

Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions City of Briarcliff Water and Recreation Improvement District No. 1

January 1, 2023 through December 31, 2024



INTRODUCTION

This report is issued in response to a request from the 14th Judicial District Prosecuting Attorney (PA) for Arkansas Legislative Audit (ALA) to review selected transactions of the Briarcliff Water and Recreation Improvement District No. 1 (District). ALA assistance was requested after the PA received allegations that District funds were being allocated to the City of Briarcliff (City).

OBJECTIVES

Objectives of this review were to determine if District revenue was properly deposited and funds were being misused, as well as to report internal control deficiencies that come to the attention of ALA staff.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2023, through December 31, 2024. ALA staff reviewed bank statements, cancelled check images, and other financial records provided by the District. In addition, certain individuals were interviewed.

BACKGROUND

Suburban improvement districts are established and governed by Ark. Code Ann. § 14-92-201 – 14-92-207. The District, located in and around the City of Briarcliff, was established by a 1981 Baxter County Court Order to provide water service, maintain infrastructure, and operate recreational facilities for approximately 110 residents. To operate, the District charged various fees including property assessment, water usage, and facility rental. The District's operations are managed by a five-member commission elected by property owners. Subsequent to establishing the District, the residents voted to incorporate and later become a second-class city.

During September 2005, the City and the District executed an agreement whereby the District leased its water system, clubhouse, pool and surrounding real estate, and road equipment to the City. The District agreed to remit all assessment fees collected, less 3%, to the City. This agreement was for a term of 25 years, with the option to renew by the City. In return, the City agreed to maintain operation of the District's water system, possess and maintain the District's clubhouse, pool and surrounding real estate, and to pay the District 3% of all income derived from the rental use of the clubhouse, pool, and surrounding real estate. The District also agreed that the City would possess, use, and maintain all the District road equipment and be solely responsible for maintenance, repair, and construction of roads as reasonably possible located in the District.

ARKANSAS LEGISLATIVE AUDIT

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RESULTS OF REVIEW

Analysis of Revenue

The District receives assessment fees from Baxter County. Confirmation of assessment fees with Baxter County for the period January 1, 2023 through December 31, 2024, revealed that assessment fees of \$162,592 and \$165,662 were received by the District in 2023 and 2024, respectively, and were properly deposited in the District bank account; however, assessment fees of \$3,262 and \$9,778 in 2023 and 2024, respectively, were not properly recorded in the District's general ledger. No other revenue was deposited or recorded by the District.

As noted in a prior Financial and Compliance report issued by ALA for the City,¹ on March 15, 2023, the City disbursed \$200,000 to the District to avoid having uninsured funds in its account due to exceeding FDIC limits. On February 10, 2025, the City Council approved loaning \$97,829 of the \$200,000 to the District to purchase an excavator. This transaction is in apparent conflict with Ark. Const. Art. 12 § 5, which states, in part, "No county, city, town or other municipal corporation, shall...loan its credit to any corporation, association, institution, or individual." Subsequently, on June 26, 2025, the \$102,171 in remaining funds was returned to the City. The excavator is in the possession of the City and is being used by City employees as stipulated in the agreement between the two entities.

Analysis of Selected Disbursements

Review of selected disbursements for the period January 1, 2023 through December 31, 2024, revealed the District did not properly transfer 97% of the assessment fees to the City as stipulated in the lease agreement. The District transferred \$161,715 in 2023, \$4,000 more than the required amount, and \$134,039 in 2024, \$26,653 less than the required amount. It should be noted that all disbursements during the review period were assessment fees paid to the City.

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.

ALA review revealed the following internal control deficiencies:

- Bank reconciliations were not prepared.
- All revenue received was not recorded in the general ledger.
- Financial duties were not properly segregated.
- Commission meeting minutes were not maintained and provided for review.

Other Issues

Three District Commissioners served concurrently as City Council members during the review period. Review of City Council meeting minutes revealed four meetings in 2024 were held jointly with the District's Board. Additionally, the elected City Recorder/Treasurer also served as the

¹ City of Briarcliff, Arkansas Financial and Compliance Report for the Years Ended December 31, 2024 and 2023 (LOM222024) is available on the ALA website at www.arklegaudit.gov.

District administrator during the review period. As such, the District administrator was responsible for receipting and depositing property taxes paid by the County into the District bank account; writing checks from the District account to the City for lease payments; and receipting and depositing those checks into the City bank account.

Furthermore, in 2025, all of the District commissioners resigned, and new commissioners were appointed by the Baxter County Judge rather than selected through an election by majority vote of property owners in the District, as outlined in Ark. Code Ann. § 14-92-201.

RECOMMENDATIONS

ALA recommends that:

- Revenue be properly recorded in the general ledger, bank reconciliations be prepared, Commission meeting minutes be maintained, and financial duties be segregated to the extent possible.
- The District disburse the appropriate amount of assessment fees to the City as stipulated in the lease agreement.
- The City consult legal counsel regarding the relationship between Council Members, the Recorder/Treasurer, and the District.
- The District consult legal counsel regarding the appointment of commissioners by the Baxter County Judge rather than selected through an election by majority vote of property owners in the District, as outlined in Ark. Code Ann. § 14-92-201.

MANAGEMENT RESPONSE

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

SUMMARY

ALA staff review of revenues revealed that assessment fees of \$13,040 were not properly recorded in the District's books. Review of select disbursements revealed that District transfers to the City were \$22,653 less than the amount stipulated in the lease between the City and District. Several internal control deficiencies contributed to these errors.

Various City Council members and the Recorder/Treasurer also served in management positions for the District.

This report has been forwarded to the 14th Judicial District Prosecuting Attorney and the Attorney General.

Appendix A

Management Response

Briarcliff Water and Recreation Improvement District No. 1 Response to the Arkansas Legislative Audit

August 28, 2026

From: Joshua Williamson, Th.M.
Chairman
Briarcliff Water and Recreation Improvement District No. 1
945 Scenic Drive
Briarcliff, AR 72653

To: Legislative Joint Auditing Committee
500 Woodlane Street
Suite 172
Little Rock, AR 72201

Members of the Committee,

I have spoken with Anthony Weston concerning the results of the review of transactions from January 1, 2023 through December 31, 2024. There are several deficiencies and recommendations given in the Report, and I will provide the District's plan to address each of those concerns in the bulleted list below.

Since the new Board was appointed by Judge Litty on December 19, 2025, we have upheld the lease agreement, and given the City 97% of the monthly assessment income every month. The Board handles its own finances, and the City's Recorder/Treasurer is no longer involved in any way with the District's processes. The Board has also established legal counsel, and maintains an attorney with a retainer, independent of the City.

Deficiencies:

- Bank reconciliations were not prepared.
- All revenue received was not recorded in the general ledger.
- Financial duties were not properly segregated.
- Commission meeting minutes were not maintained and provided for review.

Recommendations:

- Revenue should be properly recorded in the general ledger, bank reconciliations be prepared, Commission meeting minutes be maintained, and financial duties be segregated to the extent possible.
- The District disburse the appropriate amount of assessment fees to the City as stipulated in the lease agreement.
- The City consult legal counsel regarding the relationship between the Council Members, the Recorder/Treasurer, and the District.

- The District consult legal counsel regarding the appointment of commissioners by the Baxter County Judge rather than an election by the majority vote of property owners in the District as outlined in Ark. Code Ann. § 14-92-201.

Management Plan:

- The District will keep a record of all meeting minutes, agendas, and resolutions electronically via Google Drive and on paper. The Board will also store all meeting audio recordings electronically.
- The District will keep a record of all transactions via paper receipts and electronically, via Google Sheets. The District will also prepare bank reconciliations.
- All electronic records will be protected by multi-factor authentication.
- The District will continue to disburse the appropriate amount of assessment fees every month, as the Board has since taking over in December of 2025.
- The District has established legal counsel.
- The District will pay the City \$22,653 once the final audit report has been received by the members of the Board, to correct the previous deficiencies in payment.
- The District currently does not have any Board members who are serving on City Council.
- The District will hold public elections in accordance with Arkansas State law and the District's bylaws, as each member's term expires.

Kind Regards,

A handwritten signature in cursive script that reads "Joshua Williamson".

Joshua Williamson, Th.M.
Chairman of the Board

