



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:

- Accountability audit for January 1, 2023 through December 31, 2023 – see draft report.

Audit Highlights

- The City staff were professional, efficient and accommodating to work with during our audit.
- We appreciate the City's commitment to safeguarding public funds, effective control systems and focus on transparency in government.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulations that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

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 \$28,600 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2025 and will cover the following general areas:

- Accountability for public resources
- Financial statement including Annual Comprehensive Financial Report opinion letter
- Federal programs

The estimated cost for the next audit based on current rates is \$103,900 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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Paul Griswold, Assistant Audit Manager, (425) 510-0482, Paul.Griswold@sao.wa.gov

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Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Accountability Audit Report

City of Lacey

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

Published (Inserted by OS)

Report No. 1035870



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

Issue Date – (Inserted by OS)

Mayor and City Council
City of Lacey
Lacey, 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

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.

TABLE OF CONTENTS

Audit Results.....	4
Summary Schedule of Prior Audit Findings	5
Related Reports.....	8
Information about the City.....	9
About the State Auditor's Office.....	10

AUDIT RESULTS

Results in brief

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

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 Lacey 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:

- Payroll – gross wages
- Accounts receivable – utility billing and permit billing
- Use of restricted funds – impact fees
- Cash receipting – timeliness and completeness of deposits
- Accounts receivable – collection of business and occupation taxes and business license fees
- Accounts payable – electronic funds transfers
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



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

CITY MANAGER
 Rick Walk

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Audit Period: January 1, 2021 through December 31, 2022	Report Ref. No.: 1034225	Finding Ref. No.: 2022-001
Finding Caption: The City lacked adequate internal controls to ensure it accurately billed cost recovery fees for permits.		
Background: The city did not maintain documentation showing how it calculated the fee adjustment amounts for each year since passing Resolution No. 1059. Without this documentation, we were unable to determine how the city calculated rate adjustments from 2018 through 2022. In addition, the fee rate structure the city used for plumbing and mechanical fees was not in line with Resolution No. 1059, and the City did not have a secondary review process to ensure it was accurately calculating permit billings.		
Status of Corrective Action: (check one)		
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
		<input type="checkbox"/> Finding is considered no longer valid

Corrective Action Taken:

Since the release of the Audit Finding report, the Department has improved its own internal controls, training, communication procedures and other measures. These include the following:

- Ongoing communications about the significance of accurate recovery fees. Since the audit finding, Permit Technicians have been verifying the fees generated in the permit system (Community Development—commonly known as TRAKiT) match those in the adopted fee schedule. Any discrepancies are reported to the Permit Technician’s supervisor who then updates the permit system to ensure that accurate fees are being produced by the system consistent with the adopted fee schedule.
- Providing training to new and existing staff on the procedures for issuing building permits on an ongoing basis. Management provides training to Permit Technicians and staff. This training includes how to verify fees generated by TRAKiT match those within the adopted fee schedule.
- The Department has developed clear documentation of all fee structures including, but not limited to calculations, annual adjustments and exemptions. The Lacey City Council adopted Resolution number 1059 which took effect July 1, 2024. The Resolution established a new fee schedule for the Department, that aligned with the functionality of the TRAKiT System. The fee schedule was then updated in TRAKiT with new fee tables as of July 1, 2024. Since that time, all fees generated in TRAKiT have been verified by staff to ensure that the software was coded correctly. Also, a secure digital folder on a department shared drive was created for fee schedules and resolutions for retention ensuring that current and future staff have access.
- With adoption of Resolution 1059, the resolution sets forth specific language regarding annual fee adjustments in alignment with Department salary and wage adjustments beginning July 1, 2025.
- Permit Technicians are conducting reviews and verification of fee calculations with every permit submitted to ensure that the software is pulling the correct data to generate fees exactly as outlined in the fee schedule. Should any discrepancies be found, these are reported to management immediately to implement a fix before the permit is moved forward in the review process.
- The Department will conduct a comprehensive review following each annual fee adjustment beginning with the next adjustment on July 1, 2025.

- The Department is conducting continuous assessment of the effectiveness of internal controls and adjustments as needed.
- The Department is reviewing its internal controls responsibilities and how this can be divided among different staff and levels of management. The Department is limited in its small number of staff and the broad levels of responsibility of each staff member to ensure that internal controls measures are implemented at the correct level.

As outlined above, implementing the broad range of internal controls identified by the Department will ensure that the issues addressed in the Audit Finding are resolved and will not lead to future Audit Finding issues.

RELATED REPORTS

Financial

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

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 section of the separate financial statement and single audit report. That report includes a federal finding regarding compliance with suspension and debarment requirements reported. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Lacey, located in Thurston County, is home to 58,180 citizens. The City provides a full range of services, either directly or through contracts, including parks and recreation, planning and zoning, police, building inspection, street maintenance and construction engineering, general administrative services, and utilities, which include water, wastewater, and stormwater. Through an agreement with Thurston County, Olympia and Tumwater, Lacey accounts for the financial activity of Joint Animal Services. The City also, under agreement with Capital Area Regional Public Facilities District (CAFPFD), provides administrative support services and accounts for the financial activity of CARPFD.

The City is governed by a council-manager form of government with seven elected Council Members, one of whom serves as Mayor. The City operated on a \$223.8 million annual budget for 2023, and has approximately 507 full and part-time employees.

Contact information related to this report	
Address:	City of Lacey 420 College Street SE Lacey, WA 98503-1238
Contact:	Kristy Wolf, Financial Services Manager
Telephone:	(360) 438-2668
Website:	www.ci.lacey.wa.us

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Lacey 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.

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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Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov

October 28, 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 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. 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.

Troy Woo
Financial Director

Kristy Wolf
Financial Services Manager