

Investigative Report

Arkansas Legislative Audit

Review of Selected Financial Records Town of Reed Water and Sewer Department

January 1, 2022 through December 31, 2022



INTRODUCTION

Arkansas Legislative Audit (ALA) issued a letter, dated August 4, 2023, responding to a request from the Tenth Judicial District Prosecuting Attorney that ALA inspect financial records for the Town of Reed Water and Sewer Department (Reed). The primary concern was Reed's inability to pay the Town of Tillar, which serves as Reed's wholesale water provider. As mentioned in the letter, certain discrepancies were noted during ALA's comparison of receipts with deposits and required additional review. This report contains the results of the additional analysis.

OBJECTIVES

The objectives of this investigative review were to determine if water bill collections were properly deposited in Reed's bank account and to assess internal controls for adequacy.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2022 through December 31, 2022. Manual receipts, bank statements, deposit slips, and other relevant records were examined. In addition, ALA staff interviewed various individuals.

BACKGROUND

Using water purchased from Tillar, Reed supplies water and sewer services to approximately 86 customers, who are billed monthly for their usage. According to Reed personnel, manual receipts are issued for water bill collections, and customers are required to pay their water bills with checks or money orders. Reed employs a Water Clerk, who collects water bill payments, issues receipts, and posts payments to customer accounts in the computer system. The funds are then given to the Town Treasurer, who makes bank deposits.

RESULTS OF REVIEW

Unaccounted for Funds

ALA staff's comparison of receipts with deposits for the period January 1, 2022 through December 31, 2022, revealed \$2,583 in unaccounted for funds: \$1,229 in undeposited receipts and \$1,354 in receipts that were voided for no apparent reason. ALA staff also noted unexplained adjustments made in the computer system to the balances of several customers' accounts. It appears the Reed Water Clerk, whose employment was terminated on August 11, 2023, made the adjustments and was custodian of the undeposited funds.

ARKANSAS LEGISLATIVE AUDIT

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 • Fax: 501-683-8605

www.arklegaudit.gov

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Report Date: November 21, 2023



Internal Control Deficiencies

ALA review revealed the following internal control deficiencies:

- Inadequate segregation of duties.
- Daily receipts reports not reconciled to bank deposits.
- Inadequate fiscal oversight by management.
- Water account adjustments made without approval.

RECOMMENDATIONS

ALA staff recommend that financial duties be segregated to the extent possible and daily receipts reports be reconciled to bank deposits. In addition, management should exercise proper fiscal oversight, ensure these controls are established, and monitor controls to ensure adherence. Finally, water account adjustments should have prior approval from someone other than the Water Clerk.

MANAGEMENT RESPONSE

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

SUMMARY

ALA review revealed \$2,583 in unaccounted for funds, several unexplained adjustments made in the computer system to customers' account balances, and internal control deficiencies. It appears the Reed Water Clerk made the adjustments and was custodian of the unaccounted for funds. The Water Clerk's employment was terminated on August 11, 2023.

This report was referred to the Tenth Judicial District Prosecuting Attorney and the Attorney General.

Appendix A

Management Response



City of Reed, Arkansas

P. O. Box 139

Tillar, AR 71670

(P) 870-392-2610

(F) 870-392-2000

December 2, 2023

Ms. Kim Williams, CPA, CFE, CFF
Assistant Legislative Auditor
500 Woodlane Street, Suite 172
Little Rock, Arkansas 72201-1099

Dear Ms. Williams:

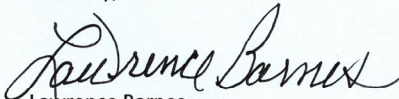
I am writing this letter in response to the Investigative Report of the financial records for the Town of Reed Water and Sewer Department.

After receiving and disclosing the report, I want to ensure you the Internal Control Deficiencies have been addressed and measures taken to prevent future problems. I fully accept your recommendation as follows:

- Segregated financial duties.
- Reconcile daily receipts with bank deposits.
- Management will exercise proper fiscal oversight.
- Water account adjustments will be approved by the mayor.

If you have any further questions or concerns, please contact me at my personal email address or cell phone number, 870-222-8392.

Sincerely,


Lawrence Barnes
Mayor

