

City of Sulphur Springs, Arkansas

Financial and Compliance Report

December 31, 2020

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF SULPHUR SPRINGS, ARKANSAS
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FOR THE YEAR ENDED DECEMBER 31, 2020

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Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Financial and Compliance Report

City of Sulphur Springs, 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 Sulphur Springs, Arkansas, as of and for the year ended December 31, 2020, and have issued our report thereon dated August 26, 2022. These procedures were not performed for the Water and Sewer Fund. 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 2020:

Mayor: Shane Weber
Recorder/Treasurer: Aubrey Doss
District Court Clerk: Peggy Burke
Police Chief: Jarod Morgan

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.

Noncompliance with state law and accepted accounting practices was noted in the offices of **Mayor** and **Recorder/Treasurer**.

Mayor

On August 17, 2020, the City paid an attorney \$500 to set up a nonprofit organization, City of Sulphur Springs Foundation. In addition, the City paid \$11,671 on October 30, 2020, to this organization without a contract, in apparent conflict with Ark. Const. art. 12, § 5, as interpreted in Op. Att'y Gen. no. 1992-099.

Although Schedule 1 of this report shows a balance of \$30,443 in the General Fund, the City owed significant amounts to the Internal Revenue Service and had interfund payables and receivables at December 31, 2020. As shown in Note 6 on Schedule 3 of this report, when these outstanding amounts were considered, the General Fund had a deficit fund balance of \$260,451. Also shown in Note 6, the Water and Sewer Fund, although not included in this report, would have a deficit fund balance of \$24,678 based on information provided by the City. A similar finding was issued in the previous two reports.

The minutes of the governing body did not document the review of the prior year report and accompanying comments and recommendations at the first regularly scheduled meeting following receipt of the report, in noncompliance with Ark. Code Ann. § 10-4-418.

The City renewed a loan agreement with the Bank of Gravette on July 8, 2020, in the amount of \$125,498; the original loan agreement was entered on April 8, 2019, for \$150,000, for the purpose of paying past-due bills and consolidating vehicles loans. The loan appears to be in conflict with Ark. Const. Amendment 78, § 2, which limits short-term financing obligations for the acquiring, constructing, installing or renting of real property or tangible property having an expected useful life of more than one year. A similar finding was issued in the prior report.

Recorder/Treasurer

Cash receipts and disbursements journals were not always properly classified and posted, as required by Ark. Code Ann. §§ 14-59-110, -111. A similar finding was noted in the previous four reports dating back to 2012.

The following issues were noted regarding the City's receipting process, in noncompliance with Ark. Code Ann. §§ 14-59-109:

- Prenumbered receipts were not issued for all funds received.
- Funds received were not formally receipted at the time of collection or the earliest opportunity.
- Receipts did not consistently include the person or company from whom money was received, the purpose of the payment, or identification of the employee receiving money.

A similar finding was issued in the previous two reports.

Mayor and Recorder/Treasurer

Documentation of the approved salary or hourly rate of pay was not maintained for 2 employees selected for testing, as required by Ark. Code Ann. § 14-59-105. A similar finding was noted in the previous report.

Disbursement deficiencies were noted as follows:

- Invoices and supporting documentation were not properly maintained, in noncompliance with Ark. Code Ann. § 14-59-105.
- Authorization for payment was not documented on expenditures tested.

Disbursements were not always made by prenumbered check, and electronic funds transfers (EFTs) were noted without adequate approval from the governing body, as required by Ark. Code Ann. § 14-59-105.

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
August 26, 2022
LOM217820

CITY OF SULPHUR SPRINGS, ARKANSAS
SCHEDULE OF FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

Schedule 1

	General Fund	Special Revenue Funds
Cash Balance, January 1, 2020	\$ 14,473	\$ 62,905
Receipts:		
State aid	7,582	61,623
Federal aid	20,245	1,000
Property taxes	18,376	3,494
Franchise fees	21,168	
Sales taxes	164,419	
Fines, forfeitures, and costs	18,138	4,603
Interest		24
Local permits and fees	4,291	9,300
Contribution from water and sewer	4,395	172
Other	90,096	2,518
Transfers in	6,000	700
Total Receipts	<u>354,710</u>	<u>83,434</u>
Disbursements:		
General government	107,585	
Law enforcement	208,630	4,105
Highways and streets	500	48,577
Public safety		22,587
Recreation and culture	1,760	
Debt service	19,465	
Transfers out	800	5,900
Total Disbursements	<u>338,740</u>	<u>81,169</u>
Cash Balance, December 31, 2020	<u>\$ 30,443</u>	<u>\$ 65,170</u>

CITY OF SULPHUR SPRINGS, ARKANSAS
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (UNAUDITED)

Schedule 2

	Street	Fire Equipment and Training (Act 833)	Emergency Vehicle (Act 988)	Drug Operations	FEMA	Prisoner Housing (Incarceration)	Total
Cash Balance, January 1, 2020	\$ 24,952	\$ 13,153	\$ 1,840	\$ 940	\$ 20,700	\$ 1,320	\$ 62,905
Receipts:							
State aid	38,576	23,047					61,623
Federal aid		1,000					1,000
Property taxes	3,494						3,494
Fines, forfeitures, and costs	600		2,303	405		1,295	4,603
Interest	24						24
Local permits and fees		9,300					9,300
Contribution from water and sewer	172						172
Other	1,483	810	115			110	2,518
Transfers in	700						700
Total Receipts	<u>45,049</u>	<u>34,157</u>	<u>2,418</u>	<u>405</u>		<u>1,405</u>	<u>83,434</u>
Disbursements:							
Law enforcement			4,105				4,105
Highways and streets	48,577						48,577
Public safety		22,587					22,587
Transfers out	2,700			950	700	1,550	5,900
Total Disbursements	<u>51,277</u>	<u>22,587</u>	<u>4,105</u>	<u>950</u>	<u>700</u>	<u>1,550</u>	<u>81,169</u>
Cash Balance, December 31, 2020	<u>\$ 18,724</u>	<u>\$ 24,723</u>	<u>\$ 153</u>	<u>\$ 395</u>	<u>\$ 20,000</u>	<u>\$ 1,175</u>	<u>\$ 65,170</u>

CITY OF SULPHUR SPRINGS, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

Schedule 3

1. Cash balances on the Financial Schedules include demand and savings accounts and certificates of deposit.

2. The General Fund column on the Financial Schedules includes the following bank accounts:
General, Library, Park, Museum, and Police

3. Cash balances at year-end in the custodial funds are as follows:

	<u>December 31, 2020</u>
Payroll Fund	\$ 630
Administration of Justice Fund	71

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:

	<u>December 31, 2020</u>
Equipment	<u>\$ 244,618</u>

The Municipality's capital assets records did not contain cost amounts for land and buildings.

5. The outstanding balance at year-end for long-term liabilities is as follows:

	<u>December 31, 2020</u>
Notes payable	<u>\$ 126,670</u>

CITY OF SULPHUR SPRINGS, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

Schedule 3

6. Deficit Fund Balance

The schedules included on our Financial and Compliance Reports are routinely presented on a cash basis; however, we are including additional information as was noted in the prior year report. The City of Sulphur Springs (City) was delinquent in payments to the Internal Revenue Service (IRS), and amounts were due to the Street Fund from the General and Water & Sewer Funds. The information below begins with the cash balance per Schedules 1 and 2 of this report and the cash balance for the Water & Sewer Fund as provided by the City. The computation reflects increases and decreases in cash balances for amounts due to and due from funds within the City and the amount due to the IRS.

The amount due to the IRS at December 31, 2020, as provided by the city tax attorney was \$278,854 (not including all accruals of penalty and interest). The City sold land to Dollar General in December 2020 with proceeds of \$95,629 to be applied to the city's tax balances (not including accruals of penalty and interest) in January 2021. As of January 7, 2021, the balance due to the IRS (not including accruals of penalty and interest) was \$183,480.

As previously reported the City borrowed \$150,000 in April 2019, to pay past-due balances and consolidate vehicle loans. As the result of financial strain in April 2020, the City deferred the loan payments for 90 days and resumed payments in July 2020, with the deferred payments added to the end of the loan.

The December 31, 2020, total due to and due from balances remained unchanged from balances in the Deficit Fund Balance note in the 2019 report. However, in 2021, the City received bond proceeds from the Arkansas Insurance Department of \$182,434 that were used to repay these balances.

	General	Street	Fire Equipment and Training (Act 833)	Emergency Vehicle (Act 988)	Drug Operations	Incarceration	FEMA	^Water and Sewer
Balances as of December 31, 2020								
Cash balance per Schedules	\$ 30,443	\$ 18,724	\$ 24,723	\$ 153	\$ 395	\$ 1,175	\$ 20,000	
Cash balance per City records								\$ 35,501
Due to other funds	(39,351)		(941)					(60,179)
Due from other funds	27,311	73,160						
Due to the IRS	* (278,854)							
Restated cash balance as of 12/31/2020	<u>\$ (260,451)</u>	<u>\$ 91,884</u>	<u>\$ 23,782</u>	<u>\$ 153</u>	<u>\$ 395</u>	<u>\$ 1,175</u>	<u>\$ 20,000</u>	<u>\$ (24,678)</u>

* This amount includes payroll taxes attributable to General, Street, Fire, and Water Funds in total, as the individual fund amounts were not available. The amount due to the IRS was reduced by \$95,629 in January 2021, due to the sale of city land that had a federal tax lien; therefore, the proceeds of the sale were settled to the IRS.

^ The Water and Sewer Fund was not included in our report.

CITY OF SULPHUR SPRINGS, ARKANSAS
OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

Schedule 3

7. The City received federal funding in the following amounts related to COVID-19 relief

	December 31, 2020
Coronavirus Aid, Relief and Economic Security Act (CARES)	<u>\$ 20,245</u>