

# ***Special Report***

## ***Arkansas Legislative Audit***



### **Review of Selected Transactions and Procedures East Arkansas Planning and Development District**

January 1, 2021 through December 31, 2022

## **INTRODUCTION**

This report is issued in response to a legislative request, approved by the Legislative Joint Auditing Committee (LJAC), for Arkansas Legislative Audit (ALA) to review certain transactions and operating procedures of the East Arkansas Planning and Development District (District).

## **OBJECTIVES**

Objectives of this review were to:

- Determine if public funds, including Revolving Loan Funds and General Improvement Funds (GIF), were used in accordance with applicable Arkansas Code and regulations.
- Determine status of a civil lawsuit involving a recipient of a Revolving Loan.
- Determine if employee compensation, credit card and other expenditures, as well as other transactions involving Board members, administrators, and employees, were properly documented and authorized.
- Determine if the District obtained annual financial audits and submitted proper information to the Department of Finance and Administration (DFA).
- Assess the adequacy of certain District policies and internal controls as well as management oversight by the Board of Directors (Board).

## **SCOPE AND METHODOLOGY**

This review was conducted primarily for the period January 1, 2021 through December 31, 2022. Pertinent policies for the District and its Board as well as District accounting records, including private audit reports, general ledgers, credit card statements and supporting documentation, employment records, and travel expense reports, were reviewed. Additionally, small business loans made through the Revolving Loan Fund were reviewed, as were certain court records and applicable Arkansas Code and Internal Revenue Service (IRS) regulations. Information from the Arkansas Administrative Statewide Information System (AASIS) was used to determine the amount of GIF the District received. Certain District personnel and Board members were interviewed, and certain District policies and internal controls were assessed for adequacy.

### **ARKANSAS LEGISLATIVE AUDIT**

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 • Fax: 501-683-8605

[www.arklegaudit.gov](http://www.arklegaudit.gov)

Report ID: IR2000522

Report Date: May 17, 2024



## **BACKGROUND**

East Arkansas Planning and Development District, Inc. (District), a nonprofit organization, was created under the provisions of the Economic Development Act of 1965 and applicable laws of the State of Arkansas.<sup>1</sup> The District's mission is to develop programs for long-range economic growth, improve economic conditions, and coordinate overall economic planning and development in its 12 member counties in northeast Arkansas: Clay, Craighead, Crittenden, Cross, Greene, Lawrence, Lee, Mississippi, Phillips, Poinsett, Randolph, and St. Francis.

Until June 2023, the District was governed by a 38-member Board that included each County Judge, elected representatives of municipal government, and private sector representatives. On June 22, 2023, the Board voted to amend its Articles of Incorporation and provide for a 25-member Board that includes each County Judge from the 12 member counties, 12 mayors to be appointed by the County Judge of each member county, and one economic developer representing diverse communities to be appointed and elected by the full Board.

To carry out the day-to-day functions of the District, the Board employs an Executive Director and other individuals to oversee financial and community development activities. The individual who served as Executive Director during the review period was terminated from employment on September 22, 2022. Subsequently, the District's Director of Operations/Chief of Staff assumed the role of interim Executive Director, and on February 1, 2024, the Board hired a new Executive Director.

Pursuant to a grant awarded by the U.S. Department of Commerce, Economic Development Administration, the District operates a Revolving Loan Fund program. The purpose of this program is to provide businesses in economically distressed areas with capital for job creation/retention as well as to finance business facilities and community development within the District.

## **RESULTS OF REVIEW**

To conduct this review, ALA staff reviewed certain sections of Arkansas Code and certain applicable Attorney General opinions related to use of public funds and the purpose of economic development districts.

According to Ark. Code Ann. § 14-166-202, Arkansas recognizes eight economic development districts as "planning and development districts." Organizational objectives for the districts are outlined in Ark. Code Ann. § 14-166-201. The intended statutory purpose is "to encourage these multi-county planning and development organizations which have been formed, or which may be formed in the future, to organize as voluntary nonprofit associations, to promote economic development, assist local governments and private organizations in obtaining federal grants and loans, prepare comprehensive regional plans for economic development and improved government services, enlist private support for these activities, and coordinate private and public programs in the multi-county districts."

Use of public funds appropriated to "planning and development districts" should adhere to the public purpose doctrine, about which the Arkansas Supreme Court stated, "No principle of constitutional law is more fundamental or more firmly established than the rule that the State cannot, within the limits of due process, appropriate public funds to a private purpose" (*Chandler v. Board of Trustees of the Teacher Retirement System of the State of Arkansas*, 236 Ark. 256, 365, S.W. 2d 447 (1963), cited in Op. Att'y Gen. no. 2012-094). The Attorney General noted in this same opinion that "the public benefit attending any expenditure of public funds must be clear and direct, with any private benefit being merely incidental . . . ." Furthermore, this common law public purpose doctrine has been applied to voluntary nonprofit organizations, as noted in Op. Att'y Gen. no. 2004-294.

---

<sup>1</sup>Ark. Code Ann. § 14-166-202 refers to the District as the Northeast Arkansas Economic Development District, Inc.

Ark. Code Ann. § 14-166-205 provides that a district shall submit to DFA an audited report of expenditures at the end of each fiscal year. Furthermore, adequate supporting documentation for disbursements consists of an itemized invoice and a stated business purpose.

ALA also reviewed District policies and procedures, including the Employee Handbook, which contains the District's policy for payment of unused accrued vacation time.

Using these criteria, ALA staff review revealed deficiencies in the District's handling of a small business loan, payroll expenditures that were not properly approved, improper credit card charges, related party transactions without Board approval, and internal control deficiencies, including lack of Board oversight. These issues are discussed below by topic.

## **Revolving Loan Funds**

### *Small Business Loans*

ALA selected three small business loans made during the review period and tested for authorization, monitoring, documentation, and repayment. No discrepancies were noted in two of the three loans reviewed; however, as discussed below, numerous discrepancies were found with the processing of one of the loans.

#### *Small Business Loan - Radiate Comfort Systems, Inc.*

On December 6, 2017, the District Board approved a \$250,000 small business loan from the District's Revolving Loan Fund to Radiate Comfort Systems, Inc. (RCSI). At the time of the loan, the District's Executive Director and its Board were aware of a civil lawsuit in which RCSI was the defendant, as discussed on **page 4**. Terms of the loan required RCSI to file federal tax returns with the IRS, as well as file quarterly financial statements and other reports with the District within 30 days of the end of each quarter, until the loan was paid. Prior to drawdown of loan proceeds from the bank, RCSI was to provide the District with written documentation supporting the use of funds. To provide collateralization to the District, RCSI was to grant a first lien on the purchase of a forklift, receive a second mortgage on certain real and personal property (e.g., lab equipment), and assign to the District proceeds of life insurance policies on the principals of RCSI. A timeline of events related to the RCSI loan is included in **Appendix A**.

ALA staff reviewed the RCSI small business loan for the period April 2017 through April 2023 and noted the following deficiencies in District's handling of the loan:

- ALA staff were unable to verify that RCSI filed required, written quarterly reports and subsequent tax returns.
- The District did not maintain, and/or provide to the bank, adequate documentation to support disbursement of loan proceeds. Specifically, for drawdowns totaling \$250,000, supporting documentation was provided for only \$89,419 of expenditures.
- The District did not verify the purchase of equipment designated as collateral. According to District personnel, RCSI leased a forklift rather than purchasing the equipment; therefore, the District's Uniform Commercial Code filing was null and void, and the leasing company regained possession of the forklift. Additionally, the sale of real property by the bank was insufficient to cover the bank's first mortgage, leaving the District's second mortgage unpaid.

- ALA staff were unable to verify that the required life insurance policies were obtained, maintained, or assigned to the District, as required by the loan agreement.
- RCSI did not repay the \$250,000 loan, and the District did not seek recourse regarding the defaulted loan. According to District personnel, the individual serving as Executive Director at that time decided it would not be beneficial to sue the officers of RCSI individually.

### **Status of Civil Lawsuit Involving a District Loan Recipient**

Hydro-Temp Corporation filed a civil suit against RCSI and against RCSI's individual owners on May 15, 2017, in Randolph County Circuit Court (61CV-2017-63). The lawsuit included seven causes of action: fraud, violation of duty of loyalty, violation of the Arkansas Trade Secrets Act, tortious interference with business expectancy, unjust enrichment, civil conspiracy, and injunctive relief.

In October 2017, RCSI filed a petition for Writ of Certiorari and other extraordinary relief, which was denied by the Arkansas Supreme Court in CV-17-826.

The Circuit Court entered a notice on April 10, 2023, for *Hydro-Temp Corporation v. RCSI*, that the case was dormant, and the Court would dismiss the case in 30 days, if no action were taken. A review of the Arkansas Court Connect case management system indicated the case remains open as of report date. A timeline of events related to the civil lawsuit is included in **Appendix A**.

### **General Improvement Fund (GIF) Funds**

Through review of documentation and interviews with District personnel, ALA staff determined that the District did not receive GIF funding from the State during the review period. Therefore, the District did not use GIF monies to make small business loans. According to reports from AASIS, GIF monies have not been remitted to the District since September 2015. Additionally, an IRS Form 990 Return of Organization Exempt from Income Tax for the fiscal year ended June 30, 2019, filed by the District on July 10, 2020, indicates, "The General Improvement Fund was terminated by the Arkansas Legislature and the remaining fund balance of \$634,498 was submitted to the Arkansas Department of Finance in October 2018." ALA confirmed the return of funds through examination of District financial and banking records.

### **Employee Compensation**

#### *Car Allowance for Executive Director*

Based on interviews with District personnel and examination of documentation, ALA staff determined the District provided the Executive Director with a vehicle that she used for both business and personal purposes. The District paid for gas, maintenance, a GPS subscription and data plan, and other miscellaneous charges related to the vehicle. The District included a car allowance of \$8,620 on the Executive Director's 2021 IRS Form W-2; however, ALA staff were unable to determine the accuracy of this allowance. Additionally, no such allowance was included on the Executive Director's 2022 IRS Form W-2, even though she was employed with the District through September 30, 2022.

#### *Payroll Expenditures Without Proper Approval*

The District paid employees a total of \$17,007 for unused vacation leave, as shown in **Exhibit I on page 5**, in noncompliance with the District's Employee Handbook, which states, in part, "The District will not substitute pay for accrued vacation leave for active employees." Based on interviews with District personnel, this practice was in place for the last five years and was authorized by the Executive Director, rather than the Board. Employees were allowed to receive compensation for up to one half of their annual accrual of leave at any time.

## Exhibit I

East Arkansas Planning and Development District (District)  
 Unallowable Payments to Employees for Unused Vacation Leave  
 For the Period January 1, 2021 through December 31, 2022

Employee Paid	For the Year Ended December 31,		Totals
	2021	2022	
Executive Director	\$ 4,038		\$ 4,038
Director of Operations/Chief of Staff	4,567	\$ 3,230	7,797
ECD Coordinator	1,043	1,526	2,569
Director of RA&P		2,603	2,603
<b>Totals</b>	<b>\$ 9,648</b>	<b>\$ 7,359</b>	<b>\$ 17,007</b>

ECD = Economic and Community Development  
 RA&P = Regional Analytics and Planning

*Source: District financial records and employee handbook (unaudited by Arkansas Legislative Audit)*

Additionally, during 2022, the Director of Regional Analytics and Planning (RA&P) received a salary increase of \$4,455 without Board approval. Based on interviews with District personnel and examination of District emails, the Executive Director authorized the salary increase. The Director of RA&P left District employment on March 10, 2023.

### Improper Credit Card Charges

Based on the purpose of economic development districts, outlined in Ark. Code. Ann. § 14-166-201, and the public purpose doctrine, ALA staff identified the improper credit card charges discussed below.

#### *Credit Card Charges Made by the Executive Director*

Review of credit card charges made by the Executive Director, for the period August 7, 2021 through October 7, 2022, revealed the following improper charges totaling \$9,315:

- \$8,181 in undocumented or inadequately documented purchases, the validity of which could not be determined:
  - ⇒ \$4,064 for lodging.
  - ⇒ \$3,437 for meals.
  - ⇒ \$516 for miscellaneous purchases.
  - ⇒ \$164 for staff birthday meals.
- \$605 in meals and lodging without a documented business purpose, the validity of which could not be determined.
- \$529 in travel expenses (\$467 for airfare and \$62 for luggage and seat upgrade fees) on behalf of the Executive Director's daughter.

After being contacted by law enforcement, the Executive Director reimbursed \$467 to the District for her daughter's airfare on October 31, 2023.

### *Other Credit Card Charges*

Review of credit card charges made by other District personnel for the periods June 4, 2021 through July 8, 2021, and March 8, 2022 through April 7, 2022, revealed the following improper charges totaling \$11,372:

- \$10,470 in undocumented or inadequately documented purchases, the validity of which could not be determined:
  - ⇒ \$4,584 for miscellaneous purchases.
  - ⇒ \$4,290 for meals.
  - ⇒ \$1,156 for lodging.
  - ⇒ \$338 for fuel.
  - ⇒ \$102 for gift cards and food for staff birthday events.
- \$902 for meals without a documented business purpose, the validity of which could not be determined.

### **Additional Analysis of Credit Card Charges**

As discussed in the previous sections, ALA staff conducted a detailed analysis of credit card charges made by the Executive Director (during 14 billing cycles) and by other District personnel (during two billing cycles). District personnel were unable, in most instances, to provide adequate supporting documentation for the business purpose of the charges.

ALA obtained credit card statements and supporting documentation for the period June 1, 2021 through June 30, 2023, for a total of 14 credit cards issued to District employees. A review of the credit card statements and supporting documentation provided revealed that, of \$244,753 in charges, supporting documentation was not provided for \$94,885. A detailed analysis of these expenditures is provided in **Appendix B**, and the total amount of credit card charges by card user is provided in **Appendix C**.

Because the Board had not adopted policies relating to the use of credit cards, ALA staff categorized the charges only as (a) documented (i.e., some type of receipt was attached to the credit card statement, but a business purpose was not provided) or (b) undocumented (i.e., the only available information was provided on the credit card statement).

During this review of credit card statements, ALA staff noted the following questionable spending patterns, which appear to conflict with the stated purpose of economic development districts, as outlined in Ark. Code Ann. § 14-166-201, and with the public purpose doctrine:

- ALA staff noted charges for large dollar amounts in December. According to the Director of Operations/Chief of Staff, charges totaling \$11,123 (\$5,314 and \$5,809 in 2021 and 2022, respectively) were for Christmas parties for District staff, including some spouses. These charges included \$8,245 for gift cards given to District staff as bonuses, but not included as income on IRS Form W-2; \$2,163 for a meal and alcoholic beverages; and \$715 for a catered BBQ dinner.
- The District spent \$1,123 for birthday parties, cakes, gift cards, and alcoholic beverages, in addition to the \$11,123 expended for Christmas parties discussed above.
- The District expended funds totaling \$425 at specialty/gourmet coffee shops during an 18-month period.



## Related Party Transactions

ALA staff examined records for the District, as well as member entities (e.g., counties and cities), for the period January 1, 2018 through December 31, 2022. In 2019, the District paid \$2,850 to a company owned by an employee's mother for economic development services, without Board approval. Additionally, the City of Wynne, a member entity of the District, paid the same company \$1,557 for preparation of a grant application.

## Private Audit Report

The District obtained annual financial audits from a private accounting firm. Audit reports contained unqualified or "clean" opinions on the District's financial statements for each of the five fiscal years ended June 30, 2023. Additionally, the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance contained unqualified or "clean" opinions on the District's compliance with requirements of its major federal programs. No findings were issued in any of the reports.

According to DFA personnel, the District annually filed its audit report with DFA, as required by Ark. Code Ann. § 14-166-205.

## Internal Control Deficiencies

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, mistakes, errors, or noncompliance with applicable Arkansas Code, regulations, and policies. Failure to maintain adequate internal controls increases the risk of misappropriation of assets and potential waste and abuse of funds. The Board did not ensure adequate internal controls were established and monitored. Specifically, the Board did not:

- Ensure the terms and provisions of all loan agreements were met and monitored and all required documentation was received and maintained.
- Always approve, document, or authorize individual employee salaries or pay increases.
- Approve and document all related party contracts and expenditures.
- Establish policies for the use of credit cards.
- Establish a comprehensive travel policy.
- Provide adequate fiscal oversight.

## RECOMMENDATIONS

ALA staff recommend that the Board and the Executive Director:

- Increase and maintain knowledge, awareness, and performance of operational and fiscal oversight, accountability, and fiduciary responsibilities.
- Develop and implement an adequate system of internal controls, document those controls, and monitor compliance with the controls to adequately reduce the risk of misappropriation of assets and potential waste and abuse of resources.
- Establish a "tone at the top" that demonstrates to personnel the necessity of fiscal prudence.

- Develop and implement appropriate processes and policies for:
  - ⇒ Monitoring Revolving Loan Funds to ensure compliance with the terms and conditions set forth in the District's loan agreements.
  - ⇒ Ensuring the Board properly approves all salaries and salary increases, the District adheres to all leave policies, and car allowances adhere to IRS regulations and are properly reported on IRS forms.
  - ⇒ Requiring that credit card, travel, and other expenditures be documented, for a business purpose, and approved by the employee's direct supervisor or a Board member.
  - ⇒ Ensuring all related party transactions are documented, as well as disclosed to and approved by the Board.

Also, ALA staff recommend the District and its Board ensure that all credit card charges and disbursements comply with the public purpose doctrine and the stated purpose of economic development districts, as outlined in Ark. Code Ann. § 14-166-201.

## **MANAGEMENT RESPONSE**

Management response is provided in its entirety in **Appendix D**.

## **SUMMARY**

ALA review of selected transactions and operating procedures for the East Arkansas Planning and Development District (District) revealed numerous discrepancies surrounding the processing of a \$250,000 small business loan to Radiate Comfort Systems, Inc. (RCSI), on which RCSI defaulted and the District did not seek recourse.

ALA confirmed that the District returned GIF funding of \$634,498 to the State in October 2018 after the General Assembly terminated the program and did not receive GIF funding during the review period or use GIF monies to make small business loans.

Additionally, ALA noted that the District provided the Executive Director a vehicle and paid for related expenses without including a car allowance on her IRS Form W-2 for 2022, although she used the vehicle for personal and business purposes. The District also paid four employees a total of \$17,007 over a two-year period for unused vacation leave, in noncompliance with the District Employee Handbook, and increased an employee's salary by \$4,455 without Board approval.

ALA review revealed numerous improper credit card charges made by District personnel, in apparent violation of the public purpose doctrine and the purpose of economic development districts outlined in Ark. Code Ann. § 14-166-201. These included improper charges totaling (a) \$9,315 made by the Executive Director during 14 billing cycles and (b) \$11,372 made by other District personnel during two billing cycles. After being contacted by law enforcement, the Executive Director reimbursed \$467 to the District for her daughter's airfare on October 31, 2023.

Additionally, over two fiscal years of credit card charges reviewed, ALA noted undocumented charges totaling \$94,885 were made using 14 credit cards issued to District personnel. ALA review also revealed questionable spending patterns, such as charges of \$11,123 for staff Christmas parties; \$1,123 for birthday parties, gift cards, and alcoholic beverages; and \$425 for specialty/gourmet coffee. Without Board approval, the District paid \$2,850 to a company owned by an employee's mother for economic development services.



ALA also confirmed that the District obtained, and submitted to DFA, annual financial audits for the five fiscal years ended June 30, 2023, as required by state law.

The Board did not ensure adequate internal controls were established and monitored and failed to provide sufficient fiscal oversight.

The Executive Director's employment was terminated on September 22, 2022; a new Executive Director was hired on February 1, 2024.

This report has been referred to the 2nd Judicial District Prosecuting Attorney and the Attorney General.

## Appendix A

### East Arkansas Planning and Development District (District) Timeline of Events Related to Radiate Comfort Systems, Inc., (RCSI) Small Business Loan from the District and RCSI Civil Lawsuit For the Period March 2017 through May 2024

Year/Month	Events
<b>2017</b>	
March	Radiate Comfort Systems, Inc. (RCSI), a business started by former employees of Hydro-Temp Corporation, received a Small Business Association loan of \$568,400 from First Community Bank to establish a manufacturing plant in Bono.
May	Hydro-Temp Corporation filed suit against RCSI and against RCSI's individual owners. The civil lawsuit was filed May 15, 2017, in Randolph County Circuit Court (61CV-2017-63). The lawsuit included seven causes of actions: fraud, violation of duty of loyalty, violation of the Arkansas Trade Secrets Act, tortious interference with business expectancy, unjust enrichment, civil conspiracy, and injunctive relief.
October	RCSI filed a petition for Writ of Certiorari and other extraordinary relief, which was denied by the Arkansas Supreme Court in CV-17-826.  RCSI applied for a business loan of \$250,000 from the District. Arkansas State University Small Business and Technology Development Center assisted RCSI with the application.
December	The District Board approved a \$250,000 business loan from the Revolving Loan Fund (RLF) to RCSI (\$225,000 for lab equipment and \$25,000 for a forklift). A loan agreement was executed between the District and RCSI, and a promissory note was signed by RCSI and the Executive Director. At the time of the loan, the District's Executive Director and Board were generally aware of the lawsuit in which RCSI was involved.  A check for \$250,000 was received and deposited into First Community Bank account (District and RCSI RLF account) used for RCSI drawdowns. RCSI made the first drawdown totaling \$111,300.
<b>2018</b>	
March	The District's Executive Director obtained an attorney's opinion on the legality of the District ceasing disbursement of loan funds. The attorney opined, "Based solely on the existence of the Hydro-Temp Corporation lawsuit which EAPDD was aware of at the time of the loan, there's no basis for EAPDD [District] to not disburse the remaining \$60,000 in loan proceeds that are available at this point."
May	RCSI made the final loan drawdown.
<b>2020</b>	
March	The legal firm representing the District notified RCSI that it had defaulted on the RLF promissory note, and the balance due was \$266,574 on March 13, 2020. This amount consisted of \$250,000 (loan principal) and \$16,574 (accrued interest). Interest continues to accrue at a daily rate of \$43.
June	First Community Bank filed a notice of default and intention to sell the collateral (two townhomes) related to its loan of \$568,400 made in 2017 to RCSI. A second mortgage on these same two townhomes was pledged as collateral to the District for its RLF loan of \$250,000 to RCSI.
August	RCSI property collateralized for the First Community Bank loan was sold.
<b>2023</b>	
April	The Circuit Court entered a notice on April 10, 2023, for the <i>Hydro-Temp Corporation v. RCSI</i> case, that the case has been dormant and that, if no action were taken, the Court would dismiss the case in 30 days.
<b>2024</b>	
May	A review of Arkansas Court Connect case management system indicated the <i>Hydro-Temp Corporation v. RCSI</i> case remained open as of this report date.

**Source:** District financial records and court documents (unaudited by Arkansas Legislative Audit)

## Appendix B

### East Arkansas Planning and Development District (District) Credit Card Charges For the Period June 1, 2021 through June 30, 2023

Expense Category	Credit Card Charges		Totals
	Documented (Note 1)	Undocumented (Note 2)	
Conferences			
Airfare/Luggage	\$ 9,562	\$ 467	\$ 10,029
Fees/Registration	11,421		11,421
Other (transportation, parking, etc.)	2,348	1,248	3,597
Lodging			
Lodging - In state	8,971	3,898	12,870
Lodging - Out of state	13,513	6,204	19,717
No-show hotel charges	149		149
Meals and Beverages			
Alcoholic beverages	948	52	1,000
Drinks, snacks, candy, etc.	3,075		3,075
Restaurants - Jonesboro	7,376	7,596	14,972
Restaurants - Out of town	6,892	11,899	18,791
Miscellaneous			
Cell phone expense		2,891	2,891
Flowers for funerals, sickness, etc.	1,219		1,219
Medical supplies for employee	330		330
Parties and gifts	3,561	8,684	12,246
Purchases from Amazon		10,044	10,044
Purchases from Wal-Mart/Sam's Club		1,035	1,035
Other	1,513	7,377	8,890
Office			
Equipment/furniture	39,078		39,078
Office supplies/expense	22,454	28,816	51,270
Repairs and maintenance	423		423
Transportation			
Airline seat upgrade	99		99
Automobile rental - Out of state	1,148		1,148
Fuel and other vehicle expenses	15,788	4,463	20,251
GPS subscription/data plan		210	210
Totals	\$ 149,868	\$ 94,885	\$ 244,753

Note 1: These credit card charges were supported with some type of documentation; however, this documentation was not always adequate to support a District business purpose.

Note 2: These credit card charges were not supported with documentation other than the entry on the credit card statement.

*Source: District financial records (unaudited by Arkansas Legislative Audit)*

## Appendix C

East Arkansas Planning and Development District (District)  
Credit Card Charges by User  
For the Period June 1, 2021 through June 30, 2023

Position of Credit Card User	Total Charges
Executive Director	\$ 43,332
Director of Operations/Chief of Staff	84,005
Director of Economic and Community Development	54,139
Director of Environmental Services	19,120
Receptionist/Operations Coordinator	12,631
Economic and Community Development Center	7,150
Director of Regional Analytics and Planning	5,615
Director of Financial Services	4,789
Community Services Coordinator	3,299
Financial Services Manager	1,981
Four Other Employees	8,692
<b>Totals</b>	<b>\$ 244,753</b>

**Source:** District financial records (unaudited by Arkansas Legislative Audit)

## Appendix D

### Management Response



East Arkansas  
Planning & Development District

Date: Friday, May 17, 2024

Arkansas Legislative Audit  
Attention: Kim Williams, Assistant Legislative Auditor  
500 Woodlane Street, Suite 172  
Little Rock, AR 72201

Ms. Williams,

Below is the East Arkansas Planning & Development District's (EAPDD) response to the Arkansas Legislative Audit (ALA) Special Report.

#### **Revolving Loan Funds**

EAPDD will develop and implement a policy for the Revolving Loan Funds which will assist in the monitoring/compliance of the terms and conditions set in EAPDD's loan agreement.

#### **General Improvement Fund (GIF) Funds**

All funds have been returned to the State of Arkansas and this item is no longer an issue.

#### **Employee Compensation**

Car Allowance – The company vehicle is utilized for business purposes only (no personal use) and will remain on the business property when not in use.

Payroll Expenditures with Proper Approval – All payroll expenditures are approved by the Board and will comply with EAPDD's Personnel Policies.

#### **Improper Credit Card Charges**

Proper internal controls have been established for all credit card purchases. This includes proper approval and necessary supporting documentation to ensure it does not conflict with public purpose doctrine.

#### **Related Party Transactions**

EAPDD will seek legal counsel concerning the development of a policy for related party transactions.

#### **Summary**

The Board has amended its Articles of Incorporation to reduce the number of members from 38 to 25 to ensure a regular quorum and assist with carrying out the oversight functions of the District.

Upon entering the role as Executive Director, the District has established a "tone at the top" culture and is in the process of strengthening internal controls to prevent and detect non-compliance with applicable Arkansas codes, regulations, and policies.

If you have any questions regarding our response to the ALA Special Report, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in black ink that reads "James Morgan". The signature is written in a cursive style.

James Morgan  
Executive Director of EAPDD

