



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Ball Releases Audit of Marshall County Fiscal Court

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Marshall County Fiscal Court for the fiscal year ended June 30, 2022. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Marshall County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 116 of 120 fiscal court audits in Kentucky.

The audit contains the following findings:

Marshall County's Fourth Quarter Financial Statement Was Materially Misstated Due To Inadequate Internal Controls Over Financial Reporting: The fiscal court failed to implement adequate internal controls over financial reporting. The fiscal court's fourth quarter financial statement submitted to the Department for Local Government was materially misstated. This internal control issue is due to the fiscal court not segregating incompatible duties as well as not implementing compensating controls to offset this deficiency.

We recommend the fiscal court ensure that internal controls in place over the work performed by the finance office are appropriate and functioning properly. Financial reporting duties should be separated when possible. If segregation of duties is not feasible, compensating controls should be implemented.

County Judge/Executive's Response: This finding is during a fiscal year prior to Kevin Spraggs' term as County Judge/Executive. This response is in relation to the comment that the Fourth Quarter Financial Statement was materially misstated due to inadequate internal controls over financial reporting. Each bullet will be addressed as follows:

- The "Original Budget" column on the 4th quarter financial statements was overstated/understated in three lines: This occurred because of a software transition wherein the new financial accounting software adds to the individual appropriation line budgets any amount needed for prior year encumbrances. Previously to beginning the integration into the new software system, the previous purchasing method did not create an opportunity for encumbrances to carry over to a new fiscal year. Meaning, this was a new issue for us. The upload method provided by DLG for uploading quarterly reports into the tracking system does not have a separate entry point to record encumbrances by expenditure line that come into the new budget year from the previous year, and they were therefore included in the original budget column. For the corrective action plan, for the future, encumbrances will not be allowed to be carried over from year to year except in unavoidable circumstances. Further, when unavoidable encumbrances are carried forward, a budget amendment will be utilized to incorporate these amounts into the New Year budget.*
- The E911 fund line item and total budget were overspent: This finding is directly due to the previous bullet point. Since the method of recording encumbrance amounts being carried to the new fiscal year was found to be completed in an erroneous matter, then that disallows the amounts from being included in the budget to be spent. When the prior year encumbrances were actually paid in this fiscal year, there is no longer enough budget to cover these*

payments because of the disallowance of the budgeting method. This finding will be corrected via the same route as the previous bullet point.

- The county did not record the payoff of the Arts Commission Loan: For background information, the Fiscal Court facilitated a loan for the Marshall County Arts Commission for their building. The Fiscal Court budgeted and paid for the yearly payments on this building and then billed and received reimbursed from the Arts Commission for the payment. During this fiscal year the Arts Commission elected to pay off their debt in full early. The Arts Commission paid the balance of the loan directly to the lender, and therefore the funds did not pass through the fiscal court and were not recorded on the county's financial statements. For the corrective action plan for the future, if the Court acts to take out a loan for an outside entity and that entity elects to pay off debt early, then the Treasurer will ensure that the funding either comes through the Fiscal Court's bank account and thus financials, or if the amount is paid directly to the lender, that the transaction is reflected on the county's financial statements.*
- The Transient Room Tax was not included in the courts budget nor financial statements: The Transient Room Tax Ordinance was passed in 2013 and has never been included in the Fiscal Court's financials as it was provided directly to the Tourism Bureau. For the corrective action plan for the future, the Fiscal Court passed a Budget Amendment at the time this deficiency was relayed to the Treasurer by the audit team, the fund will be included in all future budgets/financials, and is thus, resolved.*
- The Federal Forfeiture Fund was not included in the courts budget nor financial statements: The Federal Forfeiture Fund has never been included in the Fiscal Court's financials as it has functioned under the direction of the Sheriff. Local Government Advisors informed the Treasurer's Association on March 29, 2023 that the Federal Asset Forfeiture Accounts were to be included in the county budget. For the corrective action plan for the future, the Fiscal Court passed a Budget Amendment after the 3/29/23 advisement, the fund will be included in all future budgets/financials, and is thus, resolved.*
- The fiscal court budgeted a fund belonging to the Public Properties Corporation, which is not a part of the primary government: The auditors who completed FY20 and FY21 audit instructed the Treasurer that the funds in the bank account designated as "Public Properties" should have been included in the county financials. Acting in response to those prior year auditors (at the completion of the FY20 audit which occurred during April of 2022) the court began including these funds in the county financials.*
- Inter account transfers within the general fund were unnecessarily included in regular transfers. These transfers were included in financials at the recommendation of a prior auditor.*
- Transfers in the jail and occupational tax fund were netted against transfers in and not included in financials. Corrective Action: These individual items will not be netted in the future.*

The Marshall County Fiscal Court Lacks Adequate Controls Over Disbursements: This is a repeat finding and was included in the prior year audit report as finding 2021-002. The fiscal court lacks adequate controls over disbursements. Auditors tested 85 disbursements totaling \$10,772,517. The following issues were noted: disbursements were not properly bid; lack of purchase orders (PO), receipts, and other supporting documentation; POs dated after the invoice date; disbursements weren't paid timely; disbursements were not approved by the fiscal court; and incorrect account code in the financial records.

We recommend the fiscal court strengthen internal controls over the disbursement process—issue purchase orders before making purchases, pay disbursements within 30-days of receipt, obtain fiscal court approval before making purchases, and maintain itemized receipts—for all disbursements and follow the county's and state's bid requirements for all disbursements over \$30,000.

County Judge/Executive's Response: This finding is during a fiscal year prior to Kevin Spraggs' term as County Judge/Executive. This response is in relation to the repeat finding from prior year audit that the Court lacks adequate controls over disbursements. This finding includes comments regarding purchase orders, bidding, 30 day payment window, itemized receipts, and coding. Purchase Orders were not routinely required for utilities, contracted/bid services, and preapproved recurring expenses. During the course of this audit, conducted in fiscal year 2024, procedures have been changed to require purchase orders for these types (and all) payments and ensure purchase orders are opened prior to purchases being made. The disbursements that were noted as not being properly bid were purchased under the direction of a prior department head with the knowledge that one purchase was sole sourced, meaning that no other company produced the exact specifications and the other was in accordance with a cooperative agreement. However, any documentation for this is unavailable as both individuals no longer work for the county. Planned corrective action includes securing documentation with proper storage for any sole sourcing, bidding and/or purchases made under cooperative agreements. The court makes every effort to pay invoices prior to 30 day window and will continue to pay accordingly. The receipt that was not itemized was a meal for a jury purchased by the Sheriffs' department at a restaurant, and the

restaurant did not provide an itemized bill. Payment requests submitted by department heads and/or elected officials will be more heavily reviewed for any lack of itemization on receipts/invoices and appropriate coding.

The Marshall County Fiscal Court Did Not Pay The Short-Term Debt Obligation Note By The End Of The Fiscal Year: On January 10, 2022, the fiscal court applied for a line of credit note in the amount of \$15,000,000 from a local financial institution to pay expenses related to tornado debris removal. During the fiscal year the county used \$6,633,264 on the line of credit. The county paid monthly finance charges but did not pay off total debt obligation by the end of the fiscal year.

We recommend the fiscal court seek guidance from the Department for Local Government before entering into any type of financing obligations, to ensure they comply with applicable statutes and state local finance officer requirements.

County Judge/Executive's Response: This finding is during a fiscal year prior to Kevin Spraggs' term as County Judge/Executive. This response is in relation to the finding that the Court did not pay short term debt obligation note by the end of the fiscal year. This finding is regarding the short-term borrowing between the Court and a local bank in response to the December 2021 Tornado event which required millions of dollars of funding for the County to resolve. The short-term note allowed the Court to borrow to pay immediate expenses for the tornado event while waiting for FEMA funds to reimburse these expenses. The note became due at the end of each fiscal year when the court could elect to pay the balance of the note or renew it for the term of another fiscal year. Unfortunately, FEMA does not reimburse based on when fiscal years end for local governments, and thus, the Court elected to renew this note to extend time awaiting FEMA funds. For corrective action: in the event that another disaster requires the County to need to utilize borrowing to address disaster expenses while waiting for FEMA, the court will seek guidance from the Department for Local Government prior to renewing any short-term debt.

The Marshall County Fiscal Court Did Not Maintain A Complete And Accurate Schedule Of Leases: The fiscal court failed to maintain a complete and accurate schedule of leases for the 2022 fiscal year. This schedule is a required part of the financial statement reporting package required by the Department for Local Government. While the county did maintain a schedule of assets in which they were lessor and lessee, the schedule was not accurate and did not include all of the necessary information.

We recommend the fiscal court maintain a complete schedule of all leases and follow the standards set forth by GASB 87 to ensure note disclosures are complete and accurate.

County Judge/Executive's Response: This finding is during a fiscal year prior to Kevin Spraggs' term as County Judge/Executive. This response is in relation to the finding that the Court did not maintain a complete and accurate schedule of leases. Leases were not previously a requirement for the disclosures of the fiscal court; this is the first year they have been required. For corrective action plan: the court will maintain a complete schedule of all leases and follow the standards set forth by GASB 87 in the method presented by the auditor.

The Marshall County Fiscal Court Lacks Adequate Internal Controls Over The Preparation Of The Schedule Of Expenditures Of Federal Awards: The fiscal court failed to prepare and submit a Schedule of Expenditures of Federal Awards (SEFA) to the Department for Local Government. The SEFA later provided to auditors included an overstatement of \$578,198 for the Disaster Grant – Public Assistance Program (FEMA) expenditures.

We recommend the fiscal court implement or strengthen controls over federal award expenditures reporting to ensure amounts reported represent true federal expenditures during the year.

County Judge/Executive's Response: This finding is during a fiscal year prior to Kevin Spraggs' term as County Judge/Executive. This response is in relation to the finding that the Court lacks adequate internal controls over the preparation of the Schedule of Expenditures of Federal Awards. The SEFA was overstated for the Disaster Grant Public Assistance Program FEMA. The Court hired a third party company to administer the grant submissions for the December 2021 Tornado Disaster, and this created a disconnect between the submission process and later reporting process for the SEFA form. At the time that the SEFA was prepared submissions and approvals for FEMA related expenses had just started to occur. All expenses were included in the submission even those that later were deemed ineligible for FEMA or were determined to be only partially covered by FEMA. There are still expenses as of April 2024 that are in the appeal stage of application for FEMA reimbursement with uncertainty of whether they will be approved with federal funding or will be denied. For the future planning, in the event that another disaster requires the County to contract with another outside agency for FEMA submission, the Court will strengthen the controls in the reporting process as well as seek out guidance from DLG and/or auditors and/or others on accurately reporting partially covered FEMA expenses as well as expenses that are in an 'unknown coverage' state at the time of the SEFA creation.

The Marshall County Fiscal Court Failed To Implement Adequate Controls Over Federal Expenditures: Disbursements for the FEMA program were not handled in the manner prescribed by the county’s administrative code, or the manner prescribed by the Department for Local Government as required by KRS 68.210. The auditor selected a sample size of 40 federal expenditures related to the FEMA program. Of the forty (40) expenditures tested, thirty-four (34) expenditures, totaling \$5,049,474, did not have purchase orders as required. Furthermore, the fiscal court did not have any internal control procedures in place to verify that FEMA expenditure requests, and record keeping were being done correctly.

We recommend the fiscal court strengthen internal controls over the federal expenditure process by ensuring all activity related to federal expenditures is reviewed for accuracy and compliance. We further recommend that consistent treatment be applied to federal expenditures procedures such as issuing purchase orders for all expenditures prior to the purchase being made.

County Judge/Executive’s Response: This finding is during a fiscal year prior to Kevin Spraggs’ term as County Judge/Executive. This response is in relation to the finding that the Court failed to implement adequate controls over federal expenditures due to not having purchase orders for the December 2021 Tornado Disaster related expenses and that the third party hired by the court to be administrator for FEMA project activity resulting in a misstated SEFA and inaccurate record keeping. This finding repeats the purchase order finding (2022-02) and the SEFA misstatement (2022-005). Please review the corrective action related to those findings for corrective actions for these two items. Additionally, the court will comply with auditor recommendations listed with these findings regarding future third party administrators.

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

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