



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Soap Lake

Grant County

For the period January 1, 2015 through December 31, 2016

Published May 17, 2018

Report No. 1020959





Office of the Washington State Auditor
Pat McCarthy

May 17, 2018

Mayor and City Council
City of Soap Lake
Soap Lake, 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 independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached findings, we identified areas in which the City could make improvements.

We recommended City management perform the following related to utility billing:

- Train utility billing staff to properly classify commercial and commercial-residential sewer utility accounts in the billing system
- Clarify the City Municipal Code section for commercial customer water rates and overage charges for multi-unit accounts.
- Develop and follow monitoring controls that ensure utility customers are billed according to rates approved in City Code.

We also recommend the City Council and Mayor take actions to adequately safeguard its Police Department assets by strengthening controls over asset tracking by:

- Increasing segregation of duties and monitoring over transactions involving City employees
- Completing independent, periodic inventories
- Maintaining up-to-date asset listings
- Documenting adequate tracking information for identification

These recommendations were included with our report and in a separate communication as findings.

About the audit

This report contains the results of our independent accountability audit of the City of Soap Lake from January 1, 2015 through December 31, 2016.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended December 31, 2016 and 2015, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Police Department – evidence room, small and attractive assets, and surplus of assets
- Utilities – billing rates and account policies

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The City lacked adequate internal controls to bill utility accounts in accordance with City Code.

Background

The City operates water and sewer utilities, and collected \$889,115 and \$894,316 in water and sewer revenues in 2015 and 2016, respectively. The utilities serve about 1,350 customers, using rates established by Municipal City Code, Chapter 13. The City periodically amends City Code through ordinances, which update annual rates in the Code's appendix. Ninety customers are classified as either commercial or commercial residential, and most have multiple units associated with their accounts.

Description of Condition

The City's internal controls did not ensure customers were billed in accordance with City Code. Further, City management did not adequately monitor utility billings to determine City Code was followed. Specifically, the City charged commercial and commercial-residential customers for one unit per sewer services account. However, City Code stipulates that each additional unit under an account should be charged the established base rate.

In addition, the City Code section pertaining to water rates and overage charges does not specify whether commercial customers should receive additional base water consumption before incurring overage charges for multi-unit accounts.

Cause of Condition

City staff incorrectly classified commercial and commercial-residential sewer utility accounts as "single unit" in the billing system and lacked understanding of the City's rate setting code over the water utility.

Effect of Condition

Between 2015 and 2016, the City under-billed about \$200,000 for sewer utilities across 15 accounts, which is a loss of revenue to the City. The majority of under-billing is because of not charging for additional units by account.

Because City Code lacks clarity for multi-unit water utility rates, we are unable to determine the exact amount of over- or under-billing. However, we estimate the City potentially under-billing about \$30,000 for the same 15 accounts.

Recommendations

We recommend the City:

- Train utility billing staff to properly classify commercial and commercial-residential sewer utility accounts in the billing system
- Clarify the City Municipal Code section for commercial customer water rates and overage charges for multi-unit accounts.
- Develop and follow monitoring controls that ensure utility customers are billed according to rates approved in City Code.

City's Response

The City concurs with what the audit discovered as we have also made that same discovery. The City is working to ensure compliance with the city ordinances and will be reviewing them before the next approved budget. The City has also contacted the city attorney for assistance to ensure the ordinances are consistently worded and that the council's wishes are properly applied.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

ORDINANCE NO. 2015 – 1210; Amendment to Chapter 13.14 of the Soap Lake Municipal Code titled “Sewer Service System” states, in part:

B.5. “Water service unit” shall mean the greater of the following: each structure, or structures, residence, or residences, lot, or portion or separate unit of a condominium used as a dwelling unit by a family, as herein defined, shall be deemed one water service unit. By way of example, a triplex shall be three

water service units; a condominium with 20 separate dwelling units shall be 20 water service units.

Chapter 13.14.290 Sewer rates, states, in part:

A. The Soap Lake City council shall, annually or more often if necessary, by resolution, establish a schedule "Appendix S" of charges and rates for sewer hookup and connection charges, sewer rates, allotments and overage charges. The Resolution shall also list all other sewer service fees and charges

CHAPTER 13.14 APPENDIX "S"SEWER RATES", states in part:

C. Monthly Service Fee:

Each calendar month during which a sewer service connection is active at any time shall result in the following charges:

1. Each residential sewer connection serving a single residential dwelling unit: \$52.14 per month.

Each additional residential dwelling unit using the same sewer service: \$52.14 per month.

2. Each commercial sewer connection serving one commercial service: \$40.84 per month.

Each additional commercial unit using the same sewer service: \$40.84 per month.

3. Each commercial residential connection serving at least one commercial residential dwelling unit shall be deemed to be one residential commercial unit: \$40.84 per month.

4. Usage Charge for Each Commercial Sewer Service Unit and for Each

Commercial Residential Dwelling Sewer Service Unit:

In addition to the monthly base rate charge for each commercial sewer service unit and for each commercial dwelling unit, there shall be charged

for sewer usage the sum of \$1.58 for each 100 cubic feet of water or portion thereof supplied to the commercial water service unit account and to a commercial dwelling water service unit account commencing with the first 100 cubic feet of water.

5. Minimum monthly base rate charge for each customer shall be determined by multiplying the monthly base rate charge times the number of sewer service units and then adding the usage charge of \$1.58 per 100 cubic feet of water or portion thereof supplied to the commercial residential or commercial water service account to the base unit charges, commencing with the first 100 cubic feet of water.

CHAPTER 13.18 APPENDIX "W" WATER RATES states, in part:

Commercial

1. Basic Water Rate: \$26.60 per month
2. Overage Charge for water usage over 500 cubic feet: \$1.54 per each additional 100 cubic feet or portion thereof.

Commercial Residential

1. Basic Water Rate: \$26.60 per month for each commercial residential connection serving a commercial residential dwelling unit; provided, however, that for each residential dwelling unit in excess of one served by a single meter the monthly water charge shall be \$19.32, to include the use of 500 cubic feet of water per month per each unit.
2. Overage Charge for water usage over 500 cubic feet: \$1.54 per each additional 100 cubic feet or portion thereof.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-002 The City lacks proper oversight for the acquisition, sale and tracking of assets in the Police Department.

Background

The City of Soap Lake serves a population of about 1,550 Grant County citizens. The City Police Department has four full-time employees, including one Police Chief and two officers.

In June 2016, our audit reported the Police Department did not use assets in an authorized and approved manner and recommended the City strengthen controls over acquisition, tracking and sale of assets. However, our current audit identified continued concerns.

Description of Condition

The Police Department is responsible for most functions surrounding the “cash only” sales of Police Department assets, as well as asset acquisition and tracking, which creates an increased risk for potential misuse and misappropriation. These control weaknesses allowed the following to occur:

1. City records indicate that in March 2015, a Reserve Officer paid \$700 to the City for a 1999 Chevrolet Blazer police vehicle. One day later, Department of Licensing (DOL) records show he signed a “vehicle release of interest” form transferring ownership to a close relative of the Police Chief at that time. The Reserve Officer said the former Police Chief asked him to act as the original buyer to avoid the appearance of a conflict of interest.
2. In May 2015, the City acquired a cargo trailer valued at \$8,000 through the LESO 1033 military surplus program, which 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 acquisition. Less than a year later, the City traded the trailer to a City Police Officer in exchange for two radar units with a total value of \$4,000 according to the sales record. However, the City was unable to demonstrate that the City received the units as part of this particular trade deal, or that the trade was equitable. Additionally, the buyer listed in the City’s records did not agree to the buyer listed in the DOL sales record. City records showed the buyer as a third party, while DOL records show the buyer was the Police Officer.
3. On October 5, 2016, the City Council approved the Police Department’s request to surplus 125 items, most of which were firearms, based on a

provided list. One vendor bid on the purchase of the entire lot. A review of this sale revealed the following:

- The City could not demonstrate it advertised the sale as required by State law (RCW 63.32.020).
 - The list of firearms the City Council approved for surplus was not the same as the list of firearms the vendor received for bid. Three firearms not approved by the City Council were included on the list given to the vendor, and two firearms on the surplus list were not on the list given to the vendor.
 - Police Department employees then personally purchased seven firearms from the vendor. A City police officer purchased three firearms the same day the vendor received them. The current Police Chief purchased four firearms the following day. According to the vendor, it sold these firearms at the same price it paid the City for them.
4. In May 2014, the City established an asset inventory policy requiring staff to track all assets valued over \$500 and assign a City asset number. While the City was documenting Police Department asset tracking to meet City policy requirements, the Police Department's asset tracking had the following weaknesses:
- Department staff did not consistently add assets to the City's tracking spreadsheet. We identified 13 assets purchased or acquired through trade, totaling \$7,595, directly from Police Department employees, between February 2016 and December 2016 that were not listed on the City's asset tracking spreadsheet as of April 2017. Assets included firearms and radar units.
 - The City did not independently verify the City's receipt of these 13 assets. We attempted to physically confirm that these assets were within the City's possession. However, due to City sales records not including uniquely identifiable information at the time of acquisition, we were unable to confirm if these assets were within their possession. We found the Department did have similar assets in their possession, but only based on the item's general type.

Cause of Condition

Despite past audit recommendations, the City Council and Mayor have not taken action to implement proper oversight or independent monitoring of the acquisition, sale and tracking of Police Department assets.

Effect of Condition

Without adequate tracking and monitoring procedures, assets are vulnerable to misappropriation, misuse or loss, which City staff might not be detect promptly, if at all. In addition, lack of adequate documentation over Police Department asset sales and surplused items made it very difficult to determine whether the City:

- Safeguarded assets properly.
- Received the best price for City assets purchased from or sold to Police Department personnel, which is a possible violation of State law (RCW 42.23.070).
- Suffered a loss.

Recommendations

We strongly recommend the City Council and Mayor take actions to adequately safeguard its Police Department assets by strengthening controls over asset tracking. This should include, but not be limited to:

- Increasing segregation of duties and monitoring over transactions involving City employees
- Completing independent, periodic inventories
- Maintaining up-to-date asset listings
- Documenting adequate tracking information for identification

We also recommend the Police Department present complete and accurate information to the City Council for surplus, including identifiable tracking information especially when the disposition of firearms are involved, to comply with State law (RCW 9.41.09 and 63.32.010).

We further recommend the City review all purchase and trade sales documentation related to items involving Police Department employees so the City receives the best price benefit and that a potential loss does not occur.

City's Response

Thank you for the invitation to provide a written response to the preliminary draft audit report of the City of Soap Lake for the audit period 2015 through 2016.

Your preliminary draft includes an audit finding which describes the City's alleged lack of proper oversight for the acquisition, sale, and tracking of assets in the Police Department. The draft audit report concludes that without "adequate tracking and monitoring procedures", City assets may be vulnerable to loss,

misuse, or misappropriation. After identifying two 2015 sales of surplus property and a 2016 City Council approval to surplus 125 items, the audit acknowledged the City's 2014 adopted asset inventory and tracking policy while identifying two weaknesses in the police department's internal asset tracking procedures related to not consistently adding assets to the City's tracking spreadsheet, and not independently verifying receipt of newly acquired assets.

A new Police Chief was hired in January, 2017. The new administration promptly implemented many reforms to create a more efficient and accountable police department, and the new Chief continues to review and make improvements to the department's internal administration, including asset tracking and inventory. All of the recommendations contained in the draft audit report have been addressed by the Mayor and/or the Chief and are substantially completed. A complete asset inventory with description, serial or VIN number, and asset tag number, was provided to the City Council at its February 21, 2018 meeting.

The City appreciates the diligence of the Auditor's Office in providing monitoring and oversight to local government operations and welcomes its input and recommendations on how to improve the City's overall performance objectives.

Auditor's Remarks

We appreciate the City's commitment to resolve the issue noted and we will follow-up during the next scheduled audit.

Applicable Laws and Regulations

The City's asset inventory policy requires all assets over \$500 to be tracked, assigned as property of City of Soap Lake, and assigned an asset number.

RCW 42.23.070 (1) prohibits municipal officers from using their position to secure special privileges or exemptions.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments, and requires the system to exhibit true accounts showing the receipt, use and disposition of all public property.

Chapter 3.3.5.10 of the *Budgeting, Accounting, and Reporting System (BARS)* manual requires a physical inventory of capital assets.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



509 246-1211 Telephone
509 246-1213 Fax

PO Box 1270
239 2nd Ave SE

City of Soap Lake
Grant County

January 1, 2015 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods.

Audit Period: Fiscal Years 2012-2014	Report Ref. No.: 1016610	Finding Ref. No.: 2014-001
Finding Caption: The City police department did not use assets in an approved or authorized manner.		
Background: <p>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). 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.</p> <p>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.</p> <p>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.</p>		

Status of Corrective Action: (check one)☐ Fully
Corrected☐ Partially
Corrected☒ Not Corrected☐ Finding is considered no
longer valid**Corrective Action Taken:**

Recommendation: Strengthen internal controls over acquisition, tracking and sale of all City assets.

The City of Soap Lake has implemented an Asset Inventory Policy. This policy requires all assets over the value of \$500 be assigned a Property of City of Soap Lake asset number. The asset number is placed on the item via an 'asset tag'. The tag is yellow and white with black lettering identifying "Property of City of Soap Lake" on the yellow portion and the official six digit asset number on the white portion. The tags are tamper resistant, leaving a "VOID" residue on the item when the tag is removed.

The City of Soap Lake Police Department has blue and silver tags on the Police Department equipment. The tags are slightly smaller than the city's general asset tags, therefore making it easier to mark small police equipment.

The City of Soap Lake and the Police Department use Excel to record and track assets of the city and department. Assets are listed on a spreadsheet in numerical order.

The sale of city assets is now being processed through Public Surplus – an online auction site. All funds received for the sold property are paid to Public Surplus, including any taxes or fees. Public Surplus then issues a check to the City of Soap Lake for the property sold. Public Surplus also notifies the city as to who the purchaser is and when to expect the purchaser to arrive for pick up. No cash is handled by employees of the City of Soap Lake.

The current police chief for the City of Soap Lake lists the property on Public Surplus. City of Soap Lake Finance Director enters the revenue for the sold property. All vehicle titles are held in City Hall at the finance director's desk.

Recommendation: City implement monitoring procedures over contracts entered into by the police department.

The current Police Chief presents any proposed contracts to City Council for approval. The approval or denial is documented in the minutes of the council meetings.

Recommendation: City should outline the equitable benefit and liability responsibilities for assets located at the Chief's personal business or recover the assets.

The former Police Chief no longer works for the City of Soap Lake. All assets were recovered. Some of the assets have been disposed of by either using Public Surplus or returned to Department of Defense.

The City of Soap Lake is addressing these recommendations and continuing to strengthen its controls over safeguarding public resources.

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 Soap Lake was incorporated in 1919 and currently serves a population of 1,574 Grant County citizens. The City provides an array of services including water, sewer, garbage, and police protection. It also provides parks and recreation and operates a campground.

An elected, seven-member Council and a separately elected Mayor govern the City. The Council appoints management to oversee the City's daily operations as well as its 12 full-time employees. City operating expenditures for 2015 and 2016 were approximately \$1.5 million and \$2 million, respectively.

Contact information related to this report

Address:	City of Soap Lake 239 2nd Avenue S.E. P.O. Box 1270 Soap Lake, WA 98851
Contact:	Karen Hand, Finance Director
Telephone:	(509) 246-1211
Website:	www.cityofsoaplake.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Soap Lake 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	
Public Records requests	PublicRecords@sao.wa.gov
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