

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

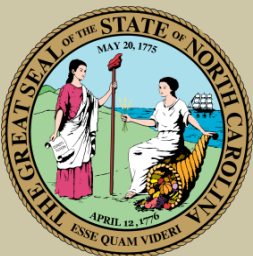
BETH A. WOOD, CPA



MARTIN COUNTY

WILLIAMSTON, NORTH CAROLINA

INVESTIGATIVE AUDIT REPORT
JUNE 2023



NC OSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor initiated an investigative audit in response to an allegation received regarding Martin County (County) property tax reappraisals. It was alleged that the property tax values were reappraised at the time of a sale to increase tax revenue to the County.

BACKGROUND

The County was established in 1774 and is located in northeastern North Carolina with administrative offices in Williamston.¹ The County has a total area of 461 square miles and a population of over 21,700 residents.² The Board of Commissioners (Board) is the chief legislative and policy making body of County government and consists of five elected officials, three of whom are elected from the eastern district, and two of whom are elected from the western district.³

The Martin County Office of the Tax Assessor is responsible for the listing, appraising, and assessing of real and personal property. State law⁴ requires that the Tax Assessor must reevaluate property at least every eight years. The County's last real property revaluation was effective January 1, 2017, and the next revaluation will be effective January 1, 2025.

KEY FINDING

The former Martin County Tax Assessor could not support that 259 real property appraisals made outside of the general real property appraisal cycle were for an allowable reason prescribed in state law.⁵ The investigative audit discovered that there was no documentation for the reasons for the property tax value reappraisals. Therefore, it is unknown if the tax values were reappraised due to the sale of the property.

KEY RECOMMENDATIONS

- The Martin County Tax Assessor should review all 259 properties that were reappraised outside of the eight-year general appraisal cycle to determine and document if the reappraisal meets one of the statutory reasons that allows reappraisal outside the general appraisal cycle.
- The Martin County Board of Commissioners should ensure that there is a policy requiring the Martin County Tax Assessor to document the reason for all reappraisals done outside of the eight-year general appraisal cycle.
- The Martin County Board of Commissioners should ensure that property owners are notified of the reason their property has been reappraised when they are notified of a reappraisal and a change in the tax value and tax liability of their property.

¹ <https://martincountypedc.com/about-martin-county/>

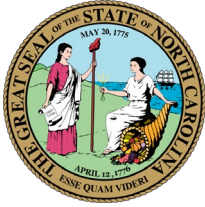
² <https://www.census.gov/>

³ https://www.martincountyncgov.com/government/county_commissioners/index.php

⁴ North Carolina General Statute § 105-286

⁵ North Carolina General Statute § 105-287

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Martin County Board of Commissioners
U. James Bennet, County Manager

Ladies and Gentlemen:

Pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B, we have completed an investigative audit of allegations concerning Martin County. The results of our investigative audit, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General, and other appropriate officials in accordance with N.C.G.S. § 147-64.6(c)(12). We appreciate the cooperation received from the management and employees of Martin County during our investigative audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

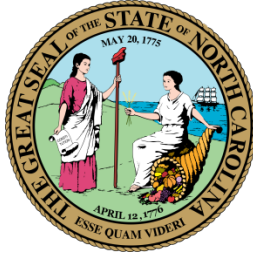
Beth A. Wood, CPA
State Auditor



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State Auditor

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BACKGROUND

The Office of the State Auditor initiated an investigative audit in response to an allegation that Martin County (County) reappraised property tax values at the time of a property sale to increase County tax revenue.

Our investigative audit procedures included:

- Review and analysis of available documentation for all properties that were sold from January 1, 2018, through February 22, 2022, and reappraised after the sale resulting in a change in tax value.
- Examination and analysis of available documentation related to the allegations.
- Interviews with County officials and personnel.

This report presents the results of the investigative audit. The investigative audit was conducted pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

Martin County Government

The County was established in 1774 and is located in northeastern North Carolina with administrative offices in Williamston.⁶ The County has a total area of 461 square miles and a population of over 21,700 residents.⁷ The Board of Commissioners (Board) is the chief legislative and policy making body of County government and consists of five elected officials, three of whom are elected from the eastern district, and two of whom are elected from the western district.⁸

The County had an annual budget of approximately \$34 million for the fiscal year ending June 30, 2023.⁹

Martin County Office of the Tax Assessor

The Martin County Office of the Tax Assessor is responsible for the listing, appraising, and assessing of real and personal property. State law¹⁰ requires that the Tax Assessor must reevaluate property at least every eight years. The County's last real property revaluation was effective January 1, 2017, and the next revaluation will be effective January 1, 2025.

State Law allows for the Tax Assessor to reassess property in between the eight-year cycle for certain allowable reasons.¹¹

There were 488 properties that were sold between January 1, 2017, and February 22, 2022, that were reassessed after the sale date, and the reappraisal resulted in a change in value.

⁶ <https://martincountyedc.com/about-martin-county/>

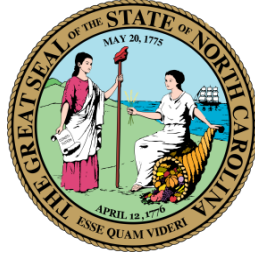
⁷ <https://www.census.gov/>

⁸ https://www.martincountyncgov.com/government/county_commissioners/index.php

⁹ <https://www.martincountyncgov.com/departments/finance/index.php#outer-115sub-777>

¹⁰ North Carolina General Statute § 105-286

¹¹ North Carolina General Statute § 105-287



FINDING AND RECOMMENDATIONS

FORMER TAX ASSESSOR DID NOT DOCUMENT AN ALLOWABLE REASON FOR REAPPRAISALS

The former Martin County (County) Tax Assessor (former Tax Assessor) could not support that 259 real property reappraisals, made outside of the general real property appraisal cycle, were for an allowable reason per state law. As a result, 237 properties had an increase in tax liability and 22 properties had a decrease in tax liability.

The former Tax Assessor failed to document a reason for the reappraisals, citing lack of resources and system limitations.

State law provides that reappraisals only occur outside of the general real property appraisal cycle for certain allowable reasons. **Additionally, state law specifically prohibits reappraisals for inflation, deflation, or other economic changes.** Without documentation, the County could not support that the reappraisals were made for one of the allowable reasons per state law.

Could Not Support An Allowable Reason for Reappraisals

The former Tax Assessor¹² could not support that reappraisals made outside of the general real property appraisal cycle were for one of the allowable reasons prescribed in state law.¹³

The County performs general real property appraisals every eight years. The most recent County-wide general real property appraisals were effective January 1, 2017. The next County-wide general real property appraisals will be effective January 1, 2025.

However, from January 1, 2017, through February 22, 2022, 488 properties were reappraised after they were sold, outside of the general real property appraisal cycle.

Investigators reviewed the County's records for all 488 properties that were sold from January 1, 2017, through February 22, 2022, and were reappraised after their sale date and found the former Tax Assessor did not document a reason for **any** of the reappraisals. The sale of property alone does not qualify as a cause for a reappraisal.

For 229 properties, investigators could determine the reason for the reappraisal by reviewing information in the computer-assisted mass appraisal (CAMA) system. The reason for the reappraisal could be determined by reviewing the audit trail¹⁴ maintained in the CAMA system, which included changes to the **land-use, deferred tax amounts**,¹⁵ and **notes** maintained in the CAMA system.¹⁶ For example, if the land size or land use was updated in the system, the audit trail included that change, which supported the reason for a reappraisal.

However, there was no information to support an allowable reason for 259 of the 488 reappraisals.

Specifically,

- 237 properties increased in assessed value without a documented reason for the reappraisal.

¹² The former Tax Assessor was employed by Martin County from July 10, 2015, through February 28, 2022.

¹³ North Carolina General Statute § 105-287.

¹⁴ The audit trail within the CAMA system automatically tracked changes made in the system for each property. However, this audit trail did not provide a reason why those changes were made by a user.

¹⁵ The Land Use-Value Deferment program enables qualifying property owners to defer a portion of the property taxes for qualifying parcels. To qualify, the property must meet certain statutory income and use guidelines.

¹⁶ There was not a pattern or methodology as to why notes were only kept for certain properties, but not all.

- 22 properties decreased in assessed value without a documented reason for the reappraisal.

For the 259 properties that changed in assessed value without a documented reason for the reappraisal, the dates of reappraisal ranged from one day to four years after the properties' sale date.

Resulted in a Change in Tax Liability for Property Owners

The increase or decrease in property tax values resulted in an increased or decreased tax liability for property owners.

The tax liability increased for 237 properties and decreased for 22 properties without documentation of an allowable reason for the change in value.

For example:

- Property A's tax value increased from \$161,150 to \$312,420, which led to the tax liability increasing from \$1,169 to \$2,531 (\$1,362).
- Property B's tax value increased from \$54,050 to \$147,570, which led to the tax liability increasing from \$415 to \$1,195 (\$780).
- Property C's tax value increased from \$69,600 to \$126,150, which led to the tax liability increasing from \$499 to \$1,022 (\$523).

Also Resulted in Additional Burden on Property Owners

In addition to the increased tax liability for property owners with an increased property value, property owners had to bear the burden of proof to appeal the new appraised value.

Property owners were either notified by an Annual Real Estate Verification Notice or a written letter that their property value had increased and the updated corresponding tax liability. The Annual Real Estate Verification Notice stated the deadline to appeal the value to the Board of Equalization and Review, but did **not** provide an explanation for the increase in their property value.

The written letter stated the property owner had 30 days to informally appeal the value to the County Tax Assessor, but also did not provide an explanation for the increase in their property value. In both instances, if that appeal failed, the property owner could then appeal to the Property Tax Commission, in Raleigh.

The appeal process placed the burden of proof on the property owner, including acquiring any legal counsel to aid in their appeal. If the appeal was overturned due to the failure of the County to support the reason for the reappraisal, the property owner would have been unnecessarily burdened with the appeal even though they were right in their challenge of the reappraisal and the resulting increase in tax value.

Caused by Failure to Document

The former Tax Assessor failed to document a reason for the reappraisals that took place outside of the general appraisal cycle.

The former Tax Assessor told investigators that the CAMA system used by the County did not allow her to attach documents to the property's file and set a character limit on the notes section.

However, the former Tax Assessor did not save any documents, notes, or references to supporting documentation outside the CAMA system that would have justified the change in property owners' property values and the corresponding tax liabilities. Additionally, there was no policy requiring such documentation.

While the former Tax Assessor stated that the limitation in the CAMA system was the reason for not keeping documentation, the current Tax Assessor stated that she is now keeping documentation for changes in the appraised value outside the general reappraisal cycle in that same system.

North Carolina General Statute Provides Allowable Reasons for Reappraisals

The former County Tax Assessor did not document an allowable reason for 259 of the 488 reappraisals.

North Carolina General Statute § 105-287 lists the allowable reasons for a reappraisal outside of the general real property appraisal cycle. Specifically, the statute states:

(a) In a year in which a general reappraisal of real property in the county is not made under G.S. 105-286, the property shall be listed at the value assigned when last appraised **unless the value is changed in accordance with this section**. The assessor shall increase or decrease the appraised value of real property, as determined under G.S. 105-286, to recognize a change in the property's value **resulting from one or more of the following reasons:** (emphasis added)

- (1) Correct a clerical or mathematical error.
- (2) Correct an appraisal error resulting from a misapplication of the schedules, standards, and rules used in the county's most recent general reappraisal.
- (2a) Recognize an increase or decrease in the value of the property resulting from a conservation or preservation agreement subject to Article 4 of Chapter 121 of the General Statutes, the Conservation and Historic Preservation Agreements Act.
- (2b) Recognize an increase or decrease in the value of the property resulting from a physical change to the land or to improvements on the land, other than a change listed in subsection (b) of this section.
- (2c) Recognize an increase or decrease in the value of the property resulting from a change in the legally permitted use of the property.
- (3) Recognize an increase or decrease in the value of the property resulting from a factor other than one listed in subsection (b).¹⁷

¹⁷ North Carolina General Statute § 105-287 subsection (b) states that in a year outside of the general reappraisal an assessor may not increase or decrease the appraised value of real property to recognize a change in value caused by 1) normal, physical depreciation of improvements, 2) inflation, deflation, or other economic changes, or 3) betterments to the property made by repainting, soil conservation methods, landscaping, etc.

Best Practices Recommend Documenting All Significant Events

Best practices identified by the United States Government Accountability Office (GAO) require management to maintain supporting documentation for all transactions. Specifically, GAO best practices require that:

Management clearly documents internal control and all transactions and other **significant events** in a manner that allows the documentation to be readily available for examination.¹⁸ (emphasis added)

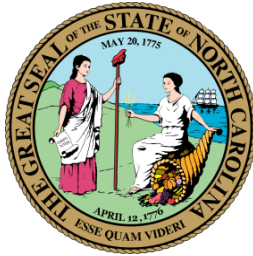
Recommendations

The Martin County Tax Assessor should review all 259 properties that were reappraised outside of the eight-year general appraisal cycle to determine and document if the reappraisal meets one of the Statutory reasons for reappraisal. If the reappraisal does not meet one of the reasons, the County should return the property value to its general appraisal cycle value and 1) reimburse taxpayers for overpaid taxes, or 2) seek unpaid taxes from taxpayers.

The Martin County Board of Commissioners should ensure that there is a policy requiring that the Martin County Tax Assessor documents the reason for all reappraisals done outside of the eight-year general appraisal cycle to ensure compliance with North Carolina General Statute § 105-287.

The Martin County Board of Commissioners should ensure that property owners are notified of the reason their property has been reappraised when they are notified of a reappraisal and a change in the tax value and tax liability of their property.

¹⁸ GAO-14-704G Federal Internal Control Standards



RESPONSE FROM MARTIN COUNTY

BOARD OF COMMISSIONERS

RONNIE SMITH, CHAIRMAN
DEMPSEY BOND, JR., VICE CHAIRMAN
JOE R. AYERS
EMILY BIGGS
DAVID "SKIP" GURGANUS



U. JAMES BENNETT
COUNTY MANAGER

JULIA S. REASE
CLERK TO THE BOARD

June 23, 2023

Beth Wood, CPA
State of North Carolina
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Reference: Response to Draft of Investigative Report June 2023

Dear Ms. Wood,

This letter is in response to the draft of an investigative report and cover letter, which was provided to the Martin County Board of Commissioners on June 14, 2023. In closed session, representatives from the Office of the State Auditor presented and explained the findings to the Martin County Board of Commissioners.

The Martin County Board of Commissioners have reviewed and acknowledged the findings defined in the draft investigative report. Further, the Martin County Tax Assessor's Office has already begun implementing a new policy regarding the reappraisal of real property. This policy includes that all property that has been reappraised has been documented into the Computerized Automated Mass Appraisal System (CAMA) the reason for the change. They have also started sending out detailed letters with a property record card to the property owner explaining the reasons for the change along with the new valuation as soon as the change has occurred. The Tax Assessor's office has also started a new filing system and keeps copies of all documentation of the valuation change along with all letters mailed to the property owner. The Martin County Board of Commissioners is in support of the new policy implemented by the current Assessor and will continue to ensure this policy remains in effect.

The Martin County Tax Assessor will review the 259 properties that will be provided by the North Carolina State Auditor's Office. These parcels will be reviewed to determine if a field review will need to be conducted to assist in the determination of the change of valuation by the former Tax Assessor. Those properties that will need a field review will receive letters from the Tax Assessor's Office requesting a field review which will include reviewing the inside and outside of the property through scheduling a time to visit the property. G.S 105-287(2b) recognized an increase or decrease in value of the property resulting from a physical change to the land or to the improvements on the land. This statute includes remodeling of the interior and exterior of the real property. Once the Tax Assessor's Office has conducted its review of the properties, if a change of valuation cannot be justified a recommendation for a refund will be presented to the Martin County Board of Commissioners for approval. It is the recommendation of the Martin County Board of Commissioners that if property owners do not allow the Tax

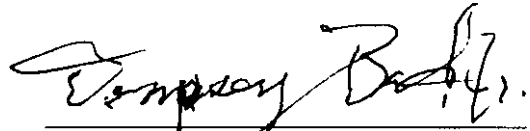
Assessor access to the interior of the real property then the Tax Assessor's Office will be unable to complete a thorough review and the valuation from the former assessor will remained unchanged. The Tax Assessor's Office will have this review completed by December 29, 2023. During the January 2024 Board of County Commissioners meeting, the Tax Assessor will ' provide an update regarding the findings from the field reviews.

The Martin County Board of Commissioners appreciates the investigative work and recommendations made by the Office of the State Auditor.

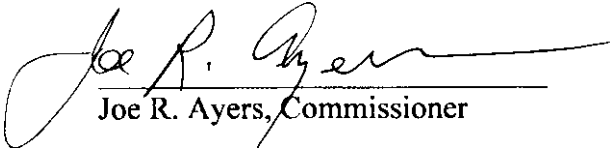
Respectfully,
County of Martin



Ronnie Smith, Chairman




Dempsey Bond, Jr., Vice Chairman



Joe R. Ayers, Commissioner



Emily Biggs, Commissioner



David Gurganus, Commissioner

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