



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Gig Harbor

Pierce County

For the period January 1, 2015 through December 31, 2015

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Office of the Washington State Auditor
Pat McCarthy

March 30, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

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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 areas in which the City could make improvements.

We recommended:

- Municipal Court staff are adequately trained to perform assigned duties
- Funds are receipted and deposited in a timely manner
- Mitigating controls are in place in the event the cash receipting system is unavailable
- All accounts receivable adjustments are properly supported, as well as reviewed and approved by an individual independent of the adjustment process
- Compliance with service contract provisions, to include payment of Pro Tem Judges

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, 2015 through December 31, 2015.

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:

- Municipal Court
- Third party receipting – moorage receipts
- Procurement and change orders
- Cash receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 Internal controls over Municipal Court cash receipting, adjustments and service contracts were inadequate to safeguard public funds.

Background

The Municipal Court of the City of Gig Harbor collected approximately \$372,700 in revenue during 2015. The Court Administrator is primarily responsible for managing the Court's activities, including cash receipting and adjustments in the Judicial Information System (JIS).

Description of Condition

We identified the following internal control weaknesses:

Cash receipting

- Cash reconciliations for the Municipal Court's bank account were not completed in a timely manner and lacked adequate support.
- Controls were inadequate to ensure all funds collected were receipted and deposited in a timely manner.
- Manual receipts were not consistently used when JIS was unavailable.

Adjustments

- The Court did not maintain sufficient documentation to support accounts receivable adjustments or fee waivers.
- An independent secondary review was not performed for adjustments recorded in JIS.

Service contract

The City lacked internal controls to ensure compliance with the service contract between the City and the Municipal Court Judge.

Cause of Condition

Cash receipting and adjustments

Municipal Court staff responsible for cash receipting, cash reconciliations and account receivable adjustments lacked adequate training and resources to perform

such tasks. In addition, the Municipal Court experienced significant turnover during 2016.

Service contract

The City did not effectively monitor compliance with provisions of the service contract between the City and the Municipal Court Judge. Additionally, City management was not familiar with all provisions contained within the contract.

Effect of Condition

Cash receipting

- The Municipal Court bank account was not reconciled for about nine months. In addition, Municipal Court staff were unable to provide sufficient support for completed reconciliations.
- Due to a system failure, Municipal Court staff were unable to receipt funds into JIS for about six days during 2016. Manual receipts for cash and checks totaling \$1,847 were recorded during this period. However, at the end of the period, \$7,445 in cash and checks were receipted into JIS and deposited in the bank, indicating manual receipts were not properly used. Due to the lack of documentation, we were unable to determine whether all receipts were accounted for during this period. In addition, amounts receipted in JIS and deposited during this period were not recorded in the Municipal Court's accounting software.

Adjustments

We reviewed 45 adjustments and identified the following:

- Eleven adjustments were not supported by Court order or Judge approval.
- One adjustment was completed incorrectly, resulting in a late fee being removed from an account in error.
- There was no evidence of secondary review or approval for six adjustments recorded in JIS.

Service contract

According to the City's service contract with the Municipal Court Judge, the Judge is responsible for payment to any Judge Pro Tem contracted for any purpose except in the event of a conflict of interest. We identified 15 invoices totaling \$6,306 during 2015 and 2016 in which the City paid for a Judge Pro Tem

while the Judge was out for reasons other than conflict of interest. According to the contract, the Judge was personally responsible for these payments.

Recommendation

We recommend:

- Municipal Court staff are adequately trained to perform assigned duties
- Funds are receipted and deposited in a timely manner
- Mitigating controls are in place in the event the cash receipting system is unavailable
- All accounts receivable adjustments are properly supported, as well as reviewed and approved by an individual independent of the adjustment process
- Compliance with service contract provisions, to include payment of Pro Tem Judges

City's Response

With respect to the “Cash Receipting” and “Adjustments” portion of the Auditor’s findings, the municipal court is considered by law to be a separate branch of government. The Court Administrator’s response to the audit findings are as follows:

Our court had a complete turnover of staff this year and the workload increased significantly. The matters identified by the audit were isolated and rare incidents and the court sought and followed immediate advice from the Administrative Office of the Courts for those matters. Our new court staff has been trained to always use manual receipts for all funds when the Judicial Information System (JIS) is unavailable. I have further scheduled our new staff to attend training through the Administrative Office of the Courts in March and April of this year which will address the audit finding issues. The Court Administrator rarely makes financial adjustments but will seek secondary review if adjustments are needed in the future. I have also drafted a new written policy for receipting and depositing funds in a timely manner.

With respect to the “Service Contract” portion of the findings, the city appreciates the State Auditor’s office finding this mistake in billing and payments to our pro tem judges. Although, as described above, the city has no supervisory authority over the judge, we nevertheless appreciate this matter being brought to

our attention. None of our city departments or employees were aware that the payments of the pro tem judges directly by the city violated the contract we have with the judge. When the auditor's office alerted us to this provision we immediately contacted the judge. He agreed to and had already reimbursed the city for all payments made for pro tem judges in 2016. We intend to pursue further reimbursement for other years. We have further instructed our finance department not to pay any future invoices for pro tem judges which are not allowed by the contract. We have also contacted an outside investigator and asked her to review all documents, interview all parties involved in these payments and to try to determine how, when and why this happened. Again, we appreciate the Auditor's office finding this mistake in payments and we are confident that we have taken steps to insure that this issue is fully resolved.

Auditor's Remarks

We appreciate the City's commitment to resolving this finding and thank it for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 - Local government accounting — Uniform system of accounting, states in part:

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.

Budgeting Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, 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.

Budgeting Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Original Supporting Documentation, states in part:

Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents - regardless of physical form - necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW 43.09.200).

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Gig Harbor was founded in 1946 and currently serves approximately 9,065 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 inter-local 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 97 full-time employees. For 2015, the City operated on an annual budget of approximately \$54 million.

Contact information related to this report	
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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	
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