



Auditor of Public Accounts Allison Ball

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, 2023. 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:

The Marshall County Fiscal Court lacks adequate controls over disbursements: Auditors tested 67 disbursements totaling \$5,651,995 which resulted in the following issues: 19 disbursements totaling \$1,500,099 did not have a purchase order; 15 disbursements totaling \$2,578,542 had a purchase order that was dated after the invoice date; five disbursements totaling \$2,853,681 did not appear to be paid within 30 days due to the invoice not being stamped when received; and five disbursements totaling \$14,826 for utilities were not approved by the fiscal court prior to being paid and were not included on the preapproved reoccurring expenses.

We recommend the fiscal court strengthen internal controls over the disbursement process by ensuring purchase orders are issued for all disbursements prior to the purchase being made and approved by the fiscal court. In addition, we recommend that the fiscal court ensure all disbursements are paid within 30 working days of receipt to avoid incurring finance charges.

County Judge/Executive’s Response: This finding covers a fiscal year for which the first half concluded prior to Kevin Spraggs’ term as County Judge/Executive. Additionally, FY23, as well as the prior year FY22, audits were completed toward the end of FY24 – therefore any auditor recommendations and corrective actions would not be in place for a full year until FY25. This response is in relation to the repeat finding from prior year, FY22, regarding adequate controls over disbursements. This finding includes comments regarding purchase orders, 30 day payment window, and coding of utilities. Purchase Orders were not routinely required for utilities, contracted/bid services, and preapproved recurring expenses. During the course of this and the previous audits, both 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 court makes every effort to pay invoices prior to 30 day window and will continue to pay accordingly. Department heads are responsible for submitting requisitions electronically into the accounting system to have them approved by the Treasurer’s Office prior to purchasing items. Department heads are also responsible for entering invoices electronically into the accounting system to be directed to the Treasurer’s Office for approval and payment. Department heads have been/will continue to be reminded about the importance of this process, as well as stamping a “received” date on invoices to note those that are sent late by vendors.

The Marshall County Fiscal Court did not maintain a complete and accurate schedule of leases for 2023 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 the necessary information. During fiscal year 2023, the fiscal court received \$1,000 for property in which they were the lessor and disbursed \$297,728 for various vehicle and equipment leases.

We recommend strong internal controls dictate that Marshall County maintain a schedule of leases to ensure note disclosures are complete and adequate. Additionally, 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 covers a fiscal year for which the first half concluded prior to Kevin Spraggs' term as County Judge/Executive. Additionally, FY23, as well as the prior year FY22, audits were completed toward the end of FY24 – therefore any auditor recommendations and corrective actions would not be in place for a full year until FY25. This response is in relation to the repeat finding from prior year, FY22, regarding a complete and accurate schedule of leases. Leases were not previously a requirement for the disclosures of the fiscal court; the FY22 was the first year they have been required and the recommendations of the auditors made on the FY22 audit for correction on lease reporting was not available to the court until the last quarter of FY24. 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 Marshall County 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 \$1,272,182 for the Disaster Grant – Public Assistance Program (FEMA) expenditures.

We recommend the Marshall County 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 covers a fiscal year for which the first half concluded prior to Kevin Spraggs' term as County Judge/Executive. Additionally, FY23, as well as the prior year FY22, audits were completed toward the end of FY24 – therefore any auditor recommendations and corrective actions would not be in place for a full year until FY25. This response is in relation to the repeat finding from prior year, FY22, regarding 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 May 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's fourth quarter financial statement was misstated due to inadequate internal controls over financial reporting: The fiscal court's fourth quarter financial statement submitted to the Department for Local Government was misstated. The Marshall County treasurer is required to perform most tasks related to financial reporting, budgeting, and record keeping. The following reporting errors were undetected by the fiscal court: Budgeted amounts on the fourth quarter financial report were inaccurate; the budget amendment column on the fourth quarter financial statement for the General Fund included \$12,726 more in both receipts and disbursements; and General Fund inter-account transfers totaling \$73,646 were erroneously posted as transfers between funds.

We recommend the Marshall County 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 covers a fiscal year for which the first half concluded prior to Kevin Spraggs' term as County Judge/Executive. Additionally, FY23, as well as the prior year FY22, audits were completed toward the end of FY24 – therefore any auditor recommendations and corrective actions would not be in place for a full year until FY25. This response is in relation to the repeat finding from prior year, FY22, regarding the Fourth Quarter Financial Statement misstatement. Each bullet will be addressed as follows: The "Amended Budget" column on the 4th quarter financial statements was overstated in the general fund. 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. 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 amended 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 Marshall County Fiscal Court failed to implement adequate controls over federal expenditures: The Marshall County Fiscal Court failed to implement adequate internal controls over the Disaster Grants – Public Assistance (Presidentially Declared Disaster) (FEMA) program to ensure all compliance requirements are being met and that record keeping was being done correctly. The fiscal court relied on the third-party to satisfy compliance requirements and failed to establish any review process or independent internal controls that verified that activities performed, and amounts charged to the program were allowable under all applicable compliance requirements. By relying on a third-party administrator's controls, without enacting any internal controls, the county increased the risk of misappropriation of funds, and noncompliance with federal grant guidelines.

We recommend the Marshall County Fiscal Court strengthen internal controls over the federal expenditure process by ensuring all activity related to federal expenditures is reviewed for accuracy and compliance.

County Judge/Executive's Response: This finding covers a fiscal year for which the first half concluded prior to Kevin Spraggs' term as County Judge/Executive. Additionally, FY23, as well as the prior year FY22, audits were completed toward the end of FY24 – therefore any auditor recommendations and corrective actions would not be in place for a full year until FY25. This response is in relation to the repeat finding from prior year, FY22, 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 finding of SEFA misstatement (2022-003). 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 May 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. 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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