



# Washington State Auditor's Office

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## Accountability Audit Report **Kittitas County**

**For the period January 1, 2014 through December 31, 2014**

**Published February 4, 2016**

**Report No. 1016109**





## Washington State Auditor's Office

February 4, 2016

Board of Commissioners  
Kittitas County  
Ellensburg, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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 County operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the County's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, County operations complied with applicable requirements and provided adequate safeguarding of public resources. The County also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the County could make improvements.

We recommended the Treasurer's Office:

- Establish and notify employees of written policies and procedures related to property tax collections, adjustments and write offs.
- Follow state laws related to delinquent personal property taxes.
- Ensure an independent review of bankruptcy proof of claims.
- Ensure County Commissioner approval of waived delinquent mobile home and property taxes are written off.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to County management in a letter dated January 28, 2016, related to the Sheriff's Office. We appreciate the County's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of Kittitas County from January 1, 2014 through December 31, 2014.

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.

Our audit involved performing procedures to obtain evidence about the County's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Cash receipting at the County Fair Event Center
- Third party cash receipting
- Treasurer's Office billings, cash receipting, delinquent accounts and adjustments
- Sheriff's Office payroll and patrol service agreement
- Evidence room
- Budget requirements
- Contracts and agreements
- Disbursements, travel and credit cards
- Purchase, surplus and physical inventory of assets

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2014-001 Kittitas County's Treasurer's Office does not have adequate internal controls over accounts receivable for personal property taxes and has not made collection of delinquent accounts a priority, resulting in potential lost revenue.**

### *Background*

Kittitas County Treasurer's Office collected approximately \$56,961,000 in real and personal property taxes during 2014. The County Treasurer is responsible for collecting all municipal taxes due to the County and special purpose districts within County limits.

In the event that a treasurer is unable to collect the taxes when due, state law requires the treasurer to begin delinquent collection efforts. This may include either selling personal property through the distraint process or attaching a lien to real property owned by the delinquent property owner. If the office is still unable to collect on an account, the treasurer is required to provide a list of accounts to the County Commissioners requesting write-off, stating that the treasurer has made diligent efforts and was unable to collect on the taxes. Once approved by the Commissioners, this information is sent to the County Assessor's Office for adjustment.

### *Description of Condition*

The Treasurer's Office does not have adequate controls to ensure personal property taxes are collected timely and in accordance with state law. Specifically:

- The Treasurer's Office does not have written policies establishing procedures to follow when collecting on delinquent accounts, or preparing adjustments and write-offs.
- No one monitors departmental activity to ensure the Office performs necessary collection procedures and follows state law to collect on all property taxes owed.
- No one performs an independent review of claims that are filed for taxpayer bankruptcies.
- No one ensures delinquent account write-offs approved by the County Commissioners are sent to the County Assessor's Office for adjustment.

In addition, it appears the former County Treasurer may have used her position to influence others to provide special privileges for family members, which may result in a violation of the code of ethics for municipal officers.

### ***Cause of Condition***

The Treasurer's Office has not provided adequate guidance, oversight and monitoring to ensure employees understand proper procedures and state law governing the collection of overdue accounts.

### ***Effect of Condition***

As the Treasurer's Office has not made the collection of accounts receivable a priority the County is at risk of lost revenue. Specifically, we noted the following:

- The former Treasurer did not pursue collection of a relative's delinquent personal property tax penalties and interest of \$7,716. Instead, it appears the former Treasurer attempted to use her position to influence another department to waive these penalties and fees.
- The Treasurer's Office did not submit accurate and complete information when filing a proof of claim for taxpayer bankruptcy. Two accounts totaling \$151,522 were not included on a bankruptcy proof of claim. As a result, the County is unable to collect on this tax revenue.
- The Treasurer's Office did not perform adequate procedures to collect on eighteen accounts with delinquent personal property tax totaling \$155,609 as required by state law. The Treasurer's Office did not take steps to either sell the personal property or attach a lien on the property owner's real property, as required.
- The County Commissioners approved to write-off delinquent mobile home and personal property taxes totaling \$27,910 that were never adjusted in the accounts receivable system and remain outstanding.

### ***Recommendation***

We recommend the Treasurer's Office:

- Establish and notify employees of written policies and procedures related to property tax collections, adjustments, and write offs.
- Follow state laws related to delinquent personal property taxes.

- Ensure an independent review of bankruptcy proof of claims.
- Ensure County Commissioner approval of waived delinquent mobile home and property taxes are written off.

### ***County's Response***

*The newly elected County Treasurer first took office on January 1, 2015. Immediately after taking office, the Treasurer became aware of deficiencies and items of concern in the Treasurer's Office caused by the former Treasurer, and informed the Auditor's Office and Prosecutor's Office, who informed the State Auditor's Office.*

*In 2015, the Treasurer's Office established policies, procedures, and internal controls to follow when collecting on delinquent tax accounts. This is currently done by a lead staff person, Fiscal Technician II, who oversees the collection process. The same is true for preparing adjustments and write-offs.*

*The Treasurer's Office has worked diligently with the Prosecutors Office to ensure the office performs the necessary tax collection procedures required by Washington State Law. In 2015, it was established that the Treasurer will monitor departmental activity on all taxes owed.*

*In 2015, the Treasurer's Office established policies, procedures, and internal controls to ensure county claims filed in taxpayer bankruptcies cases are checked and audited by our office. This involves the cooperation of several departments/offices: the Treasurer's Office will check the Treasurer database; the Prosecutors Office is involved as well as the Auditor's Office. The Fiscal Technician III position in the Treasurer's Office has access to software to monitor when taxpayers go into or come out of bankruptcies.*

*In 2015, the Treasurer's Office established policies, procedures, and internal controls to ensure write-offs approved by the County Commissioners are sent to the County Assessor's Office for adjustment or cancellation. This involved cleaning up and working with the Assessor's Office on prior write-offs that were still outstanding on the county's books. Going forward, once write-offs are approved by the County Commissioners, the Treasurer's Office forwards the list to the Assessor's and they write-off the taxes.*

*The Treasurer's Office has worked tremendously hard to fix and resolve the deficiencies and items of concern in the Treasurer's Office. We appreciate all of the help and advice provided by the State Auditor's Office and county departments to the Treasurer's Office. Thank you.*

### *Auditor's Remarks*

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### *Applicable Laws and Regulations*

RCW 43.09.200 - Local government accounting—Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budgeting, Accounting and Reporting System (BARS) Manual*, Part 3, Chapter 1 Accounting Principles and General Procedures, Section B Internal Control, states in part:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body.

RCW 84.60.040 - Charging personalty tax against realty, states:

When it becomes necessary, in the opinion of the county treasurer, to charge the tax on personal property against real property, in order that such personal property tax may be collected, such county treasurer shall select for that purpose some particular tract or lots of real property owned by the person owing such personal property tax, and in his or her tax roll and certificate of

delinquency shall designate the particular tract or lots of real property against which such personal property tax is charged, and such real property shall be chargeable therewith.

RCW 84.56.070 – Distraint Sale, notice, property incapable of manual delivery, property about to be removed or disposed of, states:

- (1) The county treasurer must proceed to collect all personal property taxes after first completing the tax roll for the current year's collection.
- (2) The treasurer must give notice by mail to all persons charged with personal property taxes, and if the taxes are not paid before they become delinquent, the treasurer must commence delinquent collection efforts. A delinquent collection charge for costs incurred by the treasurer may be added to the account.
- (3) In the event that the treasurer is unable to collect the taxes when due under this section, the treasurer must prepare papers in distraint. The papers must contain a description of the personal property, the amount of taxes, the amount of the accrued interest at the rate provided by law from the date of delinquency, and the name of the owner or reputed owner.
  - a. The treasurer must without demand or notice distraint sufficient goods and chattels belonging to the person charged with the taxes to pay the same, with interest at the rate provided by law from the date of delinquency, together with all accruing costs. The treasurer must proceed to advertise the distraint by posting written notices in three public places in the county in which the property has been distrained, including the county courthouse. The notice must state the time when and place where the property will be sold.
  - b. The county treasurer, or the treasurer's deputy, must tax the same fees for making the distraint and sale of goods and chattels for the payment of taxes as are allowed by law to sheriffs for making levy and sale of property on execution. Traveling fees must be computed from the county seat of the county to the place of making distraint.

- c. If the taxes for which the property is distrained, and the interest and costs accruing thereon, are not paid before the date appointed for the sale, which may not be less than ten days after the taking of the property, the treasurer or treasurer's designee must proceed to sell the property at public auction, or so much thereof as is sufficient to pay the taxes, with interest and costs. If there is any excess of money arising from the sale of any personal property, the treasurer must pay the excess less any cost of the auction to the owner of the property so sold or to his or her legal representative.
- d. If necessary to distrain any standing timber owned separately from the ownership of the land upon which the same may stand, or any fish trap, pound net, reef net, set net, or drag seine fishing location, or any other personal property as the treasurer determines to be incapable or reasonably impracticable of manual delivery, it is deemed to have been distrained and taken into possession when the treasurer has, at least thirty days before the date fixed for the sale thereof, filed with the auditor of the county wherein the property is located a notice in writing reciting that the treasurer has distrained the property. The notice must describe the property, give the name of the owner or reputed owner, the amount of the tax due, with interest, and the time and place of sale. A copy of the notice must also be sent to the owner or reputed owner at his or her last known address, by registered letter at least thirty days prior to the date of sale.
- e. If the county treasurer has reasonable grounds to believe that any personal property, including mobile homes, manufactured homes, or park model trailers, upon which taxes have been levied, but not paid, is about to be removed from the county where the property has been assessed, or is about to be destroyed, sold, or disposed of, the county treasurer may demand the taxes, without the notice provided for in this section, and if necessary distrain sufficient goods and chattels to pay the same.

- (4) As an alternative to the sale procedure specified in this section, the county treasurer may conduct a public auction sale by electronic media pursuant to RCW 36.16.145.

RCW 84.56.240 - Cancellation of uncollectible personalty taxes, states:

If the county treasurer is unable, for the want of goods or chattels whereupon to levy, to collect by distress or otherwise, the taxes, or any part thereof, which may have been assessed upon the personal property of any person or corporation, or an executor or administrator, guardian, receiver, accounting officer, agent or factor, the treasurer shall file with the county legislative authority, on the first day of February following, a list of such taxes, with an affidavit of the treasurer or of the deputy treasurer entrusted with the collection of the taxes, stating that the treasurer had made diligent search and inquiry for goods and chattels wherewith to make such taxes, and was unable to make or collect the same. The county legislative authority shall cancel such taxes as the county legislative authority is satisfied cannot be collected.

RCW 42.23.070- Prohibited acts, states in part:

- (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others.

Federal Rules of Bankruptcy Procedure, Part III – Claims and Distribution to Creditors and Equity Interest Holders; Plan – Rule 3001. Proof of Claim, states

(a) Form and Content. A proof of claim is a written statement setting forth a creditor's claim. A proof of claim shall conform substantially to the appropriate Official Form.

(b) Who May Execute. A proof of claim shall be executed by the creditor or the creditor's authorized agent except as provided in Rules 3004 and 3005.

(c) Supporting Information.

(1) Claim Based on a Writing. Except for a claim governed by paragraph (3) of this subdivision, when a claim, or an interest in property of the debtor securing the claim, is based on a writing, a copy of the writing shall be filed with the proof of claim. If the writing has been lost or

destroyed, a statement of the circumstances of the loss or destruction shall be filed with the claim.

(2) Additional Requirements in an Individual Debtor Case; Sanctions for Failure to Comply. In a case in which the debtor is an individual:

(A) If, in addition to its principal amount, a claim includes interest, fees, expenses, or other charges incurred before the petition was filed, an itemized statement of the interest, fees, expenses, or charges shall be filed with the proof of claim.

(B) If a security interest is claimed in the debtor's property, a statement of the amount necessary to cure any default as of the date of the petition shall be filed with the proof of claim.

(C) If a security interest is claimed in property that is the debtor's principal residence, the attachment prescribed by the appropriate Official Form shall be filed with the proof of claim. If an escrow account has been established in connection with the claim, an escrow account statement prepared as of the date the petition was filed and in a form consistent with applicable nonbankruptcy law shall be filed with the attachment to the proof of claim.

(D) If the holder of a claim fails to provide any information required by this subdivision (c), the court may, after notice and hearing, take either or both of the following actions:

(i) preclude the holder from presenting the omitted information, in any form, as evidence in any contested matter or adversary proceeding in the case, unless the court determines that the failure was substantially justified or is harmless; or

(ii) award other appropriate relief, including reasonable expenses and attorney's fees caused by the failure.

## RELATED REPORTS

### **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. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a significant deficiency in internal controls over financial reporting regarding financial statement preparation.

### **Federal grant programs**

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

## INFORMATION ABOUT THE COUNTY

Kittitas County serves approximately 40,915 citizens in Central Washington.

The County is administered by a three-member Board of Commissioners and operates on an \$85 million annual budget. Its 301 employees provide an array of services including judicial and public safety, operation and maintenance of the county jail, building inspection, planning and zoning, property valuation, tax collection and distribution, vehicle licensing, road maintenance, social services, landfill and transfer station and general administrative services.

### Contact information related to this report

Address:	Kittitas County 205 W. 5th Ellensburg, WA 98926
Contact:	Judy Pless, Budget and Finance Manager
Telephone:	(509) 962-7502
Website:	<a href="http://www.co.kittitas.wa.us">www.co.kittitas.wa.us</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Kittitas County at <http://portal.sao.wa.gov/ReportSearch>.

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
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