



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Soap Lake

For the period January 1, 2019 through December 31, 2021

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**Office of the Washington State Auditor
Pat McCarthy**

May 1, 2023

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 Office of the Washington State Auditor 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.

Attached is 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

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

As referenced above, we identified areas where the City could make improvements. These recommendations are included with our report as findings.

We also noted certain matters related to payroll and theft sensitive assets that we communicated to City management and the Mayor and City Council in a letter dated April 24, 2023. We appreciate the City's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Soap Lake from January 1, 2019 through December 31, 2021.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Utility billing
- Police asset tracking and monitoring

- Payroll – gross wages
- Cash receipting – timeliness of deposits
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Soap Lake January 1, 2019 through December 31, 2021

2021-001 The City’s deteriorating financial position places it at risk of not meeting its financial obligations.

Background

The City of Soap Lake serves about 1,600 residents in Grant County. An elected, seven-member Council and separately elected Mayor govern the City, which operates on an average annual budget of about \$11 million. The Council and Mayor appoint management to oversee the City’s daily operations and its 11 full-time employees.

Description of Condition

The City’s financial condition is inadequate for sustaining operations and meeting obligations. In prior audits, we previously recommended that management establish a formal, written plan to improve the City’s deteriorating financial condition; however, management has not done so. Since fiscal year 2017, the City’s cash and investments have steadily declined for most of its funds. This decline puts the City at risk of not being able to meet its financial obligations and maintain current service levels. The City has continued to report a decrease in ending cash and investments, as shown in the table below:

Ending Cash & Investments	2017	2018	2019	2020	2021*	2022*
General Fund	\$34,430	(\$1,734)	(\$120,994)	(\$81,272)	\$454,931	\$378,377
Governmental Funds (excluding General Fund)	\$760,624	\$430,967	\$579,991	\$644,945	\$195,569	(\$386,876)
Utility Funds	\$1,174,764	\$784,556	\$371,062	\$1,745,517	\$874,715	\$651,782
All Funds	\$1,969,818	\$1,213,789	\$830,059	\$2,309,190	\$1,525,216	\$643,283

**Unaudited*

The City has also taken on additional debt related to water and sewer projects completed in 2021 and 2022. The utility funds are responsible for repaying these debt obligations, and they require reserves to be set aside to make annual principal and interest payments. The ending fund balance compared to estimated annual debt payments reflect concerns about the long-term solvency of the City’s Water Utility:

Water Fund	
Ending cash & investments 12/31/22*	\$565,876
Average annual operating revenues (2020-2022)*	\$761,828
Average annual operating expenses (2020-2022)*	\$685,332
Average annual operating income	\$76,496
Estimated annual debt payments	\$156,322
Estimated shortfall of average income vs. debt	(\$79,826)

**Unaudited*

In addition, the City did not ensure its funds had available cash and investments to cover expenses. As a result, the City reported negative cash and investments balances on December 31, 2022, in the following funds, totaling (\$771,110):

Fund	Ending cash & investments 12/31/22*
Street Fund	(\$153,982)
Capital Projects Fund	(\$604,420)
Mineral Water Fund	(\$12,708)
Total	(\$771,110)

**Unaudited*

When expenditures in a fund exceed the amount of available resources, the City is effectively borrowing from other funds to continue operations without formally establishing an interfund loan. Under state law (RCW 35A.33.120), the Council must approve interfund loans by a resolution or ordinance that includes a payment plan and sets a reasonable rate of interest to be paid to the lending fund. In addition, someone independent of the processing of the loan should review its activity to ensure it was accurately processed, as approved by the Council. Without an interfund loan in place, the City risks using restricted resources for unallowable purposes.

These issues were reported as a finding in the prior audit.

Cause of Condition

The City had significant turnover in management to formally monitor its financial concerns. Further, the Council did not adopt a formal plan to address the declining financial condition and ensure funds have the available resources to cover expenditures.

Effect of Condition

The City risks not being able to meet future obligations or continue operations at current service levels.

Recommendation

We again recommend the City's elected officials and management establish a formal, written comprehensive plan to address its financial condition and closely monitor financial operations to ensure it can meet its obligations.

City's Response

The City concurs with this state audit. Due to an unforeseen turnover in personnel in administration. This has become a mess and we will work together with our Fiscal Specialist who will be teaching all city officials at an upcoming workshop how to come up with a formal, written comprehensive plan to address its financial condition as well as closely monitor financial operations.

Auditor's Remarks

We appreciate the City's commitment to respond to these issues and thank city personnel for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.

Applicable Laws and Regulations

RCW 35A.33.120, Funds – Limitations on expenditures – Transfers and adjustments.

Budgeting, Accounting and Reporting System (BARS) Manual – Chapter 2: Budgeting

BARS Manual – Chapter 3: Internal Controls

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Soap Lake January 1, 2019 through December 31, 2021

2021-002 City management lacked oversight for the acquisition, sale and tracking of assets in the Police Department.

Background

The City of Soap Lake serves a population of about 1,600 residents in Grant County. The City has 11 full-time employees, and its Police Department has six full-time employees, including one Police Chief and four officers.

Law enforcement often maintains small and attractive assets, such as firearms, safety equipment, cameras, cellphones, GPS units, radios and laptops. These items should be tracked and monitored to ensure resources are properly accounted for and used for valid public purposes. The City also owns a significant number of vehicles, trailers, and large equipment (such as tractors and all-terrain vehicles).

In addition, the U.S. Department of Defense offers excess military assets through the Law Enforcement Support Office (LESO) program, which allows law enforcement agencies to acquire military assets for current law enforcement purposes at no cost. During the audit period, the City acquired about \$362,000 worth of assets from the LESO program.

The previous three audits reported concerns over monitoring and tracking of the Police Department assets, and we recommended the City strengthen its controls over the acquisition, tracking and sale of these assets. Our current audit identified continued concerns regarding these issues.

Description of Condition

The Police Chief was solely responsible for most functions surrounding the sales of Police Department assets, as well as asset acquisition, monitoring and tracking. This lack of segregation of duties created an increased risk for potential error, misuse and misappropriation. It also did not provide assurance that the City collected all funds for the sale of assets.

Between January 1, 2019, and December 31, 2021, the Police Department acquired at least 23 vehicles and sold at least 47. In all, we evaluated the sale of more than 69 unique Police Department assets.

The City's asset tracking system was insufficient for the volume of assets the Police Department acquired and sold. It did not provide adequate assurance that all assets acquired were properly and promptly added to asset lists, nor that it documented their useful life or expected business purpose, proper surplus and disposal methods, and/or relevant dates. In addition, the City did not have a process to ensure Finance Department staff conducted an annual inventory of assets, which policy requires.

This issue was reported as a finding in the prior three audits.

Cause of Condition

The Police Department has increased tracking of its purchases and sales of law enforcement vehicles. Despite past audit recommendations, however, 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. In addition, the City experienced significant turnover during and after our audit period among staff in its Finance Department who were responsible for conducting an annual inventory.

Effect of Condition

Inadequate tracking and monitoring increase the risk that staff would be unable to identify misappropriation, misuse or loss of City assets quickly, if at all. In addition, we identified the following:

- The City did not follow its own policies and procedures over asset tracking and monitoring, including those requiring the City Clerk to perform periodic inventories and asset verification.
- The City did not receive funds for all vehicle sales. We examined the sale of 69 Police Department assets, totaling about \$388,000, and found the City did not receive \$5,000 related to one vehicle sale. The vendor associated with this sale has now dissolved its business, and the City cannot locate the vendor in an attempt to collect.
- No employees independently inspect the vehicles the Police Chief acquires to track and inventory other assets attached to them, such as, radios, laptops and safety equipment. These assets could easily be removed and sold without monitoring and oversight.
- The Police Department did not maintain a reliable asset list. The asset list contained assets that were not on hand. In addition, assets that the Police Department acquired through the LESO program were not included on the City's asset listing and properly tracked.

- The City did not perform a comprehensive analysis to show it did not incur any financial losses. Without an analysis of its purchase, repair and maintenance, transportation and sale activity, the City cannot ensure it is effectively meeting its needs and adequately safeguarding public resources.
- At least 31 vehicles sold are still registered in the City's name, according to the Washington State Department of Licensing's records.

In addition, the City could not demonstrate adequate advertising for surplus of some assets. The City sold 15 assets totaling about \$45,000 to private vendors without going through a public or competitive process. These assets were directly solicited to specific vendors with which the Police Chief had done past business.

We reported similar concerns during the prior three accountability audits and in a special investigation report dated May 1, 2023.

Recommendation

We strongly recommend the City Council and Mayor adequately safeguard Police Department assets by strengthening controls over asset acquisition, selling and tracking. These procedures should include, but are not limited to:

- Increasing segregation of duties and monitoring over transactions involving City employees
- Implementing a process to ensure the City collects all funds for all asset sales
- Having someone independent of the Police Department perform periodic inventories of its purchases, as City policy requires
- Maintaining accurate, up-to-date asset listings, including tracking assets acquired through the LESO program
- Documenting all relevant information for LESO program acquisitions and City asset sales, such as sales amounts, detailed buyer information, and official sales records with proper asset identification
- Performing a financial analysis to review all purchases, trade-in, repair and maintenance expenses, transportation expenses, and sales documentation to ensure that such activity is for a valid City purpose, the City receives the best financial benefit, and financial losses do not occur
- Ensuring appropriate surplus of assets, including conducting a public and competitive process for asset sales

City's Response

As has been noted this has been an occurring theme over the last eight years. Understanding that there has been turnover in administration as well as a lack of training and review of City policies. Segregation of duties have not been established, neither has physical inventorying. Funding has been set apart for proper training and establishing of assigned duties.

Auditor's Remarks

We appreciate the City's commitment to respond to these issues and thank city personnel for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.

Applicable Laws and Regulations

The City's assets policy requires all small and attractive and fixed assets be tracked, assigned as property of City of Soap Lake, assigned an asset number, inventoried annually and, on a sample basis, physically verified by the City Clerk.

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.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Soap Lake January 1, 2019 through December 31, 2021

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

Audit Period: January 1, 2017 through December 31, 2018	Report Ref. No.: 1026228	Finding Ref. No.: 2018-001
Finding Caption: The City's financial position places it at risk of not meeting its financial obligations or providing services at current levels		
Background: The City's financial condition is not adequate to sustain operations or meet obligations. We previously recommended that City management establish a formal written plan to improve its deteriorating financial condition; however, it has not done so. We identified the following concerns: <ul style="list-style-type: none"> • The City continued to report a decrease in ending cash and investments in several funds. • The City did not ensure that funds had available cash and investments to cover expenses and essentially created unapproved interfund loans. • The City did not ensure it paid expenditures within the approved budget. 		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has caught up on a backlog of reconciling the City's accounts, getting it prepared for monthly treasury reports and quarterly financial reports. The next step is to have these consistently provided to the Mayor and Council for a careful watch of the City's financial health, making sure expenditures are within the approved budget. The City has taken on</i>		

difficult tasks of requesting more revenues from the community by raising utility rates and taxes to continue providing essential services to the community. These actions have helped lessen the negative trend, though there is still a ways to go to get back to where the City has healthy reserves in some accounts.

Audit Period: January 1, 2017 through December 31, 2018	Report Ref. No.: 1026228	Finding Ref. No.: 2018-002
Finding Caption: The City lacked proper oversight for the acquisition, sale and tracking of assets in the Police Department.		
Background: Between January 1, 2017 and December 31, 2018, the Police Department acquired at least 10 vehicles (not including leased vehicles) and sold at least 19. In all, we evaluated the acquisition and sale of over 40 unique Police Department assets and found that the City’s asset tracking system was not sufficient for the volume of assets the Police Department acquired and sold. The City’s system did not provide adequate assurance that all assets acquired were properly and promptly added to asset lists, nor that it documented their useful life or expected business purpose, proper disposal methods and/or relevant dates. In addition, the City did not have a process to ensure an annual inventory of assets was conducted.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has been working on updating and adding to its procurement and surplus policies for consistent and appropriate asset monitoring. This will include documentation, inventory check, and surplus policies. Large equipment and vehicle assets are currently tracked by the Police Chief and checked by the City Administrator with a periodic Mayor review. Small attractive items are given asset tags and tracked by departments which are provided to the City Administrator. Surplus vehicles and property are brought to the City Council for approval which is documented by resolution and in meeting minutes.</i>		

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements are provided in separate reports, which include the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Those reports include findings for material weaknesses in internal controls over financial reporting regarding insufficient technical knowledge and experience of City staff to ensure financial statements and supplementary schedules were accurately reported.

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 Schedule of Findings and Questioned Costs sections of the separate financial statement and single audit reports. Those reports include federal findings regarding procurement compliance and reporting requirement. Those reports are available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

The State Auditor's Office issued a report on a misuse of public assets at the City. 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 10 full-time employees. City general fund expenditures were \$1.4 million in both 2019 and 2020.

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:	Ruth Wade, Finance Clerk Treasurer
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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 Soap Lake at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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