

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The City police department did not use assets in an approved or authorized manner.

Background

The City of Soap Lake serves a population of 1,550 Grant County citizens. The City police department employs three full-time employees, which include one Police Chief and two officers.

The City police department's annual budget is approximately \$345,523. From 2013 to 2015, the department's average annual expenditures were \$325,721. From October 2013 to January 2016, the department sold approximately \$69,100 in surplused department assets.

In December 2013, the City Police department began obtaining Department of Defense excess military assets through the Law Enforcement Support Office (LESO) 1033 program, administered by the Department of Enterprise Services (DES). This program allows law enforcement agencies to acquire military assets for current law enforcement purposes at no cost, except the travel and/or shipping expenses associated with acquiring the asset. Since this time, the City's police department has acquired 285 assets, through the LESO 1033 program, including a bobcat, ATV, snow blowers, snowmobiles, trailers, a cargo truck, gym equipment, and firearms, among other assets.

Description of Condition

Authority to enter into contracts

In order to obtain assets through the LESO 1033 program, the City's Police Chief signed a binding "State Plan of Operation" (SPO) contract with DES. The Chief signed the contract on behalf of the City, as the, "Chief Executive Official". However, the City could not demonstrate that the Council had granted authority to the Chief to enter into contracts on behalf of the City.

Compliance with LESO 1033 program

The SPO provides that property under the program is for use by agencies in law enforcement activities, with emphasis on counter-drug/counter-terrorism activities. Further, property is for current use, and will not be requested for speculative or possible future use. In addition, property will not be used for sale, lease, loan, personal use, rent, exchange, barter, or be used by non-program

participants. The Department did not consistently acquire and utilize program assets for the purposes designated by the program as follows:

- The Department acquired assets for future, speculative use at an off road vehicle park the City has considered building. The department acquired a high mobility vehicle (HMV), multiple all-terrain vehicles (ATV's), snowmobiles, and a bobcat, which have a combined estimated value of \$129,300.
- The Department acquired various gym and training equipment that is maintained for use at the Police Chief's personal athletic business. These items have an estimated value of \$20,350 and include an elliptical machine, treadmills, floor mat, and various martial arts equipment. The Chief's business charges a monthly membership fee to citizens and is accessible 24-hours a day with a key code. All equipment maintained inside the athletic business, including the LESO 1033 program assets, are available for use by all athletic members.

Internal controls over asset tracking

Assets acquired by the police department through the LESO 1033 program did not follow the City's normal internal control process for asset acquisition. Further, the City's internal control process over safeguarding and monitoring was insufficient as follows:

- The police department did not seek approval to acquire assets under the program nor did they notify the Finance Director, Mayor, or City Council that assets had been acquired. Compounding this, the assets were free and therefore did not require the City to process a voucher, which would have notified the parties of the asset acquisition.
- The City did not have a small and attractive asset policy before May 2014. As of October 2015, the City had not yet implemented the 2014 policy, which included compilation of an asset tracking list and routine inventories of assets. Individual City departments are responsible for tracking their own equipment.
- The City does not have a contract in place with the Police Chief to define the equitable benefit the City is receiving in exchange for allowing the Chief to profit from use of program assets in his personally-owned athletic business, or to establish liability in the event a customer is injured on the City's assets in the Chief's athletic business. Further, the City has not considered the effect this arrangement has on compliance with the LESO

1033 program, since a few of these assets are in loan status through the program and are not City assets.

- Neither the City or police department monitored tracking of the LESO 1033 assets and compliance with contract terms. The Mayor and City council were not made aware of this contract until the audit brought it to their attention.
- One asset valued at \$16,100 (bobcat) was located at an officer's personal residence near Spokane for repairs by the officer. It is unclear whether the City considered if there was any liability risk associated with transporting this asset this far beyond City limits and if there was any consideration given to find a reasonably priced local repair shop that could have addressed the necessary repairs. In addition, due to its location, we were unable to assess any risk associated with the potential for personal misuse of this asset.

Internal controls over asset sales

In October 2013, the City police department started to surplus and sell assets more frequently than in the past. The department's control process over asset sales included the following weaknesses:

- The department's sales were "cash-only", increasing the risk of loss, and reducing the City's ability to make sure the total amount receipted was deposited.
- While the City has staff trained and available to receipt cash at City hall, the police department instead handled a majority of the receipting themselves.
- One officer was responsible for most functions surrounding the sale, including advertising, locating a buyer, cash receipting, sales paperwork, and deposit to the Finance Director.
- Five police surplus assets were sold to City employees. We could not verify if advertising for two of these assets was completed. A reserve officer purchased a 1999 Blazer, a volunteer fire fighter purchased a 2007 Ford Explorer, and one prior police officer sold three ATV's to his stepson.
- The City allowed the Chief to set a sale price for police department surplus assets, which he communicated verbally to the officer handling

the sales. However, the Chief did not examine the final sales paperwork and deposit to the Finance Director to make sure the actual selling price agreed to his set price, and that the entire sale amount was deposited with the City.

Cause of Condition

The Mayor and City Council did not adequately monitor the police department's activities. In addition, the police department obtained assets through three separate programs – State surplus, Federal surplus, and the LESO 1033 program. As a result, the Mayor was aware of some assets, including a few of the gym assets located at the Chief's personal business; however, he did not necessarily know which assets were acquired through which program, and as such, overall safeguarding and compliance with the LESO 1033 program was left to the police department.

The City Council properly approved sales of police department assets through resolution for surplus. However, the City allowed the police department to handle all aspects of the sales transaction including cash-only receipting.

Both the Mayor and police department saw the benefit of acquiring assets through the various programs, as the department was able to upgrade their department assets at minimal cost to the City. However, they did not dedicate the time and attention to understand the program requirements and establish proper internal controls before utilizing the program so extensively.

Effect of Condition

Internal control weaknesses over police department assets created an increased risk of potential misuse and misappropriation. The sale process made it difficult to determine whether the City received the best price for the assets, whether the actual price paid was consistent with the Chief's price, or whether a loss occurred.

A review of 64 of the 285 assets acquired through this program identified non-compliance concerns over 26 assets due to tracking, risk of personal use or non-participant use, and acquisition for speculative future use. We also identified two assets that could not be accounted for. These totaled approximately \$1,700.

The City's noncompliance with program requirements could affect the City's ability to use the LESO 1033 program in the future. In addition, acquisition of LESO 1033 assets for unallowable purposes made the assets unavailable for use by other law enforcement agencies in the manner intended by the program.

The City has not formally established the equitable benefit received by the City from the Chief's use of City assets in his personal business, which is a possible violation of state law (RCW 42.23.070).

Recommendation

We recommend the City strengthen internal controls over acquisition, tracking, and sale of all City assets to increase compliance and adequately safeguard public resources. This should include compiling and maintaining a central asset listing, independent periodic inventories, and increased segregation of duties and monitoring over police department asset sales.

We further recommend the City implement monitoring procedures over contracts entered into by the police department, to ensure compliance with any agreed upon terms and conditions. In addition, the City should either establish a contract with the Chief outlining the equitable benefit and liability responsibilities for assets located in the Chief's personal business, or recover the assets.

City's Response

Soap Lake City Council and financial staff thank the Washington State Auditor's Office for their professional and detailed report on the financial statements and accountability audit conducted by WSAO's Wenatchee staff. The WSAO staff was considerate of, and sensitive to, the nature of any questions presented by attending council and staff at the Exit Conference.

The City Council of Soap Lake and its financial staff acknowledge the following audit findings made by the Washington State Auditor's Office:

- *Unauthorized use of city assets.*
- *Undemonstrated authorization of contract acceptance.*
- *Insufficient internal controls and tracking of city assets.*
- *Insufficient internal controls and tracking of the selling of city assets.*

The City Council of Soap Lake and its financial staff have worked with the WSAO to correct the above issues as follows:

- *All city assets have been returned to the City of Soap Lake for proper storage and administration.*
- *City Council of Soap Lake has updated its process of entering into contractual agreements.*

- *Financial staff of City of Soap Lake has implemented the City's asset tracking policy by placing identifying asset tags on all city assets deemed 'small and attractive' and/or have significant monetary value to the city.*
- *Financial staff of City of Soap Lake has implemented a process for receipting and depositing cash sales of city property, written authorization for the sale of property at less than the advertised price, and proper council approval of surplus property.*

It is the desire of the City Council of Soap Lake and its staff to comply with Washington State RCW and WAC and to provide an open, transparent city government dedicated to the needs of the citizens of City of Soap Lake.

Auditor's Remarks

We appreciate the City's commitment to resolving the concerns noted in our audit finding. We will evaluate the City's corrective action during our next regularly scheduled accountability audit.

Applicable Laws and Regulations

RCW 42.23.070

Prohibited acts.

(1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others.

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

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.

Chapter 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.

LESO 1033 Program contract terms and conditions:

III.C- Property available under this agreement is for the current use of authorized program participants; it will not be requested nor issued for speculative use/possible future use. Property will not be obtained for the purpose of sale, lease, loan, personal use, rent, exchange, barter, to secure a loan, or to otherwise supplement normal LEA or State/Local governmental budgets. All requests for property will be based on bona fide law enforcement requirements. Under no circumstances will property be sold or otherwise transferred to non-U.S. persons or exported. Loaning to non-participants of the DLA LESO program is not authorized.

III.F- Demilitarization (DEMIL) codes B, C, D, E, F, G, and Q property with these codes are controlled property. Once the LEA no longer have use for property in these DEMIL codes the property must either be transferred to another LEA with State approval first or returned to DLA disposition services for disposal.

III.I-Property obtained under this SPO must be placed into use within one (1) year of receipt, unless the condition of the property renders it unusable, in which case the property can be

returned to the nearest DLA disposition services site. If the property is not put into use by the LEA within one (1) year, the State/LEA must coordinate a transfer of property to another LEA or request a turn-in to return the property to the nearest DLA Disposition services site.

XI. Program Suspension & Termination

A. The LEA is required to abide by the terms and conditions of the State Plan of Operation in order to maintain active status.

B. The State and/or DLA LESO shall suspend or terminate an LEA: 1. Suspend LEA in all situations relating to the suspected or actual abuse of LESO program property or requirements and or repeated failure to meet the terms and conditions of the SPO. Suspension may lead to Termination. 8. In cases relating to an LEA termination, the LEA will have 60 days to complete the transfer or turn-in of all LESO Program property in their possession.

XVI. Termination

B. The CEO for the LEA hereby agrees to comply with all provision set forth herein and acknowledges that any violation of the terms and conditions of this SPO may be grounds for immediate termination and possible legal consequences, to include pursuit of criminal prosecution if so warranted.