



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

City of Gig Harbor

Pierce County

For the period January 1, 2013 through December 31, 2013

Published December 8, 2014

Report No. 1013086





Washington State Auditor Troy Kelley

December 8, 2014

Mayor and City Council
City of Gig Harbor
Gig Harbor, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the City's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR

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AUDIT SUMMARY

Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified an area in which the City could make improvements.

We recommended the City implement adequate internal controls to ensure a complete, up-to-date list of all their small and attractive and capital assets is maintained at all times. We additionally recommended the City draft a policy regarding the tracking of small and attractive and capital assets to include regular physical inventories to ensure lists are accurate.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the City of Gig Harbor from January 1, 2013 through December 31, 2013.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial condition
- Petty cash and change funds
- Off duty police officer hours
- Third party cash receipting
- Employee contracts and leave cash outs
- Cell phone policies/usage
- Inventory of small and attractive assets

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. The City's internal controls over inventory of small and attractive and capital assets are inadequate to safeguard public resources.

Background

In February 2014, the City of Gig Harbor reported a fraud involving the employee theft of seven pieces of City-owned equipment from the Public Works Department. This equipment, with an approximate value of \$4,000 was recovered by the City. The City Police Department was able to identify the stolen City property by obtaining the pawn history of the City employee. The employee was ultimately prosecuted for the theft.

During the current audit, we completed follow-up work on the internal controls over small and attractive assets at the Public Works Department and determined controls continue to be inadequate to safeguard public resources.

Additionally, based on work completed during the financial statement audit, we also determined the City does not adequately track its capital assets.

Description of Condition

The City does not maintain a complete, up-to-date listing for its small and attractive or capital assets, which would include land, buildings, infrastructure and other equipment and machinery.

Small and Attractive Assets

During our review of small and attractive assets, we identified four items included on the City's small and attractive asset listing for the Public Works Department missing; these assets had an approximate value of \$1,200. We also identified four additional items with an approximate value of \$11,000 with discrepancies, such as items that should have been surplussed or disposed of, and items not tagged appropriately.

In addition, we located six items at the Public Works Department that were either not included on the listing, broken and should have been removed from the listing, or had an incorrect asset tag number.

Capital Assets

During our review of the City's financial statements, we identified a \$1,474,495 difference in depreciable capital assets between the financial statements and the capital asset listing provided by the City. This amount was not material to the financial statements. However, there is no supporting documentation for this amount indicating the City does not maintain a current capital asset list.

Cause of Condition

The City does not ensure its small and attractive or capital asset listings are up-to-date, nor does it adequately review the addition or deletion of assets from the listings. We also determined a lack of interdepartmental communication and staff turnover created confusion as to who was responsible for tracking small and attractive assets.

Effect of Condition

Without a complete, up-to-date small and attractive or capital asset listing, the City would be unable to determine if items were missing. In addition, the City would be unable to properly value or insure its assets without a complete listing.

Recommendation

We recommend the City implement adequate internal controls to ensure a complete, up-to-date list of all its small and attractive and capital assets is maintained at all times. We additionally recommend the City update policies and procedures regarding the tracking of small and attractive and capital assets to include regular physical inventories to ensure lists are accurate.

City's Response

The City has a capital asset policy that includes regular physical inventories; however, due to staffing and financial system challenges, regular inventories were not performed and the records unfortunately do contain discrepancies. Also, the current policy does not have a small and attractive asset component. This is currently being written and will be finalized by year end. In addition, the City is updating current capital asset records. Once updated, a physical inventory will be performed.

Small and Attractive Assets

The city discovered the theft by the employee, terminated him, reported it to the police and he was prosecuted. The Police department utilized city inventory records to confirm the identity of the stolen property which was used in the prosecution. Though the city agrees that it can improve its Small and Attractive assets listings, the records that were maintained were utilized by the police to successfully prosecute the former employee.

Capital Assets

With respect to the capital assets portion, the amount reported for net assets, which are reported on the Statement of Net Assets, did not agree to detailed records. This occurred due to mistakes in worksheets used to calculate depreciation expense and accumulated depreciation.

Auditor's Remarks

We thank the City for its cooperation and assistance throughout the audit and the steps it is taking to address the exceptions noted. We will review the status of the City's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Section 3.1.3.30 of the *Budgeting, Accounting, and Reporting System* (BARS) manual states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Section 3.3.5.10 of the *Budgeting, Accounting, and Reporting System* (BARS) manual states in part:

A physical inventory of the capital assets is necessary to verify that the assets still exist; it also provides updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility

for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the City's financial statements.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report. That report includes federal findings regarding the lack of internal controls to ensure compliance with reporting requirements for both the Economic Development Initiative and Fish and Wildlife Management Assistance federal programs and a lack of internal controls to ensure compliance with federal procurement requirements.

INFORMATION ABOUT THE CITY

The City of Gig Harbor was founded in 1946 and currently serves approximately 7,670 Pierce County citizens. The City provides services including police, street maintenance, community development, Municipal Court, water, wastewater treatment and storm drainage utilities. The City maintains interlocal agreements for fire protection, jail, solid waste and health services.

An elected, seven-member Council and an independently elected Mayor govern the City. The Mayor appoints management to oversee the City's daily operations as well as its approximately 88 full-time employees. For fiscal year 2013, the City operated on an annual budget of approximately \$57 million.

Contact information related to this report

Address:	City of Gig Harbor 3510 Grandview Street Gig Harbor, WA 98335
Contact:	David Rodenbach, Finance Director
Telephone:	(253) 853-7610
Website:	www.cityofgigharbor.net

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Gig Harbor at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov