

Investigative Report

Arkansas Legislative Audit

Review of Selected Financial Records City of Magnolia Water and Sewer Department

January 1, 2023 through October 30, 2023



INTRODUCTION

This report is issued in response to a request from the 13th Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review selected financial records of the City of Magnolia (City) Water and Sewer Department (Department). ALA staff assistance was requested after City officials discovered that Department funds were misappropriated.

OBJECTIVES

Objectives of this review were to:

- Determine if all funds were properly deposited in Department bank accounts.
- Determine if the Department complied with Arkansas Code requirements for obtaining annual financial audits.
- Assess internal controls for adequacy.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2023 through October 30, 2023. ALA staff reviewed relevant Department financial records, including receipts recorded in the computer system, bank statements, deposit slips, computer-generated reports, and other documentation. In addition, audit reports issued by a private certified public accounting (CPA) firm were reviewed, certain City personnel were interviewed, and the Department's internal controls were assessed for adequacy.

BACKGROUND

Located in Columbia County, Magnolia is a municipality of the first class operating under the mayor-council form of government. The City Council consists of eight members who govern the City and its Water and Sewer Department. The Department provides water and sewer services to approximately 4,000 customers. The City employs a Water Department Supervisor who is responsible for reconciling daily collections and preparing bank deposits.

ARKANSAS LEGISLATIVE AUDIT
500 Woodlane Street, Suite 172, Little Rock, AR 72201
Phone: 501-683-8600 • Fax: 501-683-8605
www.arklegaudit.gov

Report ID: IROE01522

Report Date: August 6, 2024



The employment of the individual who served as Water Department Supervisor during the review period was terminated in October 2023 after City officials discovered improperly voided receipts and improper adjustments to a customer account. During an interview with Arkansas State Police on November 1, 2023, Water Department Supervisor Mandy Ezell acknowledged misappropriating Department funds.

RESULTS OF REVIEW

Misappropriated Funds

Based on ALA staff review of voided receipts and account adjustments, it appears that receipts totaling \$15,108 were improperly voided, and improper adjustments were posted to customer accounts by the Water Department Supervisor. These improper transactions allowed funds to be misappropriated and the misappropriation to not be detected timely.

It should be noted that the Department's computer system only retains voided receipt information for two months, making information for receipts voided prior to September 7, 2023, unavailable. Therefore, the actual amount of misappropriated funds could be higher.

Financial Audit Information

For the years ended December 31, 2021 and 2020, the City was in substantial compliance with Ark. Code Ann. § 14-234-119, which requires that the Department obtain annual financial audits within one year of the Department's fiscal year-end. The audit reports disclosed that the Department did not adequately segregate financial accounting duties to reduce the risk of fraud or error.

Internal Control Deficiencies

ALA review revealed the following internal control deficiencies:

- Financial accounting duties were not adequately segregated.
- Voided receipts and account adjustments were not always properly documented and did not require approval by another employee.
- Voided receipt information was only retained for two months in the computer system.
- Management did not provide adequate fiscal oversight.

RECOMMENDATIONS

ALA staff recommend that:

- Financial duties be segregated to the extent possible.
- Voided receipts and account adjustments be properly documented and approved.
- Controls be established to prevent the loss of voided receipt data.
- Management exercise proper fiscal oversight, ensure internal controls are established, and monitor controls to ensure adherence.

SUMMARY

ALA staff review of Department financial records revealed numerous improperly voided receipts and improper adjustments, totaling \$15,108, made to customer accounts during the period January 1, 2023 through October 30, 2023. Several internal control deficiencies contributed to funds being misappropriated and the misappropriation not being detected timely.

The employment of Water Department Supervisor Mandy Ezell was terminated in October 2023. During an interview with Arkansas State Police on November 1, 2023, Ezell acknowledged misappropriating Department funds.

ALA staff determined the Department was in substantial compliance with Arkansas Code requirements for obtaining annual financial audits.

This report has been forwarded to the 13th Judicial District Prosecuting Attorney and the Attorney General.

Appendix A
Management Response



August 14, 2024

State of Arkansas
Legislative Joint Auditing Committee
500 Woodlane Street, Suite 172
Little Rock, AR 72201

RE: City of Magnolia Water & Sewer Department Review of Selected Financial Records

To Whom it May Concern:

In response to the recommendations presented by the Committee of the review of selected financial records, we have implemented the following internal controls within the water and sewer department office operations:

- Each person who regularly takes payments on accounts have their own station to take payments, which include money drawer, reports, and duplicate receipts. This person balances their drawer at the end of the day and their supervisor double checks all money received for the day. This information is inputted into a spreadsheet and double checked the following morning prior to making the cash and check deposit.
- When the supervisor has to take a payment, they initial on the duplicate receipt paper to indicate that the transaction was performed by them.
- When receipts are voided a supervisor approves the void on duplicate receipt paper with their initials. Any adjustments done on an account are approved by a supervisor of the person performing the adjustment.
- The accounting software, Diversified, has confirmed that voided transaction history within the software is permanently stored. Clients are not able to retrieve this information, but the software company can do so upon request.
- Monthly the office of the Treasurer reconciles the bank statement to ensure all money is deposited to the account that the water department deposits per the daily reports.

Thank you for completing a review of our records. If anything more is needed please reach out to me or our staff.

Sincerely,



Mayor Parnell Vann

* * * * *

PO Box 1126 / 201 East North, Magnolia, Arkansas 71754
(870) 234-1375
MAGNOLIA-AR.COM

