



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of McCracken County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for McCracken County Sheriff Jon Hayden. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited, and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 16, 2015 through April 15, 2016 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comment:

The McCracken County Sheriff has failed to settle taxes associated with prior years. The McCracken County Sheriff has failed to settle the prior seven years of tax collections in a timely manner. At the conclusion of each audit, auditors provided the sheriff a detailed breakdown of the amounts due to the sheriff and amounts the sheriff owes in order to close out each tax year; however, the sheriff has not taken proper action to settle these accounts. The following table is a

combined breakdown of receivables and liabilities associated with McCracken County Sheriff's tax collections for the years 2008, 2009, 2010, 2011, 2012, 2013, and 2014.

Assets

Reconciled Balance		\$	80,679
Uncollected Receivables-			
Taxes Due from Districts-			
State	\$	1,937	
County School		7,285	
Paducah Junior College		22,202	
West McCracken Fire District		39	
Other Receivables-			
Partial Payments		376	
Bank Charges due from Fee Account		4,080	
Add-on Fees due from Fee Account		75,474	
Commissions due from Fee Account		373	
Interest due from County School		17	
			<u>111,783</u>
Total Assets			192,462

Liabilities

Unpaid Obligations			
Taxes Due to Districts-			
County	\$	58,318	
Concord Fire District		17	
City of Lone Oak (to be paid to County)		10,367	
Other Liabilities-			
Interest due Fee Account		867	
Duplicate Payments due Taxpayers		70,112	
Erroneous Payments due Taxpayers		710	
Overpayments due Taxpayers		40,470	
Refund due Taxpayers		1,572	
Second Notice Fees due Fee Account		10	
			<u>182,443</u>
Total Liabilities			<u>182,443</u>
Unrefunded Deposits and Unexplained Receipts		\$	<u>10,019</u>

The proper distribution of prior years' taxes collected by the McCracken County Sheriff's Office requires the collection of these receivables, including overpayments to some taxing districts, and the payment of these funds to the appropriate taxing districts, fee account, or other taxpayers. However, according to the sheriff's bookkeeper, due to the busy schedule of the sheriff's bookkeeping staff, prior years' tax receivables have not been collected and the payment of these funds to the appropriate taxing districts has not occurred.

KRS 134.192 requires the sheriff to settle his or her accounts annually with each taxing district for which he or she collects taxes. Because the sheriff has failed to settle property taxes

associated with tax years 2008 through 2014, amounts due to taxpayers and taxing districts have not been paid and the sheriff is not in compliance with KRS 134.192.

We recommend the sheriff settle taxes associated with prior years by collecting all receivables and paying all amounts liabilities. After taxes associated with prior years have been settled, the sheriff should close the respective tax accounts and any surplus funds should be escrowed.

Sheriff's response:

As noted, this audit comment stems from tax collections dating back to 2009 and does not reflect upon any new change in our office policies and procedures. Our office is audited twice a year by the Kentucky Auditor of Public Accounts, and in that time, we have had some of the auditor's office's most knowledgeable and competent staff members reviewing our records and procedures.

This comment has never been included in any previous audit of the years mentioned, but is something that we are happy to correct and comply with. The issue that resulted in this comment is that we currently still have funds on hand from these past tax years in the form of duplicate and overpaid tax bills that we have not been successful in returning to the appropriate source. Overpayments make up a very small amount of these funds on hand, and often arise from taxpayers misreading the amount due for a specific collection period. However, the biggest reason there are still funds on hand from these tax years are tax bills that have been paid twice by multiple sources. This is often the result of a home owner refinancing, purchasing, or selling a piece of property. Closing agents are required to collect and pay any current taxes due, but may be unknown to the owner, who pays the taxes again. Another scenario is a mortgage escrow account paying taxes in addition to a closing agent or the owner. Yet the most problematic cause for duplicate payments is that a mortgage company can pay the incorrect tax bill for their home owner that has already been paid by the correct owner. While we settle the majority of these issues as we close out our tax years and perform our own internal audit, not all these duplicate and overpayments are as easy to refund. Duplicate payments caused by a home owner moving can pose a problem in locating their new address. Sadly, a homeowner might have also passed away and requires research into their estate and its executorship. Large mortgage companies that service tens of thousands of escrow accounts a year are also very difficult to contact and reach the appropriate department to return funds to the proper account. Our office goes to great lengths to study each duplicate and overpayment situation before returning funds so as to avoid a wrong party receiving them and causing an even bigger problem. Because of the time that goes into this research, some funds have not been returned because of the lack of time necessary to study each individual case, with a few cases that have resulted in no solution.

Over the time period mentioned in this comment, our office has collected hundreds of millions of dollars in tax payments, and the immaterial amount of funds that have remained in our possession due to the circumstances noted above make up less than 0.1% of the payments that have been received and distributed during that time.

As a result of the auditor's office comments, we have spent significant time in efforts to return these funds to the correct party. As we completed these final effort, the funds that have been in our possession for more than three years, the length of time we are required to hold such funds in escrow, have been turned over to the Kentucky State Treasuries' Unclaimed Funds Division.

After the audit and our work to close these accounts out, a request was honored by the auditor's office to return and review what had been done by this office to complete the task.

We appreciate the Kentucky State Auditor's Office assistance in reviewing our tax collection records and offering suggestions, assistance and oversight.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

