



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Gig Harbor

For the period January 1, 2023 through December 31, 2023

Published March 31, 2025

Report No. 1036912



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

March 31, 2025

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 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 a finding.

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 Gig Harbor from January 1, 2023 through December 31, 2023.

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 year ended December 31, 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, credit cards and fuel cards
- Tracking and monitoring of theft sensitive assets such as computers, tools and equipment
- 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 Gig Harbor January 1, 2023 through December 31, 2023

2023-001 The City lacked adequate internal controls over fuel cards, which resulted in a loss of \$52,568 in public funds.

Background

The City of Gig Harbor is in Pierce County and serves more than 13,000 residents. An elected, seven-member Council and separately elected Mayor govern the City, which had a biennial budget of \$180.8 million for the fiscal years 2023-2024. The City spends about \$200,000 annually using fuel cards to operate its vehicles and equipment. The City is responsible for designing, implementing and maintaining internal controls over fuel cards to ensure payments are for valid charges.

Description of Condition

On November 3, 2023, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). During the monthly review of fuel card statements in October 2023, the City's Finance Department identified unusual transactions on multiple fuel cards assigned to the Public Works Department. Upon follow-up, the City's Finance Department determined the cards were missing and reported the potential loss to the City's Police Department for further investigation. The Police Department's investigation determined people not employed by the City used three fuel cards and made unauthorized transactions beginning in August 2022. The City, unaware of the missing fuel cards, continued to pay for the unauthorized charges made on those fuel cards until November 2023. Although the City did have some controls and processes in place for fuel cards, they were not effective in ensuring fuel cards were safeguarded and that charges made were for City purposes.

Cause of Condition

The City's Public Works Department did not have adequate security measures for storing fuel cards. Vehicle numbers were printed on the cards, which the City also used as the PIN number for the cards, allowing for their misuse. The City also did not establish restrictions on fuel cards, such as transaction limits or limits on the number of daily charges.

The City's Public Works Department did not perform effective reconciliations of fuel card charges to ensure they were for City purposes and reasonable based on the assigned vehicle's fuel type. The City's reconciliation did not identify or follow up on red flags such as fuel purchases made outside of regular working hours or gasoline purchases made on a fuel card assigned to a diesel vehicle.

Effect of Condition

The City's investigation identified a loss of \$51,013. While the City does not know the exact date the cards were removed from City vehicles, our audit identified additional charges of \$1,555 on the three missing fuel cards that occurred during the same time period as the other transactions and were deemed to be a further loss. Inadequate internal controls over the City's fuel cards and a lack of proper oversight contributed to the total loss of \$52,568 of public funds.

Recommendation

We recommend the City strengthen its controls and formally adopt policies and procedures that are effective in ensuring it only pays legitimate fuel charges. Specifically, we recommend the City:

- Establish comprehensive policies for the issuance, custody and tracking of fuel cards
- Improve its oversight of fuel cards to ensure charges are valid and supported
- Protect fuel card PIN numbers to help prevent further misappropriation if cards are lost or stolen

City's Response

We value our relationship with and thank the State Auditor's Office staff for the review, assessment, and recommendations related to this theft of public funds. The City takes our obligation to protect public funds from waste, theft, and abuse seriously.

The unauthorized use of the city fuel cards was a criminal act originating with the burglary of the city's Public Works facility. Upon learning of the theft, the City notified the State Auditor's Office and the Gig Harbor Police Department and immediately shut down the fuel card program. We initiated an internal audit and investigation to identify the extent of the theft and how it occurred.

The internal audit was performed by the finance department and the Gig Harbor Police Department performed the criminal investigation. The internal audit isolated the amount of the theft and the practices that allowed the theft to go

undiscovered. Upon learning how program procedures allowed the theft to occur, the city immediately established procedures to preclude future thefts from the fuel card program.

The police department quickly identified and apprehended a suspect. The suspect was not a city employee. It is expected the suspect will plead guilty and as part of a plea arrangement, the city intends to seek full restitution.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 42.24.080 – Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification.

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

RCW 43.09.2855 – Local Governments – Use of credit cards.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Expenditures, Purchase Cards, Section 3.8.4

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, <https://portal.sao.wa.gov//ReportSearch>.

Other reports

We issued an examination report on the City's compliance with Coronavirus State and Local Fiscal Recovery Funds Program Requirements as part of the American Rescue Plan Act of 2021. That report is available on our website, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Gig Harbor was founded in 1946 and currently serves approximately 12,540 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 118 full-time employees. The City's biennial budget for 2023-2024 was \$180.8 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 <https://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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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