

City of Dermott, Arkansas

Financial and Compliance Report

December 31, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF DERMOTT, ARKANSAS
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

Financial and Compliance Report

	<u>Schedule</u>
Schedule of Financial Information (Unaudited)	1
Combining Schedule of Financial Information – Special Revenue Funds (Unaudited)	2
Combining Schedule of Financial Information – Capital Projects Funds (Unaudited)	3
Other Information (Unaudited)	4

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Financial and Compliance Report

City of Dermott, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

A priority of Arkansas Legislative Audit is to assist local government officials by promoting sound financial management and accountability of government resources. The Legislative Auditor reports on the fiscal affairs of local governments, as well as compliance with relevant state laws and observance of good business practices to provide accountability for tax dollars expended to support government operations.

We have performed certain limited procedures with respect to cash basis financial information and compliance with certain state laws and accepted accounting practices for the City of Dermott, Arkansas, as of and for the year ended December 31, 2021, and have issued our report thereon dated July 26, 2023. These procedures were not performed for the Water and Sewer System and Nursing Home Funds. Management of the City is responsible for maintaining the financial records and complying with state laws and accepted accounting practices.

The findings contained in this section relate to the following officials who held office during 2021:

Mayor: Walter Donald
City Clerk: Kristen Bailey
District Court Clerk: Megan Charlton
Police Chief/Marshal: Eric Evans

We evaluated the City's compliance with certain state laws concerning general and district court accounting, budgeting, purchasing, and investing and depositing of public funds.

Mayor and City Clerk

The City paid a total of \$2,893 for overdraft fees and late fees in conflict with the "public purpose doctrine" discussed in Op. Att'y Gen. no. 91-410.

Accounting procedures for municipalities are set forth in the Municipal Accounting Law, Ark. Code Ann. §§ 14-59-101 - 14-59-119. The City was not in compliance with these codes and other proper accounting procedures as noted below:

- The bank accounts were not properly reconciled, and reconciliations were not approved by a municipal official or employee other than the preparer. A similar finding was noted in the previous report.
- Prenumbered receipts were not issued for all funds received.
- Adequate supporting documentation was not provided for tested disbursements of \$9,385 (10 of the 35 tested), and prenumbered checks were not always issued in sequential order. A similar finding was issued in the prior year.
- Our disbursements test revealed six disbursements totaling \$38,683 (17% of total tested) that were not properly classified.
- Cash receipts and disbursements journals were not prepared or provided for the Drug Control, Special Sales and Use Tax, Fire Equipment, Parks and Recreation, and Firemen's Pension Relief Funds. Significant amounts of General and Street Fund receipts and disbursements were not posted, resulting in unidentified amounts on Schedules 1 and 2.
- A fixed asset listing was established, but did not include additions, deletions, and some serial numbers.
- An annual financial statement was not prepared and published. A similar finding was noted in the previous three reports dating back to 2018.
- Financial statements were not provided to the City Council members on a monthly basis. A similar finding was reported in the prior year.
- The City failed to establish an ordinance that provides for internal accounting controls and documentation for audit purposes for its outside accounting service.

A lack of management oversight permitted these instances of noncompliance with the Municipal Accounting Law and proper accounting procedures. The effect of not following Municipal Accounting Law and proper accounting procedures precludes management from making appropriate, informed decisions on behalf of the City.

Check images provided by the bank were not in compliance with Ark. Code Ann. §§ 19-2-501 - 19-2-509 for the following accounts: Safe Routes to Schools and Fire Equipment Funds.

The Street Fund disbursements exceeded budgeted amount by \$96,168, in noncompliance with Ark. Code Ann. § 14-58-203.

Restricted Street Fund monies were improperly used for non-street related utility payments totaling \$13,515, in noncompliance with Ark. Code Ann. §§ 26-79-104, 27-70-207.

Mayor and City Clerk (Continued)

At December 31, 2021, the City owed the following funds for transfers of restricted cash, for which documentation was not provided.

1. General Fund owes Nursing Home Capital Improvement, Street, McDermott Cemetery, ARRPAA Recovery and Firemen's Pension Trust Funds, \$110,365, \$29,918, \$2,743, \$672, and \$614, respectively.
2. Street Fund owes Special Sales and Use Tax - Street and Water Fund \$197,471.
3. District Court Automation Fund owes Fire Equipment and Training Fund (Act 833) \$1,319.
4. Firemen's Pension Trust Fund owed General and Street Funds, \$11,364 and \$1,005, respectively.
5. Bond and Fine account owes General Fund \$1,462.
6. For amounts due from previous years, the General Fund made a payment to Nursing Home Capital Improvement Fund for \$5,500, and to McDermott Cemetery Fund for \$400. Street Fund made a payment to Special Sales Tax Street and Water Fund for \$4,000.

A similar issue was noted in the previous five reports dating back to 2016.

Mayor

The City Water and Sewer System did not obtain a financial audit or agreed-upon procedure and compilation report for the years 2016-2020 as required by Ark. Code Ann. §14-234-119. The City signed an engagement letter on August 29, 2019, for the 2016-2018 years; however, the City has not received the report from the CPA firm. A similar finding was issued in the previous report.

The City Council approved Dermott Ordinance no 2016-04 (June 13, 2016) designating the District Court Clerk as the individual primarily responsible for the collection of fines assessed in the district court; however, fines are being collected by the Police Department, in noncompliance with Ark. Code Ann. §16-13-709. A similar finding was issued in the previous two reports.

District Court Clerk

The balance in the District Court City bank account was not identified with receipts for cases not yet adjudicated and the payments made on all unpaid individual time accounts in the amount of \$15,353, in noncompliance with Ark. Code Ann. § 16-10-209.

A similar finding was noted in previous eighteen reports dating back to 2003.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local City government, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
July 26, 2023

CITY OF DERMOTT, ARKANSAS
SCHEDULE OF FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

Schedule 1

	General Fund	Special Revenue Funds	Capital Improvement Revenue Bond Debt Service Fund	Capital Projects Funds	Firemen's Pension Trust Fund
Cash and Investment Balance, January 1, 2021	\$ 298,799	\$ 37,571	\$ 586	\$ 5,737	\$ 346,449
Receipts:					
State aid	39,136	356,943			4,097
Federal aid	673	259,094		46,038	
Property taxes	39,772	12,089			7,169
Franchise fees	103,200				
Sales taxes	726,174				
Fines, forfeitures, and costs		1,260			
Interest	146	170		1	39,060
Local permits and fees	130				
Mosquito control	36,600				
Sanitation fees	175,931				
Contributions from water and sewer			8,463		
Other	494	9,450		1,015	
Transfers in	11,263	59,096		3,492	
Unclassified	267,620	66,494			
Total Receipts	<u>1,401,139</u>	<u>764,596</u>	<u>8,463</u>	<u>50,546</u>	<u>50,326</u>
Disbursements:					
General government	958,873	44,948	128		
Law enforcement	49,095	1,098			
Highways and streets	12,500	239,969			
Public safety	247	102,280		52,063	50,515
Sanitation	254,043				
Health	5,524				
Recreation and culture				930	
Contributions to water and sewer		17,324			
Wastewater		33,567			
Debt service	74,972	17,252	7,812		
Transfers out	58,588	14,313		950	
Unclassified	106,076	81,637			
Total Disbursements	<u>1,519,918</u>	<u>552,388</u>	<u>7,940</u>	<u>53,943</u>	<u>50,515</u>
Cash and Investment Balance, December 31, 2021	<u>\$ 180,020</u>	<u>\$ 249,779</u>	<u>\$ 1,109</u>	<u>\$ 2,340</u>	<u>\$ 346,260</u>

CITY OF DERMOTT, ARKANSAS
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (UNAUDITED)

Schedule 2

	Street	Municipal Judge and Clerk Retirement	Local Police and Fire Retirement (LOPFI)	Fire Equipment and Training (Act 833)	Home Repair	Drug Control	Yellow Bend	McDermott Cemetery	Safe Routes to Schools
Cash and Investment Balance, January 1, 2021	\$ 41,440	\$ 1,005	\$ 3,118	\$ 2,739	\$ 4,359	\$ 5,375	\$ 8,336	\$ 11,906	\$ (55,180)
Receipts:									
State aid	220,709			20,846					114,068
Federal aid									
Property taxes	12,089								
Fines, forfeitures, and costs									
Interest	63					3	7	28	
Other				3,000			5,417		
Transfers in	13,710			2,914				300	32,672
Unclassified	66,494								
Total Receipts	<u>313,065</u>			<u>26,760</u>		<u>3</u>	<u>5,424</u>	<u>328</u>	<u>146,740</u>
Disbursements:									
General government									
Law enforcement									
Highways and streets	239,969								
Public safety				23,559			4,804		73,897
Contributions to water and sewer									17,324
Wastewater									
Debt service	17,252								
Transfers out	14,313								
Unclassified	80,408			1,229					
Total Disbursements	<u>351,942</u>			<u>24,788</u>			<u>4,804</u>		<u>91,221</u>
Cash and Investment Balance, December 31, 2021	<u>\$ 2,563</u>	<u>\$ 1,005</u>	<u>\$ 3,118</u>	<u>\$ 4,711</u>	<u>\$ 4,359</u>	<u>\$ 5,378</u>	<u>\$ 8,956</u>	<u>\$ 12,234</u>	<u>\$ 339</u>

CITY OF DERMOTT, ARKANSAS
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (UNAUDITED)

Schedule 2

	Local Law Enforcement Grant	Nursing Home Capital Improvement	COPS Fast	Delta Regional Authority	District Court Automation	Special Sales Tax - Street and Water	American Rescue Plan Act (ARPA) Recovery	Total
Cash and Investment Balance, January 1, 2021	\$ 1	\$ 11,500	\$ 1,586	\$ 284	\$ 1,102			\$ 37,571
Receipts:								
State aid					1,320			356,943
Federal aid	2,550						\$ 256,544	259,094
Property taxes								12,089
Fines, forfeitures, and costs					1,260			1,260
Interest	1						68	170
Other	1,033							9,450
Transfers in		5,500				\$ 4,000		59,096
Unclassified							15	66,494
Total Receipts	<u>3,584</u>	<u>5,500</u>			<u>2,580</u>	<u>4,000</u>	<u>256,627</u>	<u>764,596</u>
Disbursements:								
General government							44,948	44,948
Law enforcement	1,053		20		25			1,098
Highways and streets								239,969
Public safety				20				102,280
Contributions to water and sewer								17,324
Wastewater							33,567	33,567
Debt service								17,252
Transfers out								14,313
Unclassified								81,637
Total Disbursements	<u>1,053</u>		<u>20</u>	<u>20</u>	<u>25</u>		<u>78,515</u>	<u>552,388</u>
Cash and Investment Balance, December 31, 2021	<u>\$ 2,532</u>	<u>\$ 17,000</u>	<u>\$ 1,566</u>	<u>\$ 264</u>	<u>\$ 3,657</u>	<u>\$ 4,000</u>	<u>\$ 178,112</u>	<u>\$ 249,779</u>

CITY OF DERMOTT, ARKANSAS
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - CAPITAL PROJECTS FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (UNAUDITED)

Schedule 3

	Fire Equipment	Parks and Recreation	Total
Cash and Investment Balance, January 1, 2021	\$ 2,503	\$ 3,234	\$ 5,737
Receipts:			
Federal aid	46,038		46,038
Interest		1	1
Other	1,015		1,015
Transfers in	3,492		3,492
Total Receipts	<u>50,545</u>	<u>1</u>	<u>50,546</u>
Disbursements:			
Public safety	52,063		52,063
Recreation and culture		930	930
Transfers out	950		950
Total Disbursements	<u>53,013</u>	<u>930</u>	<u>53,943</u>
Cash and Investment Balance, December 31, 2021	<u>\$ 35</u>	<u>\$ 2,305</u>	<u>\$ 2,340</u>

CITY OF DERMOTT, ARKANSAS
 OTHER INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (UNAUDITED)

1. Cash and investment balances on the Financial Schedules include demand and savings accounts, money market accounts, certificates of deposit bond funds and equity funds.
2. The General Fund column on the Financial Schedules includes the following bank accounts:
 General, General Escrow, General Equipment, Worker's Compensation, Franchise Tax, Fire Station Reserve, Mosquito Control, and General certificates of deposit.
3. Cash balances at year-end in the custodial funds are as follows:

	December 31, 2021
Police Bond and Fine	\$ 3,651
District Court	27,352
District Court - Civil/Small Claims	83
Payroll	736

These balances represent fines, forfeitures, and costs and payroll taxes that have not been transferred to the appropriate entities.

4. The Municipality's capital assets records are summarized below:

	December 31, 2021
Land	\$ 119,852
Buildings	2,690,500
Equipment	1,307,396
Total	\$ 4,117,748

5. Outstanding balances at year-end for long-term liabilities are as follows:

	December 31, 2021
Notes payable	\$ 284,111
Bonds payable	468,956
Total	\$ 753,067

CITY OF DERMOTT, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

6. Outstanding balances at year-end for long-term liabilities are as follows:

	December 31, 2021
Bonds Payable dated August 21, 2003, with United States Department of Agriculture in the amount of \$138,400, with interest rate of 4.75% for constructing and equipping a city hall. Monthly installments of \$651 for 40 years. Payments are to be made from the Capital Improvement Revenue Bond Fund.	\$ 102,308
Bonds Payable dated December 24, 2014, with United States Department of Agriculture in the amount of \$400,000, with interest rate of 3.5% for constructing and equipping a fire station. Monthly installments of \$1,568 for 40 years. Payments are to be made from the Franchise Fee Revenue Account(General Fund).	366,648
Note payable dated September 25, 2018, with Simmons Bank in the amount of \$30,000, with interest rate of 3.5% for the purchase of real estate. Monthly installments of \$500 for 44 months and one final payment of \$753. The original loan was extended to March 27, 2024. Payments are to be made from the General Fund.	12,526
Note payable dated September 24, 2014, with Simmons Bank in the amount of \$50,000, with interest rate of 3.5% for the purchase of paying past due federal payroll taxes. Monthly installments of \$911 for 60 month. Payments are to be made from the General Fund.	27,504
Note payable dated September 24, 2019, with First Service Bank in the amount of \$146,106, with interest rate of 4.5% for the purchase of paying past due federal payroll taxes. Monthly installments of \$1,518 for 44 months and one final payment of \$753. Payments are to be made from the General Fund.	118,049
Note payable dated November 18, 2019, with First Service Bank in the amount of \$180,300, with interest rate of 4.5% for the purchase an Asphalt Zipper. Quarterly installments of \$8,626 for 24 quarters. Payments are to be made from the General, Street, and Water/Sewer Funds.	126,032
Total	\$ 753,067

CITY OF DERMOTT, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

7. The City is obligated for the following amounts at December 31, 2021:

Years Ending December 31,	Notes	Bonds	Total
2022	\$ 173,411	\$ 26,628	\$ 200,039
2023	51,434	26,628	78,062
2024	43,719	26,628	70,347
2025	34,795	26,628	61,423
2026		26,628	26,628
2027 through 2031		133,140	133,140
2032 through 2036		133,140	133,140
2037 through 2041		133,140	133,140
2042 through 2046		98,188	98,188
2047 through 2051		94,080	94,080
2052 through 2054		52,365	52,365
Total Obligations	303,359	777,193	1,080,552
Less Interest	19,248	308,237	327,485
Total Principal	<u>\$ 284,111</u>	<u>\$ 468,956</u>	<u>\$ 753,067</u>

8. The City received federal funding in the following amount related to COVID-19 relief:

	December 31, 2021
American Rescue Plan Act (ARPA)	<u>\$ 257,217</u>

CITY OF DERMOTT, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

9. Deficit Fund Balance

The Schedules included on our Financial and Compliance reports are typically cash basis. We are including additional information here, as it was brought that the City of Dermott(City) had significant balances due to other funds at December 31, 2021. The information below begins with the cash balances for the General, Street and Other Funds in the Aggregate per Schedules 1 and 2 of this report and the cash balance for the Water and Sewer Fund as provided by the City. The computation includes increases and decreases to cash balances for amounts due to and due from funds within the City.

Balances as of December 31, 2021	General Fund [^]	Street Fund [^]	Equipment and Training (Act 833)	McDermott Cemetery [^]	Nursing Home Capital Improvement	District Court Automation
Cash balance per schedules	\$ 180,020	\$ 2,563	\$ 4,711	\$ 12,234	\$ 17,000	\$ 3,657
Cash balance per City records						
Due to other funds	(144,312)	(197,471)				(1,319)
Due from other funds	<u>12,826</u>	<u>31,498</u>	<u>1,319</u>	<u>2,743</u>	<u>110,365</u>	<u></u>
Restated Balances as of December 31, 2021	<u>\$ 48,534</u>	<u>\$ (163,410)</u>	<u>\$ 6,030</u>	<u>\$ 14,977</u>	<u>\$ 127,365</u>	<u>\$ 2,338</u>

Balances as of December 31, 2021	Special Sales Tax - Street and Water Fund	Recovery Fund	Firemen's Pension Trust	Bond and Fine - Custodial	[^] Water and Sewer Department
Cash balance per schedules	\$ 4,000	\$ 178,112	\$ 346,260	\$ 3,651	
Cash balance per City records					\$ 200,881
Due to other funds			(12,369)	(1,462)	(17,899)
Due from other funds	<u>197,471</u>	<u>17,996</u>	<u>614</u>	<u></u>	<u></u>
Restated Balances as of December 31, 2021	<u>\$ 201,471</u>	<u>\$ 196,108</u>	<u>\$ 334,505</u>	<u>\$ 2,189</u>	<u>\$ 182,982</u>

[^] The Water and Sewer fund was not included in our report.

^{^^} Includes operating cash and certificates of deposit in some balances