



Robert W. Wood

THE TAX LAWYER

TAXES 4/16/2015

Washington State Auditor Is Indicted For Tax Evasion, Stolen Property, Perjury

Washington State Auditor Troy X. Kelley has been indicted for federal income tax evasion, lying to investigators, concealing millions of dollars, and making repeated false statements. The [10-count indictment](#) relates to Mr. Kelley's career before becoming the state's auditor. Not surprisingly, though, Governor Jay Inslee wants Mr. Kelley to resign. Instead, Mr. Kelley plans to go on leave. A Democrat and former state legislator, Mr. Kelley was elected the state's auditor in 2012. His prepared [statement](#) says the federal indictment has "no merit," and that:

none of the allegations touch on my work as an elected official in any way. They've been able to obtain an indictment, but they are a long way from proving any wrongdoing. Put more directly, I am very confident that I will be able to prove my innocence.

The 41-page [federal indictment](#) alleges that between 2003 and 2008, Mr. Kelley owned and operated a business called Post Closing Department. It was paid by real estate companies to track and file mortgage and refinancing documents. The real estate companies would withhold up to \$150 for Post Closing, but Post Closing was only to charge approximately \$20 per transaction. The balance was supposed to be refunded to buyers. In most of cases, though, the indictment claims that Mr. Kelley kept the entire fee.



Washington State Auditor Troy Kelley

The indictment claims that the tally is large, a claimed theft of up to \$2 million. Mr. Kelley is charged with a single count of possession and concealment of stolen property for those allegations. Some of the alleged dirt comes from civil cases. In 2010, Mr. Kelley was sued by Old Republic Title,

which alleged Post Closing had stolen nearly \$1.2 million from its customers. That lawsuit was settled confidentially in May 2011.

The indictment states that Mr. Kelley paid Old Republic \$1,050,000 to settle, but that he “maintained approximately \$2,581,653 of the funds he had concealed” from the IRS. The indictment asserts that Mr. Kelley had a similar scheme with Fidelity Title. The indictment alleges that Mr. Kelley obstructed the Old Republic lawsuit, lying in depositions and under oath, resulting in three felony counts of making a false declaration and one count of obstructing a civil lawsuit.

Mr. Kelley is also charged with corrupt interference of IRS laws, two counts of filing false income-tax returns, and a single count of lying to IRS agents who questioned him in April 2013, a few months after his election as state auditor. The indictment alleges that Mr. Kelley directed employees to create fake spreadsheets to show fees being tracked, and occasionally issued refunds when someone complained.

Tax investigators say that a month after settling the Old Republic lawsuit for \$1 million, Kelley wired \$245,000 to another account and claimed it as 2011 income from another of his businesses, Blackstone. The agents allege he then claimed nearly \$66,000 in business expenses that were actually personal. Calls for his resignation are not just coming from the Governor. Jaxon Ravens, chairman of the Washington State Democrats, said in a [statement](#):

Troy Kelley no longer has the trust of the people of Washington, and it is time for him to resign. The State Auditor's office plays an important role in holding state and local governments accountable for their use of public resources and we need a leader above reproach running it.

Mr. Kelley maintains his innocence, and a trial is a long way off.

For alerts to future tax articles, follow me on Forbes. You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.