

Washington State Auditor's Office
Accountability Audit Report

Island County

Report Date
September 17, 2013

Report No. 1010600

Issue Date
September 30, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 30, 2013

Board of Commissioners
Island County
Coupeville, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your County to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on Island County's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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September 17, 2013**

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Audit Summary

Island County
September 17, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Island County from January 1, 2012 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the County. We also determined whether the County complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Assessor/ Planning Department review
- Treasurer's Office department review
- Payroll systems review
- Procurement/ bid law
- On-call public works maintenance contracts
- Open Public Meetings Act

RESULTS

In most areas, the County complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as a finding:

- Island County lacked adequate internal controls to ensure timely processing of property tax refunds and billings.

Related Reports

**Island County
September 17, 2013**

FINANCIAL

Our opinion on the County's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the County's financial statements.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

Description of the County

Island County
September 17, 2013

ABOUT THE COUNTY

Island County includes the islands of Whidbey, Camano, Smith, Deception and Ben Ure and encompasses approximately 209 square miles. The County seat is the town of Coupeville on Whidbey Island. The County has a population of approximately 81,100 citizens.

An elected, three-member Board of Commissioners governs the County. Additional elected positions include Auditor, Treasurer, Prosecuting Attorney, Sheriff, Assessor, Clerk, Coroner, District Court Judge and two Superior Court judges. For fiscal year 2012, the County had total operating revenue of \$59,574,000. The County's approximately 436 full- and part-time employees provide services including administration, public safety, public works, land-use planning and parks and recreation.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

District 1	Helen Price Johnson
District 2	Angie Homola
District 3	Kelly Emerson
Assessor	Mary Engle
Auditor	Sheilah Crider
Superior Court Clerk	Debra Van Pelt
Coroner	Robert W. Bishop
Prosecuting Attorney	Greg Banks
Sheriff	Mark Brown
Treasurer	Ana Maria Nunez
District Court Judge	Peter Strow
Superior Court Judge:	Alan Hancock
	Vicki Churchill

APPOINTED OFFICIALS

Budget Director	Elaine Marlow
Courthouse Facilities Supervisor	Dan Sherk
Health Services Director	Keith Higman
Human Services Director	Jackie Henderson
Human Resources Director	Melanie Bacon
Juvenile Court Services Director	Brooke Powell
Planning and Community Development Director	Bob Pederson
Public Works Director	Bill Oakes

COUNTY CONTACT INFORMATION

Address: Island County
 1 N.E. Seventh Street
 P.O. Box 5000
 Coupeville, WA 98239

Phone: (360) 678-7849

Website: www.islandcounty.net

AUDIT HISTORY

We audit the County annually. We have issued findings in 11 of the last 12 audits. The County has been proactive in resolving those findings. Over the years, County management has positively acknowledged our audit recommendations.

Schedule of Audit Findings and Responses

Island County
September 17, 2013

1. **Island County lacked adequate internal controls to ensure timely processing of property tax adjustments.**

Description of Condition

Property tax supplements are changes made to certified assessed property values. They include Board of Equalization rulings, senior citizen exemptions, tax deductions, deceased owner's senior citizen discount reversals, property improvements, destroyed property and clerical errors. Changing the assessed property values can either increase or decrease the amount of property taxes owed resulting in either a tax refund or additional taxes due. Property tax supplements can go back three years when initiated by the County. The County Assessor's Office prepares batches of supplements called groups. Once the Assessor's Office places a group in accepted status, the Treasurer's Office can proceed with either refunding over payments or submitting a bill of taxes due to property owners.

As of August, 2013, there were 86 groups consisting of 2,411 unprocessed property supplements ranging from less than one month to more than one year old. Six of the oldest groups have been in the accepted status since June, 2012. During 2012, the County processed refunds totaling \$799,825. Of this amount, \$18,330 was in interest. The Treasurer's Office has had a backlog of groups since 2010.

Cause of Condition

The County Treasurer's Office went through a systems conversion in 2010 which slowed its processing of supplements. During the same time, the Assessor's Office found more than 1,800 supplements which had been misplaced increasing the number of supplements for processing. Lastly, the County did not allocate the necessary resources to ensure the timely processing of the supplements.

Effect of Condition

The County incurs additional interest costs the longer it takes to process supplements. Further, by not processing the supplements timely, the Treasurer's Office has received numerous telephone calls from property owners who are sensitive to not receiving their expected refunds. Additionally, the County loses revenue on the supplements in the instances where additional taxes are due.

Recommendation

We recommend the County review its current controls and make any necessary changes to ensure supplements are processed in a timely manner.

County's Response

The County shares the State Auditor's concerns about the current backlog, its effect on citizens, and County revenues. Beginning in mid-2011, to address these concerns, the Board of County Commissioners allocated additional funding to the Treasurer's office. As a result, staffing in the Treasurer's office has been increased by two employees (a fulltime position and a halftime position). Both positions are dedicated to processing refunds. Along with these additional employees, the County Treasurer has conferred with other Counties who utilize the same software system for their best practices and has implemented process improvements. The Treasurer and Assessor continue to work cooperatively to better classify and group the supplements in order to ensure that citizens can receive refunds on a timely basis. The Treasurer continues to prioritize refunds. With the additional staff and process improvements, the Treasurer believes the backlog will be resolved in mid-2014.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing County's corrective action during our next audit.

Applicable Laws and Regulations

RCW 84.69.020- Grounds for refunds- determination- Payment- Report states:

On the order of the county treasurer, ad valorem taxes paid before or after delinquency shall be refunded if they were:

- (1) Paid more than once;
- (2) Paid as a result of manifest error in description;
- (3) Paid as a result of a clerical error in extending the tax rolls;
- (4) Paid as a result of other clerical errors in listing property;
- (5) Paid with respect to improvements which did not exist on assessment date;
- (6) Paid under levies or statutes adjudicated to be illegal or unconstitutional;
- (7) Paid as a result of mistake, inadvertence, or lack of knowledge by any person exempted from paying real property taxes or a portion thereof pursuant to RCW 84.36.381 through 84.36.389, as now or hereafter amended;
- (8) Paid as a result of mistake, inadvertence, or lack of knowledge by either a public official or employee or by any person with respect to real property in which the person paying the same has no legal interest;

(9) Paid on the basis of an assessed valuation which was appealed to the county board of equalization and ordered reduced by the board;

(10) Paid on the basis of an assessed valuation which was appealed to the state board of tax appeals and ordered reduced by the board: PROVIDED, That the amount refunded under subsections (9) and (10) of this section shall only be for the difference between the tax paid on the basis of the appealed valuation and the tax payable on the valuation adjusted in accordance with the board's order;

(11) Paid as a state property tax levied upon property, the assessed value of which has been established by the state board of tax appeals for the year of such levy: PROVIDED, HOWEVER, That the amount refunded shall only be for the difference between the state property tax paid and the amount of state property tax which would, when added to all other property taxes within the one percent limitation of Article VII, section 2 of the state Constitution equal one percent of the assessed value established by the board;

(12) Paid on the basis of an assessed valuation which was adjudicated to be unlawful or excessive: PROVIDED, That the amount refunded shall be for the difference between the amount of tax which was paid on the basis of the valuation adjudged unlawful or excessive and the amount of tax payable on the basis of the assessed valuation determined as a result of the proceeding;

(13) Paid on property acquired under RCW 84.60.050, and canceled under RCW 84.60.050(2);

(14) Paid on the basis of an assessed valuation that was reduced under RCW 84.48.065;

(15) Paid on the basis of an assessed valuation that was reduced under RCW 84.40.039; or

(16) Abated under RCW 84.70.010.

No refunds under the provisions of this section shall be made because of any error in determining the valuation of property, except as authorized in subsections (9), (10), (11), and (12) of this section nor may any refunds be made if a bona fide purchaser has acquired rights that would preclude the assessment and collection of the refunded tax from the property that should properly have been charged with the tax. Any refunds made on delinquent taxes shall include the proportionate amount of interest and penalties paid. However, no refunds as a result of an incorrect payment authorized under subsection (8) of this section made by a third party payee shall be granted. The county treasurer may deduct

from moneys collected for the benefit of the state's levy, refunds of the state levy including interest on the levy as provided by this section and chapter 84.68 RCW.

The county treasurer of each county shall make all refunds determined to be authorized by this section, and by the first Monday in February of each year, report to the county legislative authority a list of all refunds made under this section during the previous year. The list is to include the name of the person receiving the refund, the amount of the refund, and the reason for the refund.

RCW 84.48.065 Cancellation and correction of erroneous assessments and assessments on property on which land use designation is changed states:

1) The county assessor or treasurer may cancel or correct assessments on the assessment or tax rolls which are erroneous due to manifest errors in description, double assessments, clerical errors in extending the rolls, and such manifest errors in the listing of the property which do not involve a revaluation of property, except in the case that a taxpayer produces proof that an authorized land use authority has made a definitive change in the property's land use designation. In such a case, correction of the assessment or tax rolls may be made notwithstanding the fact that the action involves a revaluation of property. Manifest errors that do not involve a revaluation of property include the assessment of property exempted by law from taxation or the failure to deduct the exemption allowed by law to the head of a family. When the county assessor cancels or corrects an assessment, the assessor shall send a notice to the taxpayer in accordance with RCW 84.40.045, advising the taxpayer that the action has been taken and notifying the taxpayer of the right to appeal the cancellation or correction to the county board of equalization, in accordance with RCW 84.40.038. When the county assessor or treasurer cancels or corrects an assessment, a record of such action shall be prepared, setting forth therein the facts relating to the error. The record shall also set forth by legal description all property belonging exclusively to the state, any county, or any municipal corporation whose property is exempt from taxation, upon which there remains, according to the tax roll, any unpaid taxes. No manifest error cancellation or correction, including a cancellation or correction made due to a definitive change of land use designation, shall be made for any period more than three years preceding the year in which the error is discovered.

(2)(a) In the case of a definitive change of land use designation, an assessor shall make corrections that involve a revaluation of property to the assessment roll when:

(i) The assessor and taxpayer have signed an agreement as to the true and fair value of the taxpayer's property setting forth in the agreement the valuation information upon which the agreement is based; and

(ii) The assessment roll has previously been certified in accordance with RCW 84.40.320.

(b) In all other cases, an assessor shall make corrections that involve a revaluation of property to the assessment roll when:

(i) The assessor and taxpayer have signed an agreement as to the true and fair value of the taxpayer's property setting forth in the agreement the valuation information upon which the agreement is based; and

(ii) The following conditions are met:

(A) The assessment roll has previously been certified in accordance with RCW 84.40.320;

(B) The taxpayer has timely filed a petition with the county board of equalization pursuant to RCW 84.40.038 for the current assessment year;

(C) The county board of equalization has not yet held a hearing on the merits of the taxpayer's petition.

(3) The assessor shall issue a supplementary roll or rolls including such cancellations and corrections, and the assessment and levy shall have the same force and effect as if made in the first instance, and the county treasurer shall proceed to collect the taxes due on the rolls as modified.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
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Director of State and Local Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

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