



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Lacey

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

Published November 7, 2024

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

November 7, 2024

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 7

Information about the City..... 8

About the State Auditor's Office..... 9

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="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: <i>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:</i> <ul style="list-style-type: none"><i>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.</i>		

- *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

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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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