

Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions Fulton County Volunteer Fire Departments (Morrison, Glencoe, and Nine Mile Ridge) January 1, 2020 through September 30, 2022



INTRODUCTION

This report is issued in response to a request from the 16th Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review selected transactions of the Morrison, Glencoe, and Nine Mile Ridge Volunteer Fire Departments (Departments) in Fulton County, in north-central Arkansas. Of specific concern were allegations of misuse of Department funds and other assets.

OBJECTIVES

The objectives of this review were to determine if:

- All revenue was properly deposited.
- Selected disbursements were for proper Department purposes.
- Selected equipment items were accounted for properly.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2020 through September 30, 2022. Bank statements, invoices, and other records provided by the three Departments were examined, and certain Department personnel were interviewed.

BACKGROUND

Morrison Volunteer Fire Department (Morrison Department)

Established as a nonprofit corporation in December 1984, the Morrison Department provides fire, rescue, and emergency medical services for a 20-square-mile area of Fulton County. The Morrison Department is governed by a Board of Directors (Board) that elects the Fire Chief and officers (President, Vice President, Secretary, and Treasurer) by Board vote.

Personnel at the Morrison Department consists of approximately 15 firefighters who serve in a volunteer capacity. Funding sources are primarily from a county-wide sales tax and state aid (Act 833 of 1991). The Morrison Department maintains two bank accounts: a General Account and an Act 833 Account. Financial records are maintained by the Treasurer.

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Glencoe Volunteer Fire Department (Glencoe Department)

Established as a nonprofit corporation on September 25, 1986, the Glencoe Department is governed by a five-member Board. In subsequent years, the Glencoe Department merged services with the Agnos and Heart Volunteer Fire Departments but officially retained its name. Firefighters serve in a volunteer capacity and provide fire protection services to rural Fulton County.

Operation and maintenance costs associated with the fire station operated by the Glencoe Department are funded primarily by a county-wide sales tax and state aid (Act 833 of 1991). The Glencoe Department maintains four bank accounts: a General Account, the Chief’s Account, a Rental Property Account, and an Act 833 Account. Financial records are maintained by the Treasurer.

Nine Mile Ridge Volunteer Fire Department (Nine Mile Ridge Department)

Established as a nonprofit corporation in 1997, the Nine Mile Ridge Department is governed by a seven-member Board. Firefighters serve in a volunteer capacity, providing fire protection services for approximately 25 square miles of rural Fulton County and a portion of Sharp County.

Operation and maintenance costs associated with the fire station operated by the Nine Mile Ridge Department are funded primarily by a county-wide sales tax and state aid (Act 833 of 1991). The Nine Mile Ridge Department maintains two bank accounts: a General Account and an Act 833 Account. Financial records are maintained by the Treasurer.

RESULTS OF REVIEW

Issues noted as a result of ALA review are discussed below by Department.

Morriston Department

Deposit of Public Funds

Public funds distributed to the Morriston Department were traced to deposits in the proper bank accounts, as indicated in **Exhibit I**, and no exceptions were noted regarding the deposit of Department revenues.

Exhibit I

**Morriston Volunteer Fire Department
Deposit of Public Funds
For the Period January 1, 2020 through September 30, 2022**

Funding Source	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Sales tax	\$ 42,649	\$ 49,184	\$ 40,953
Act 833 (Note)		12,486	11,855
	\$ 42,649	\$ 61,670	\$ 52,808

Note: Act 833 funds for 2022 were received after the review period.

Source: Department bank statements and journals, as well as revenue confirmations obtained from Fulton County and the Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Undocumented Disbursements

Review of records revealed \$10,599 in undocumented disbursements by the Morriston Department, as shown in **Exhibit II**. Due to insufficient documentation, ALA staff were unable to determine a valid business purpose for these disbursements. Included in this amount were undocumented Act 833 expenses totaling \$1,183.

Exhibit II

Morriston Volunteer Fire Department Undocumented Disbursements For the Period January 1, 2020 through September 30, 2022

Undocumented Disbursements	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Payments to various vendors (Walmart, Amazon, PayPal, etc.)	\$ 3,483	\$ 1,992	\$ 2,023
Reimbursements to members	120	11	1,116
Fire calls	15	270	75
Fuel	123		9
Training			300
Propane	365	415	
Mowing			180
Trash pickup	40	62	
Totals	\$ 4,146	\$ 2,750	\$ 3,703
		\$10,599	
Undocumented Act 833 expenses included in the amounts above	\$ 265	\$ 44	\$ 874
		\$1,183	

Source: Department financial records (unaudited by Arkansas Legislative Audit)

Personal Use of Department Resources

The Morriston Department Fire Chief moved a recreational vehicle (RV) onto Department property in 2021. The RV was connected to Department electricity, and the Fire Chief and family members used bathroom and kitchen facilities located inside the fire station daily. Review of financial records revealed that no reimbursements were made to the Department for use of its resources. According to the Fire Chief, this arrangement was approved by the Board to decrease the response time of the Department; however, ALA staff were unable to verify this assertion because Board meeting minutes for this time period were unavailable. Furthermore, ALA staff did not have sufficient information to determine how much of the increase in utility costs resulted from this arrangement.

Other Matters

Volunteer firefighters for the Morriston and Glencoe Departments received \$15 and \$10, respectively, for each call to which they responded to assist them with costs of fuel and other expenses. It was brought to the attention of ALA staff that some volunteers are dual members of the Morriston and Glencoe Departments. Allegations were made that some individuals received duplicate payments for calls to which both Departments responded. Call logs for the period January 2020 through September 2022 only identified volunteers by their call numbers. Call numbers for volunteers who have left these Departments are reused, and a record of the numbers assigned was not maintained. As a result, these allegations could not be substantiated.

Glencoe Department

Deposit of Public Funds

Public funds distributed to the Glencoe Department were traced to deposit in the proper bank accounts, as indicated in **Exhibit III**, and no exceptions were noted regarding the deposit of Department revenues.

Exhibit III

Glencoe Volunteer Fire Department Deposit of Public Funds For the Period January 1, 2020 through September 30, 2022

Funding Source	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Sales tax	\$ 42,649	\$ 49,184	\$ 40,953
Act 833 (Note)		12,486	11,855
	<u>\$ 42,649</u>	<u>\$ 61,670</u>	<u>\$ 52,808</u>

Note: Act 833 funds for 2022 were received after the review period.

Source: Department bank statements and journals, as well as revenue confirmations obtained from Fulton County and the Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Undocumented Disbursements

Review of records revealed \$6,805 in undocumented disbursements by the Glencoe Department, as shown in **Exhibit IV**. Due to insufficient documentation, ALA staff were unable to determine a valid business purpose for these disbursements. No undocumented Act 833 expenses were noted.

Exhibit IV

Glencoe Volunteer Fire Department Undocumented Disbursements For the Period January 1, 2020 through September 30, 2022

Undocumented Disbursements	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Payments to various vendors (Walmart, Amazon, PayPal, etc.)		\$ 2,500	
Fire calls		150	\$ 30
Fuel	\$ 1,125	1,500	1,500
Totals	<u>\$ 1,125</u>	<u>\$ 4,150</u>	<u>\$ 1,530</u>
		\$6,805	
Undocumented Act 833 expenses included in the amounts above	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Source: Department financial records (unaudited by Arkansas Legislative Audit)

Unallowable Spending of Act 833 Fire Protection Premium Tax Funds

Fire Protection Premium Tax funds (Act 833) are restricted by Ark. Code Ann. § 14-284-403 for expenses related to the purchase of equipment, training, capital improvements, insurance for buildings, utility costs, or other expenditures necessary for upgrading the service provided by a department.

ALA staff noted a purchase of a \$4,000 lawnmower paid from the Glencoe Department's Act 833 fund that appears unallowable.

Other Matters

As noted on **page 3**, volunteer firefighters for the Morriston and Glencoe Departments received \$15 and \$10, respectively, for each call to which they responded to assist them with costs of fuel and other expenses. It was brought to the attention of ALA staff that some volunteers are dual members of the Morriston and Glencoe Departments. Allegations were made that some individuals received duplicate payments for calls to which both Departments responded. Call logs for the period January 2020 through September 2022 only identified volunteers by their call numbers. Call numbers for volunteers who have left these Departments are reused, and a record of the numbers assigned was not maintained. As a result, these allegations could not be substantiated.

Nine Mile Ridge Department

Public funds distributed to the Nine Mile Ridge Department were traced to deposits in the proper bank accounts, as indicated in **Exhibit V**, and no exceptions were noted regarding the deposit of Department revenues.

Exhibit V

Nine Mile Ridge Volunteer Fire Department Deposit of Public Funds For the Period January 1, 2020 through September 30, 2022

Funding Source	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Sales tax	\$ 42,649	\$ 49,184	\$ 40,953
Act 833	12,337	14,212	12,739
Other county aid		400	400
American Rescue Plan Act (ARPA) funds	10,000		
	<u>\$ 64,986</u>	<u>\$ 63,796</u>	<u>\$ 54,092</u>

Source: Department bank statements and journals, as well as revenue confirmations obtained from Fulton and Sharp Counties and the Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

Undocumented Disbursements

Review of records revealed \$11,057 in undocumented disbursements by the Nine Mile Ridge Department, as shown in **Exhibit VI on page 6**. Due to lack of documentation, ALA staff were unable to determine a valid business purpose for these disbursements. Included in this amount were undocumented Act 833 expenses totaling \$6,345.

Private Donations

The Nine Mile Ridge Department donated a total of \$400 to a business (\$200) and an individual (\$200) in 2020. Although the Nine Mile Ride Department is a nonprofit corporation, it is primarily funded with public monies, making gifts and private donations an improper use of funds.

Exhibit VI

**Nine Mile Ridge Volunteer Fire Department
Undocumented Disbursements
For the Period January 1, 2020 through September 30, 2022**

Undocumented Disbursements	Jan. 1 - Sept. 30, 2022	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Payments to various vendors (Walmart, Amazon, PayPal, etc.)	\$ 788	\$ 7,168	
Reimbursements to members		370	\$ 342
Fuel	23	417	808
Cash withdrawals			741
Bonuses			400
Totals	\$ 811	\$ 7,955	\$ 2,291
	\$11,057		
Undocumented Act 833 expenses included in the amounts above	\$ 0	\$ 6,235	\$ 110
	\$6,345		

Source: Department financial records (unaudited by Arkansas Legislative Audit)

Morrison, Glencoe, and Nine Mile Ridge Departments

Inadequate Financial Records and Internal Control Deficiencies

ALA review revealed inadequate financial records and internal control deficiencies at all three Departments, as noted below:

- Invoices were not always retained to support disbursements.
- Equipment listings were not maintained, periodic inventories were not conducted, and equipment was not tagged or otherwise identified as Department property.
- Ledgers were not prepared for all bank accounts and did not reconcile to bank activity because all transactions were not recorded.
- Financial duties were not adequately segregated due to an inadequate number of personnel, and the Departments did not implement adequate compensating controls.
- The Boards did not provide adequate fiscal oversight, and minutes were not available for all Board meetings.

RECOMMENDATIONS

ALA recommends that the Morrison, Glencoe, and Nine Mile Ridge Departments maintain adequate financial records and segregate financial duties to the extent possible. ALA further recommends that the Boards provide adequate fiscal oversight of their respective Departments, bank statements be reviewed monthly by someone not involved in the bookkeeping process, and financial transactions be monitored for propriety. Furthermore, ALA recommends that Fulton County consider implementing a monitoring and reporting process for volunteer fire departments that receive sales tax funding from the County.

It should be noted that Fulton County Ordinance No. 2023-07 (June 20, 2023) requires departments receiving sales tax funds to track spending and provide a list of all expenditures of these funds, as well as a copy of the bank statement, to the County Treasurer monthly and to the Quorum Court annually. As required by the Ordinance, if departments fail to submit the required monthly records, the department's distribution of funds will be withheld. Additionally, if the County Treasurer deems a department is spending distributions inappropriately, future payments may be withheld.

MANAGEMENT RESPONSE

Management responses from the Morriston, Glencoe, and Nine Mile Ridge Departments are provided in their entirety in **Appendices A, B, and C**, respectively.

SUMMARY

ALA staff review revealed that public funds received by the three Departments reviewed were properly deposited. However, undocumented disbursements totaling \$10,599, \$6,805, and \$11,057 were noted at the Morriston, Glencoe, and Nine Mile Ridge Departments, respectively; a portion of these disbursements at the Morriston and Nine Mile Ridge Departments were associated with Act 833 expenses. Additionally, inadequate financial records and internal control deficiencies were noted for all three Departments.

This report has been forwarded to the 16th Judicial District Prosecuting Attorney and the Attorney General.

Appendix A

Morrison Volunteer Fire Department Management Response

We will make sure that everything is documented better. I will get with Sharon Wrestler (Treasurer) and the Board President to have a better plan on the bookkeeping and documentation of all monetary transactions and meeting minutes. We already print out a monthly bank statement at all Board meetings but will look into a better plan.

Matthew Mask
Fire Chief
Morrison Fire Department

Appendix B

Glencoe Volunteer Fire Department

Glencoe Fire Department

P. O. Box 73
Glencoe, AR 72539

Friday, August 30, 2024

Dear Mr. Jones:

In regards to the recommendations made in the audit report of Glencoe Volunteer Fire Department, I have the following recommendations to present to board of directors at the next meeting.

1. A board member will review the bank reconciliation reports for each account and sign off on each report.
2. The Board reviews the monthly expenditures in the financial reports at present time during monthly board meeting and approves them when the financials are approved.
3. We are currently sending bank statements and monthly transactions to the Fulton County Treasurer at the present time.

We plan to address the other concerns of inadequate records. The Chief, Jeff Tatum, is planning to do an inventory of all equipment and tag the smaller items. This inventory list will be maintained on an excel spreadsheet by chief and bookkeeper. I am unaware of any unrecorded transactions and cannot address that matter. Board minutes were not available at the time of audit due to illness of chief and secretary. They are now in our possession.

If we need to address any further issues, we will be glad to accept any recommendations you may have to offer.

Sincerely,

Lisa Langevin

Secretary/Treasurer

Appendix C

Nine Mile Ridge Volunteer Fire Department
Management Response

August 27, 2024

Dear Sir,

We have had our exit conference and reviewed our inadequate financial records and internal control deficiencies.

Our future plans are to correct our way of keeping records. By, maintaining adequate financial records and segregate financial duties to the extent possible.

Maintaining better record keeping invoices to support disbursements.

Maintaining better inventory records.

We plan to restructure our way of bookkeeping and implement a review board.

Our plan is to implement a better way of keeping board meeting minutes.

Our financial transactions have been sent monthly to Fulton County for the past 14 months as requested.

Thank you for the opportunity to correct our over sights.

Sincerely,

Treasurer: Catherine Ann Reynolds



