



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Douglas County

For the period January 1, 2020 through December 31, 2020

Published March 31, 2022

Report No. 1030153



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

March 31, 2022

Board of Commissioners
Douglas County
East Wenatchee, 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 County 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 County'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

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AUDIT RESULTS

Results in brief

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

As referenced above, we identified areas where the County could make improvements. These recommendations are included with our report as a finding.

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 Douglas County from January 1, 2020 through December 31, 2020.

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 County'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, 2020, 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 – taxes, gross wages and benefit deductions
- Treasury activities – payroll tax payments and investment activity
- Procurement – public works, purchases and exemptions
- Compliance with public works projects – prevailing wages, change orders, retainage requirements and day labor
- Assessor's Office – property tax valuations and billings

- Cash receipting – timeliness and completeness of deposits at the Solid Waste Department
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Douglas County January 1, 2020 through December 31, 2020

2020-001 The County Treasurer's Office did not have effective internal controls to ensure it remitted federal payroll taxes and recorded investment interest timely.

Background

Payroll Taxes

The County has about 250 employees, which are paid monthly. Additionally, the County acts as the ex officio treasurer for multiple junior taxing and special purpose districts, and it is responsible for processing their payroll and associated taxes. The Internal Revenue Service (IRS) requires every employer to report wage payments, including tax withholdings, and remit payments accordingly. The County is required to remit payment by a certain time after processing payroll. The County can incur late fees and interest on late payments.

Investments

In fiscal year 2020, the County oversaw about \$150 million in investments, which included about \$110 million in investments held for junior taxing and special purpose districts. The County Treasurer is responsible for investing all of the County's funds—and any special purpose district's funds in its custody that are not needed for immediate expenditure—in a manner consistent with appropriate statutes. County officials and special purpose districts rely on the County Treasurer to account for and report accurate financial information to help inform their decisions.

Description of Condition

Payroll Taxes

The County informed us in August 2021 of concerns relating to timely payments of payroll taxes. Our audit confirmed that the County Treasurer's office did not have sufficient controls for ensuring it remitted payroll taxes to the IRS by the deadline. Between March 2020 and March 2021, the County paid 13 payroll taxes payments, totaling about \$6.3 million, one to four days late, with the exception of one payment that was 109 days late because of a technical issue the Treasurer's

Office did not identify timely. These payments included payroll taxes for the County and two other junior taxing districts.

We examined July and August 2021 and found that the County had remitted payroll taxes timely.

Investments

The County Treasurer's office did not have sufficient controls for ensuring that investment activities were reconciled and interest earned by the County and special purpose districts were recorded timely. As a result, the County did not post about \$260,000 in investment interest earned from August 2020 through July 2021 to the applicable funds until September 2021. This was interest earned by County funds and one special purpose district.

Cause of Condition

Payroll Taxes

The County Treasurer's Office did not have a complete understanding of the IRS deadline, and leadership did not dedicate the necessary time and resources to meeting the deadline for all payroll tax payments.

Investments

The County Treasurer's Office did not dedicate the necessary time and resources to reconciling investment activity and recording interest timely. The Treasurer was solely responsible for these duties, and the Office did not have any monitoring to verify if the Treasurer performed the duties and in a timely manner.

Effect of Condition

Payroll Taxes

Because of the late payroll tax payments, the County incurred about \$30,000 in late fees from the IRS and incurred about \$71,000 in late fees for special purpose districts, prior to abatements. The IRS abated about \$27,000 in late fees. Additionally, the County reimbursed the junior taxing districts for all late fees incurred on its behalf.

Investments

When the County does not reconcile investment activities and record interest timely, County officials, junior taxing districts and special purpose districts that

rely on the Treasurer's Office do not have accurate or current financial information to inform their decisions.

Recommendation

We recommend the County Treasurer's Office establish effective monitoring procedures to ensure that it continues to remit all payroll taxes by the IRS's deadline, as well as reconciles and records investment activity and interest timely.

County's Response

On August 3, 2021, the Douglas County Board of Commissioners met with the County Auditor and County Treasurer to receive a financial status report during regular session at the Douglas County Courthouse in Waterville, WA during this meeting the Board held an executive session pursuant RCW42.30.110(1)(f). Following the executive session, the Board was made aware of six delinquent Department of Internal Revenue Services (IRS) payments occurring during the months of March 2020 to December 2020.

The Treasurer provided the Board with a correspondence letter with the IRS from September 28, 2020, requesting waiver of the assessed penalties, and providing assurance the necessary corrections were in place to prevent future delinquencies. Following the August 3 meeting, the Board became aware of seven additional penalties incurred with the Eastmont Metropolitan Parks District, the Bridgeport School District, and the Eastmont School District.

On August 31st, 2021 the Douglas County Board of County Commissioners, request the Douglas County Prosecutor to pursue any available legal course of action to recover the penalties incurred by the County Treasurer, including a bond action against the bond insurance company and the County Treasurer. In accordance with RCW 36.29.090, which allows the Board of County Commissioners to suspend the Treasurer, when an action based upon official misconduct commences against the Treasurer. The Board took action on August 31st, 2021 to suspend the County Treasurer via Resolution CE 21-27.

On September 28th, 2021 the Board of County Commissioners held a show cause hearing for the Treasurer and determined additional bond coverage was necessary to cover potential undiscovered costs and future liabilities. Proof of sufficient bond coverage was to be presented to the Board of County Commissioners no later than Tuesday, October 12, 2021 by 5:00 p.m. The Douglas County Treasurer did not provide the proof of additional bond coverage by the deadline. The Board of County

Commissioner enacted Resolution CE 22-28D vacating the Douglas County Treasurer from office pursuant RCW 42.08.120.

The Republican Central Committee solicited persons interested in the appointment of the unexpired term of the former Treasurer and submitted nominations to the Douglas County Board of Commissioners. On December 14th, 2021 the Douglas County Board of Commissioners appointed a new Douglas County Treasurer via Resolution CE 21-47.

Since taking office the new Douglas County Treasurer has implemented measures to make sure that all remits for payroll taxes due meet IRS deadlines. While the County Treasurer is responsible for completing this task, the Chief Deputy Treasurer will be serving as a backup, not only tasked with making sure that they are completed by the due date but also that they are completed in the absence of the Treasurer. Additionally, new procedures have been commissioned requiring confirmation of paid payroll taxes to be sent to all districts as processed.

Investments are the responsibility of the County Treasurer and will be completed in a timely manner, i.e. weekly and/or biweekly and financial information will be available to County officials and junior taxing districts allowing them to make financial decisions based on current, timely, and accurate investment data.

In addition, the following are the new procedures the County payroll department has put in place following the errors that occurred in making the payroll tax deposit in a timely manner.

- The Wage and Tax report is double-checked against the EFTPS report from the payroll system ensuring that the numbers balance.*
- Upon submitting the EFTPS report to the Treasurer's office for payment a confirmation is returned to the Payroll Technician with the dates the taxes are being paid.*

The Douglas County Treasurer's office highest priority is to prevent any errors going forward.

Auditor's Remarks

We appreciate the County bringing this issue to our attention, and the County's commitment to resolving the conditions noted. We will evaluate the ongoing effectiveness of the County's new procedures during our next audit.

Applicable Laws and Regulations

RCW 36.29.010 General duties

Internal Revenue Service Publication 15, (Circular E), Employer's Tax Guide For use in 2020 describes the required timelines for federal payroll tax payments.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3, Internal Control

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.9, Bank Reconciliations

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 accurate and reliable financial reporting.

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 Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE COUNTY

Douglas County was incorporated in 1883 and currently serves a population of approximately 40,000.

The County is governed by an elected, three-member Board of Commissioners. Additional elected officials include the Treasurer, Auditor, Assessor, Clerk, Sheriff, District Court Judge, Superior Court Judge and Prosecuting Attorney. In 2020, the County operated on a budget of approximately \$48 million. The County employs an average of approximately 200 staff each year.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Douglas County 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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