



S U R P R I S E

ARIZONA

Bond Summary
Pavement Preservation – Phase 1

June 26, 2019

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Purpose and Scope

As part of the approved FY2019 Annual Audit Plan, Internal Audit (IA) developed continuous review procedures around high-risk areas including the monitoring of 2017 General Obligation (GO) Bond projects. The review objective was to determine if bond funds were spent appropriately for the purposes voted on by residents. The audit did not cover a review of debt compliance and financial reporting procedures.

IA selected the pavement preservation bond project (2017 GO Bond Question #3) for review. IA performed procedures including the following:

- Inquiry with Public Works (PW) and Finance Department personnel
- Comparison of invoices to contract rates and purchase orders (PO's)
- Verification of City Council approval at various steps in bond financing



Image Source: <https://www.surpriseaz.gov/3624/Decide-Surprise>

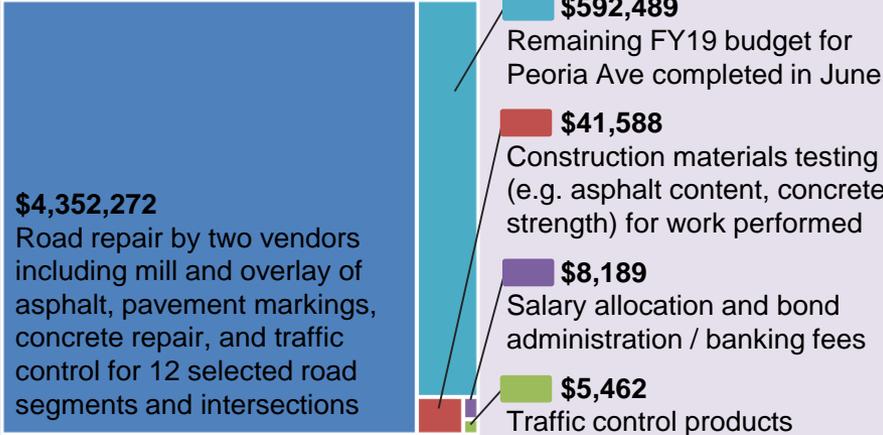
Executive Summary

How are voter-approved bond funds being spent? (As of June 26, 2019)

Election Question:

Shall the City issue bonds not to exceed \$10,000,000 for pavement preservation projects, including the **costs to design, improve, construct, resurface, reconstruct and acquire necessary equipment and appurtenances** therefor to improve deteriorated pavement citywide?*

Pavement Preservation – Phase 1 (FY19 \$5,000,000 Budget):



Conclusion

Based on inquiry and testing performed, IA determined bond funds for pavement preservation were being spent in alignment with voter-approved purposes. No material observations or recommendations for improvement were noted.

Before Rehab Example
(Cracking in Peoria Ave)



Transition – Rehab completed
on left of photo (Dysart Road)



After Rehab Example
(Reems Road)



* In addition to each specific authorized purpose, bond proceeds may be used to pay for bond insurance or other credit support for the Bonds, all legal, accounting, financial, architectural, design, engineering, and construction management costs and all other costs incurred in connection with the issuance of the bonds and the purposes set forth in the question.

Bond Project Management Procedures

Processes In Place for Bond Project Transparency and Accountability

Efficient Project Execution

- ✓ Data-based selection of roadways for improvement
 - Overall Condition Index (OCI) used to assess roadways and select poor condition arterial roads requiring rehabilitation (See right)
- ✓ Competitive vendor selection
 - Cooperative purchasing / pricing arrangements
- ✓ Regular vendor site-visits
 - Weekly construction site visits by City PW project manager (PM)
- ✓ Established change management process
 - Cost or scope changes handled through City's established PO change order process

Communication and Transparency

- ✓ Continual updates to stakeholders
 - Quarterly City Council updates and ongoing updates to Decide Surprise website with project status details
- ✓ Frequent cross-departmental communication
 - Bi-weekly meetings with PW, Engineering, Procurement, and Finance

Fiscal Responsibility

- ✓ Allocation of bond funds and interest
 - Monthly allocation of interest and drawdown of investment funds to cover cash outflows
- ✓ Multi-layered approval of outgoing payments
 - Invoice review and approval by PW and Finance through City's established Accounts Payable (AP) process
- ✓ Systematic project tracking and monitoring
 - Munis funds for each bond question and individual project codes
- ✓ Documented debt covenant compliance procedures
 - Annual checklist of requirements for each bond and continuing disclosure policies to use throughout the bond term

City OCI Rating Scale

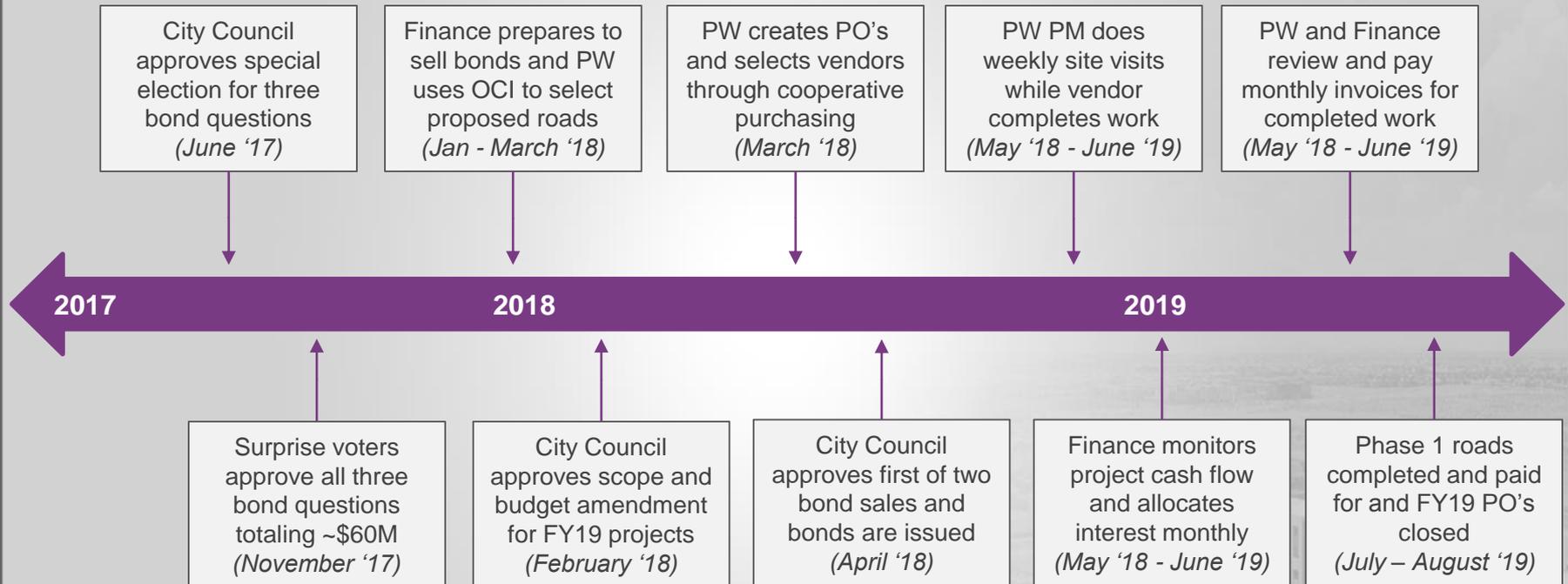
(Used to assess necessary roadway improvements)

Roadways improved with bond funds were arterial roads rated from poor to good (between 69 and 80 OCI) during initial 2015 OCI assessment and had degraded to poor condition (between 55 and 67 OCI) at the time of the bond.

SURPRISE OCI RATING SCALE	PAVEMENT TREATMENT TYPE	TREATMENT APPLICATION
EXCELLENT (91-100)	PREVENTATIVE	SWEEPING, TRAFFIC FLOW, WARRANTY, MORATORIUM, CRACK SEALING, FOG SEALS
GOOD (80-90)	MAINTENANCE	FOG SEALS, POLYMER SEALS, SLURRY SEALS, CHIP SEALS, PAVEMENT PATCHING, CRACK SEALING
FAIR (70-79)		
POOR (50-69)	REHABILITATION	MICRO SURFACING, MILL & OVERLAY, CAPE SEAL, HOT IN PLACE RECYCLING
SERIOUS (31-49)	RECONSTRUCTION	RE-DESIGNED/RE-ENGINEERED, NEW CONSTRUCTION
FAILED (0-30)		

* Source: Public Works OCI Rating Scale

Pavement Preservation – Phase 1: Bond Project Timeline



DECIDE

— ★ • ★ • ★ —
SURPRISE

GENERAL OBLIGATION
BOND 2017

Appendix A – Standards and Acknowledgements

Non-Audit Services

The work detailed in this report is part of IA's continuous review program and does not constitute an audit as defined by and conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Performing this continuous review work by itself or in aggregate with other non-audit services provided does not create any threats to the independence of the IA function.

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

Data Reliability

The data utilized for the work performed was primarily obtained directly from Munis, the City of Surprise's (City's) financial system of record. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor.

Additionally, as part of testing procedures for this bond summary project, IA performed testing on samples of invoices, contracts, and PO's including agreement to data in Munis and identified no errors or limitations material in context of the work performed.

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

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Bond Summary project for their considerable cooperation.

We received input and assistance from the following departments / divisions:

- Public Works (Engineering)
- Finance

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

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 Internal Audit:
<https://www.surpriseaz.gov/2561/Internal-Auditor>