

Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions Town of Wabaseka Water and Sewer Department

January 1, 2022 through December 31, 2022



INTRODUCTION

This report is issued in response to a request from the 11th-West Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review selected transactions of the Town of Wabaseka (Town) Water and Sewer Department (Department). The Prosecuting Attorney requested ALA assistance after receiving allegations that Department funds were possibly misappropriated.

OBJECTIVES

Objectives of this review were to:

- Determine if all funds were properly deposited in Department bank accounts.
- Determine if selected disbursements were for proper Department purposes.
- Determine if the Department complied with Arkansas Code related to obtaining annual financial audits or agreed upon procedures and compilation (AUP) reports.
- Assess internal controls over the Department's accounting processes.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2022 through December 31, 2022. ALA staff reviewed relevant Department financial records, including receipts recorded in the computer system, manual receipts, bank statements, deposit slips, cancelled check images, invoices, and other documentation. In addition, certain Town personnel were interviewed and the Department's internal controls were assessed for adequacy.

BACKGROUND

Located in Jefferson County, Wabaseka is an incorporated town operating under the mayor-council form of government. The City Council consists of five members who govern the Town and its Water and Sewer Department. The Department provides water and sewer services to approximately 115 customers.

The Town employs a Recorder/Treasurer who is responsible for receipting, depositing, and disbursing Department funds. The individual who served as Recorder/Treasurer during the review period resigned on January 17, 2023.

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RESULTS OF REVIEW

Unaccounted for Funds

Cash receipts exceeded cash bank deposits by \$1,250. The Recorder/Treasurer was responsible for bank deposits and was custodian of the undeposited funds.

Improper Disbursements

ALA staff review revealed improper disbursements totaling \$5,540 as follows:

- \$4,311 in undocumented payments to a business owned by a relative of the Recorder/Treasurer. Some of the checks indicated the payments were for a grant writing contract. However, Town officials could not locate a contract or any invoices to support the payments. Also, there is no indication that the Town Council approved this agreement, and Town officials are unaware of any services actually provided by the company.
- \$1,022 in fuel purchased for the Recorder/Treasurer's personal vehicle.
- \$36 in reimbursements to the Recorder/Treasurer for personal items (food/drinks).
- \$171 in undocumented reimbursements to the Recorder/Treasurer, the validity of which could not be determined.

The Recorder/Treasurer was responsible for disbursing Department funds.

Financial Audit/AUP Information

Audits or AUPs were not obtained within one year of the Department's fiscal year-end as required by Ark. Code Ann. § 14-234-119. Specifically, audits/AUPs for 2016 through 2021 were not obtained. An audit/AUP for 2022 was being conducted by a certified public accounting (CPA) firm at the time of fieldwork.

Internal Control Deficiencies

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, mistakes, errors, or noncompliance with applicable Arkansas Code, regulations, and policies. Failure to maintain adequate internal controls increases the risk of misappropriation of assets and potential waste and abuse of funds. The City Council did not ensure adequate internal controls were established and monitored. Specifically, the City Council did not ensure:

- Receipting and depositing duties were properly segregated.
- Receipts were reconciled with bank deposits.
- Invoices were retained to support some disbursements.
- Bank statements were reviewed monthly by someone other than the Recorder/Treasurer.
- Annual financial audits or AUP reports were obtained timely.
- Management provided adequate fiscal oversight.

RECOMMENDATIONS

ALA staff recommend the following:

- Receipting and depositing duties be segregated to the extent possible.
- Receipts be reconciled with bank deposits.
- Invoices be retained to support all disbursements.
- Bank statements be reviewed monthly by someone other than the Recorder/Treasurer.
- Annual audit or AUP reports be obtained within one year of the fiscal year-end, 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 undeposited cash totaling \$1,250 and improper disbursements totaling \$5,540 during the period January 1, 2022 through December 31, 2022. The improper disbursements included \$4,311 in undocumented payments to a business owned by a relative of the Recorder/Treasurer. The Recorder/Treasurer, who resigned in January 2023, was responsible for depositing and disbursing Department funds. Several internal control deficiencies contributed to funds being misappropriated and the misappropriation not being detected timely.

In addition, ALA staff determined the Department was not in compliance with Ark. Code Ann. § 14-234-119, which requires that the Department obtain annual audits or AUP reports within one year of the Department's fiscal year-end.

This report has been forwarded to the 11th-West Judicial District Prosecuting Attorney and the Attorney General.

Appendix A
Management Response

June 24, 2024

I am writing to let you know of the corrective actions we are taking regarding the recommendations provided concerning the receipting and depositing duties within Wabbaseka Water and Sewer Department.

We have carefully reviewed the recommendations and are committed to ensuring the integrity and efficiency of our financial processes. As a result, we have implemented the following corrective measures:

- **Segregation of Duties:** We will restructure our procedures to ensure clear segregation of receipting and depositing duties. This will prevent potential conflicts of interest and enhance the accuracy and accountability of our financial transactions.
- **Receipts Reconciliation:** We will establish a system to ensure that receipts reconcile with bank deposits accurately and timely.
- **Invoice Retention:** All invoices will be retained properly to maintain a clear record of all financial transactions.
- **Bank Statement Review:** Bank statements will be reviewed monthly by someone other than the recorder/treasurer to ensure transparency and accuracy.
- **Annual Audits or AUP Reports:** We will conduct an audit or Agreed-Upon Procedures (AUP) report within one year of the fiscal year-end to maintain compliance and financial integrity.

Also, the previous recorder/treasurer is no longer with us. We are confident that these changes will address the concerns raised and improve the efficiency and security of our financial operations.

We appreciate your attention to this matter and your ongoing support.

Thank you for your understanding and cooperation.

Sincerely,
Andrew Goodloe
Mayor

