight expectations and evaluation based on size, complexity and risk.

2. Moderate Risk – The Finance Department did not have sufficient controls to ensure complete capital project documentation.

Effective procurement and change order processes rely on comprehensive and standardized documentation to ensure regulatory compliance and maintain accountability. City policy and best practices from authoritative sources provide guidance on how these processes should be documented and managed, including:

- Procurement method selection: The City's Procurement Guideline 503(B)(1) states that, before using the formal competitive proposal process, a written determination must be made that an Invitation for Bid (IFB) is not practicable or advantageous to the City. The guideline identifies conditions under which an IFB may not be suitable, including when it is necessary to compare multiple factors—such as price, quality, and contractual terms—across vendor proposals.
- Change order documentation: According to Project Management Institute best practices, it is a reasonable management expectation—and a standard internal control—that changes affecting project oversight, such as the assignment of a new project superintendent, be clearly documented, including the effective date of change. This helps to avoid uncertainty about responsibilities and helps to ensure accountability throughout the project.

However, the Finance Department did not have sufficient controls to ensure complete capital project documentation. We identified the following documentation issues:

- Procurement method documentation: For two sampled capital projects procured using methods other than IFB, the Finance Department could not provide the required written determination that an IFB was not practicable or advantageous.
- Change order documentation: One signed change order approving a new project superintendent did not document the effective date of the transition.

These situations occurred for two different reasons. For the procurement method determinations, the Finance Department did not follow its existing procedure that requires a written determination when an IFB is deemed not practicable or advantageous to the City. The Department stated that selecting and documenting a procurement method under Procurement Guideline 503(B)(1)(d) serves as evidence of that determination. However, the guideline states that the determination must be made in writing. Without a written determination, the Finance Department cannot demonstrate that the requirement was met.

For the change order documentation, the omission of an effective date occurred because the Finance Department has not developed or enforced standardized procedures to ensure the completeness of contract documentation. Although the change order in question was valid without an explicit effective date, best practices recommend including such dates to document the timing of key project personnel changes and strengthen accountability.

Risk

Incomplete documentation—such as missing written determinations when an IFB is not practicable or advantageous—limits the City's ability to demonstrate compliance with procurement requirements, maintain transparency, and defend the appropriateness of

procurement decisions. Although the absence of an explicit effective date in the change order does not appear to present a legal issue in this instance, omitting such information reduces clarity in the project record. Best practices in project management recommend including effective dates for changes in key project personnel to establish the timing of transitions and maintain accountability.

Recommendation

The Finance Department should:

- 2A. Resolve the procurement and change order issues identified in the audit, as applicable, and strengthen and implement procedures to ensure that:
- Written determinations document when an IFB is not practicable or advantageous in accordance with the Procurement Guidelines; and
 - Change order amendments include effective dates in line with best practices.

Management Response: Management partially concurs with the audit recommendation.

- Recommendation Completion Date: 11/30/2025

The Procurement Team determined during the procurement process that an IFB was not practicable for the two sampled projects and the team moved forward with the method most practicable and advantageous to the City. The guidelines will be updated to reflect that the procurement method most practicable and advantageous to the City will be selected based on the scope of work and that the selected method will be documented electronically.

Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

The City's CIP is a long-term plan for capital expenditures. Capital expenditures include:

- The purchase of land, machinery, and equipment;
- The purchase or construction of buildings, structures, and facilities of all types; and
- The acquisition of a fixed asset or expenditures that increase the capacity, efficiency, lifespan, or economy of operating an existing fixed asset.

The CIP communicates the City's plan for investing in physical and technological infrastructure over five fiscal years. The Council adopts the plan's first year as part of its annual budget adoption process; the remaining four years of the CIP are for planning purposes.

CIP projects have a useful life of three years and a cost of at least \$100,000. CIP projects include asset replacement projects, even if they do not meet the useful life and cost threshold. Asset replacement projects are included in the CIP to avoid service disruptions from asset failures, ensure public and employee safety, minimize operations and maintenance costs, and ensure compliance with regulatory and contractual requirements.

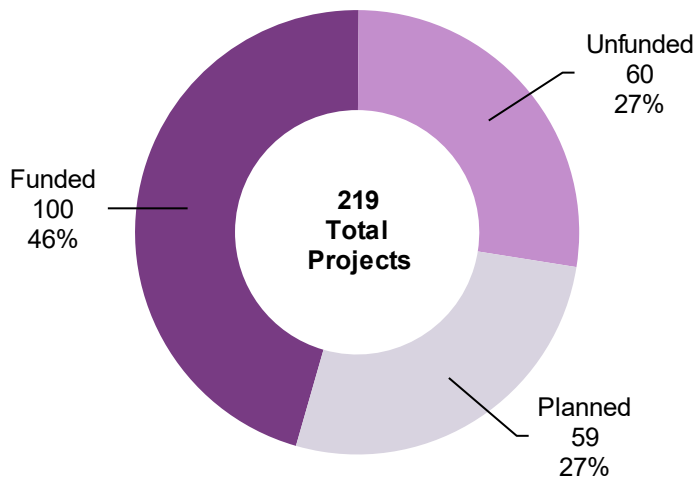
The CIP is developed and prioritized using needs assessments, financial analysis, the City's Strategic Plan, master plans, and other planning documents.

As shown in Figure 1, in fiscal year 2023, the City's CIP plan included 100² funded projects, 59 planned projects, and 60 unfunded projects. CIP projects are assigned as funded, planned, or unfunded and are defined as follows:

- Funded projects are approved for the budget book year or have a carryforward appropriation from prior fiscal years.

Figure 1

Funded projects account for 46 percent of all projects in the fiscal year 2023 CIP plan



Source: City Auditor Department staff analysis of fiscal year 2023 Adopted Budget Book.

² Project G51730 is listed in the fiscal year 2023 Adopted Budget Book as G51730A and G51730B to distinguish different funding sources. Because the project represents one project, it is counted once in the funded project count.

- Planned projects are not funded, but these projects are included in the five-year forecast.
- Unfunded projects are project requests during the budget process that do not have a funding source for initial and/or ongoing operating expenses.

In fiscal year 2024, the CIP division moved from the Public Works Department to the Finance Department.

Objectives, Scope, and Methodology

We conducted a performance audit of CIP pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on two funded CIP projects, and evaluated whether staff managed CIP projects effectively and efficiently in compliance with best practices, City policies and procedures, municipal code, and applicable laws and regulations.

Specifically, the CAD evaluated whether, in fiscal year 2023:

- CIP projects were effectively planned and prioritized.
- Procurement policies and procedures were followed.
- Ongoing maintenance and operational costs were effectively planned.

The CAD used various methods to review the specific objectives of this audit. Because the two judgmentally sampled projects from the fiscal year 2023 CIP extended beyond that fiscal year, some procedures covered activities occurring through March 2025. Methods included:

- Reviewing applicable City policies, municipal code, laws, and regulations;
- Sampling, judgmentally, two CIP projects and reviewing their supporting documentation;
- Interviewing City staff;
- Reviewing sampled projects workflow history for Purchase Order Change Order Approvals from June 2023 to March 2025; and
- 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 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 judgmentally 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.

The CAD determined the data utilized is sufficiently reliable given its intended use.

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 are included in the Detailed Observations section of this report, 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 CIP. 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 CIP Audit for their considerable cooperation and assistance, including the:

- Finance Department;
- Parks and Recreation Department; and
- Police Department.

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SURPRISE

ARIZONA

Fire-Medical Payroll Audit Report

January 14, 2026

Melissa Moreno, Internal Auditor Sr.

City Auditor Department

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Executive Summary

As part of the City Auditor’s Department (CAD) Fiscal Year (FY) 2026 Annual Audit Plan, an audit of the City of Surprise (City) Fire-Medical payroll for July 1, 2024, through June 30, 2025, was performed. The purpose of the audit was to assess whether payroll transactions were correctly calculated, reported, and documented.

Overall, auditors found some areas for improvement related to Fire-Medical payroll. Auditors reviewed payroll transactions for all 247 staff employed in the Fire-Medical Department during FY2025. During the audit, the Fire-Medical Department and the Payroll Division maintained

Fire-Medical and Payroll have areas of achievement and opportunities for improvement

- ✓ Maintaining documentation on payroll and hours
- ✓ Having a proactive system to identify and correct most pay
- ✗ Updating language in policies and MOU to reflect actual process
- ✗ Ensuring accurate pay and distributions in limited circumstances

✓ Area of achievement ✗ Area of improvement

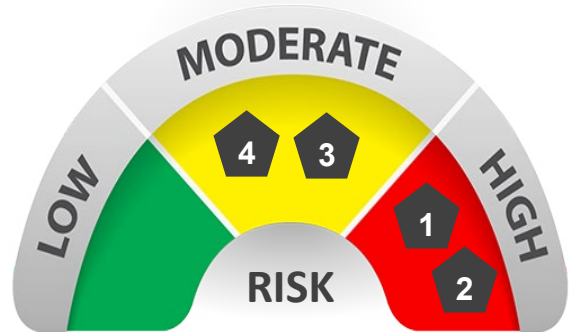
documentation necessary to review payroll and hours, and each Department also had its own system used to identify potential errors to minimize any errors in payroll. However, auditors identified inconsistencies between the City's Employee Policy Manual (EPM), the Memorandum of Understanding between the City of Surprise and the United Phoenix Fire Fighters Association, Local 493 Surprise Chapter, effective July 1, 2024 – June 30, 2026 (MOU), and the administration of floating holiday pay for both sworn and civilian Fire-Medical staff. In addition, some payroll discrepancies were identified for the 247 staff reviewed for FY2025. Specifically, four employees who were reported with a move-up pay code were not paid the increased pay rate. In addition, longevity payments were not properly calculated for two employees due to a system error, and three manual longevity adjustments were applied incorrectly. Finally, there was an error in the calculation of the distribution made related to Post Employment Health Plans (PEHP) affecting two employees enrolled in Deferred Retirement Options Plans (DROP).

As a result, this report documents opportunities for improvement and makes recommendations to the respective Departments to ensure language is updated to reflect how pay is distributed, and to correct and update the system for pay or deductions that were not calculated correctly.

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. Floating holiday pay language is inconsistent with how pay is distributed.
2. Some employees were not paid appropriately when using a move-up pay code.
3. Longevity pay and adjustments were not always paid correctly.
4. Contributions to PEHP were not properly calculated for employees enrolled in DROP.



Detailed Observations

1. High Risk – Floating holiday pay language is inconsistent with how pay is distributed.

The MOU states that employees' wages, hours, benefits, and working conditions are governed exclusively by the MOU. It further states that sworn and civilian employees, including Paramedics (PM) and Emergency Medical Technicians (EMT), receive 12 hours of holiday pay. However, auditors found that the language in the MOU is inconsistent with the pay provided to both sworn and civilian staff for floating holidays.

Prior to inclusion in the MOU, PMs and EMTs were paid in compliance with the EPM Section 5.1, which provides 24 hours of pay for floating holidays. After the MOU began including PMs and EMTs, the MOU language did not reflect this pay difference; however, PMs and EMTs continued to receive 24 hours of holiday pay in accordance with the EPM rather than the 12 hours specified in the MOU.

In addition, when sworn staff use their floating holiday and do not work the day, they are paid 24 hours to compensate them for their regular 24-hour shift, in addition to the 12 hours of holiday pay they receive. While this pay practice was implemented to meet Departmental operational needs, the language in the MOU related to floating holidays did not clearly define this additional pay, which differs from that of a designated holiday.

Risk

When the documentation is inconsistent with how pay is being distributed, it increases the likelihood that pay will not be calculated according to management's intent, and transparency in the pay calculation process is lacking.

Recommendations

The Fire-Medical Department should:

- 1A. Review the policies around pay for floating holidays to determine what the intent of the policy is.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/31/2026
The Fire-Medical Department will review the Employee Policy Manual (EPM) and the Memorandum of Understanding (MOU) to clarify the intent of the floating

holiday provisions and ensure a clear understanding of how floating holiday pay is intended to be distributed for both sworn and civilian Fire-Medical employees.

- 1B. Bring this in the next MOU negotiation and update the language specific to how floating holidays will be paid to staff, with input from Payroll to ensure it will be implemented correctly.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 5/22/2026

The Fire-Medical Department will bring the issue of floating holiday pay language forward during the current MOU negotiation cycle and work collaboratively with the Payroll Division to update and clarify language specific to how floating holidays are paid, ensuring the agreed-upon language can be implemented accurately and consistently.

The Payroll Division, Human Resources Department, should:

- 1C. Review the EPM and determine if any updates are needed to be made to either remove unnecessary language or ensure it is consistent with the MOU.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2026

The Payroll Division will update applicable policies and procedures in EPM to ensure language refers to the MOU for application of pay.

- 1D. Implement a policy to ensure the EPM is reviewed and updated anytime there is an updated MOU.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2026

At the completion of MOU negotiations, impacted EPM changes will be updated by the following fiscal year.

2. High Risk – Some employees were not paid appropriately when using a move-up pay code.

According to the MOU, sworn employees who are temporarily assigned to a position of a higher rank and serve in that position shall have an increase in pay of 5% or the minimum step for the higher position, whichever is greater.

Of the 19 instances in which the “Move-Up 2” pay code was used, four employees were paid their base rate rather than the increased pay for the temporary assignment. These employees were engineers who were reported with the code used for moving up two positions, which is only allowed for firefighters. Due to recent promotions, these codes were applied inappropriately by Fire-Medical staff. Since this was not an allowable code, the system did not have a pay increase amount set, so it defaulted to the employee’s base pay.

Risk

Employees were not paid appropriately in accordance with City policies.

Recommendations

The Payroll Division, Human Resources Department, should:

- 2A. Review these employees’ pay to determine what they should have received and correct the pay for these employees.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

The Move-Up pay discrepancy was caused by Fire staff using an incorrect Vector code. This issue occurred to only four employees and was corrected immediately on the following payroll after it was discovered by the Payroll Division.

- 2B. Ensure that in the future, engineers reported with the “Move-Up 2” code are identified and corrected before payroll is processed.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Payroll identified this issue around the same time as the audit and at that time implemented a review of the move up codes as part of our payroll processing checklist, but was still in process of correcting prior instances where this occurred.

The Fire-Medical Department should:

- 2C. Include in their department review a check that this code is not used when reporting engineers for payroll.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 1/27/2026

The Fire-Medical Department has enhanced its biweekly payroll review process to include a verification step to ensure the appropriate move-up pay codes are used and that the “Move-Up 2” pay code is not applied to engineers prior to payroll submission. This enhanced review is performed by the Department’s Financial Management Analyst Senior as part of the regular payroll audit process.

3. Moderate Risk – Longevity pay and adjustments were not always paid correctly.

EPM 4.9 states that employees who have worked for eight years of City service will receive 2% longevity pay, and after 10 years of service, they will receive 4% longevity pay.

A review of longevity pay for 120 Fire-Medical Department employees identified:

- Two employees who were underpaid a total of \$5.64; and
- Three out of five longevity adjustments applied inappropriately resulted in a total overpayment of \$12.24.

The initial longevity errors were due to a bug in the Munis system that was not identified due to the low impact of the errors. The inappropriate adjustments to longevity were made because a staff member was unaware of what was already included in the system calculations, resulting in the manual adjustment of the same amounts a second time.

Risk

Employees are not being funded appropriately in accordance with the City's policies.

Recommendations

The Payroll Division, Human Resources Department, should:

- 3A. Review these employees' pay to determine what they should have received and correct the pay for these employees.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025
Payroll identified a system glitch that calculated longevity pay incorrectly for two employees. Staff immediately submitted a help desk ticket to the system vendor to correct this system error. The pay error was corrected by staff when it was identified on 11/28/25. Payroll has implemented an audit each pay period to ensure longevity is accurately paid.

3B. Train all applicable staff on how longevity is applied and when adjustments to it are necessary.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Payroll staff have been trained on proper retro pay calculations impacting longevity pay to ensure accuracy. Additionally, the Payroll Manager reviews all retro pay calculations.

4. Moderate Risk – Contributions to PEHP were not properly calculated for employees enrolled in DROP.

The MOU states that employees who enter the DROP have 8% of their PSPRS eligible earnings added to the employee's PEHP. According to the PSPRS Member Handbook (November 2024), for the purposes of calculating a member's benefit, lump sum payments are not to be considered as part of the compensation when calculating the PSPRS eligible earnings.

Of the 28 employees eligible for the PEHP DROP benefit, two employees received a lump-sum payout of their Paid Time Off (PTO), which was incorrectly included in the compensation used to calculate their PEHP contribution. The reports in Munis that are used to determine which compensation should be included in each retirement calculation are done manually. As only one person in the Payroll Division was trained in what needed to be input, there was no available secondary review person to check the data, and so this income was accidentally left out of the list when it was created. This resulted in the City overpaying a total of \$575.15 during FY2025.

Risk

Including ineligible compensation in the calculations results in an overpayment of City funds.

Recommendations

The Payroll Division, Human Resources Department, should:

- 4A. Update Munis to ensure that PEHP DROP does not include lump sum payouts as part of the eligible compensation.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Once the error was identified, the payroll system was corrected immediately. Management acknowledges the audit findings and agrees that the payroll errors identified were primarily the result of extensive manual configuration and processing with the payroll system. The existing system lacks sufficient automation, intuitive workflows, and system controls, which increases the risk of human error and results in inefficient, labor intensive processing for payroll staff. The Payroll Division is currently in contract negotiations with a new Human Capital Management (HCM) Payroll vendor that provides the items lacking in current system.

- 4B. Review current exception reports for retirement codes to determine if they are complete and updated with current requirements, and ensure a second person is trained to offer a secondary review in the future.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 2/15/2026

Exceptions for retirement codes have been reviewed and updated with current requirements. Training payroll staff will be completed by the 2/15/26.

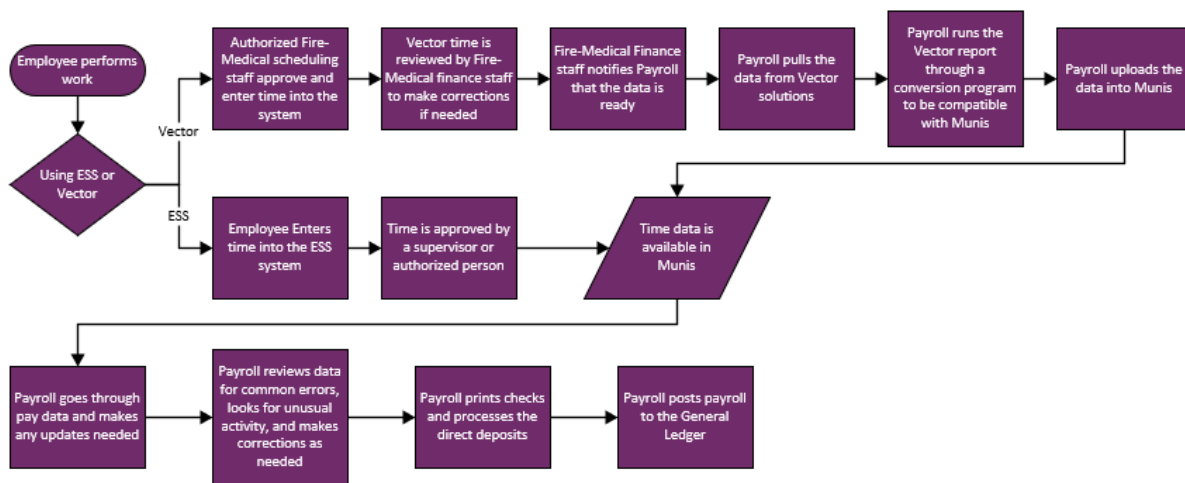
Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

The pay for FY2025 for the Fire-Medical Department staff was just over \$28 million, which includes regular pay, overtime, additional shifts, holidays, other leave, allowances, and other forms of compensation. Additionally, employees paid out just over \$2.3 million for retirement benefits, while the City paid just over \$6.8 million for employee retirement benefits.

Fire-Medical Payroll Process Flowchart



The data used to determine payroll data for the Fire-Medical Department is processed partly by staff in the Fire-Medical Department and then by the Payroll Division, under the Human Resources Department. Staff hours and pay type are entered into either the Employee Self Service (ESS) system or the Fire-Medical system. The Fire-Medical Department previously used Telestaff but switched to the Vector Solutions system (Vector) in May 2025 for time entry. ESS time is approved and is available in Munis. Hours entered through Vector are reviewed internally for accuracy by Fire-Medical staff and made available to the Payroll Division. This is then uploaded to Munis for processing. The Payroll Division then calculates all pay, processes the payments, and posts them to the General Ledger.

Objectives, Scope, and Methodology

We conducted a performance audit of Fire-Medical Payroll pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on payroll transactions from July 1, 2024, to June 30, 2025.

Specifically, the CAD evaluated whether:

- Payroll amounts were calculated and applied appropriately.
- Retirement amounts paid by employees and the City were calculated correctly.
- Calculations and pay are processed in compliance with City policies and procedures.

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

- Interviewing Fire-Medical Department staff and Payroll Division staff.
- Reviewing City and Department policies on payroll.
- Reviewing the MOU between the City and the United Phoenix Fire Fighters Association, Local 493 Surprise Chapter.
- Analyzing payroll records and transactions for the Fire-Medical Department from FY2025.
- Evaluating ASRS and PSPRS reports for calculations used to determine adjustments for retirement pay.
- Working with an external consultant to run IDEA testing on retirement data to compare amounts paid to ensure compliance with ASRS and PSPRS.
- Comparing calculations for payments to the MOU and City rates.

Appendix B: Data Reliability and Audit Observation Risk Rating

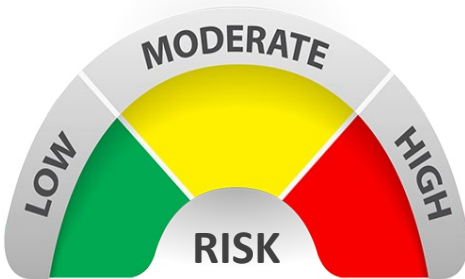
Data Reliability

The data utilized for the work performed was obtained from 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 determined that the data utilized is sufficiently reliable given its intended use.

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 payroll. 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 Fire-Medical Payroll Audit for their considerable cooperation and assistance, including the:

- Fire-Medical Department
- Payroll Division, Human Resources Department

Surprise City Auditor Department

- **Vision**—The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.
- **Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

Contact the City Auditor Department for more information:
<https://surpriseaz.gov/166/City-Auditor>.

WELCOME

City Auditor Department

April 7, 2026

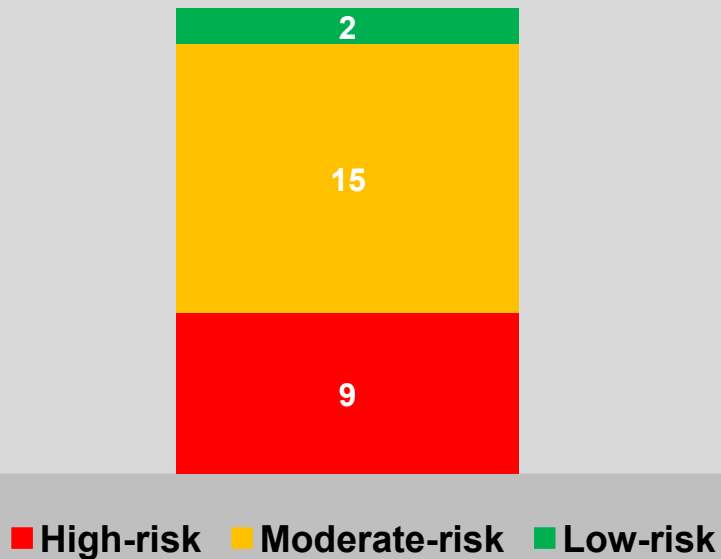


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Summary of Audit Reports Distributed

September 2024 to March 2026

Audit Recommendations Issued



- 5 Audit Reports
- 26 Audit Recommendations
- 6 Primary City Departments Impacted
 - Community Development
 - Finance
 - Fire-Medical
 - Human Resources – Payroll
 - Parks and Recreation
 - Sports, Entertainment, & Culture

Summary Highlights of Audit Recommendations

- Governance
 - **Definition:** Policies and procedures provide guidance for daily operational decision-making that supports management's initiatives to accomplish goals.
 - **Summary of Audit Recommendations:** The City Auditor Department supported management's initiatives by identifying gaps, conflicting or confusing verbiage, and a lack of documentation in policies and procedures that required updating.

Summary Highlights of Audit Recommendations

- Compliance
 - **Definition:** Complying with laws, regulations, and City policies and procedures.
 - **Summary of Audit Recommendations:** Audit recommendations identified instances of noncompliance with City policies in such areas as closing out permits in a timely manner, fees charged related to facility use, and payroll.

Summary Highlights of Audit Recommendations

- Monitoring
 - **Definition:** As part of the internal control system, management evaluates processes to ensure internal controls continue to operate effectively and achieve objectives.
 - **Summary of Audit Recommendations:** Audit procedures identified the need for additional management monitoring to ensure that internal controls include reconciliation and verification of data.

Summary Highlights of Audit Recommendations

- Information Technology (IT)
 - **Definition:** IT general controls, access management, data integrity, and system change management.
 - **Summary of Audit Recommendations:** Audits that included reviews of IT systems identified areas where systems could be improved with updates, and system access needed to be reviewed.

Summary Status of Audit Recommendations

As of March 16, 2026

- 20 out of 26 (77%) – Departments concurred and have fully implemented recommendations
- 1 out of 26 (4%) – Departments concurred and have partially implemented recommendations
- 5 out of 26 (19%) – Departments concurred and are in process of implementing recommendations

Questions or Comments?

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CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: April 7, 2026
Submitting Department: Finance
Staff Recommendations:

Contact Person: Sandy Simmons, Finance Director
District: Citywide

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

Agenda Wording:

* ~~Presentation and discussion pertaining to the FY2027 Budget~~

Motion:

None, Discussion only.

Background:

This presentation will focus on the overview of FY2027 operating and capital requests.

Objective Analysis:

The information presented will lead to future discussions about the FY2027 budget and will assist the Mayor and City Council with making informed decisions about future operations.

Policy Compliant:

This presentation is consistent with City and Council policy and falls in line with the state budget adoption timeline.

Financial Impact:

The information presented is intended to encourage discussion which will have an impact on future operations and capital improvement plans.

Budget Impact:

The information presented is intended to encourage discussion which will have an impact on the FY2027 City Manager Recommended budget/Tentative budget.

FTE Impact:

The information presented is intended to encourage discussion which will have an impact on full-time equivalents (FTE) for FY2027.

ATTACHMENTS:



CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: April 7, 2026
Submitting Department: Water Resource Management
Staff Recommendations: None

Contact Person: Michael Boule, Director
District: Citywide

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

Agenda Wording:

Presentation and discussion regarding an update on the City's water resources.

Motion:

None, presentation and discussion only

Background:

The purpose of the Work Session item is to continue a dialogue regarding the City's water resources. The presentation will focus on the regional drought conditions and the projected 2027 Colorado River Status. The discussion will include updates on current projects and initiatives related to water supply and water demand management.

Objective Analysis:

Brief City Council and our residents on the ongoing efforts related to securing Surprise's water future.

Policy Compliant:

This item is policy compliant and is consistent with the Water Resource Management Policies along with established Municipal Code

Financial Impact:

There is no anticipated financial impact related to this item.

Budget Impact:

There is no anticipated budget impact related to this item.

FTE Impact:

This item does not have an impact on current staff levels.

ATTACHMENTS:

1. Item 2026-179 City's Water Resources Update
-

WELCOME

Water resources update – Spring 2026



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Purpose & Agenda

- Reconcile the headlines, speculation and potential of reductions with our supply and demand
- Annual water demand check-in
- Overall water portfolio status
- Supply reduction scenarios



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Placeholder: Central Arizona Project

- Current hydrology
- Draft EIS & basin states negotiations



Placeholder: EPCOR

- Overall water portfolio status
- Supply reduction scenarios



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2025 Water Use

Water

- Pumping: 10,731 af
 - 2% increase
- **Demand: 11,663 af**
 - 5% increase
- Accounts: 26,804
 - 7.5% increase
- Demand per account: 388 gpd/acct
 - 3% decrease
- 48% of DAWS absorbed
- Comparison to 2020 projections: 13,454 af

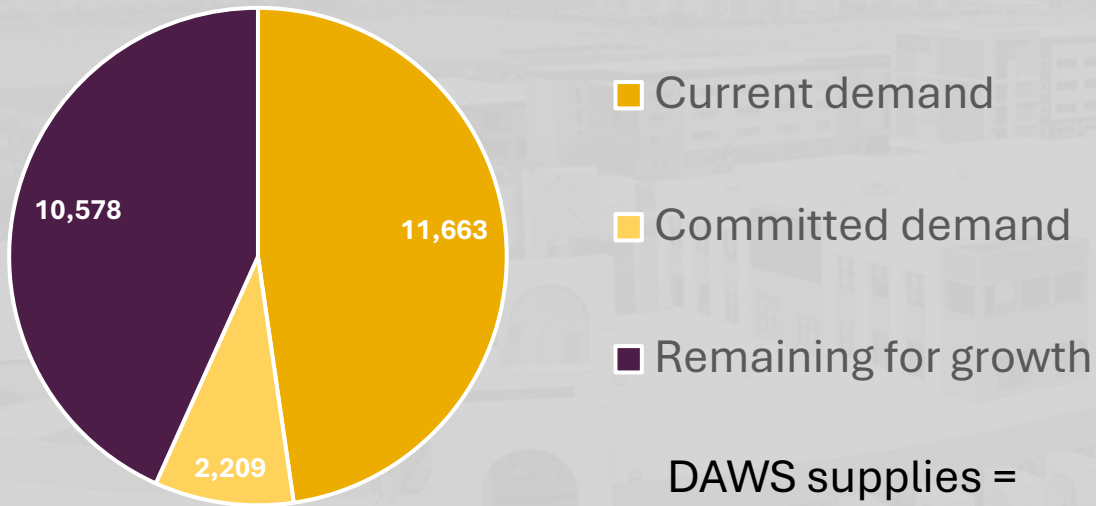
Wastewater

- Influent collected: 12,323 af
 - 4% increase
- **Effluent recharged: 10,376 af**
 - 6% increase
- Non-potable consumption: 888 af
 - 6% decrease
- Comparison to 2020 projections: 14,817 af



2025 Water Portfolio

Designation of Assured Water Supply (DAWS) absorption



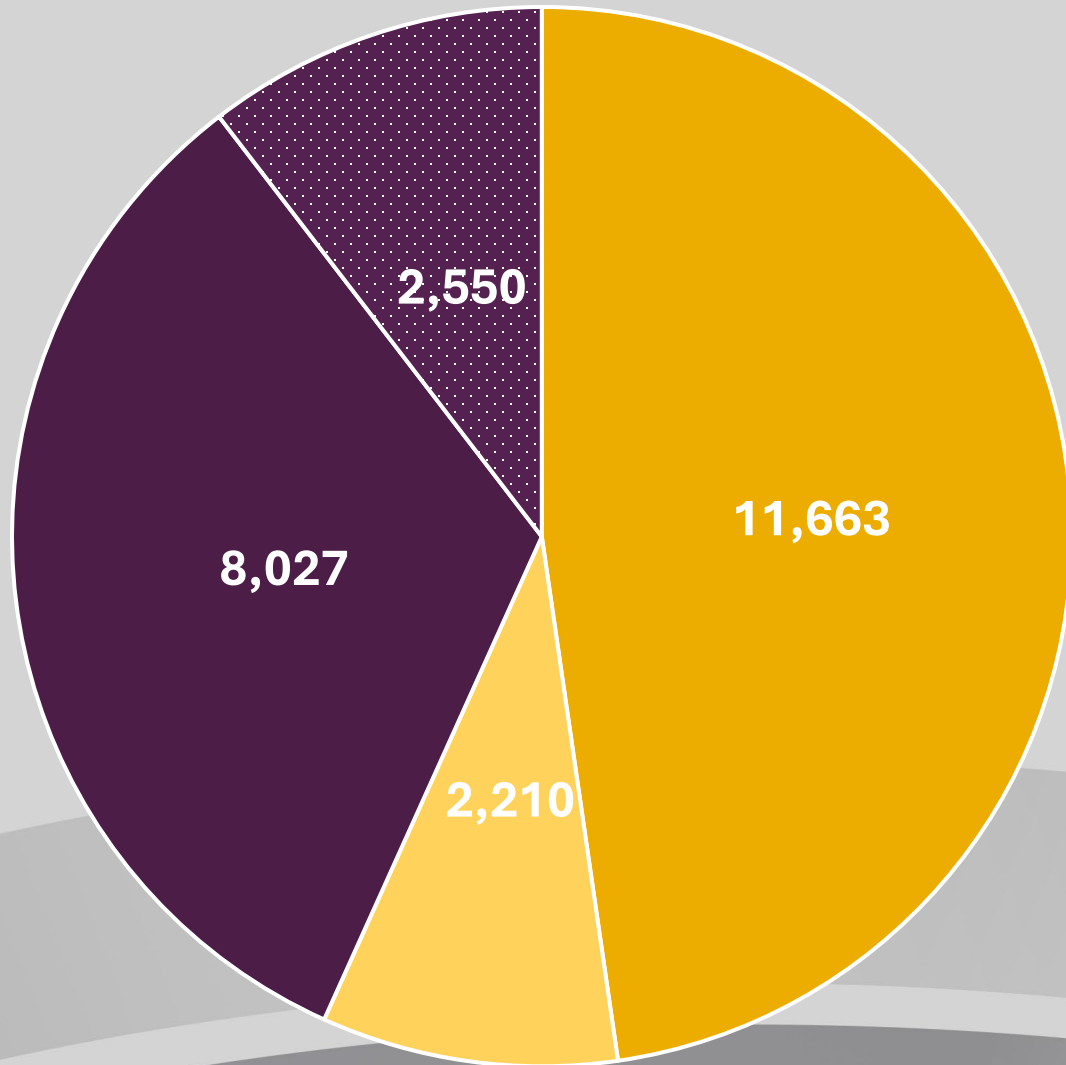
DAWS supplies =
24,450 acre-feet

Long-term storage credit balance:

**161,749 af
or
14 years of demand**

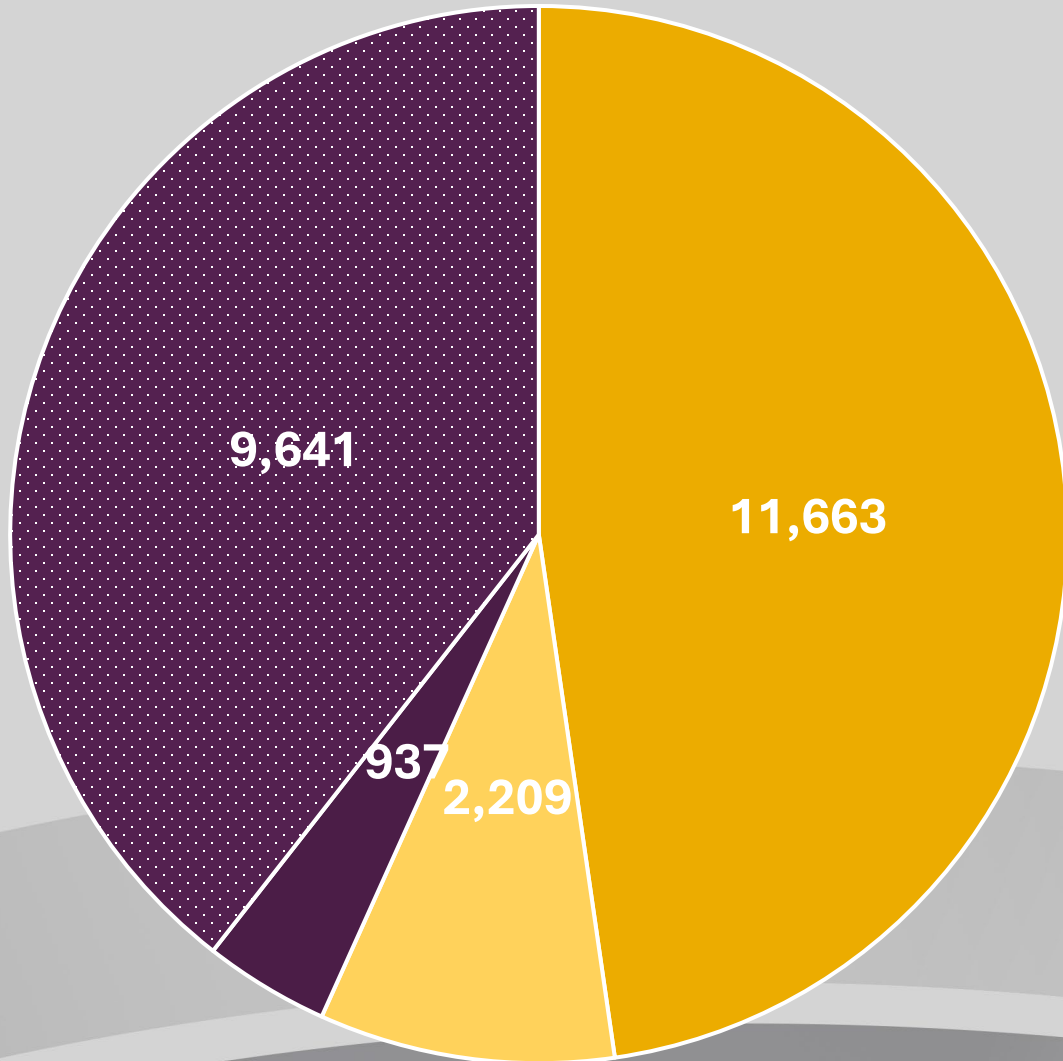


Surprise Water Portfolio – 25% CAP cut



- Current demand 27,314 EDU
- Committed demand ~ 5,200 EDU absorbed over 3.2 years
- Remaining for growth ~18,800 EDU absorbed over 11.6 years
- Curtailed growth ~6,000 EDU

Surprise Water Portfolio – 75% CAP cut



- Current demand 27,314 EDU
- Committed demand ~ 5,200 EDU absorbed over 3.2 years
- Remaining for growth ~2,200 EDU absorbed over 1.3 years
- Curtailed growth ~22,500 EDU

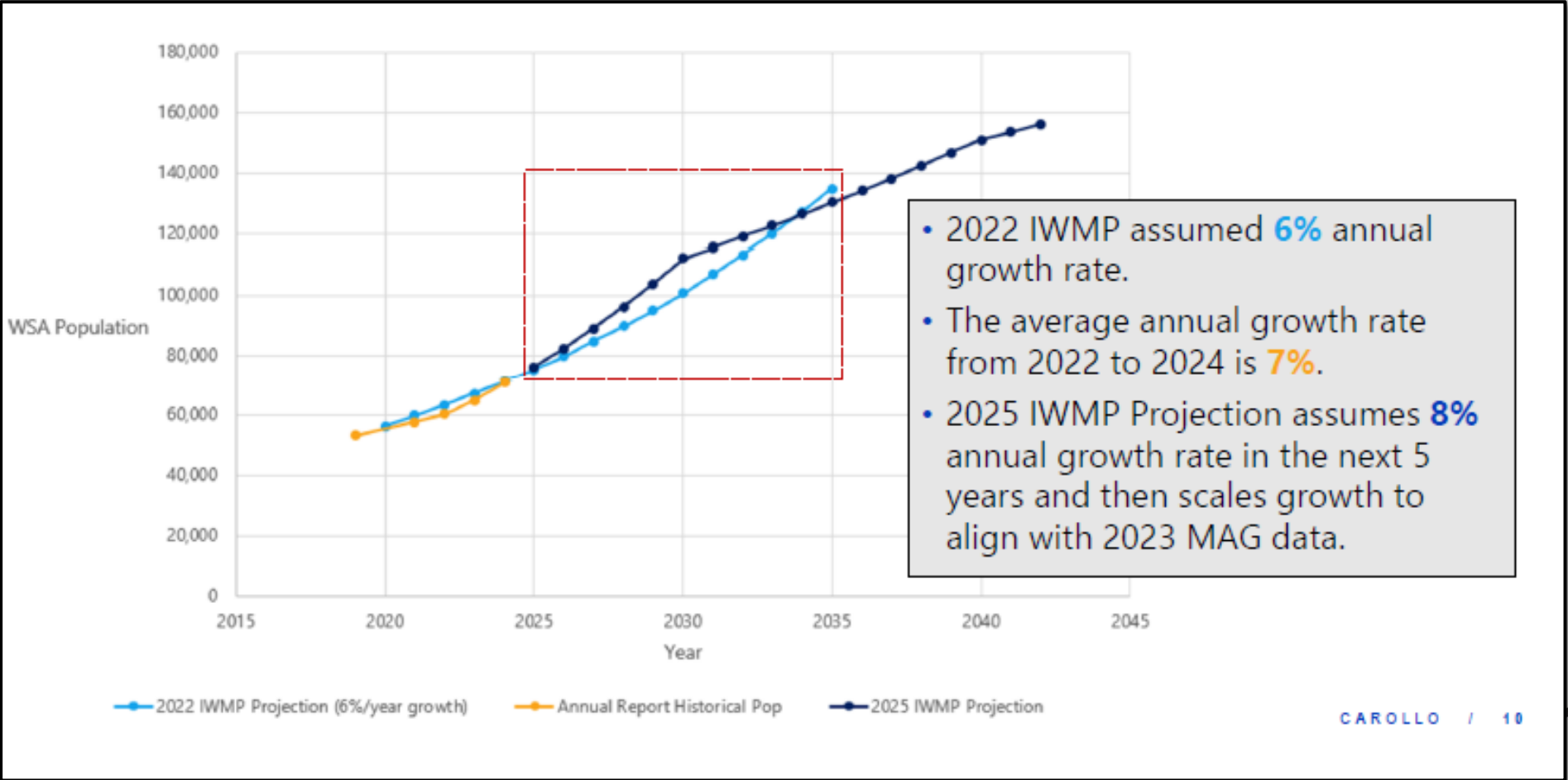
Water Resource initiatives

- Integrated Water Master Plan
- Area of Hydrologic Impact (AOHI) expansion
- Drought Preparedness Plan
- Bartlett Dam
- Firming agreements
- Water conservation program update

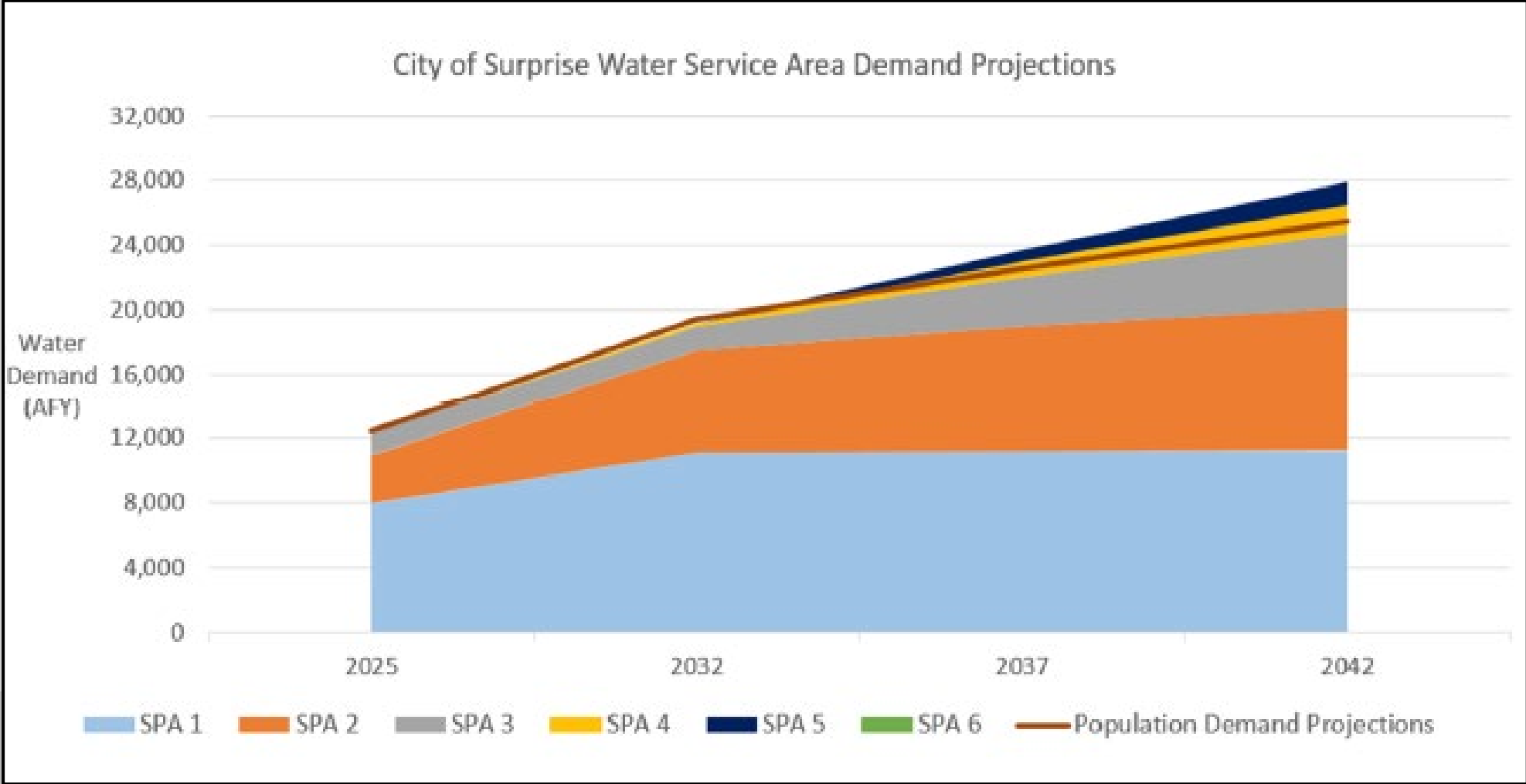


Water Resource Master Plan Update

Water Service Area (WSA) population projection assumptions



Water Resource Master Plan Update



Area of Hydrologic Impact (AOHI) Expansion

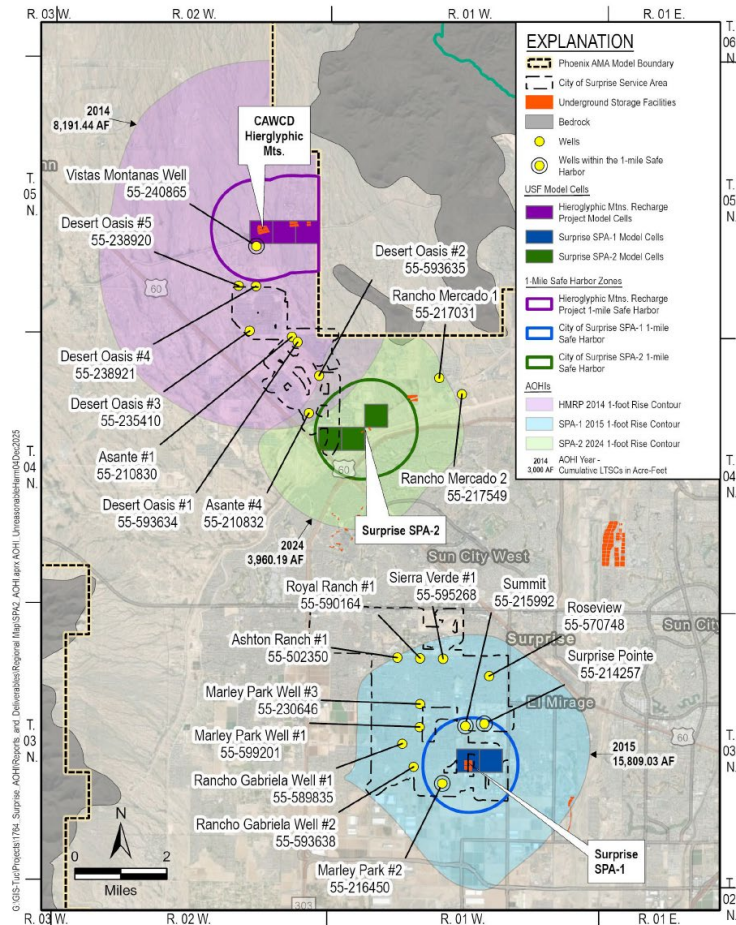


Figure 2. Selected AOHI Configuration with 1-mile Safe Harbor Zones

- Why does it matter?
 - In line with Integrated Water Master Plan recommendations
 - Recovering stored water in the AOHI helps us maintain our Designation of Assured Water Supply volume
- Current recovery capacity: 30%
- Future recovery capacity: 98%
- Applications submitted January 2026



Drought Plan Update

- Objectives:
 - Update stage triggers
 - Update response actions
 - Coordination with other water providers & stakeholders
- Stakeholders: residents, HOAs, water providers, businesses, city departments, industrial users
- Water Resource Roundtable schedule

April



June



August



October



Water Conservation program update

- New team member
- Qualified Water Efficient Landscaper (QWEL) enhancements
- 2025 Conservation Efforts Report recap
 - 49 outreach programs
 - 106 rebates issued (\$205,000 or ~20x increase)
 - 3,916 leak detection home visits



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Questions or Comments?

THANK YOU



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