

# ***Investigative Report***

## ***Arkansas Legislative Audit***

### **Review of Selected Transactions**

### **Spadra-Goose Camp Water Users' Association**

January 1, 2020 through December 31, 2021



## **INTRODUCTION**

This report is issued pursuant to a request from the 5th Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review selected financial records of the Spadra-Goose Camp Water Users' Association (Association). Of specific concern were improper disbursements noted in a 2020 agreed-upon procedures and compilation (AUP) report prepared by a certified public accounting (CPA) firm.

## **OBJECTIVES**

Objectives of this review were to determine if:

- Disbursements were for proper Association purposes.
- The improper disbursements noted in the 2020 AUP report have been repaid.
- Water bill collections and water meter deposits were properly deposited in Association bank accounts.
- The Association complied with Arkansas Code requirements for obtaining annual financial audits or AUP reports.
- Internal controls over the Association's disbursement process were adequate.

## **SCOPE AND METHODOLOGY**

This review was conducted primarily for the period January 1, 2020 through December 31, 2021. Receipts recorded in the computer system, bank statements, deposit slips, cancelled check images, and invoices were examined. In addition, reports prepared by the CPA firm were analyzed, various individuals were interviewed, and applicable Arkansas Code was reviewed.

## **BACKGROUND**

The Association is a nonprofit corporation that provides water service to a rural area of Johnson County and is governed by a six-member Board of Directors (Board). The Association employs a Bookkeeper and a Water Clerk, who are responsible for collecting, receipting, and depositing Association funds, as well as posting water bill payments to customer accounts in the computer system. The Bookkeeper is also responsible for disbursing Association funds.

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During the 2020 AUP engagement, the Bookkeeper informed the CPA firm that she accidentally used the Association's credit card for personal purchases from 2018 through 2020. The Bookkeeper provided a list of these personal purchases, totaling \$1,930, to the CPA firm and the Board.

At a Board meeting held on December 27, 2021, the Bookkeeper explained that the Association credit card and her personal credit card look identical, other than the number, and she simply used the wrong card. The Board agreed to allow the Bookkeeper to repay the funds in monthly installments.

The Board also questioned the Bookkeeper about a \$500 check she wrote to herself in October 2020. The Bookkeeper explained that an electrician agreed to assist the Association's Maintenance Supervisor with a project for a \$500 cash payment. She then wrote a check to herself, cashed it, and put the cash under the cash drawer at the office, with the intention of giving the cash to the electrician when the work was completed. However, the services were never provided, and the cash remained at the office. The Board instructed the Bookkeeper to deposit this cash, and the funds were redeposited on January 3, 2022.

## **RESULTS OF REVIEW**

### **Review of Bank Deposits and Disbursements**

ALA staff review of Association financial records revealed the following:

- No improper disbursements were noted other than those previously reported by the Bookkeeper. However, invoices could not be located for four additional charges to the Association's credit card totaling \$665; therefore, the validity of these charges could not be determined.
- The Bookkeeper has made sporadic payments since January 2022 to repay the \$1,930 in improper disbursements. As of August 24, 2023, \$1,200 had been repaid, leaving \$730 due the Association.
- All water bill collections and water meter deposits appeared to be properly deposited in Association bank accounts.

### **Financial Audit Information**

For the years ended December 31, 2019, 2020, and 2021, the Association was in substantial compliance with Ark. Code Ann. § 14-234-119, which requires that the Association obtain annual audits or agreed-upon procedures and compilation reports within one year of its fiscal year-end.

ALA staff noted the 2020 AUP report, dated December 23, 2021, disclosed that "Two disbursements to an employee were not adequately documented. One disbursement was a credit card charge for a personal expense. Employee mistakenly used a company credit card. This charge was posted to Employee Receivable and has not been repaid. There was no documentation of approval for an employee loan. Another disbursement check made out to an employee for \$500 to cash to pay a vendor. The vendor was subsequently not hired. There was no documentation to support this check."

## **Internal Control Deficiencies Over the Disbursement Process**

ALA staff review indicated internal control deficiencies over the Association's disbursement process as follows:

- Adequate supporting documentation was not maintained for all disbursements.
- Checks were issued to the Bookkeeper and cashed without documentation or Board approval.
- Management did not provide adequate fiscal oversight.

## **RECOMMENDATIONS**

ALA staff recommend that adequate documentation be maintained to support all disbursements and management exercise proper fiscal oversight. Management should ensure internal controls are established over the disbursements process and monitor controls to ensure adherence. Furthermore, Association funds should only be used for a business purpose, and the Board should ensure collection of the outstanding balance due the Association.

## **MANAGEMENT RESPONSE**

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

## **SUMMARY**

ALA review revealed \$665 in undocumented disbursements, the validity of which could not be determined. Of the \$1,930 in improper disbursements reported by the Bookkeeper and disclosed in the Association's 2020 AUP report, \$1,200 has been repaid, leaving \$730 due the Association as of August 24, 2023. No additional improper disbursements were noted. Additionally, based on ALA's review of receipts/deposits, it appears that all funds were properly deposited. The Association is compliant with Ark. Code Ann. § 14-234-119, which requires that annual audits or agreed-upon procedures and compilation reports be obtained within one year of the Association's fiscal year-end.

This report has been forwarded to the 5th Judicial District Prosecuting Attorney and the Attorney General.

**Appendix A**  
**Management Response**

Oct. 25, 2023

To whom it may concern,

Upon completion of the Legislative Audit and the Exit Meeting with Jimmy Locke, Senior Auditor, on Oct. 19, 2023, the following steps plan to be implemented by the board to prevent any further occurrences of the events that were in question.

The board intends to monitor the finances closer each month by reviewing the bank statements and verifying any questionable expenses.

The accounts payable have always been presented to the board, discussed and approved by the board at each meeting.

They will also be monitoring the accounts receivables balances with the bank deposits.

Concerning the usage of the wrong credit card by the Bookkeeper and reported to the CPA by the Bookkeeper, she has paid back \$1200 of the \$1930 to the O&M account and hopes to have the remainder paid by the end of the year. The board has, and will continue to monitor this.

Thank you for your time on this matter,

Ruth Ann Duran, Secretary  
Spadra -Goosecamp Water Users Association

