

Audit indicates financial improvements for Surprise

By Richard Smith, Daily News-Sun | Posted: Wednesday, June 19, 2013 6:21 am

Surprise approved its final fiscal year 2014 budget Tuesday, but the city's highlight came from the fiscal year 2012 counterpart.

The results of more than a year's work, an audit of fiscal year 2012 and a detailed review of nearly a decade's worth of impact fee transactions, were announced during the City Council work session. And the audit made official the good financial news city officials were hearing for months.

The fiscal year 2012 audit produced an "unqualified" result. Auditors found city financial statements meet accepted accounting principles and there are no significant concerns in its financial reporting.

"It will be great news at the rating agencies," City Manager Chris Hillman said.

Conversely, when the fiscal year 2011 audit returned a "qualified" result, Surprise's bond rating dropped.

This audit, produced by CliftonLarsonAllen and Red Oak Consulting, followed the direction of the council in the wake of the 2011 audit. Its result should help patch Surprise's battered financial reputation — stemming from the allocation of \$73 million to incorrect city accounts to finance City Hall and the police department headquarters.

During the audit, the consultants recalculated 185,893 of the 186,034 developmental impact fees collected between fiscal year 2001 and fiscal year 2011.

Consultants reviewed \$121 million of the \$125 million garnered in these transactions since 2002. Of this, only \$2,800 was incorrectly totaled.

"All the tests you've done give me comfort," Councilman Skip Hall said. "Every fund I looked at improved."

Suggestions for improvement came with the report, and most were procedural in nature. Better controls need to be established over impact fee revenues, capital contributions and financial reports.

Future audits need to be completed within nine months of the close of a fiscal year. Hillman said the fiscal year 2013 audit should be completed by January or February.

Focus now will shift to including policy safeguards.

"We have a long way to go. We need to modernize ourselves in terms of technical and human resources," Hillman said. "One of the major areas I would like to focus on is to ensure we have all the operational procedures and policies in place. Right now, we simply don't have those. There are policies innumerable policies and procedures that need to be created in order to help endure the city doesn't find itself in a similar predicament years down the road."

Still, the financial news is good on all fronts. Surprise's revised prediction of a \$4.5 million (up from the original \$500,000) general fund surplus at the end of FY 2012 proved accurate.

The city now projects a reserve fund balance of \$14.5 million at the end of fiscal year 2013.

The FY 2014 budget includes \$24.5 million in contingencies, based on projections of this audit's results project for the impact fee fund balances. Parks and Recreation, Public Works and Police projects could be bolstered by these funds, though contingencies are only there to set a budget ceiling, not to direct funding.

While the final impact fee numbers are slightly different than projections, they won't change the contingency option significantly.

"They're very, very close," Hillman said. "I don't anticipate the council spending all of those reserves in any of those funds. The contingencies just established a cap."