



**MADISON COUNTY TAX COLLECTOR'S OFFICE
KAY PACE, TAX COLLECTOR**

FORENSIC ACCOUNTING ANALYSIS

Expert Report of

Stephanie B. Smith, CPA, CFF

November 29, 2023

BACKGROUND

In June, 2023 GranthamPoole, PLLC was engaged by Kay Pace, Tax Collector ("Pace") and the Madison County Board of Supervisors ("Board") to provide forensic accounting services related to audit findings for the fiscal year ended September 30, 2021. The audit, prepared by Bridgers, Goodman, Baird and Clarke, PLLC identified a shortfall of over \$600,000 in cash in the Tax Collector's office. This shortfall originated in 2018 and had steadily grown to this amount by 2021. The prior auditing firm did not investigate or pursue the origin of this shortfall. Because the current tax collector, Pace, is leaving office at the end of 2023, it became necessary to resolve this difference before the end of the year.

ASSIGNMENT

I was retained by Pace and the Board to review the operations, receipts and disbursements for the three locations of the Tax Collector (Canton, Madison and Flora) and to determine the source of the shortfall. As a byproduct of this work, I was also asked to make recommendations to improve operations of the Tax Collector's office going forward.

DOCUMENTS REVIEWED IN FORMING MY OPINIONS

In formulating my opinions, I reviewed the following:

- Bank statements for the operating account, NSF account and internet account for October, 2017 through September, 2022
- Cash journals for October, 2017 through September, 2022
- Reconciliation Balancing spreadsheet for October, 2017 through August, 2022
- Settlement detail for October, 2017 through September, 2022
- Special reports generated to reflect advalorem settlements for Madison, Ridgeland and Canton for September 30, 2008 through September 30, 2022
- Interlocal agreements between Madison County and the cities of Madison, Ridgeland, Canton, Jackson, Gluckstadt and Flora

I also interviewed a number of employees and found them to be helpful, customer oriented, and loyal, possessing a wealth of institutional knowledge about the tax collector's office.



FINDINGS

Interlocal Agreements

The cities of Madison, Ridgeland and Canton have interlocal agreements with Madison County on advalorem tax settlements. These agreements provide that the county will receive a “commission” of the first \$75,000 of advalorem taxes paid in the fiscal year before the cities receive any advalorem tax. Until 2022, the tax collector’s office did not have a mechanism in place to stop commissions in excess of the \$75,000 limit from being paid to the county. This resulted in excess commissions being paid to Madison County and not being remitted to the appropriate cities.

Exhibit 1 shows the excess commissions paid to Madison County that were due to the cities of Madison and Ridgeland for the fiscal years ending September 30, 2018 through September 30, 2021. The total excess commissions paid to Madison County total \$618,853. When this error was discovered, the tax collector’s office issued checks to the cities of Madison and Ridgeland for the shortfalls. Although this process made the cities whole in accordance with the interlocal agreement, it resulted in an over-settlement of the collected taxes (disbursing the same tax dollars twice) and created a shortfall of \$618,853 over the 4-year period.

In 2023, Madison County returned to the tax collector’s office \$462,928 for the fiscal years ending September 30, 2020 and 2021. Madison County still owes the tax collector’s office \$155,925 for the years ending September 30, 2018 and 2019. The statute of limitations may bar Madison county from returning this amount to the cities of Madison and Ridgeland. These errors involving the Madison and Ridgeland interlocal agreements, account for the \$600,000 shortfall that occurred in the Tax Collector’s office beginning in 2018.

The city of Canton interlocal agreement was adopted in July, 2008 but has never been properly enforced. Exhibit 2 illustrates the proper distribution of advalorem tax settlements to Canton and to Madison County. The county of Madison owes the city of Canton \$483,272 dating back to 2009. The statute of limitations may bar the county from paying the city of Canton for amounts that occurred prior to October, 2020. If so, Madison County must return \$88,882 to the Tax Collector’s office for settlement to Canton. In October, 2022 programming was put in place to automatically stop commissions to Madison County once the \$75,000 limit was reached for each municipality.

Bank Reconciliation

The Tax Collector’s office uses three main bank accounts – an operating account, an internet account and an NSF account for returned checks recovered. The operating account receives all funds collected at the three local offices, the legislative tax credit funds and the Madison County Court collections. Funds are transferred from the internet account directly to this account several times a month. Redeemed returned checks are deposited automatically to the NSF account and transferred to the operating account as collected. All settlements are paid monthly from the operating account.

Collections are balanced daily and deposited the following day. They are identified as cash, checks and credit cards and segregated by the three municipal offices. Collections and settlements are recorded in a monthly cash journal kept using a spreadsheet. This journal should be reconciled to the operating account bank statement upon receipt at the end of the month.

The operating account bank reconciliation had not been properly performed for several years. I observed that the employee responsible for this process had not been adequately trained and lacked the understanding necessary to find and correct errors to complete a reconciliation. This was further



complicated by the manual cash journal (spreadsheet) which allows for errors and omissions, and the office's practice of back-dating receipts to prior months in January, February and March.

I observed outstanding checks on the bank reconciliation dating back to 2020. There is a process for writing off checks that are over a year old by placing an amount in trust with the Board of Supervisors, but this process has not been followed.

I did not find instances where money was undeposited or not accounted for in some way. I did not observe checks written inappropriately. Both could easily happen when the operating account is not reconciled monthly. I did find large errors in the cash journal where back-dated checks were counted twice. I found several items omitted. I have adjusted these as of September 30, 2022.

The internet bank account and the NSF bank account have low transaction volumes, but they also were not being reconciled at month end.

Refund Process

The process of issuing refunds to taxpayers is random and slow. Once a refund is approved, one person is responsible for issuing the check. When this individual is busy with other office matters or out of the office, checks do not always get processed. The refund process should work much like a business office accounts payable department where approved refunds are sent to be issued and checks are written weekly. The paperwork and the check go to the signer for review and mailing. This process and the controls surrounding the issuance of refunds needs to be addressed with the changing of personnel at the end of the year. The lack of a consistent routine for refunds is a source of criticism for the Tax Collector's office.

When reviewing the refund process, a backlog of over five hundred unissued refund checks was uncovered. Most of these are small amounts, and the Tax Collector's office is in the process of issuing these refunds to clear the backlog.

Internal Control and Oversight

I found a general lack of oversight in the Tax Collector's office. One person is responsible for balancing the day's deposits, approving the monthly settlements and reconciling the bank statements. Segregation of duties must exist to enhance the security of the county's funds. The lack of supervision allowed the bank accounts to go unreconciled for two years and the taxpayer refunds to be unprocessed. The personnel seem loyal and knowledgeable about their jobs. Most perform their duties despite the lack of leadership or accountability; however, this is not enough to keep the office tasks current. The responsibilities of the Tax Collector's office have grown significantly over the last 10 years, and the attention to detail has not kept pace.

RECOMMENDATIONS

The Board of Supervisors has requested an opinion from the Mississippi Attorney General's office regarding the application of the statute of limitations to the interlocal agreements. Madison county may need to return funds to the Tax Collector's office of \$155,925 to make the cities of Madison and Ridgeland whole for fiscal years 2018 and 2019 pending the Attorney General's opinion.

Madison county should return funds to the Tax Collector's office of \$88,882 to make the city of Canton whole for fiscal years 2021, 2022 and 2023. If the Attorney General's opinion allows, Madison County may need to pay the city of Canton an additional \$394,409 for fiscal years prior to 2021.



The Tax Collector's office should consider outsourcing the bank reconciliation process to an outside accounting firm. This should include all three cash accounts for the office. Outsourcing this process would strengthen the segregation of duties and assure that it is done timely. The bank reconciliations are a strong and necessary line of defense against errors and fraud.

The Tax Collector's office should consider another method of recording cash receipts and disbursements to replace the spreadsheet "journal" currently used. This method is prone to errors that, once made, carry throughout the year. There are several products available to do this being used by other county offices. As another alternative, the entire process of recording receipts and disbursements could be outsourced along with the bank reconciliation process.

As an alternative to outsourcing, the Tax Collector's office should consider hiring someone with a strong accounting background to manage the reconciliation processes of the office.

One person should be designated as the refund processor with a goal of issuing refunds within 30 days of the taxpayer overpayment. This should be reviewed timely and monitored more closely.

Someone should be present regularly who has the authority and knowledge to correct mistakes when discovered and communicate clearly and accurately with the affected taxpayer. The Tax Collector should maintain a daily presence in the office when possible to insure accountability of the staff and professional service to the taxpayers.

CONCLUSION

GranthamPoole appreciates the opportunity to work with Madison County, the Tax Collector and the Board of Supervisors in this matter. We look forward to helping with a smooth transition through the end of January, 2024. If additional information or findings becomes evident before the conclusion of our work, we will update this report as required.

Stephanie B. Smith, CPA, CFF
Ridgeland, Mississippi

November 29, 2023

TO: Madison County Board of Supervisors

RE: Initial Finding of Forensic Examination

September 5, 2023

The cities of Madison and Ridgeland have interlocal agreements with Madison County on advalorem settlements. These agreements provide that the county receive a "commission" of the first \$75,000 of advalorem taxes paid in the fiscal year before the city receives any advalorem tax. Typically, this \$75,000 maximum is reached by December of the current fiscal year.

The Tax Collector's office did not have a mechanism in place to stop the commission being paid to the county at the \$75,000 maximum and overpaid the county each of the four years below. When this error was discovered, typically in February of the next year, the Tax Collector's office issued checks to the cities for the "excess commission". The table below shows the commission amounts referenced.

	FYE 9/30/2018	FYE 9/30/2019	FYE 9/30/2020	FYE 9/30/2021	Total
Excess Commissions paid to Madison County:	\$ 107,823	\$ 48,102	\$ 351,804	\$ 111,124	\$ 618,853
Corrected Commissions paid after error discovered:					
Commissions paid to City of Madison	92,927	47,605	205,817	94,271	440,620
Commission paid to City of Ridgeland	14,896	497	145,987	16,853	178,233
	<u>107,823</u>	<u>48,102</u>	<u>351,804</u>	<u>111,124</u>	<u>618,853</u>
			(reimbursed)	(reimbursed)	

Although this process made the cities whole, the advalorem taxes giving rise to these transactions were actually disbursed twice. This over-settling of collected taxes created a shortfall of \$618,853 over a 4-year period. This error also occurred in the FYE 9/30/22, but that year was not part of the audit finding.

Since the discovery of this recurring error, controls have been put in place to prevent the over-paying of commissions to the county. The county has reimbursed the Tax Collector's office \$462,928 for two of the years above as well as the 9/30/22 shortfall.

City of Canton Interlocal Agreement with Madison County

This schedule illustrates the proper distribution of advalorem settlements

	Total Commissions		Due to City of
	Collected	Paid to County	Canton
10/2008 to 9/2009	\$ 90,245.02	\$ 75,000.00	\$ 15,245.02
10/2009 to 9/2010	92,047.01	75,000.00	17,047.01
10/2010 to 9/2011	92,997.22	75,000.00	17,997.22
10/2011 to 9/2012	94,155.29	75,000.00	19,155.29
10/2012 to 9/2013	101,444.90	75,000.00	26,444.90
10/2013 to 9/2014	103,755.55	75,000.00	28,755.55
10/2014 to 9/2015	113,216.17	75,000.00	38,216.17
10/2015 to 9/2016	121,118.68	75,000.00	46,118.68
10/2016 to 9/2017	119,047.63	75,000.00	44,047.63
10/2017 to 9/2018	120,209.61	75,000.00	45,209.61
10/2018 to 9/2019	123,197.77	75,000.00	48,197.77
10/2019 to 9/2020	122,973.86	75,000.00	47,973.86
10/2020 to 9/2021	123,732.45	75,000.00	48,732.45
10/2021 to 9/2022	115,130.81	75,000.00	40,130.81
10/2022 to 9/2023 (See note 1)	75,018.76	75,000.00	18.76
Due to Canton from Madison County			\$ 483,271.97

Note 1 - Programming was put in place effective October, 2022 to automatically stop commissions to the county once the \$75,000 limit was reached. This occurred in January, 2023.