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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

August 4, 2023

The Honorable Frank Spain
Prosecuting Attorney
Tenth Judicial District
506 South Main Street
Monticello, AR 71655

Dear Mr. Spain:

This letter is issued pursuant to your request for Arkansas Legislative Audit (ALA) to inspect the Town of Reed Water and Sewer Department (Reed) financial records. Of specific concern was Reed's inability to pay the Town of Tillar (Tillar), which serves as Reed's wholesale water provider.

Objectives, Scope, and Methodology

The objectives of this investigative review were to:

- Ascertain, if possible, the reason(s) for Reed's financial difficulties, which resulted in its inability to pay Tillar for wholesale water usage.
- Determine if funds collected from Reed customers were properly deposited.
- Determine if funds were used for proper purposes.

This review was conducted primarily for the period January 1, 2022 through March 30, 2023. Bank statements, deposit slips, cancelled checks, manual receipts, invoices, and other relevant records were examined. In addition, we interviewed various individuals.

Background

Tillar provides wholesale water to Reed. The water flows through a meter, and Tillar sends an invoice to Reed each month, reflecting charges for the number of gallons supplied. Then, the water flows through Reed water lines to approximately 86 customers. Reed bills customers monthly for their usage, based on water meter readings. Water bill collections are deposited in a Reed bank account, and the funds are used to pay Tillar for wholesale water sales as well as other operating expenses of the Water and Sewer Department.

During 2022, Reed became unable to pay the Tillar invoices in full each month due to a significant increase in the number of gallons of water billed, resulting in an outstanding balance of \$17,137 in February 2023. This outstanding balance was paid in full on April 4, 2023.

Results of Review

- Our analysis revealed that Reed customer usage remained consistent throughout 2022. However, the number of gallons billed by Tillar increased in 2022 from an average of 600,000 gallons per month for January through April to an average of 2.1 million gallons per month for May through September.

It appears that Reed's inability to pay the Tillar invoices in full was due to the drastic increase in the number of gallons for which Reed was billed. The reason for the unusually large increase is unknown. However, the number of gallons billed returned to normal levels in October 2022, and as previously mentioned, Reed paid the outstanding balance in full in April 2023.

- We compared receipts with deposits on a test basis to determine if funds were properly deposited. This comparison revealed several discrepancies that will require additional review and will be reported in a separate letter once completed.
- Disbursements were examined to determine if funds were used for proper purposes. No improper disbursements were noted.

Summary

Reed failed to pay Tillar timely for wholesale water purchases due to an unusually large increase in the number of gallons billed by Tillar for May through September 2022. Although the reason for the increase is unknown, the number of gallons for which Reed was billed returned to normal levels in October 2022, and Reed paid the outstanding balance in full in April 2023.

Our comparison of receipts with deposits revealed several discrepancies that require additional review. Once this review has been completed, we will report our findings to you in a separate letter.

We noted no improper disbursements during our review of disbursements. All disbursements appeared to be for proper Water and Sewer Department purposes.

We trust this review addressed your concerns to the extent possible. Please advise if we can further assist in this matter.

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cc: The Honorable George Barnes, Sr., Mayor, Town of Reed
The Honorable Allen Evens, Mayor, Town of Tillar

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