



**CITY OF SURPRISE**  
**City Audit Committee**  
**16000 N. Civic Center Plaza**  
**Surprise, AZ 85374**  
Wednesday, June 3, 2026 @ 4:15 PM  
**COUNCIL CHAMBERS**

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

**CONSENT AGENDA:**

**REGULAR AGENDA ITEM - NON-PUBLIC HEARING:**

- |    |          |   |              |
|----|----------|---|--------------|
| 1. | Citywide | Consideration and action pertaining to the March 11, 2026, meeting minutes.                                       | City Auditor |
| 2. | Citywide | Consideration and action to elect a City of Surprise Audit Committee Chairperson and Vice-Chairperson.            | City Auditor |
| 3. | Citywide | Presentation, discussion, and possible action pertaining to the Police Payroll Audit Report                       | City Auditor |
| 4. | Citywide | Presentation, discussion, and possible action pertaining to the Contract Audit Report - Tecta America Arizona LLC | City Auditor |
| 5. | Citywide | Presentation, discussion, and possible action pertaining to the FY2026-2027 Annual Audit Plan                     | City Auditor |

- G. Call To The Public

**INSTRUCTIONS:** In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins. You may also [fill out the Call to the Public form online](#) If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.

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

Approval of items on the Consent Agenda – all items with an asterisk (\*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

- H. Other Business and Future Agenda Items
- I. Adjournment

POSTED: Monday, June 1st, 2026 @ 10:00 AM

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



**CITY OF SURPRISE  
City Audit Committee**

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Council Meeting Date: June 3, 2026  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Consideration and action pertaining to the March 11, 2026, meeting minutes.

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**Motion:**

I move to approve the minutes of the March 11, 2026, City Audit Committee meeting.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**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.

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**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.

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**Financial Impact:**

There is no financial impact associated with this item.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. 2026-3-11 Draft Minutes
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**CITY OF SURPRISE**  
**Audit Committee Meeting**  
**16000 North Civic Center Plaza**  
**Surprise, AZ 85374**  
**Wednesday, March 11, 2026 – 4:15 p.m.**

**CALL TO ORDER**

Vice Chair Connie Bowers called the Audit Committee Meeting to order at 4:15 p.m. on Wednesday, March 11, 2026, at Surprise City Hall, Lobby Conference Room N1-150, 16000 North Civic Center Plaza Surprise, Arizona 85374.

**ROLL CALL**

Vice Chair Connie Bowers, Councilmember Chris Judd, Councilmember Earle Greenberg (virtual attendance), Committee Member Gloria Dailey, Finance Director Sandy Simmons, and Parks and Recreation Director Holly Osborn (absent).

**PLEDGE OF ALLEGIANCE**

**CURRENT EVENTS AND REPORTS**

None.

**STAFF REPORTS**

City Auditor Carol Holley has retired. Melissa Moreno will be the Acting City Auditor until the City Council appoints a City Auditor.

Tatiana Young has resigned from the audit committee. Gloria Dailey's term was corrected to end on June 30, 2028.

**STAFF PRESENT**

Acting City Auditor Melissa Moreno, Internal Auditor Angela Hanson, Acting Assistant Director of Finance Mari Lugo, Assistant Finance Director Nicole Lewis, Director of Human Resources Joesette Frausto, Payroll and HRIS Manager Rebecca Lee, Interim Fire Chief Kevin Spirlong, and Deputy Chief Fire Administration Cody Worrell.

**CALL TO THE PUBLIC**

Finance Director Sandy Simmons stated that Assistant Director of Finance Erick Martin is no longer with the City, and that Mari Lugo will serve as the Acting Assistant Director of Finance.

**REGULAR AGENDA ITEM**

**1. Consideration and action pertaining to the Audit Committee meeting minutes of October 20, 2025.**

Councilmember Judd moved to approve the October 20, 2025, Audit Committee meeting minutes. Committee Member Dailey seconded. Motion approved 4-0.

**2. Presentation and discussion pertaining to the fiscal year 2024-2025 Annual Comprehensive Financial Report (ACFR) and associated reports.**

Heinfeld, Meech & Co., P.C. Engagement Partner Brittney Williams gave a virtual presentation and overview of the fiscal year 2024-2025 annual audit. She stated they had already presented to City Council in order to comply with State statutes to present within 90 days.

This year, they issued a clean opinion on financial statements with no material misstatements. The Independent Accountant's Report shows that highway user revenue fund money was used in accordance with state statute. The Single Audit Report included a financial statement report, which had an unmodified opinion, and a federal award report, which had an unmodified opinion. There were significant difficulties with suspensions and department awards related to procurement, but management has already implemented controls to address the issue.

Councilmember Judd expressed the great work on the audit and thanked Finance Director Sandy Simmons for the great work.

No motion was required for this item.

**3. Presentation, discussion, and possible action pertaining to Capital Improvement Plan Audit Report.**

Angela Hanson provided an overview of the Capital Improvement Plan Audit. She included that management responses have been updated to reflect discussion on this audit from the October 20, 2025, audit committee meeting.

The Finance Director explained that the management responses were updated to provide greater clarity on the actions they would take to revise the guidelines. Councilmember Judd stated that the management responses were now much clearer.

Committee Member Dailey moved to approve and distribute the Capital Improvement Plan Audit Report. Councilmember Judd seconded. Motion approved 4-0.

**4. Presentation, discussion, and possible action pertaining to the Fire-Medical Payroll Audit Report.**

Melissa Moreno provided an overview of the Fire-Medical Payroll Audit Report, which was then discussed by the committee members and the staff members present.

Councilmember Judd moved to approve and distribute the Fire-Medical Payroll Audit Report. Committee Member Dailey seconded. Motion approved 4-0.

**5. Presentation and discussion pertaining to the summary of the Audit Recommendations Status Report as of February 3, 2026.**

Melissa provided an overview of the Audit Recommendation Status Report covering the period from October 7, 2025, through February 3, 2026, to the Audit Committee, which committee members then discussed.

No motion was required for this item.

**OTHER BUSINESS AND FUTURE AGENDA ITEMS**

The next Audit Committee Meeting will be held on **June 3, 2026**, at 4:15 p.m.

**EXECUTIVE SESSION**

**ADJOURNMENT**

Vice Chair Bowers moved to adjourn the meeting. The meeting was adjourned at 4:44 p.m.

**ATTEST:**

\_\_\_\_\_  
Connie Bowers, Vice Chair

\_\_\_\_\_  
Melissa Moreno, Staff Liaison

**CERTIFICATION:**

I, Kristi Passarelli, City Clerk for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Audit Committee Meeting of **Wednesday, March 11, 2026**.

\_\_\_\_\_  
Kristi Passarelli, City Clerk, CERA



**CITY OF SURPRISE  
City Audit Committee**

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Council Meeting Date: June 3, 2026  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Consideration and action to elect a City of Surprise Audit Committee Chairperson and Vice-Chairperson.

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**Motion:**

I move to elect \_\_\_\_\_ as the Chairperson. I move to elect \_\_\_\_\_ as the Vice-Chairperson.

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**Background:**

This item was placed on the agenda in compliance with Section III of the City of Surprise Audit Committee Bylaws, which requires the annual selection by a majority vote of an Audit Committee Chairperson and Vice-Chairperson.

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**Objective Analysis:**

The Chairperson has the authority to sign correspondence as the official representative of the Audit Committee. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all Audit Committee meetings and activities.

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**Policy Compliant:**

Sec. 2-304 of the City of Surprise Municipal Code (Code) directs the establishment of the City of Surprise Audit Committee. The Code authorizes the adoption of Audit Committee Bylaws. Section III of the Bylaws requires the Audit Committee members to nominate and vote annually to designate a Chairperson and Vice-Chairperson.

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**Financial Impact:**

There is no financial impact associated with this item.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

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**CITY OF SURPRISE  
City Audit Committee**

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Council Meeting Date: June 3, 2026  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

---

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

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**Agenda Wording:**

Presentation, discussion, and possible action pertaining to the Police Payroll Audit Report

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**Motion:**

I move to approve and distribute the Police Payroll Audit Report.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to 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 internal 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.

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**Policy Compliant:**

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal 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.

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**Financial Impact:**

This item relates to work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. Police\_Payroll\_Audit\_Report
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**SURPRISE**

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ARIZONA

# **Police Payroll Audit Report**

March 31, 2026

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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) Police payroll for July 1, 2024, through June 30, 2025 (FY2025), 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 Police payroll. Auditors reviewed payroll transactions for 280 staff employed in the Police Department during FY2025. During the audit, the Police Department and the Payroll Division maintained documentation necessary to review payroll and hours, and the processes for implementing and providing pay for additional stipends had an established review and approval process.

**Police Department and Payroll Division have areas of achievement and opportunities for**

- ✓ Maintaining documentation on payroll and hours
- ✓ Reviewing and approving stipends
- ✗ Issuing amendments for pay changes to the MOU
- ✗ Training staff on reporting holiday hours
- ✗ Ensuring accurate pay and distributions in limited circumstances

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Area of achievement       Area of improvement

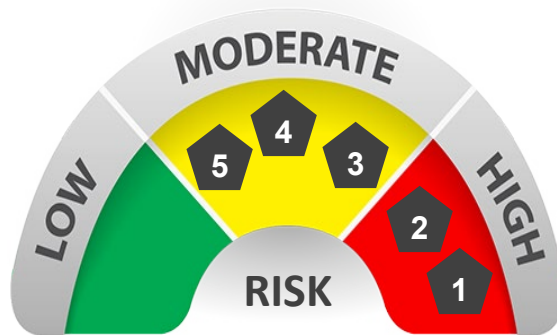
However, auditors identified a lack of an amendment required to be included in the *Memorandum of Understanding Between the City of Surprise and the Surprise Police Employees Association, effective July 1, 2024 – June 30, 2026* (MOU). In addition, payroll testing for 280 staff in FY2025 identified discrepancies affecting 11 employees, including 10 with inaccurate holiday pay hours and one with incorrectly applied longevity payments. Finally, auditors identified discrepancies in retirement deductions affecting sworn Police staff enrolled in the Public Safety Personnel Retirement System (PSPRS) and other Police staff enrolled in the Arizona State Retirement System (ASRS). Errors were identified in ASRS workers’ compensation deduction calculation affecting two employees, and in PSPRS Post Employment Health Plans (PEHP) distributions affecting three employees.

As a result, this report documents opportunities for improvement and recommends to the respective Departments that a required an amendment be implemented to reflect changes to pay, that additional training be provided to staff on reporting holiday hours, and that the system be corrected and updated 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. Amendment to the MOU was not issued with changes to wages.
2. Holiday hours were not always reported correctly.
3. A longevity pay adjustment was not made for retroactive pay.
4. ASRS retirement calculations incorrectly included workers' compensation for some employees.
5. Contributions to PEHP were not properly calculated for employees enrolled in DROP.



# Detailed Observations

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## 1. High Risk – Amendment to the MOU was not issued with changes to wages.

The MOU is the agreement between the City and the Surprise Police Employee Association that documents wages, hours, benefits, and working conditions. It requires an amendment for any changes to wages covered, including adjustments due to cost-of-living or market adjustments.

A market adjustment to pay for some police staff was implemented at the end of FY2025. In addition, a cost-of-living increase was applied starting in FY2026. However, no amendment to the MOU for either of these pay increases was issued. Changes in management for both Police and Human Resources (HR) occurred right around the time the market adjustments and the cost-of-living increases were implemented, so they were unaware of the need for the amendment.

### Risk

When the documentation is inconsistent with how pay is distributed, it increases the likelihood that pay will not be in accordance with management's intent and that transparency in pay is lacking.

### Recommendations

The Police Department should:

- 1A. Work with the Payroll Division to issue the required amendment to the MOU related to the market adjustments made in FY2025, as well as the cost-of-living increases that took place in FY2026.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 12/31/2026

We are currently collaborating with Surprise Police Employee Association on a new MOU for FY2027. Any market adjustments or compensation changes will be addressed upon implementation of the updated agreement.

- 1B. Implement processes to ensure that amendments are issued when updating the wages for staff covered by the MOU, including ensuring continuity of these requirements during staff transitions.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 12/31/2026

When compensation changes occur, the Police Department will work collaboratively with Human Resources to ensure all necessary amendments are implemented.

## 2. High Risk – Holiday hours were not always reported correctly.

According to the MOU, dispatchers and dispatch supervisors will receive 12 hours of holiday pay. Other full-time employees will receive an amount equivalent to their regularly scheduled shift. If an employee works on a holiday, they receive additional pay for holiday worked hours at 1.5 times their base rate.

However, auditors identified:

- Two dispatch employees were paid out less than 12 hours of holiday pay.
- Five employees were paid out hours that were different than their regularly scheduled shift during at least one holiday.
- Three employees who worked on the holiday reported their worked hours instead of scheduled hours for their holiday pay.

Employees were unaware of the specific hours they needed to enter in their time sheets when submitting their holiday hours. In addition, supervisors were not properly reviewing the time entered to verify its accuracy before approving the time sheets.

### Risk

Inaccurate hours reported result in inaccurate pay provided to employees for the holidays.

### Recommendations

The Police Department should:

- 2A. Review prior holiday hour discrepancies identified in the audit, determine whether adjustments are required, and make adjustments where appropriate.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 12/31/2026

Identified discrepancies will be reviewed by the appropriate division commander.

- 2B. Ensure that employees and supervisors are provided with training or additional information about how to report hours for holidays.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 12/31/2026

The Police Department will collaborate with Payroll and provide our supervisors with training on proper holiday hour tracking.

### 3. Moderate Risk – A longevity pay adjustment was not made for retroactive pay.

The Employee Policy Manual (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 110 Police Department employees identified one employee who received retroactive pay but did not receive a longevity adjustment, resulting in an underpayment of \$31.84.

When the retroactive payment was applied, the payroll employee who implemented it was unaware of when longevity adjustments should be applied and so overlooked the adjustment that was also necessary.

#### Risk

Employees may not receive accurate pay if longevity payments are not applied in accordance with the City's policies.

#### Recommendations

The Payroll Division, Human Resources Department, should:

- 3A. Review the employee's pay to determine what they should have received, and correct their pay.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 5/1/2026

A review has been completed and a retroactive adjustment was made to the employee on the 5/1/26 payroll.

- 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: 6/30/2026

The Payroll team that made the discrepancy are no longer members of the department. Current training for new staff includes guidance on properly completing longevity retroactive calculations, as these must be performed manually due to the payroll system's inability to process them automatically.

#### **4. Moderate Risk – ASRS retirement calculations incorrectly included workers’ compensation for some employees.**

Police staff who are not eligible to be enrolled in PSPRS are enrolled in ASRS for retirement. According to the ASRS Employer Manual, withholdings for ASRS retirement should not include amounts received as workers’ compensation benefits. However, workers' compensation was not excluded from ASRS retirement calculations for employees who enrolled before 2020. As a result, retirement contributions were overcalculated for two employees by an estimated \$3,109 in FY2025.

The exception report in Munis that determines which compensation codes are used to calculate retirement prior to 2020 was set up by former staff who are no longer with the City. When changes to ASRS calculations were made for staff who started during or after 2020, current staff set up and verified the new exception report for these employees, which was correct. However, no review of the exception report for employees enrolled prior to 2020 was conducted.

#### **Risk**

Inaccurate ASRS calculations may result in overpayments or underpayments by the City, and incorrect employee retirement contributions.

#### **Recommendations**

The Payroll Division, Human Resources Department, should:

- 4A. Update Munis to ensure that worker’s compensation is excluded from ASRS contribution calculations for employees enrolled prior to 2020.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 4/1/2026

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 HR/Payroll team is currently in contract negotiations with new Human Capital Management (HCM)/Payroll vendor that provides the items lacking in current system.

4B. Review the overcalculated retirement contributions, determine whether adjustments are required, and implement adjustments where appropriate.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 6/30/2026

A review will be done to determine if adjustments are possible.

4C. Review ASRS exception reports for retirement codes for employees enrolled prior to 2020 to determine if they are complete and accurate, or if there are other updates needed.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 6/30/2026

A review will be completed using assistance from an ASRS representative as needed.

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

The MOU states that employees who enter the Deferred Retirement Option Plan (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, fringe benefits and lump sum payments are not to be considered as part of the compensation when calculating the PSPRS eligible earnings.

Of the seven employees eligible for the PEHP DROP benefit, three employees received payments that were not PSPRS-eligible but were incorrectly included in the compensation used to calculate their PEHP DROP contribution. These included gift cards and a lump sum payout of their PTO. This resulted in the City overpaying \$641.96 during FY2025.

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 these two types of income were accidentally left out of the list when it was created.

### Risk

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

### Recommendations

The Payroll Division, Human Resources Department, should:

- 5A. Update Munis to ensure that PEHP DROP does not include gift cards or lump sum payouts as part of the eligible compensation.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 3/15/2026

Lump Sum payouts were previously corrected after the Fire-Medical Payroll audit. For gift cards, 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 HR/Payroll team is currently in contract negotiations with new HCM/Payroll vendor that provides the items lacking in current system.

5B. Review the overcalculated PEHP DROP contributions, determine whether adjustments are required, and implement adjustments where appropriate.

**Management Response:** Management concurs with the audit recommendation.  
Recommendation Completion Date: 6/30/2026  
A review will be done to determine if adjustments are possible.

5C. Review PEHP DROP exception reports for retirement codes to determine if they are complete and updated with current requirements.

**Management Response:** Management concurs with the audit recommendation.  
Recommendation Completion Date: 6/30/2026  
The review of PEHP DROP exceptions will be completed by 6/30/2026.

5D. Establish and implement a secondary review process of Munis reports over retirement, and ensure that individuals performing the review have the necessary knowledge and training.

**Management Response:** Management concurs with the audit recommendation.  
Recommendation Completion Date: 6/30/2026  
We will require the Human Resources Information System (HRIS) Analyst to review PSPRS pay guidelines by reaching out to them directly for training and guidance in order to assist with Payroll setup for accuracy.

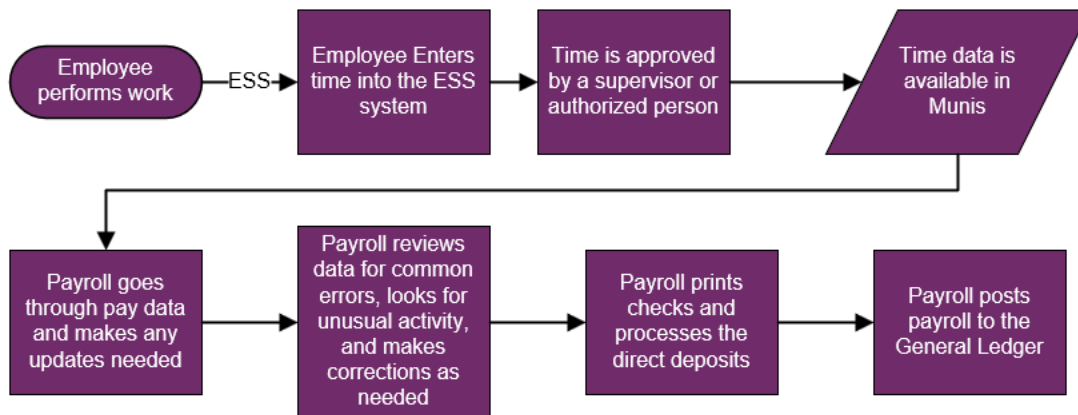
# Appendices

## Appendix A: Background, Objectives, Scope, and Methodology

### Background

The pay for FY2025 for the Police Department staff was just over \$29 million, which includes regular pay, overtime, additional shifts, holidays, other leave, allowances, and other forms of compensation. Additionally, employees paid out just over \$2.5 million for retirement benefits, while the City paid just over \$8.3 million for employee retirement benefits.

### Police Payroll Process Flowchart



The Police Department’s payroll data is processed partly by staff in the Police Department and then by the Payroll Division, under the Human Resources Department. Staff hours and pay type are entered by the employee directly into the Employee Self Service (ESS) system. The Police Department supervisors approve employee time, which is available in Munis. 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 Police 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 FY2025.

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 Police Department staff and Payroll Division staff.
- Reviewing City and Department policies on payroll.
- Reviewing the MOU between the City and the Surprise Police Employees Association.
- Analyzing payroll records and transactions for the Police 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

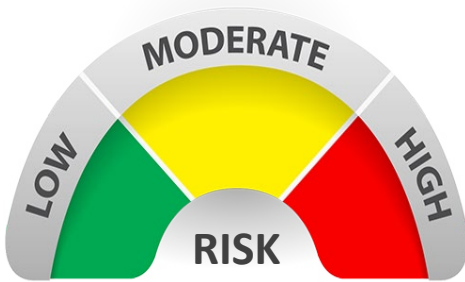
## Data Reliability

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 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 Police Payroll Audit for their considerable cooperation and assistance, including the:

- Police Department; and
- 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>.

Audit performed by:  
Melissa Moreno, Internal Auditor Senior



**CITY OF SURPRISE  
City Audit Committee**

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Council Meeting Date: June 3, 2026  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

---

**Agenda Wording:**

Presentation, discussion, and possible action pertaining to the Contract Audit Report - Tecta America Arizona LLC

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**Motion:**

I move to approve and distribute the Contract Audit Report - Tecta America Arizona LLC.

---

**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to 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 internal 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.

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**Policy Compliant:**

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal 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.

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**Financial Impact:**

This item relates to work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. Contract Audit Report - Tecta America Arizona LLC
-



**SURPRISE**

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ARIZONA

# **Contract Audit Report – Tecta America Arizona LLC**

February 17, 2026

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# Executive Summary

As part of the City Auditor Department’s (CAD) fiscal year 2026 Annual Audit Plan, we conducted an audit of the City of Surprise’s (City) trade services contract with Tecta America Arizona LLC. The purpose of the audit was to determine whether the contract was in compliance with City procurement policies and procedures and whether the terms and conditions of the contract were followed. The audit covered the period from March 2021 through August 2025.

In May 2021, the City awarded 24 trade services contracts through a formal Request for Proposals process. The trade services contract with Tecta America Arizona LLC was judgmentally selected for review as part of this audit. The contract provided roofing and related services for the City and included provisions related to pricing, documentation, insurance, and contract amendments.

The audit reviewed contract language, amendments, invoice payments, insurance documentation, and related monitoring controls. We reviewed 75 invoices comprising the entire population during the audit period, contract and amendment documents, insurance records, and relevant processes within the Public Works Department and the Procurement and Risk Divisions.

**Tecta America Arizona LLC contract audit identified areas of achievement and opportunities for improvement**

✓	No duplicate payments identified
✓	No work identified during contract gaps <i>(based on available invoice data)</i>
✗	Documentation did not meet requirements
✗	Pricing not consistently applied
✗	Insurance documentation not maintained
✗	Contract terms and amendments not clearly defined or executed
✗	Gaps in contract coverage

---

Area of achievement

Area of improvement

Overall, we found that invoices were processed through established approval workflows. However, supporting documentation did not meet contract requirements. In addition, charges were not consistently applied in accordance with contract pricing requirements, and certain charges were not clearly supported by contract terms. Required insurance documentation was not maintained. Further, contract terms and amendments were not consistently defined or executed, and gaps in contract coverage occurred. However, based on available invoice data, no work was identified during those gaps. These conditions resulted in financial and contract administration risk.

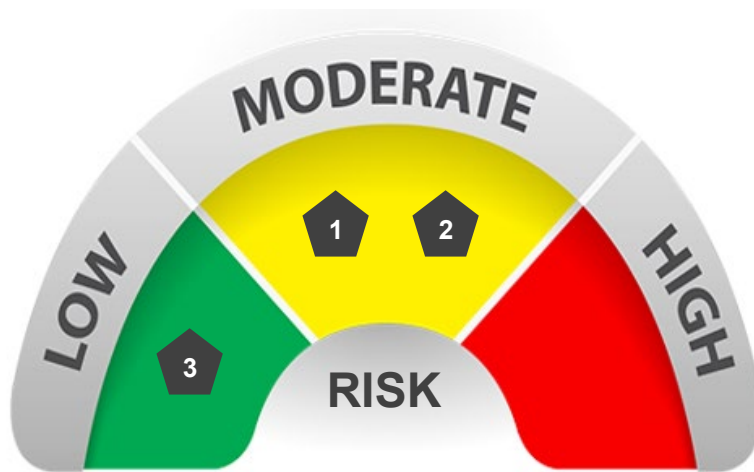
As a result, this report documents opportunities for improvement and makes recommendations to strengthen contract pricing and documentation verification procedures, formalize insurance monitoring controls, and improve contract term, amendment, and tracking processes.

Refer to Appendix A for more information about trade services contracts and the Tecta America Arizona LLC contract.

# 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. Contract pricing and invoice documentation requirements were not consistently applied, reducing assurance that the City received negotiated pricing benefits.
2. Insurance documentation was not maintained as required, reducing assurance that contractual risk transfer protections were in place throughout the contract term.
3. Contract terms and amendments were not clearly defined or consistently executed, reducing assurance of continuous and enforceable contract coverage.



# Detailed Observations

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## **1. Moderate Risk – Contract pricing and invoice documentation requirements were not consistently applied, reducing assurance that the City received negotiated pricing benefits.**

The Tecta America Arizona LLC contract established labor pricing and invoice documentation requirements, including provisions for projects exceeding \$10,000. Specifically, the contract required the vendor to:

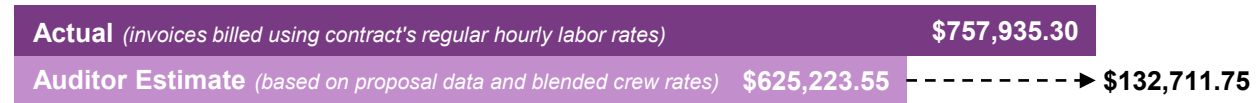
- Bill labor in accordance with the approved pricing sheet.
- Apply lower labor prices based on blended crew rates for projects exceeding \$10,000.
- Include sufficient detail in invoices to substantiate labor hours by trade and rate.
- Provide supporting documentation for materials and other charges.

We reviewed 75 invoices comprising the entire population for the audit period and found the following related to invoice documentation, pricing application, and charge allowability:

- Supporting Documentation: None of the 75 invoices included the minimum level of supporting documentation required by the contract. The Public Works Department indicated that invoices were supported by proposals that aligned with contract pricing, indicating consistency between the agreed-upon scope and invoicing. However, our review found that this was not consistently the case, as some, but not all, invoices were supported by proposals. In addition, proposals represent estimated pricing and do not provide evidence of actual labor hours worked, time on site, or materials used. As a result, the documentation retained did not provide sufficient detail to independently verify compliance with contract pricing, including labor classifications, hours worked, or material costs.
- Blended Crew Rates: Thirty-two invoices exceeded \$10,000, triggering the blended crew rate provision. However, only one of the 32 invoices reflected the required blended crew rates. Of the remaining 31 invoices exceeding \$10,000, five did not include sufficient labor detail to determine whether blended crew rates were applied, and 26 were billed using the contract's regular hourly labor rates. Labor billed at regular rates for the 26 invoices totaled \$757,935.30. Had the blended crew rates been applied in a manner consistent with the one compliant invoice, labor charges would have totaled \$625,223.55, representing an estimated pricing difference of \$132,711.75, based on available proposal data as shown in Figure 1.

## Figure 1

Applying blended crew rates to 26 invoices over \$10,000 may have resulted in an estimated pricing difference of approximately \$132,712 (actual costs may vary)



Source: City Auditor Department staff analysis of 26 invoices over \$10,000 reviewed during the audit period through August 27, 2025. Auditor estimate is based on proposal data and application of blended crew rates consistent with the one compliant invoice; actual costs may vary.

- **Dispatch and Trip Charges:** In addition, six invoices included dispatch or trip charges totaling \$899.44 that were not identified in the contract's pricing sheet. The contract and amendments did not explicitly establish dispatch or trip charges as allowable pricing elements in the contract terms. The Public Works Department indicated that these charges were considered allowable under a unilateral amendment, which allows for negotiation of unforeseen costs not included in the pricing sheet. However, the contract required that modifications be executed through a written amendment signed by authorized representatives of both the City and the vendor, and the unilateral amendment was not signed by the vendor. As a result, the allowability of these charges was not clearly established and was subject to inconsistent interpretation.

These issues occurred because invoice reviews did not consistently verify that contract pricing requirements were applied or that required supporting documentation was provided prior to payment. In addition, key pricing provisions were not sufficiently defined or consistently interpreted, limiting the City's ability to independently verify compliance.

## Risk

When contract pricing and documentation requirements are not consistently verified prior to payment, the City may not receive negotiated pricing benefits and may incur overpayments. Incomplete supporting documentation further limits the City's ability to detect pricing errors, verify compliance with contract terms, and demonstrate appropriate stewardship of public funds. In addition, unclear or inconsistently interpreted contract provisions may result in charges being approved without sufficient contractual support, increasing the risk of inappropriate or unsupported payments.

## Recommendations

The Finance and Public Works Departments should:

- 1A. Review the invoices that did not follow contract pricing requirements, including blended crew rates, and invoices that included dispatch or trip charges, to determine whether pricing was applied in accordance with contract pricing requirements, whether charges were allowable under contract terms, and whether overcharges occurred and cost recovery is warranted.

**Management Response:** Management partially concurs with the audit recommendation.  
Recommendation Completion Date: 12/31/2026

Completion of the review is dependent upon obtaining additional supporting documentation from the vendor. Public Works will work with the vendor to obtain the necessary documentation to complete the review and determine whether pricing was applied in accordance with contract requirements, whether charges were allowable under contract terms, and whether any cost recovery is warranted.

The Finance Department should:

- 1B. Clarify and document how blended crew rates are calculated and applied for projects exceeding \$10,000 to ensure consistent application.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 5/11/2026

The City no longer utilizes blended crew rates in trade services contracts. Finance will continue to review contract language and pricing structures to ensure rates are clearly defined and consistently applied.

The Finance and Public Works Departments should:

- 1C. Implement an invoice review process that requires verification of contract pricing and required supporting documentation before invoices are approved for payment, with Public Works responsible for pricing validation and Finance responsible for ensuring contract pricing information is clearly defined, readily accessible in Munis, and standardized where possible to reduce inconsistent interpretation.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 9/30/2026

Public Works will continue to utilize the Munis workflow for invoice review, develop internal procedures, and conduct training with invoice approvers to emphasize the importance of verifying contract pricing and support documentation prior to invoice approval. Finance will improve document management practices within Munis by implementing clearer and more consistent organization and labeling of contract pricing documentation to support accurate invoice review and minimize inconsistent interpretation.

## **2. Moderate Risk – Insurance documentation was not maintained as required, reducing assurance that contractual risk transfer protections were in place throughout the contract term.**

City contracts require vendors to maintain specified insurance coverage to transfer financial risk away from the City in the event of property damage, bodily injury, or other claims. Insurance certificates and endorsements provide evidence that required coverage is in effect and meets contractual requirements. Ongoing monitoring is important for multi-year contracts because insurance coverage may expire or be modified during the contract term.

The Tecta America Arizona LLC contract established insurance requirements to ensure that required coverage was in place prior to and throughout the contract term. Specifically, the contract required that:

- Certificates of insurance and endorsements be received and approved by the City's Procurement and Risk Divisions prior to commencement of work.
- Required insurance coverage be in effect at or before the start of work and remain in effect for the duration of the contract.
- Evidence of renewal be provided to demonstrate continuous coverage throughout the contract term.
- Required insurance coverage and renewal documentation be maintained, as failure to do so constitutes a material breach of contract.

We reviewed available insurance records and confirmed with the Procurement and Risk Divisions that the most recent certificate of insurance and endorsements on file for Tecta America Arizona LLC expired on March 31, 2020, more than one year prior to the award and execution of the contract under audit. No subsequent certificates or endorsements were maintained in the contract file during the contract term. Although services continued and invoices were processed for payment during the audit period, documentation demonstrating that required insurance coverage and endorsements were in effect was not maintained in the contract file. As a result, we could not independently verify that the vendor maintained insurance coverage in accordance with contract requirements throughout the contract term.

These issues occurred because responsibility for obtaining and monitoring insurance documentation was not clearly formalized and documented, and no structured process existed to ensure certificates and endorsements were collected, reviewed, and maintained at contract initiation or throughout the contract term, including tracking policy renewals. In addition, the absence of a centralized contract management system limited coordination between the Procurement and Risk Divisions and reduced visibility over contract compliance requirements.

### **Risk**

When required insurance documentation is not maintained, the City lacks assurance that contractual risk transfer protections remain in effect and that the vendor is in compliance with contract requirements. If required coverage lapses or does not meet contract requirements, the

City may be exposed to financial and liability risk in the event of property damage, bodily injury, or other claims.

## Recommendations

The Finance Department, in coordination with Risk, should:

- 2A. Obtain current certificates of insurance and required endorsements from the vendor, verify that coverage meets contractual requirements, and retain documentation in the contract file.

**Management Response:** Management partially concurs with the audit recommendation.

Recommendation Completion Date: 5/11/2026

As the audited contract has expired, obtaining updated certificates of insurance and endorsements is no longer operationally necessary. Finance will continue to work with vendors to ensure required insurance documentation is obtained and retained for active contracts going forward.

- 2B. Establish and document a formal process for obtaining and monitoring insurance coverage throughout the life of City contracts. The process should assign responsibility, track renewal dates, and ensure required certificates of insurance and endorsements are collected, reviewed, and maintained.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 9/30/2026

Finance, in coordination with Risk, will work to establish and document a formal process for obtaining, monitoring, and maintaining required insurance documentation throughout the life of City contracts.

### 3. Low Risk – Contract terms and amendments were not clearly defined or consistently executed, reducing assurance of continuous and enforceable contract coverage.

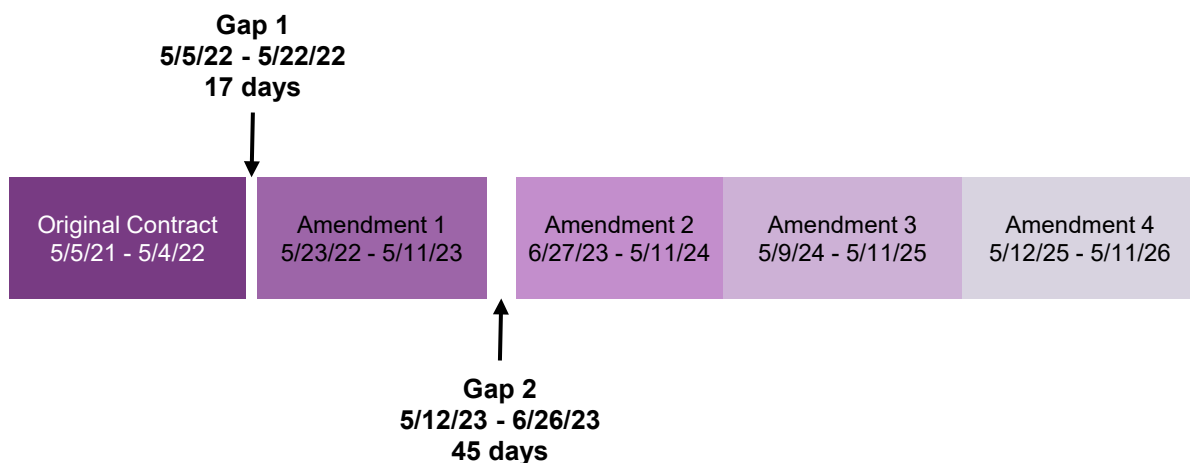
Clearly defined contract terms and timely execution of amendments are important to ensure enforceability and continuous contract coverage. The Tecta America Arizona LLC contract defined the contract term and required that modifications be executed through written amendments signed by authorized representatives of both the City and the vendor. Municipal Code Sec. 2-351 further requires that contract terms be clearly defined.

We reviewed the original contract, Amendments 1 through 4, and a unilateral amendment and identified the following issues related to contract term clarity, continuity of contract coverage, and amendment execution:

- **Contract Term Clarity:** The contract stated that the term began on the date of award, May 5, 2021. However, the Procurement Division tracked the contract based on an effective date of May 12, 2021. This created ambiguity regarding the start and end dates of the contract term.
- **Contract Coverage Gaps:** In addition, gaps occurred between contract periods. A 17-day gap occurred between expiration of the original contract term and execution of Amendment 1, and a 45-day gap occurred between expiration of Amendment 1 and execution of Amendment 2, as shown in Figure 2. Based on available invoice information, we did not identify work performed during these gap periods. However, work dates were not included on all invoices.

**Figure 2**

The Tecta America Arizona LLC contract and amendments included two gaps in contract coverage of 17 and 45 days



Source: City Auditor Department staff analysis of Tecta America Arizona LLC contract 321085W and associated amendments.

- **Amendment Language and Execution:** Amendment language and execution practices created further uncertainty. Amendments referenced the effective date “as of the date first set forth above” but did not explicitly identify a specific date within the amendment

document. In the absence of a clearly defined effective date, we used the latest date of the final signatory as the effective date for audit purposes. In addition, a unilateral amendment was signed by the City but not by the vendor, despite contract requirements that modifications be executed by both parties.

These issues occurred because contract administration processes were not structured to ensure clear contract terms and timely execution of amendments. At the time the amendment gaps occurred, no formalized process existed to track citywide contract expiration dates and ensure amendments were executed prior to lapse. In addition, contract and amendment templates did not standardize term language or effective date provisions, and amendment execution requirements were not consistently applied. The Procurement Division indicated that a new contract tracking process has since been implemented to monitor expiration dates and amendment timelines. This process was implemented after the amendment gaps in 2022 and 2023. Based on our review of the Tecta America Arizona LLC contract, no additional amendment gaps were identified after implementation.

## Risk

Ambiguity in contract terms and delayed execution of amendments increases administrative and governance risk and reduces assurance that continuous contract coverage is maintained. If a dispute arises during a period of unclear contractual coverage, enforceability may be challenged. In addition, execution of amendments without required signatures may create uncertainty regarding mutual agreement to contract modifications.

## Recommendations

The Finance Department should:

- 3A. Revise and standardize contract and amendment templates to clearly define award dates, effective dates, amendment effective dates, and signature requirements.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 9/30/2026

Finance will revise and standardize contract and amendment templates to more clearly define award dates, effective dates, amendment effective dates, and signature requirements.

- 3B. Continue to formalize and document the citywide contract tracking process to ensure contract expiration dates are monitored and amendments are executed prior to lapse.

**Management Response:** Management concurs with the audit recommendation.

Recommendation Completion Date: 5/20/2026

Finance has implemented and documented the citywide contract tracking process to help ensure contract expiration dates are monitored and amendments are executed prior to lapse.

# Appendices

## Appendix A: Background, Objectives, Scope, and Methodology

### Background

In March 2021, the City published a Request for Proposals (RFP) solicitation to establish contracts for routine maintenance, repair, and operations projects to give the City access to trade services for smaller projects without the use of a general contractor. In May 2021, 24 vendors were awarded one-year contracts that, by mutual written contract amendments, could be extended for supplemental periods up to a maximum of 48 months for various trades, like painting; concrete placement, sealing, and repairs; sports field lighting; roofing repairs; electrical work; and pest and bird control. We judgmentally selected the Tecta America Arizona LLC contract for audit testing, whose services include roofing repair. The City has extended its contract with Tecta America Arizona LLC through May 2026.

The City's trade services spending from fiscal years 2021 through 2026 totaled approximately \$10.1 million for the 24 vendors awarded trade services contracts under the May 2021 RFP (data through August 13, 2025). Spending was distributed across multiple vendors, with a significant portion concentrated among a small number of vendors. Expenditures to Tecta America Arizona LLC totaled approximately \$2.1 million, representing 20 percent of total spending among these vendors during the period, as shown in Table 1.

**Table 1**

Tecta America Arizona LLC accounted for 20 percent of the City's spending among vendors awarded trade services contracts, fiscal years 2021 through 2026 (through August 13, 2025)

Vendor	FY 2021 <sup>2</sup>	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 <sup>2</sup>	Total Spending
ASR Construction Group	\$0	\$726,404	\$573,388	\$685,942	\$672,722	\$0	\$2,658,456
Straight Arrow Contracting Inc	0	909,430	599,887	410,200	589,195	7,950	2,516,662
<b>Tecta America Arizona LLC</b>	<b>0</b>	<b>89,588</b>	<b>485,460</b>	<b>877,536</b>	<b>614,607</b>	<b>0</b>	<b>2,067,191</b>
Hawkeye Electric Inc	0	112,278	501,081	894,180	269,811	0	1,777,350
Guy's Contracting LLC	0	0	84,513	200,671	182,409	0	467,592
Oasis Painting Inc	1,400	64,363	98,701	51,128	39,984	0	255,575
Spectra Electrical Services Inc	0	33,472	19,776	22,465	63,537	0	139,250
Sun Best Builders Inc	0	13,432	65,680	0	0	0	79,112
H2Ology	2,833	9,183	7,453	14,529	9,271	450	43,720
Truly Nolen Pest Control <sup>1</sup>	0	2,935	3,882	9,627	10,209	563	27,215
SDB Inc	0	3,268	18,930	0	0	0	22,198
Bootz & Duke Sign Co	1,509	0	3,877	10,630	5,968	0	21,983
A-O Painting Inc	0	18,340	0	0	0	0	18,340
Pueblo Mechanical & Controls LLC	0	0	0	4,230	10,783	0	15,013
Partitions & Accessories Co	0	0	14,547	0	0	0	14,547
Metro Fire Equipment Inc	0	0	0	0	5,344	0	5,344
A P Fire Protection	0	0	0	0	0	0	0
August Building Company LLC	0	0	0	0	0	0	0
Harris Arizona LLC	0	0	0	0	0	0	0
Progressive Services Inc	0	0	0	0	0	0	0
RestorationHQ LLC	0	0	0	0	0	0	0
Sprayfoam Southwest Inc	0	0	0	0	0	0	0

Vendor	FY 2021 <sup>2</sup>	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 <sup>2</sup>	Total Spending
Stormwater Pros LLC	0	0	0	0	0	0	0
TSS Enterprises Inc	0	0	0	0	0	0	0
<b>Total</b>	<b>\$5,742</b>	<b>\$1,982,692</b>	<b>\$2,477,176</b>	<b>\$3,181,137</b>	<b>\$2,473,839</b>	<b>\$8,963</b>	<b>\$10,129,548</b>

<sup>1</sup> Bob N Hope Inc was originally awarded a trade services contract, but later changed ownership to Truly Nolen Pest Control. For consistency, spending that was recorded under Bob N Hope Inc is included with Truly Nolen Pest Control.

<sup>2</sup> Trade services contracts were first awarded near the end of fiscal year 2021, and data for fiscal year 2026 includes payments recorded through August 13, 2025.

Source: City Auditor Department staff analysis of City spending for 24 trade services contract vendors through August 13, 2025.

No prior CAD audit has been conducted specific to the Tecta America Arizona LLC trade services contract. However, prior CAD audits related to contract administration, procurement workflow, and documentation controls informed this audit.

## Objectives, Scope, and Methodology

We conducted a trade services contract performance audit pursuant to Ordinance No. 2016-26, which grants the City’s internal audit program authority to conduct City internal audits. This audit focused on one trade services contract with Tecta America Arizona LLC, and evaluated whether the contract complied with City procurement policies and procedures and whether the terms and conditions of the contract were followed.

Specifically, the CAD evaluated whether, during the Tecta America Arizona LLC contract term:

- The contract was procured and administered in accordance with City procurement policies and procedures.
- Payments and contract administration activities complied with the terms and conditions of the contract.

We used the following methods to address the audit objectives:

- Reviewing applicable City policies, Municipal Code, laws, and regulations.
- Reviewing Tecta America Arizona LLC Contract 321085W, Amendments 1 through 4, and the unilateral amendment.
- Analyzing invoice data for 75 invoices issued during the audit period.
- Recalculating labor charges for projects exceeding \$10,000 to assess compliance with blended crew rate provisions.
- Reviewing supporting documentation.
- Reviewing insurance documentation.
- Interviewing City staff.
- Using Caseware IDEA data analysis 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.

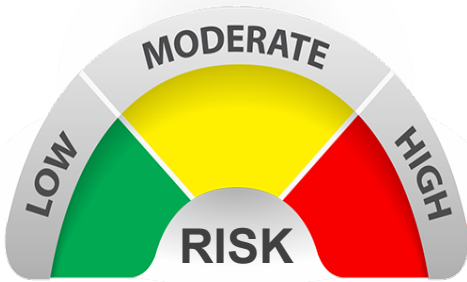
The CAD judgmentally selected the Tecta America Arizona LLC contract from a population of trade services contract vendors for audit testing based on risk and relative spending significance. Audit procedures were performed on the full population of relevant items within the selected contract. As such, results are specific to the contract reviewed and are not intended to be projected to other contracts.

The CAD determined the data utilized is sufficiently reliable for the purposes of this audit.

## 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 the trade services contract with Tecta America Arizona LLC. 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 Tecta America Arizona LLC contract audit for their considerable cooperation and assistance, including the:

- Finance Department; and
- Public Works 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>.

Audit performed by:  
Angela Hanson, Internal Auditor



**CITY OF SURPRISE  
City Audit Committee**

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Council Meeting Date: June 3, 2026  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

---

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

---

**Agenda Wording:**

Presentation, discussion, and possible action pertaining to the FY2026-2027 Annual Audit Plan

---

**Motion:**

I move to approve and distribute the FY2026-2027 Annual Audit Plan

---

**Background:**

This item has been placed on the agenda to discuss work to be performed as part of the FY2026-2027 Annual Audit Plan

---

**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.

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**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.

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**Financial Impact:**

N/A - Informational only

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**Budget Impact:**

N/A - Informational only

**FTE Impact:**

N/A - Informational only

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**ATTACHMENTS:**

1. FY2027 Proposed Annual Audit Plan
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**City Auditor Department  
Proposed - Annual Audit Plan  
FY2026-2027**

Report Name	Preliminary Objective	Audit Area	City Council Strategic Plan
<b>Audit Engagements</b>			
Fleet Management Fuel Card Administration	Evaluate the internal controls, monitoring, effectiveness, and efficiency of and fuel card administration process and procedures.	Public Works/ Fleet Management	Fiscal Responsibility-Strategy 4.3: Endeavour to become one of the lowest cost per capita cities in the state
City Park Safety Management	Evaluate the process used to ensure city parks are maintained safely in compliance with city policies and procedures and the municipal code.	Parks and Recreation	Community Experience-Strategy 3.1: Provide Surprise residents and visitors with exceptional parks
Non-Capital Assets	Assess the effectiveness of citywide management of assets under \$5,000.	City-wide	Fiscal Responsibility-Strategy 4.3: Endeavour to become one of the lowest cost per capita cities in the state
Utility Billing	Evaluate controls in place for collecting, recording, and reconciling utility billing statements.	Finance	Fiscal Responsibility-Strategy 4.3: Endeavour to become one of the lowest cost per capita cities in the state
Contract Review - TBD	Review a selection of City of Surprise (City) contracts to determine compliance with City procurement policies, procedures, and contract terms and conditions.	Citywide	Fiscal Responsibility-Strategy 4.1: Adopt and maintain a balanced budget
<b>Contingency Audits</b>			
Cash Handling	Review of citywide cash handling processes and controls for compliance with City policies and procedures.	Citywide	Fiscal Responsibility-Strategy 4.1: Adopt and maintain a balanced budget
Tuition reimbursement	Review the tuition reimbursement payments to determine compliance with City policies and procedures.	Citywide	Fiscal Responsibility-Strategy 4.1: Adopt and maintain a balanced budget
Various desk audits	Analytical review of financial trends and transactional data.	Citywide	Fiscal Responsibility-Strategy 4.1: Adopt and maintain a balanced budget
<b>Annual Reports and Other Projects</b>			
Annual Audit Activity Report	Comprehensive overview of internal audit activities for the prior fiscal year.	City Auditor Department	Government Transparency – Strategy 6.1: Inform residents through a variety of engagement tools and simplified messaging
Citywide Internal Audit Risk Assessment	Update the audit risk assessment model for recent organizational and reporting changes.	Citywide	Government Transparency – Strategy 6.2: Utilize new and improved technologies that provide high-quality data to residents.
Annual Audit Plan	Risk-based planning and development of audit activity for the next fiscal year	Citywide	Government Transparency – Strategy 6.1: Inform residents through a variety of engagement tools and simplified messaging



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Audit Recommendations Status Report	Report on the status of management action plans related to prior audit recommendations.	Citywide	Government Transparency – Strategy 6.1: Inform residents through a variety of engagement tools and simplified messaging
Quality Management System Review	Verify and create controls to ensure auditor workpapers comply with audit standards.	City Auditor Department	Government Transparency – Strategy 6.2: Utilize new and improved technologies that provide high-quality data to residents