

Investigative Report

Arkansas Legislative Audit

Review of Selected Financial Records and Transactions City of Bauxite

January 1, 2020 through November 30, 2023



INTRODUCTION

This report is issued in response to a request from the 22nd Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review questionable transactions at the City of Bauxite (City). Concerns included improper use of City funds, as well as improper amounts withheld from employee paychecks for health insurance coverage and annual financial audits not obtained. In addition, the City Water and Sewer Department (Department) allegedly failed to pay invoices from its wholesale water provider (Benton Utilities) timely.

OBJECTIVES

The objectives of this review were to determine if:

- Selected disbursements were for proper City purposes.
- Proper amounts were withheld from employee paychecks for health insurance coverage.
- The City complied with Arkansas Code requirements for obtaining annual financial audits or agreed-upon procedures and compilation reports (AUPs).
- The Department paid its wholesale water provider timely.
- Department collections were properly deposited in City bank accounts.
- Internal controls were adequate.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2020 through November 30, 2023. ALA staff reviewed bank statements, cancelled check images, invoices, payroll records, and Department receipts and deposit slips. In addition, audit and AUP reports issued by private certified public accounting (CPA) firms were reviewed, certain individuals were interviewed, and the applicable internal controls of the City were assessed for adequacy.

BACKGROUND

Located in Saline County, the City is a municipality of the second class operating under the mayor-council form of government. The City has a population of approximately 630 and is governed by a six-member City Council.

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RESULTS OF REVIEW

Analysis of Selected Disbursements

ALA review of selected disbursements for the period January 1, 2020 through September 7, 2023, revealed questionable disbursements totaling \$3,820:

- \$3,326 in payments to various vendors without adequate documentation; therefore, the validity of these disbursements could not be determined.
- \$494 in auto parts, purchased using Street Fund monies, that did not appear to fit any vehicles owned by the Street Department.

Analysis of Health Insurance Deductions

According to City officials, the City offered basic health insurance coverage at no cost to employees. Spouse/family health insurance coverage, dental insurance, and vision insurance are also available to employees through payroll deductions.

ALA staff review of health insurance documentation and payroll records, for the period January 1, 2022 through September 30, 2023, revealed the Mayor and a family member began receiving additional insurance coverage in May 2023. However, payroll deductions for this coverage did not begin until August 2023. As a result, the City improperly paid premiums for the additional coverage totaling \$319 for the Mayor and a family member for May through July 2023.

Review of Financial Audits/AUPs

Ark. Code Ann. § 14-58-101 indicates that the audit or agreed-upon procedures engagement shall be conducted by ALA or by a CPA selected by a city's governing body. Ark. Code Ann. § 14-234-119 requires a city to obtain an annual audit or AUP report for its water and sewer system within one year following the system's fiscal year-end.

Audits or AUPs for the City and its Department were not obtained timely, as required by Ark. Code Ann. §§ 14-58-101, 14-234-119. AUPs for the City for 2019 through 2021 were not received by ALA until 2024. The most recent Department AUP received by ALA was for 2018. As of report date, Department AUPs for 2019 through 2021 were being conducted by a CPA firm.

Analysis of Payments to Wholesale Water Provider (Benton Utilities)

ALA staff reviewed documentation provided by Benton Utilities for the period January 1, 2022 through November 30, 2023, and determined that the City failed to pay some invoices timely. Monthly invoices for January 2022 through July 2023 were paid; however, invoices for August through November 2023 were not paid, resulting in an outstanding balance of \$36,701 as of November 30, 2023.

Documentation provided by Benton Utilities shows that the City's average monthly usage increased from 2.874 million gallons in 2022 to 4.079 million gallons in 2023. This increase caused the City's average monthly bill to increase from \$5,758 in 2022 to \$8,171 in 2023.

According to City officials, the increased water costs and some large repair expenses (e.g., sewer pump repairs) caused a financial hardship that prevented the City from being able to pay the invoices timely. City officials also indicated that large water leaks were discovered and repaired in November 2023, and water usage decreased substantially in December 2023. Also, according to the City, the balance of \$36,701, outstanding at November 30, 2023, was paid in full on January 22, 2024, which was confirmed by ALA review of bank statements and other records.

As of April 30, 2024, the City had once again accrued an outstanding balance of \$8,845, which consisted of unpaid bills for February and March 2024.

Comparison of Water and Sewer Collections with Bank Deposits

ALA staff review of Department records for the period January 1, 2022 through November 30, 2023, revealed unaccounted for funds totaling \$700, consisting primarily of manual cash receipts for meter deposits that were not deposited in a City bank account. According to the Recorder/Treasurer, Water Clerks submitted receipts and funds collected to her at the end of each day. The Recorder/Treasurer was responsible for making bank deposits and was custodian of the undeposited funds.

Assessment of Internal Controls

ALA review revealed the following internal control deficiencies:

- Financial duties were not adequately segregated.
- Invoices were not always retained to support disbursements.
- Proper amounts were not always withheld from employees' paychecks for health insurance coverage.
- Invoices were not always paid timely.
- Manual receipts issued by the Department were not reconciled with bank deposits.
- Management did not provide adequate fiscal oversight.

OTHER MATTERS

During the course of this review, it was brought to our attention that the City had resumed collecting fines and fees and was potentially in noncompliance with certain sections of Arkansas Code relating to this duty.

In 2017, the City entered into an interlocal agreement with the City of Bryant (Bryant), wherein the City agreed to pay Bryant in exchange for the Bryant District Court Clerk assuming administrative duties related to citations, fines, fees, and costs associated with the Bauxite Police Department.

In 2023, the Mayor asked the City Council for permission to move the administrative duties back to the City and recommended an individual to serve as Court Clerk. At a meeting held on May 15, 2023, the City Council agreed to allow fines and costs to be collected at City Hall and approved the Mayor's recommendation of an individual to serve as Court Clerk. The Court Clerk was appointed without the authorization or approval of the District Judge.

On March 25, 2024, the Mayor issued a letter to the bank requesting changes to the Bauxite Court Automation Fund, which had been maintained previously by the District Judge and Bryant Court Clerk. The requested changes included removing the District Judge and Bryant Court Clerk from the signature card and replacing them with certain City officials/employees. The bank made these changes on March 28, 2024, without the knowledge or consent of the District Judge.

Based on ALA staff review of fine collection procedures, it appears the City is in noncompliance with Arkansas Code as follows:

- Ark. Code Ann. § 16-10-204 requires that fine and cost collections be deposited in a separate “Court Account,” which is to be used exclusively for the deposit and settlement of fines and court costs. Instead, the City deposited these collections in the Court Automation Fund, which is an operating fund used for technology expenses of the District Court. District Court Automation Funds are generated from installment fees collected when fines and court costs are paid on an installment plan, per the language of Ark. Code Ann. § 16-13-704(3)(B), or from electronic collection of fine transaction fees, as outlined in Ark. Code Ann. § 16-92-118(e)(1).
- Ark. Code Ann. § 16-13-704(3)(D)(i) requires that the District Judge approve all expenditures from the Court Automation Fund. Instead, the District Judge was removed from the account and is no longer able to review or approve expenditures.
- Ark. Code Ann. § 16-17-211(a), as interpreted by Op. Att’y Gen. no. 2005-191 and 2006-112, gives the District Court Judge authority to appoint a District Court Clerk. Instead, the Council allowed the Mayor to appoint the District Court Clerk.

In addition, according to Ark. Code Ann. § 16-10-209 as interpreted by Op. Att’y Gen. nos. 2005-191 and 2006-112, the District Court Judge, not the Mayor, is statutorily obligated to oversee the responsibilities of Court Clerks and to ensure compliance with the District Court Accounting Laws.

Furthermore, it was brought to the attention of ALA staff, through a memo dated May 2, 2024, that the City is in noncompliance with Ark. Code Ann. § 16-10-301 regarding the consistent failure to remit or report for the State District Court Judges Program. According to Ark. Code Ann. § 16-10-309(a)(1)(B), the Chief Fiscal Officer for the State may, upon finding that a city or county has failed to submit the funds and reports required by this act, withhold from month to month an equal amount from the city’s or county’s share of the state turnback funds owed to such city or county, until the funds required to be paid by this act have been submitted. According to the memo, Bauxite’s failure to resolve the noncompliance with Arkansas law may result in state turnback funds being withheld from the City.

RECOMMENDATIONS

ALA staff recommend the following:

- Financial duties be segregated to the extent possible.
- Adequate supporting documentation be maintained for all disbursements,
- Proper amounts be withheld from employee paychecks for health insurance coverage.
- Annual audits or AUPs be obtained timely.
- All invoices be paid timely.
- All Department collections (including manual receipts) be reconciled with bank deposits.
- The City comply with Ark. Code Ann. §§ 16-10-204, 16-13-704 regarding deposit of District Court fine and cost collections and proper approval of expenditures from the Court Automation Fund.
- The City comply with Ark. Code Ann. § 16-17-211 regarding authority to appoint individuals to fill the position of District Court Clerk.

- The City comply with Ark. Code Ann. § 16-10-309 regarding the State District Court Judges Program and proper submission of funds and reporting requirements.

In addition, management should exercise proper fiscal oversight, ensure these controls are established, and monitor controls to ensure adherence.

MANAGEMENT RESPONSE

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

SUMMARY

ALA staff review revealed \$700 in unaccounted for funds, \$3,820 in questionable disbursements, \$319 in insurance premiums improperly paid on behalf of the Mayor and a family member, and several internal control deficiencies. Also, the City did not obtain annual financial audits or AUPs timely, as required by Arkansas Code. In addition, ALA staff determined that the City did not pay invoices from its wholesale water provider (Benton Utilities) in a timely manner. As of April 30, 2024, the City had an outstanding balance of \$8,845.

Additionally, ALA staff review revealed the City deposited District Court fine and cost collections in the Court Automation Fund and removed the District Judge from the Court Automation Fund account, in noncompliance with Ark. Code Ann. §§ 16-10-204, 16-13-704. Furthermore, it was brought to the attention of ALA staff that the City is in noncompliance with Ark. Code Ann. § 16-10-301 regarding the consistent failure to remit or report for the State District Court Judges Program, which may result in state turnback funds being withheld from the City.

This report has been forwarded to the 22nd Judicial District Prosecuting Attorney and the Attorney General.

Appendix A
Management Response



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May 28, 2024

Re: 2024 Arkansas Legislative Audit Findings and Response
Review Period January 1, 2020 – November 20, 2023

Please find below the Town of Bauxite's Mayor and Recorder/Treasurer response to the above-mentioned review.

1. Regarding the issue that the City improperly paid premiums for the additional coverage totaling \$319 for Mayor and family member for May-July, 2023 that were overlooked - have been reimbursed to city.
2. Regarding the 4 deposits, totaling \$700 were mentioned as unaccounted for. 2 were located as follows:
 - a. Receipt #2408; Customer never moved in. Deposit was made, via check, and customer rejected home within minutes after making deposit. Deposit was returned on same day but was not voided in the receipt book.
 - b. Receipt #2516 was deposited into wrong account; mistake was noted in accounting system. Going forward, treasurer will be more careful.
 - c. The remaining files are not on site as they are with the City contracted Auditor, therefore, cannot be accessed until later.
3. Newly sworn in district court clerks are and will remain in communication with the Arkansas Association of Court Management to ensure proper procedures are followed.
4. Vendors invoices were not submitted by department heads in a timely manner for bills to be paid. Departments will submit all vendor invoices on a weekly bases to the treasurer.

Corrections have been made to ensure proper documentation is made and invoices are paid in a timely manner.

Regards,

Renee Chastain
Treasurer/Recorder
Town of Bauxite
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