

# **Special Report**

## **Arkansas Legislative Audit**

### **Review of Selected Policies, Procedures, and Transactions**

#### **Six Regional Solid Waste Management Districts**

For the Period July 1, 2020 through December 31, 2021



## **INTRODUCTION**

This report is issued pursuant to Ark. Code Ann. § 8-6-704, which requires Arkansas Legislative Audit (ALA) to review selected policies, procedures, and transactions of Arkansas's regional solid waste management districts (Districts). For this report, ALA randomly selected six Districts for review. The locations of the 19 Districts in the State are shown in **Exhibit I on page 2**.

## **OBJECTIVES**

The objectives of this review were to determine if the Districts adhered to laws and regulations pertaining to Districts and their Boards of Directors (Boards); competitive bidding; payroll; landfill use; and transactions involving Board members, administrators, and employees. Other objectives were to assess internal control processes related to cash, revenues, receipting, and disbursements.

## **SCOPE AND METHODOLOGY**

The review was conducted for the fiscal year ended June 30, 2021, for the White River District and for the calendar year ended December 31, 2021, for the Boston Mountain, Carroll County, Faulkner County, West River Valley, and Upper-Southwest Districts. For each District randomly selected, ALA staff reviewed minutes of Board meetings; pertinent policies, contracts, bank statements, journal entries, expenditure and payroll records, travel expense reimbursements, and credit card and purchasing card (P-card) payments to vendors; related party transactions; applicable Arkansas Code; and audit reports issued by private certified public accounting (CPA) firms. In addition, certain internal control procedures were assessed for adequacy, and key personnel were interviewed.

## **BACKGROUND**

### **Establishment of Regional Solid Waste Districts**

Act 870 of 1989 created eight "Regional Solid Waste Planning Boards" in the State, with their duties to include preparation of regional solid waste needs assessments and issuance of "certificates of need" to applicants for solid waste disposal facility permits within their jurisdictions. Act 752 of 1991 renamed the Planning Boards as "Regional Solid Waste Management Districts" and required that each District be governed by a Regional Solid Waste Management Board. This act also expanded the powers and duties of the Districts and allowed the boundaries of the Districts to be modified. Waste tires, composting, recycling, and hauler licensing requirements were included in the responsibilities added to the Districts as a result of Act 752 of 1991. Currently, the State has 19 Districts, as shown in **Exhibit I on page 2**.

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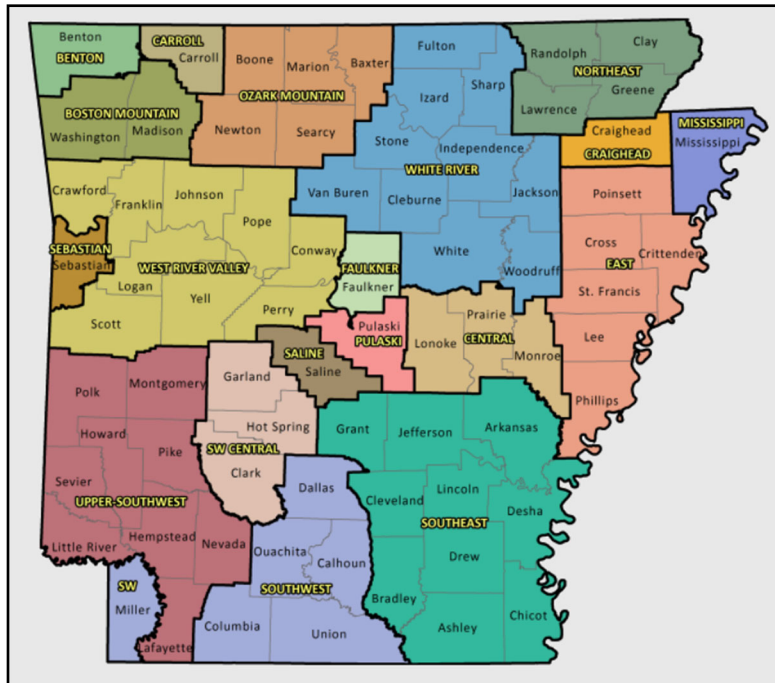
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**Exhibit I**

**Arkansas's Regional Solid Waste Management Districts**



**Source:** Arkansas Department of Energy and Environment website:  
<https://www.adeq.state.ar.us/> (unaudited by Arkansas Legislative Audit)

**Private Audit Reports**

Ark. Code Ann. § 8-6-704 requires the Districts to obtain an annual audit of their financial statements from a private CPA firm.

The audit reports for the calendar year ended December 31, 2021, contained no findings for the following Districts: Carroll County, Faulkner County, and West River Valley.

The audit reports for both the Boston Mountain and Upper-Southwest Districts, for the calendar year ended December 31, 2021, contained one finding relating to lack of segregation of financial accounting duties due to limited resources. The Boston Mountain District responded that it has changed certain procedures to improve the overall lack of segregation of duties and has implemented compensating procedures as applicable. The Upper-Southwest District responded that management will evaluate internal controls and make all changes deemed appropriate that are cost beneficial. To improve controls, the Upper-Southwest District has engaged an accounting firm to review transactions and compile financial information monthly.

The audit report for the White River District, for the fiscal year ended June 30, 2021, contained two significant deficiencies, including lack of segregation of duties and a material misstatement to the financial statements. The White River District responded that accounting duties will be segregated to the extent possible, and reporting updates were completed by fiscal year-end to correct misstatements.

## RESULTS OF REVIEW

The sections below provide brief background information for each of the six Districts randomly selected for review, as well as reportable findings. Finding 1 for the Carroll County District and Findings 1 and 2 for the Faulkner County District were referred to the Nineteenth-East and Twentieth Judicial District Prosecuting Attorneys, respectively, as well as the Attorney General, for further review, as required by Ark. Code Ann. § 10-4-419. **Exhibit II** provides a summary of the findings by both private CPA firms and ALA for the six Districts reviewed.

### Exhibit II

#### Summary of Private Audit and ALA Findings Applicable to the Six Regional Solid Waste Management Districts Selected for Review by ALA

Regional Solid Waste Management District	Private Audit Findings (Note 1)		Arkansas Legislative Audit Findings				
	Lack of Segregation of Duties	Lack of Internal Controls - Material Misstatement	Improper Disbursements (Note 2)	Related Party Transactions (Note 2)	Violations of Arkansas Code (Note 3)	Internal Control Issues (Note 4)	Payroll Issues
Carroll County				✓		✓	
Faulkner County			✓	✓	✓	✓	✓
West River Valley					✓	✓	
Upper-Southwest	✓				✓	✓	
White River	✓	✓				✓	
Boston Mountain	✓						

**Note 1:** As noted on page 2 of the report, the audit reports for the Districts were completed for various fiscal year-ends.

**Note 2:** These findings were referred to the Nineteenth-East and Twentieth Judicial District Prosecuting Attorneys, as applicable.

**Note 3:** These findings involve noncompliance with Arkansas Code sections related to the composition of District Boards of Directors, lack of documentation of audit report review in Board minutes, bid law violations, no written policy for electronic funds payment systems, and incomplete images of cancelled checks provided by banks.

**Note 4:** These findings involve prenumbered receipts not being used and itemized invoices not being maintained.

**Source:** Reports from District audits conducted by private certified public accounting firms (unaudited by Arkansas Legislative Audit) and Arkansas Legislative Audit review

### Carroll County Regional Solid Waste Management District (Carroll County District)

#### Board Composition

The Carroll County District provides services to Carroll County and the cities within it. The Board is comprised of the Mayors of Berryville, Eureka Springs, Green Forest, and Holiday Island, as well as the County Judge. The Carroll County District operates as an independent entity with its own management and employees.

#### Sources and Uses of Funds

The Carroll County District received several types of revenue, including grants for recycling, e-waste, and waste tires; proceeds from the sale of recyclables; per capita fees from participating entities; rental income; hauler license fees; dumpster rental fees; and proceeds from trash hauling services. The Carroll County District directly operates recycling and waste disposal programs and pays expenditures associated with these programs, including salaries and wages, employee benefits, recycling and waste disposal program costs, and other related costs.

## **Findings**

**Finding 1:** In 2021, the Carroll County District paid \$11,413 to the Executive Director's spouse for cleaning and miscellaneous services without Board approval.

**Management Response:** *Recognizing that service is currently performed and compensated for by members of the Executive Director's family, the Board of Directors will approve a resolution reciting the terms of such service and specifically giving Board authority for such service and identifying the Deputy Director as the official authorized to approve compensation for such members.*

Finding 1 will be forwarded to the Nineteenth-East Judicial District Prosecuting Attorney and the Attorney General.

**Finding 2:** Accepted accounting practices provide that all income be formally receipted by use of receipts prenumbered by a printer or an electronic receipting system that accomplishes the same purpose as prenumbered receipts. The Carroll County District did not issue prenumbered receipts for all income received.

**Management Response:** *The preponderance of revenues received by the District comes in the form of solid waste services payment by trash customers. These transactions are managed within the solid waste management software program entitled Trash Flow. After this reportable finding, we contacted the program vendor and negotiated the addition of a sequential number field to accompany all revenue transactions. It has been the practice of the District for some time to record All District Revenue through Trash Flow, whether a trash payment or not.*

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## **Faulkner County Regional Solid Waste Management District (Faulkner County District)**

### **Board Composition**

The Faulkner County Regional Solid Waste District provides services to Faulkner County and the cities within it. The Board is comprised of the County Judge, Mayors of all cities with population over 2,000, the Mayor of Guy, the County Road Foreman, and a representative from Conway Corporation, Inc. The Faulkner County District operates as an independent entity with its own management and employees.

### **Sources and Uses of Funds**

The Faulkner County District received several types of revenue, including grants for waste tires, recycling, and e-waste; hauler permits; and a host fee of half of \$1.50 per ton of waste collected in the District and disposed of in other Districts. The District directly operates recycling programs and pays expenditures associated with these programs, including salaries and wages, employee benefits, program costs, and other related costs.

The Faulkner County District is also party to an Inter-District Waste Tire Management Program Tire Collection and Processing Contract between a waste tire contractor and five Districts. The contract stipulates that the program be managed by the Pulaski County Regional Solid Waste District (Pulaski County District); therefore, all waste tire grant revenues allocated to the Faulkner County District are deposited directly with the Pulaski County District, which processes the expenditures.

## **Findings**

**Finding 1:** The following three payroll items were not properly approved by the Board:

- Payments totaling \$41,261 made to employees' family members.
- Bonuses totaling \$2,108 paid to the Director, Office Manager, Administrative Assistant, and Recycling Collector.
- Salary and wage rates.

**Management Response:** *These payments were, for the most part, paid to one full-time employee. The remainder was for short-term contract labor. From this point forward, all salary, wage rates, and bonuses will be approved by the Board in advance.*

**Finding 2:** The Faulkner County District disbursed \$792 for deluxe meat boxes given to Board members, staff, and other individuals, in noncompliance with the public purpose doctrine and Op. Att'y Gen. no. 2012-094. The Office Manager subsequently reimbursed the District \$250.

**Management Response:** *Board members and others will no longer receive unauthorized gifts as a private purpose from the use of public funds.*

Findings 1 and 2 will be forwarded to the Twentieth Judicial District Prosecuting Attorney and the Attorney General.

**Finding 3:** The Faulkner County District's Board meeting minutes did not document the review of the prior-year audit report, as required by Ark. Code Ann. § 8-6-704.

**Management Response:** *The annual audit report was found in the recorded minutes date 7/23/21. We also have attached a copy of the board minutes showing Bo Conner/Sartain Accounting Firm was in attendance. In the recording, the audit was read to the Board of Directors and approved. In the future, the board minutes will provide confirmation and approval of each annual audit.*

**Finding 4:** Accepted accounting practices provide that all income be formally receipted by use of receipts prenumbered by a printer or an electronic receipting system that accomplishes the same purpose as prenumbered receipts. The Faulkner County District did not issue prenumbered receipts for or retain documentation for revenue received. Additionally, the District did not prepare deposit slips with details of payments received.

**Management Response:** *Current District practice includes the use of prenumbered receipts for revenue received and will continue this in the future. The District will prepare deposit slips with details of all payments received along with the receipt number for each payment in the future.*

**Finding 5:** The Faulkner County District did not establish an electronic funds payment system with written policies and procedures for internal accounting controls and documentation for audit and accounting purposes.

**Management Response:** *The District currently utilizes electronic funds transfer payments only for payroll taxes. The District is currently consulting with Conner and Sartain to commence policies and procedures to present to the board for approval.*

**Finding 6:** The Faulkner County District did not solicit competitive bids for the purchase of a truck totaling \$37,335, as required by with Ark. Code Ann. §§ 8-6-704, 14-22-104.

**Management Response:** *Truck was purchased through County Judge's office for a price of 18% below MSRP. In the future, all purchases over the amount of \$35,000 will be acquired through a competitive bid process.*



**Finding 7:** Check images provided for Faulkner County District bank accounts did not include both sides of cancelled checks, in noncompliance with Ark. Code Ann. §§ 19-2-501 – 19-2-509.

**Management Response:** *The District's bank has been notified of the need to provide the District with copies of both sides of all cancelled checks starting immediately.*

**Finding 8:** Accepted accounting practices provide that adequate supporting documentation and approval be maintained for all disbursements. The Faulkner County District did not maintain supporting documentation for all disbursements, and there was no indication of management approval.

**Management Response:** *The District will maintain supporting documentation in the form of a permanent stamp that requires the Director's signature for approval on all disbursements.*

**Finding 9:** The composition of the Faulkner County District's Board appears contrary to Ark. Code Ann. § 8-6-703, which states, in part, "...Each board shall be composed of... All cities of the first class...All cities with a population over two thousand (2,000)...[and] The largest city of each county....Each board shall have a minimum of five (5) members. If the number of members serving...is less than five (5), additional members...shall be appointed by mutual agreement of the other board members and shall represent the general public...." The District's Board includes the Mayor of a city that does not meet any of these requirements, and an additional member from Faulkner County was approved by the Board, even though the number of members was greater than five. ALA staff recommend the District consult legal counsel to determine a resolution to this matter.

**Management Response:** *Faulkner County Solid Waste Management District Board members deemed ineligible by state statute have been notified and will no longer serve on the board as of 10/17/23. This leaves board members representing Faulkner County and the cities of Conway, Greenbrier, Vilonia, and Mayflower.*

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## **West River Valley Regional Solid Waste Management District (West River Valley District)**

### **Board Composition**

The West River Valley District provides services to Conway, Crawford, Franklin, Johnson, Logan, Perry, Pope, Scott, and Yell Counties. The Board is comprised of the County Judge from each County, as well as the Mayors of Alma, Atkins, Booneville, Charleston, Clarksville, Dardanelle, Morrilton, Ozark, Paris, Perryville, Pottsville, Russellville, Van Buren, and Waldron. The West River Valley District operates as an independent entity with its own management and employees.

### **Sources and Uses of Funds**

The West River Valley District received several types of revenue, including grants for recycling, e-waste, and waste tires; hauling and sale of recyclables; rental income; interest; hauler license fees; a waste assessment fee of \$1.50 per ton of waste hauled from the District; proceeds from the sale of processed tires; and charges for services related to the disposal of waste from citizens and businesses collected at the various transfer stations in the District. The West River Valley District directly operates recycling and waste disposal programs and an Inter-District Tire

Program, which includes the Sebastian County Regional Solid Waste Management District. The District pays expenditures associated with these programs, including salaries and wages; employee benefits; recycling and waste disposal program costs; maintenance, repair, and upkeep of facilities and equipment; and other related costs.

## Findings

**Finding 1:** Check images provided for West River Valley District bank accounts did not include both sides of cancelled checks, in noncompliance with Ark. Code Ann. §§ 19-2-501 – 19-2-509.

**Management Response:** *The bank is now including images of both sides of cancelled checks with monthly statements.*

**Finding 2:** Accepted accounting practices provide that all income be formally receipted by use of receipts prenumbered by a printer or an electronic receipting system that accomplishes the same purpose as prenumbered receipts. The West River Valley District did not issue prenumbered receipts for all income received.

**Management Response:** *The District will obtain prenumbered receipts from the printer with sequential numbering of all receipts.*

**Finding 3:** The composition of the West River Valley District's Board appears contrary to Ark. Code Ann. § 8-6-703, which states, in part, "...Each board shall be composed of representatives of ...All cities with population over two thousand (2,000) according to the most recent federal decennial census...." The City of Danville has a population over 2,000 but does not have representation on the District's Board.

**Management Response:** *The District will add the City of Danville as an official member with representation at the next meeting of the Board of Directors.*

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## Upper-Southwest Regional Solid Waste Management District (Upper-Southwest District)

### Board Composition

The Upper-Southwest District provides services to Hempstead, Howard, Lafayette, Little River, Montgomery, Nevada, Pike, Polk, and Sevier Counties. The Board is comprised of the County Judges, as well as the Mayors of each city that serves as a county seat. The District operates as an independent entity with its own management and employees and also owns and operates a Class 1 and Class 4 landfill.

### Sources and Uses of Funds

The Upper-Southwest District received several types of revenue, including grants for recycling and waste tires; tipping fees charged at the landfill based on cubic yards of waste; proceeds from the sale of recyclables; hauling fees; rental income; waste tire fees and transportation; and interest. The District directly maintains and operates its landfill, tire processing facility, a recycling program, and an Inter-District Tire Program, which includes the Southwest Arkansas Regional Solid Waste Management District. The District pays expenditures associated with these programs, including salaries and wages, employee benefits, maintenance, repair, program costs, professional fees, upkeep of facilities and equipment, and other related costs.

## **Findings**

**Finding 1:** The composition of the Upper-Southwest District's Board appears contrary to Ark. Code Ann. § 8-6-703, which states, in part, "...Each board shall be composed of...All cities of the first class...All cities with a population over two thousand (2,000)... [and] The largest city of each county..." The individual Board contains members authorized in the Upper-Southwest District's bylaws rather than Ark. Code Ann. § 8-6-703.

**Management Response:** *We will consult with our legal counsel and make the appropriate corrections to the make-up of the Board of Directors at our December board meeting. It appears at a minimum we will be adding the Mayor of Glenwood and the Mayor of Stamps.*

**Finding 2:** Accepted accounting practices provide that all income be formally receipted by use of receipts prenumbered by a printer or an electronic receipting system that accomplishes the same purpose as prenumbered receipts. The Upper-Southwest District did not issue prenumbered receipts for all income received.

**Management Response:** *We will begin utilizing prenumbered receipts for all funds collected as soon as I can get the receipt books ordered.*

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## **White River Regional Solid Waste Management District (White River District)**

### **Board Composition**

The White River District provides services to Cleburne, Fulton, Independence, Izard, Jackson, Sharp, Stone, Van Buren, White, and Woodruff Counties. The Board is composed of the County Judges, as well as the Mayors of Augusta, Bald Knob, Batesville, Beebe, Cherokee Village, Clinton, Fairfield Bay, Heber Springs, Horseshoe Bend, McCrory, Melbourne, Mountain View, Newport, Salem, Searcy, Southside, and Tuckerman. Of the 27 District Board members, 17 are also on the Board of the White River Planning and Development District (WRPDD), which performs all management and accounting functions since the White River District has no employees. The Board designated WRPDD as the planning staff for the Board by resolution in 1991. The Board reimburses WRPDD for actual expenses incurred on the Board's behalf.

### **Sources and Uses of Funds**

The White River District received several types of revenue, including grants for recycling, e-waste, and waste tires; a host fee of \$1.00 per ton of waste disposed of at the District's facility; and waste tire trailer rental income. The White River District directly operates recycling and waste disposal programs and pays expenditures associated with these programs, including salaries and wages, employee benefits, program costs, and other related costs.

### **Finding**

**Finding:** Accepted accounting practices provide that all income be formally receipted by use of receipts prenumbered by a printer or an electronic receipting system that accomplishes the same purpose as prenumbered receipts. The White River District did not issue prenumbered receipts for income received. The District began issuing prenumbered receipts on January 10, 2022.



**Management Response:** *White River Regional Solid Waste Management District has utilized Grants Management System (GMS) since 2009. All cash receipt deposits are entered by the month deposited in a cash receipt batch listing every individual check received. Each check received is assigned a software transaction sequence number that prints on the cash receipt report. A paper copy of the check is maintained each month throughout the year for audit and filing purposes. There is also a cash received manual handwritten log of checks with payor, check number, and amount.*

*During December 2021 staff learned from another solid waste district that a prenumbered receipt book was required by Legislative Audit. We initiated that practice on January 10, 2022, and will continue that practice forward.*

## **Boston Mountain Regional Solid Waste Management District (Boston Mountain District)**

### **Board Composition**

The Boston Mountain District provides services to Madison and Washington Counties. The Board is comprised of each County Judge, as well as the Mayor (or representatives appointed by the Mayors) of Elkins, Farmington, Fayetteville, Goshen, Huntsville, Johnson, Lincoln, Prairie Grove, Springdale, Tontitown, and West Fork. The Boston Mountain District operates as an independent entity with its own management and employees.

### **Sources and Uses of Funds**

The Boston Mountain District received several types of revenue, including grants for recycling, e-waste, and waste tires; proceeds from the sale of recyclables; per capita fees from participating entities; rental income; interest; hauler license fees; a waste assessment fee of \$1.50 per ton of waste hauled from the District; and charges for services related to the disposal of waste from haulers and citizens collected at either the District's location or a drop-off center maintained by the City of Springdale. The Boston Mountain District directly operates recycling and waste disposal programs and pays expenditures associated with these programs, including salaries and wages, employee benefits, recycling and waste disposal program costs, and other related costs.

### **Findings**

ALA issued no findings for the Boston Mountain District.

## **SUMMARY**

ALA staff review of six randomly selected regional solid waste districts revealed internal control deficiencies, improper disbursements, related party transactions, payroll issues, and various violations of Arkansas Code, as summarized in **Exhibit II on page 3**.

One finding for the Carroll County District regarding related party transactions lacking Board approval and two findings for the Faulkner County District regarding related party transactions lacking Board approval and improper disbursements were referred to the Nineteenth-East Judicial District and Twentieth Judicial District Prosecuting Attorneys, respectively, as well as the Attorney General, for further review, as required by Ark. Code Ann. § 10-4-419.

