



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Lacey

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Financial statement and federal grant compliance audits for January 1, 2023 through December 31, 2023 – see draft report.

Audit Highlights

City staff were professional and responsive to all audit requests that arose.

Financial Statement Audit Communication

We would like to bring the following to your attention:

- We didn't identify any material misstatements during the audit.
- There were no uncorrected misstatements in the audited financial statements.
- The audit addressed the following risks, which required special consideration:
 - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$80,200 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in August 2024 and will cover the following general areas:

- Accountability for public resources

The estimated cost for the next audit based on current rates is \$28,600 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Office of the Washington State Auditor
Pat McCarthy

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Financial Statements and Federal Single Audit Report

City of Lacey

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

Published (Inserted by OS)

Report No. 1035443



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

Issue Date – (Inserted by OS)

City Council
City of Lacey
Lacey, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Lacey’s financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City’s financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Lacey January 1, 2023 through December 31, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Lacey are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

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Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
59.059	Congressional Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2023-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Lacey January 1, 2023 through December 31, 2023

2023-001 The City lacked adequate internal controls to ensuring compliance with federal suspension and debarment requirements.

Assistance Listing Number and Title:	59.059 – Congressional Grants
Federal Grantor Name:	Small Business Administration
Federal Award/Contract Number:	SBAHQ23I0019
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Known Questioned Cost Amount:	\$0
Prior Year Audit Finding:	N/A

Background

During the fiscal year 2023, the City spent \$1,000,000 of federal funding from the congressional grant. The City received the congressional grant for the expansion of the Lacey MakerSpace, which is a public workshop that provides space and tools for residents to attend classes or create projects. The grant allowed the City to expand the workshop’s size to provide more workspace opportunities for residents.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Federal regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. Whenever the City enters into contracts or purchases goods or services that it expects to equal or exceed \$25,000, and for all subawards regardless of award amount, paid all or in part with federal funds, it must verify the contractor or subrecipient were not suspended, debarred or otherwise excluded. The City may verify this by checking for exclusion records in the U.S. General Services System for Award Management at SAM.gov, obtaining a written certification from the

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contractor or subrecipient or adding a clause or condition into the contract that states the contractor or subrecipient is not suspended or debarred. The City must verify this before entering into the contract or making the subaward, and it must keep documentation demonstrating compliance with this federal requirement.

Description of Condition

The City did not have controls in place to verify and maintain documentation demonstrating that a subrecipient was not suspended or debarred before entering into an agreement with them. Specifically, the City paid one subrecipient \$1 million and did not verify the subrecipient was not suspended or debarred before making the subaward.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Cause of Condition

The City was unaware that the suspension and debarment requirement was applicable to subrecipients. The City also relies on including an attestation clause in contracts that it did not use for the subrecipient contract.

Effect of Condition

Without adequate internal controls, the City increases its risk of awarding federal funds to subrecipients that are excluded from participating in federal programs. Any payments the City made to an ineligible party would be unallowable, and the federal agency could potentially recover them. During the audit, the City subsequently verified the subrecipient was not suspended or debarred. Therefore, we are not questioning costs.

Recommendation

We recommend the City develop internal controls to ensure subrecipients it pays all or in part with federal funds, are not suspended or debarred before making the subaward. The City should also maintain documentation demonstrating compliance with this federal requirement.

City's Response

The City of Lacey acknowledges the auditor's finding regarding the need for enhanced internal controls to verify that subrecipients are not suspended or debarred before entering into agreements involving federal funds.

The City has overall strong internal controls surrounding the utilization of grant dollars. Specific to the Congressional funds, the City had a number of mitigating controls in place to ensure the appropriate use of the funds. The City, Saint Martin's University, and Thurston EDC are strong partners in making sure the Lacey MakerSpace reaches its full potential and continues to enhance the community. City leadership and the stated partners were thrilled to receive \$1 million dollars to go towards the much-needed expansion of the Lacey MakerSpace. After receiving the award, it became clear that moving to a subrecipient model with Saint Martin's University was the appropriate course of action. The City received approval from the Small Business Administration (granting authority) to proceed with this action. The City then drafted and executed an interlocal agreement with Saint Martin's University. The interlocal agreement clearly stated that, as a subrecipient, Saint Martin's University would adhere to all federal requirements. The City also completed a subrecipient risk assessment with Saint Martin's University prior to finalizing the subrecipient model and were deemed to be a low risk subrecipient. Saint Martin's completed a suspension and debarment check on the project's contractor who ultimately received the funds.

The City will address its controls and oversight over grant contracts with subrecipient agreements to ensure proper adherence to suspension and debarment requirements. This will be accomplished by including a contract clause that explicitly requires all subrecipients to certify that they are not suspended, debarred, or otherwise excluded from federal programs. This clause will be applied to all relevant agreements and contracts moving forward. The City has also initiated communication with relevant City staff to ensure that they are fully aware of federal requirements regarding suspension and debarment.

The City will implement a periodic review process to ensure continued compliance with federal requirements. This includes regular audits of contracts and subawards to confirm that all necessary documentation is in place and that the City's internal controls are functioning effectively.

The City of Lacey is committed to full compliance with all federal regulations and takes the auditor's finding seriously. We believe that the steps we have taken and the controls we have put in place for future use will effectively address the issue and prevent further occurrences. We appreciate the auditor's recommendations and will continue to monitor and enhance our internal controls to ensure the integrity of our operations and the proper use of federal funds.

Auditor's Remarks

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

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 180, OMB *Guidelines on Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, establishes nonprocurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

INDEPENDENT AUDITOR’S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**City of Lacey
January 1, 2023 through December 31, 2023**

City Council
City of Lacey
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 27, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

August 27, 2024

INDEPENDENT AUDITOR’S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

**City of Lacey
January 1, 2023 through December 31, 2023**

City Council
City of Lacey
Lacey, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Lacey, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2023. The City’s major federal programs are identified in the auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2023-001, that we consider to be a material weakness.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

August 27, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Lacey January 1, 2023 through December 31, 2023

City Council
City of Lacey
Lacey, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2024 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

August 27, 2024

FINANCIAL SECTION

City of Lacey January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

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Statement of Activities – 2023

Balance Sheet – Governmental Funds – 2023

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2023

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2023

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Funds – 2023

Statement of Net Position – Proprietary Funds – 2023

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2023

Statement of Cash Flows – Proprietary Funds – 2023

Statement of Fiduciary Net Position – Fiduciary Funds – 2023

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2023

Notes to Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund – 2023

Schedule of Proportionate Share of the Net Pension Asset / Liability and Related Ratios – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2– 2023

Schedule of Employer Contributions – PERS 1, PERS 2/3 and LEOFF 2– 2023

Changes in Total OPEB Liability – 2023

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2023

Notes to the Schedule of Expenditures of Federal Awards – 2023



LACEY CITY COUNCIL
 Mayor Andy Ryder
 Deputy Mayor Malcolm Miller
 Lenny Greenstein
 Michael Steadman
 Carolyn Cox
 Robin Vazquez
 Nicolas Dunning

CITY MANAGER
 Rick Walk

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
 UNIFORM GUIDANCE**

**City of Lacey
 January 1, 2023 through December 31, 2023**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2023-001	Finding caption: The City lacked adequate internal controls for ensuring compliance with federal suspension and debarment requirements.
Name, address, and telephone of City contact person: Kristy Wolf, Financial Services Manager. 420 College Street SE, Lacey, WA 98503-1238 (360) 438-2668	
Corrective action the auditee plans to take in response to the finding: <i>City of Lacey’s Response: The City of Lacey acknowledges the auditor's finding regarding the need for enhanced internal controls to verify that subrecipients are not suspended or debarred before entering into agreements involving federal funds.</i> <i>The City has overall strong internal controls surrounding the utilization of grant dollars. Specific to the Congressional funds, the City had a number of mitigating controls in place to ensure the appropriate use of the funds. The City, Saint Martin’s University, and Thurston EDC are strong partners in making sure the Lacey MakerSpace reaches its full potential and continues to enhance the community. City leadership and the stated partners were thrilled to receive \$1 million dollars to go towards the much-needed expansion of the Lacey MakerSpace. After receiving the award, it became clear that moving to a subrecipient model with Saint Martin’s University was the appropriate course of action. The City received approval from the Small Business Administration (granting authority) to proceed with this action. The City then drafted and executed an interlocal agreement with Saint Martin’s University. The</i>	

interlocal agreement clearly stated that, as a subrecipient, Saint Martin's University would adhere to all federal requirements. The City also completed a subrecipient risk assessment with Saint Martin's University prior to finalizing the subrecipient model and were deemed to be a low risk subrecipient. Saint Martin's completed a suspension and debarment check on the project's contractor who ultimately received the funds.

The City will address its controls and oversight over grant contracts with subrecipient agreements to ensure proper adherence to suspension and debarment requirements. This will be accomplished by including a contract clause that explicitly requires all subrecipients to certify that they are not suspended, debarred, or otherwise excluded from federal programs. This clause will be applied to all relevant agreements and contracts moving forward. The City has also initiated communication with relevant City staff to ensure that they are fully aware of federal requirements regarding suspension and debarment.

The City will implement a periodic review process to ensure continued compliance with federal requirements. This includes regular audits of contracts and subawards to confirm that all necessary documentation is in place and that the City's internal controls are functioning effectively.

The City of Lacey is committed to full compliance with all federal regulations and takes the auditor's finding seriously. We believe that the steps we have taken and the controls we have put in place for future use will effectively address the issue and prevent further occurrences. We appreciate the auditor's recommendations and will continue to monitor and enhance our internal controls to ensure the integrity of our operations and the proper use of federal funds

Anticipated date to complete the corrective action: 8/16/2024

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LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

August 27, 2024

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of the City of Lacey for the period from January 1, 2023 through December 31, 2023. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. Except as reported by the audit, we have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.
11. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.
12. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
13. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
 - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and contractors, and correspondence.
 - b. All communications from federal awarding agencies, contractors, service organizations or pass-through entities concerning possible noncompliance.
 - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.

- d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
14. Except as reported by the audit, we have identified and complied with all direct and material compliance requirements of federal awards.
 15. Management is responsible for establishing effective internal control and has, except as reported by the audit, maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
 16. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
 17. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.
 18. We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.

Additional representations related to federal grants passed through to subrecipients:

19. We have advised our subrecipients of requirements imposed on them by Federal laws, regulations, contracts or grant agreements as well as any supplemental requirements we impose as a condition of receiving Federal awards.
20. We have monitored the activities of our subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, contracts or grant agreements.
21. We have determined that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR § 200.501 for that fiscal year.
22. When applicable, we have issued a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensured that the subrecipient has taken appropriate and timely corrective action.
23. We have considered the results of our subrecipients' audits and made any necessary adjustments to our own accounting records.

Rick Walk, City Manager

Kristy Wolf, Financial Services Manager