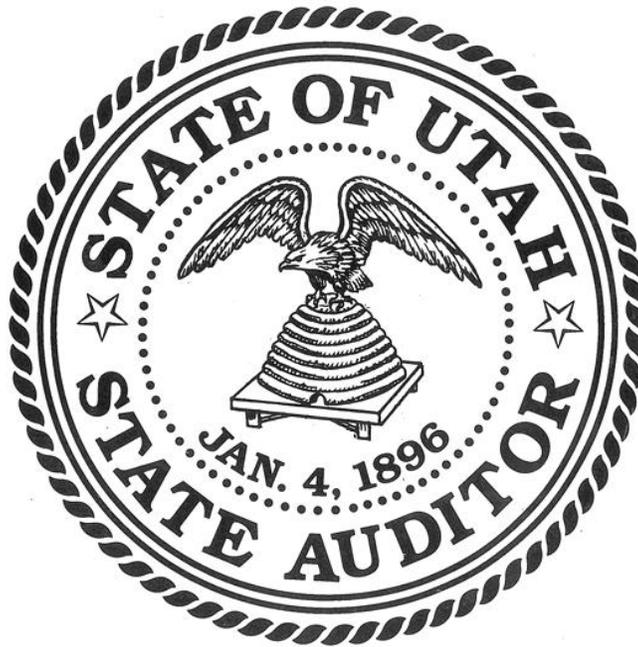


KAYSVILLE CITY

Review of Expenditures for

“Big Red” Fire Engine 2016 Parade Entry

Report No. KAYS-17-SP



OFFICE OF THE

UTAH STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, Utah State Auditor
Jeremy Walker, CPA, Audit Manager
Tyson Plastow, Special Projects Senior Auditor



OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. KAYS-17-SP

August 2, 2016

Steve A. Hiatt, Mayor
and
Kaysville City Council
23 East Center Street
Kaysville, Utah 84037

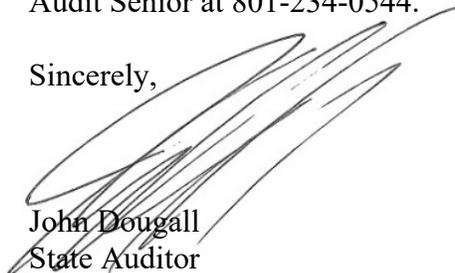
Dear Mayor Hiatt and City Council Members:

We have completed our investigation into the use of Kaysville City (City) funds for the “Big Red” fire engine entry in the City’s annual water parade held on July 4, 2016. This investigation was performed at the request of multiple individuals. This investigation included reviewing City expenditures related to this parade entry and the City’s compliance with city policy and state laws. We also reviewed certain City purchasing policies to determine whether they are properly designed to protect against real or perceived improprieties.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the City’s internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the City’s internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the City during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Tyson Plastow, Special Projects Audit Senior at 801-234-0544.

Sincerely,



John Dougall
State Auditor

KAYSVILLE CITY
Review of Expenditures for
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FINDINGS AND RECOMMENDATIONS

BACKGROUND

For at least 15 years, Kaysville City (City) residents have participated in a “water fight” at the end of the annual parade held on the 4th of July (Parade). During the past 11 years, a local resident and current Kaysville City council member¹ (Council Member) participated as a volunteer. His fire engine, “Big Red,” and the associated water tanks became a popular entry in Parade. Over time, Big Red became the anchor of the “water fight.” While the number of Parade entrants is low, the “water fight” encourages resident participation in this annual tradition. City and its Parks and Recreation supervisor (Supervisor) have stated that Parade provides a benefit to City.

During the 2015 Parade, Council Member used signage on his Parade entry in support of his successful campaign for City Council. In June 2016, Council Member informed Supervisor that the water pump on Big Red was broken. Council Member indicated that he could not pay to fix it and, without help, that Big Red would not be in the upcoming Parade. Supervisor believed that without Big Red, Parade would suffer.

Supervisor then verbally authorized Council Member to spend approximately \$2,500 in repairs to Big Red. Council Member used a City credit card and City vendor accounts to make purchases in excess of \$5,000. Supervisor indicated to us that not all of those purchases were authorized.

FINDINGS AND RECOMMENDATIONS

1. PARADE PARTICIPATION LACKED CLEAR UNDERSTANDING AND FORMAL ARRANGEMENT

Although City has a Parade entry application and an entry fee, City and Council Member indicate that a signed application has never been submitted for Big Red and an entry fee was never paid. Parade application includes information about the entry fee (\$20) and includes a liability waiver that states: “I hereby elect to voluntarily participate in the Kaysville-Fruit Heights 4th of July activities...I agree to hold Kaysville City... harmless from any and all liability arising from loss or injury...”

City indicated that Big Red was a City entry into the Parade. Specifically, Supervisor’s agreement to pay for repairs to Big Red could signify an implied contractual arrangement for Big Red’s participation in Parade. However, a more reasonable approach would be to contract the temporary use of a fire engine or other water pump vehicle in Parade.

¹ Council Member was elected in November 2015 and began serving on the city council in January 2016.

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FINDINGS AND RECOMMENDATIONS

Likewise, if Council Member was under contract to participate in Parade, the payments in excess of \$5,000 would likely trigger a conflict of interest disclosure² with City. We are unaware of any disclosure being made.

Recommendation:

We recommend that City ensure Parade participants clearly understand the rules for participation in Parade and that all participants complete the applicable applications and pay any associated fees.

2. PUBLIC FUNDS MAY HAVE BEEN USED FOR POLITICAL PURPOSES

We estimate Council Member spent approximately \$5,879 of City Parks and Recreation funds for Big Red’s entry in Parade. Council Member stated that the banner on the rear of the 2016 Big Red Parade entry was a banner used in his city council campaign. That banner encouraged voting for Council Member with the URL: “VOTEFOR[Council Member].COM”.

Utah Code 20A-11-1203 states:

(1) Unless specifically required by law, and except as provided in Section 20A-11-1206, a public entity may not make an expenditure from public funds for political purposes or to influence a ballot proposition.

Utah Code 20A-11- 1202(9) defines political purposes as “an act done with the intent or in a way to influence or intend to influence, directly or indirectly, any person to refrain from voting or to vote for or against any candidate for public office at any caucus, political convention, primary, or election... .” Although Council Member is not currently a registered candidate, it is reasonable to assume he may be electioneering in preparation for a future campaign.

Supervisor was unaware that the signage was to be included with the Big Red entry in the 2016 Parade. We believe this possible violation was likely inadvertent on the part of City as well as Council Member.

Recommendation:

We recommend that City seek reimbursement of the estimated \$5,879 and ensure that City funds are not improperly used for political purposes.

² Utah Code 10-3-1307 states, “Every... elected officer... who is an officer, director, agent, employee, or owner of a substantial interest in any business entity which does or anticipates doing business with the municipality in which he is an... Elected officer... shall publicly disclose to the members of the body... prior to any discussion... the nature of his interest in that business entity.”

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FINDINGS AND RECOMMENDATIONS

3. SUPERVISOR LIKELY UNABLE OR UNWILLING TO DECLINE QUESTIONABLE SPENDING REQUESTS BY ANY MEMBER OF CITY COUNCIL

City Procurement Policy allows Supervisor to approve purchases for \$5,000 or less. Supervisor clearly had limited authority to authorize the use of City funds. However, Supervisor indicated that he would not decline a request by any council member. Supervisor also indicated that as a practice he would loan a City credit card to any council member who requested it.

A practice or policy of having a subordinate approve purchase requests for a superior is an inherently weak control. Subordinates are much less likely to critically review or decline requests from a superior.

City should design a policy to require purchase requests by the Mayor and City Council members to be brought before City Council so that subordinates are not placed in a position to authorize or decline spending requests by their superiors.

Recommendation:

We recommend that City design a policy requiring that purchase requests from the Mayor or City Council Members be brought before the City Council so that these requests can be subject to an effective review.

4. SUPERVISOR FAILURE TO CLEARLY DELINEATE SPENDING APPROVAL

Supervisor verbally approved approximately \$2,500 for repairs to Big Red in support of Parade. Council Member then used a City credit card and City vendor accounts to make various purchases for an estimated total of \$5,879. These purchases included the following:

AMOUNT	DESCRIPTION	COMMENT
\$744	Six banners	Supervisor did not authorize this purchase. We question the public benefit of two of the six banners which promoted Council Member, an associate of Council Member, and the “DEA Boyz”.
\$90	Two subwoofers	Supervisor did not authorize this purchase.
\$1,324	Fire engine repairs	\$1,054 for the water pump \$59 in transmission fluid \$24 for halogen light bulbs \$90 for electrical repairs \$90 for heating, ventilation, and air conditioning repairs \$7 for A/C Schrader valve

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FINDINGS AND RECOMMENDATIONS

		We particularly question whether halogen light bulbs, air conditioning, and transmission fluid were repairs necessary for Parade water fight.
\$1,236	Audio system repairs	
\$134	Sound System Equipment*	Various wires, adapters, etc.
\$1,341	Fireworks igniter*	
\$105	Generator repair	Supervisor did not authorize this expense.
\$810	Miscellaneous*	\$34 dolly and various fasteners. Other items include contractor hose, adapters, towels, and pipe. (The pipe was to replace Kaysville Public Works pipe which Council Member used without prior authorization.)
\$82	Batteries	
\$13	Tax	

*This equipment and these supplies are in the possession of Council Member. We believe goods purchased with City funds should remain in the possession or control of City.

We noted various problems related to these purchases:

- a. Supervisor failed to clearly define the amounts and items that Council Member was authorized to purchase.
- b. Council Member made purchases which exceeded the expectations necessary to repair Big Red’s water pump without notifying Supervisor and receiving additional approval for the purchases.

Recommendation:

We recommend that City improve its oversight of expenditures by setting clear expectations on spending limits and the type and purpose of items to be purchased.

We recommend Council Member clearly set spending expectations, comply with spending limits, and avoid spending City funds on items of questionable benefit to City.

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FINDINGS AND RECOMMENDATIONS

5. **SHARED CREDIT CARDS INCREASE RISK OF MISUSE**

City assigned a credit card to one of its employees (Employee). This employee later shared that credit card with Council Member at the request of Supervisor.

Credit cards by their nature rely heavily on detective controls rather than preventative controls to reduce the risk of abuse. In addition, individuals not authorized to use a credit card may not have received training on credit card use; therefore, violations are more likely to occur. By sharing credit cards, Supervisor, Council Member, and Employee impaired City’s detective controls and minimized preventative controls against misuse.

City should minimize the use of credit cards by users other than the authorized card holder; however, if City allows the practice to continue, there is even more reason for it to take the steps necessary to ensure its review and approval procedures are effective in identify violations.

Because credit cards have fewer controls than those associated with purchase cards (p-cards), City should instead consider using p-cards to put in place additional controls, including per-transaction dollar limits, monthly spending limits, and merchant category code restrictions.

Recommendation:

We recommend that City minimize the practice of sharing credit cards, and ensure that additional controls are in place to minimize the misuse of credit cards. We also recommend that City replace credit cards with p-cards.



SETTLED IN 1850

Mr. John Dougall
Utah State Auditor
Senate Office Building Suite E310
PO Box 142310
Salt Lake City, Utah 84114

August 1, 2016

Re: Kaysville City responses to Review of Expenditures for "Big Red" Fire Engine 2016 Parade Entry

Mr. Dougall,

On behalf of Kaysville City, please accept this letter as official responses to the Review of Expenditures for "Big Red" Fire Engine 2016 Parade Entry.

My responses are as follows:

Finding 1. Parade participation lacked clear understanding and formal arrangement – This recommendation has been communicated to Kaysville City staff and proper paperwork will be required of all participants including "city sponsored" floats.

Finding 2. Public funds may have been used for political purposes. – City staff has discussed both aspects of this finding. We are confident that policies instigated because of this instance and others will ensure something like this does not happen in the future. Kaysville City is currently in discussions with Councilman Adams and will seek reimbursement from him of those funds used on private property and/or for political purposes.

Finding 3. Supervisor likely unable or unwilling to decline questionable spending requests by any member of city council – While Mr. Vance Garfield did make the statement that if a member of the city council wanted a city credit card he would give them a city credit card. It is notable that even in this instance Mr. Garfield asked many follow up questions of Councilman Adams in an effort to verify not only purchase amounts but quantities, specific purchased items, etc. In addition, all Kaysville City Department Heads have been instructed to limit or eliminate any unnecessary use of all city credit cards. In those instances where credit card use is essential, department heads will inform the City Manager that this particular transaction has taken place. Finally, a long term policy of credit card use generally and credit card use by city council members specifically, will be addressed as part of future additions to the Kaysville City Personnel and Policy Manual.

Finding 4. Supervisor failure to clearly delineate spending approval – Kaysville City accepts this recommendation and agrees to update its current procurement and purchasing policy to include

spending thresholds by both Department Heads and the City Manager. This policy will include any ways in which city council members may spend city funds.

Finding 5. Shared credit cards increase risk of misuse – Kaysville City will minimize the use of sharing credit cards and will look at p-cards as part of its long term purchasing plan.

If there are any questions about this notice or these responses, do not hesitate to contact me via email at sscott@kaysvillecity.com or via telephone at (801)546-1235. Thank you very much for your time on this very important matter.

Sincerely Yours,



Shayne Scott
City Manager
Kaysville City, Utah