

Investigative Report

Arkansas Legislative Audit

Review of Receipts and Deposits Dorcheat Public Water Authority

January 1, 2019 through July 20, 2022



INTRODUCTION

This report is issued in response to a request by the Thirteenth Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review receipts and deposits of the Dorcheat Public Water Authority (PWA). The Prosecuting Attorney received allegations that PWA funds were possibly misappropriated.

OBJECTIVES

Objectives of this review were to:

- Determine if all funds collected were properly deposited in PWA bank accounts.
- Determine if the PWA complied with Arkansas Code requirements for obtaining financial audits or agreed-upon procedures and compilation reports.
- Assess internal controls related to the PWA's receipting and depositing processes.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2019 through July 20, 2022. ALA staff reviewed relevant PWA financial records, including receipts recorded in the computer system, bank statements, deposit slips, and other computer system files; compared receipts with deposits; and interviewed certain individuals. In addition, the PWA's internal controls relevant to the receipting and depositing processes were assessed for adequacy.

BACKGROUND

The PWA, formed under Act 115 of 2001, provides water service to approximately 750 customers in a rural area of Columbia County in southwest Arkansas. The PWA is governed by a seven-member Board of Directors and employs a Water Clerk, who is responsible for collecting funds from customers, entering customer payments in the computer system, making bank deposits, and maintaining financial records.

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RESULTS OF REVIEW

Unaccounted-For Funds

PWA receipts exceeded bank account deposits by \$182,520 during the review period, as illustrated in **Exhibit I**. The Water Clerk was responsible for bank deposits and was custodian of the undeposited funds.

Exhibit I

**Dorcheat Public Water Authority (PWA)
Comparison of Receipts with Bank Deposits
For the Period January 1, 2019 through July 20, 2022**

Time Period	Receipts	Bank Deposits	(Note 1)	Adjusted Bank Deposits	Receipts Over/(Under) Deposits
			Adjustment for Cash on Hand		
Calendar Year Ended:					
2019	\$ 419,171	\$ 375,035		\$ 375,035	\$ 44,136
2020	421,946	369,849		369,849	52,097
2021	438,465	376,224		376,224	62,241
January 1, 2022 - July 20, 2022	231,763	207,263	\$ 454	207,717	24,046
Totals	\$ 1,511,345	\$ 1,328,371	\$ 454	\$ 1,328,825	\$ 182,520

Note 1: Deposits were increased by cash/checks that were on hand at the PWA office on July 20, 2022.

Source: Dorcheat PWA financial records (unaudited by Arkansas Legislative Audit)

Financial Audit Information

The PWA did not comply with Ark. Code Ann. § 14-234-119, which requires that water systems obtain an annual financial audit or agreed-upon procedures and compilation report within one year of the fiscal year-end. An audit of the PWA was last conducted by a certified public accounting (CPA) firm for the year ended December 31, 2018. As of report date, audits or agreed-upon procedures had not been conducted for the years ended December 31, 2019, 2020, and 2021.

Internal Control Deficiencies

ALA review revealed the following internal control deficiencies:

- Receipting and depositing duties were not properly segregated.
- Receipts were not reconciled with bank deposits.
- Receipts did not always indicate correct method of payment (i.e., cash or check).
- Annual financial audits or agreed-upon procedures and compilation reports were not obtained timely.
- Management did not provide adequate fiscal oversight.

RECOMMENDATIONS

ALA staff recommend that:

- Receipting and depositing duties be segregated to the extent possible.
- Daily receipts reports be prepared and reconciled to bank deposits.
- Receipts indicate correct method of payment.
- Annual financial audits or agreed-upon procedures and compilation reports be obtained timely after the end of each fiscal year, as required by Ark. Code Ann. § 14-234-119.

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 that receipts totaling \$182,520 were not deposited in the PWA's bank accounts during the period January 1, 2019 through July 20, 2022. The Water Clerk was custodian of the funds and was responsible for bank deposits. Several internal control deficiencies contributed to funds being apparently misappropriated and the discrepancies not being detected timely.

In addition, the PWA failed to obtain annual financial audits or agreed-upon procedures and compilation reports timely, as required by Ark. Code Ann. § 14-234-119.

This report has been forwarded to the Thirteenth Judicial District Prosecuting Attorney.

Appendix A

Management Response

I am writing to confirm that I have completed my closeout meeting with Mr. Jimmy Locke, Senior Auditor, concerning the audit performed on the Dorcheat Public Water Authority. I had hoped for an answer other than the conclusion drawn from the facts of the audit, but facts are what they are.

I recognize that the Water Board and myself as President have several changes that need to be addressed. These items are listed below and are in the process of being implemented.

1. A daily worksheet to be filled out with cash drawer starting balance
2. All transactions for the day listed separately, account paid on and paid by cash, check, or card.
3. All bank deposit slips will be noted with cash amount received, each check listed separately, total deposit.
4. This worksheet will be emailed to each Board member every day.
5. A weekly summary sheet will be completed each Friday with the week's totals, each employee's hours worked.
6. On a rotation basis, each Board member will be responsible for onsite spot checks at the water office.
7. Independent audits will be set up and followed through by independent CPA firms.

The above listed changes are in process of being started. No personnel changes have been made with the information I have received from this report. I am waiting for word from State Police Investigator Pinner and the Prosecuting Attorney's office.

I welcome any input you may have going forward to make improvements with this matter.

Thank you,
Philip Story
Dorcheat Water Board President

