

Special Report

Arkansas Legislative Audit

Review of Selected Policies, Procedures, and Transactions

Used Tire Programs 2 and 4

For the Period June 6, 2023 through June 30, 2024



INTRODUCTION

This report is issued pursuant to Ark. Code Ann. § 8-9-410, which requires Arkansas Legislative Audit (ALA) to review selected policies, procedures, and transactions of Arkansas's Used Tire Programs (Programs). As required by Ark. Code Ann. § 8-9-410, ALA selected Used Tire Programs 2 and 4 for review. The locations of the four Programs in the State are shown in **Exhibit I on page 2**.

OBJECTIVES

The objectives of this review were to determine if the Programs adhered to laws and regulations pertaining to the Programs and their Tire Accountability Boards (Boards), competitive bidding, payroll, Tire Accountability Program (TAP) reporting, 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 from the date of inception of each Program through the fiscal year ended June 30, 2024. For each Program selected, ALA staff reviewed minutes of Board meetings; pertinent policies, contracts, bank statements, expenditure and payroll records, travel expense reimbursements, and credit card and purchasing card (P-card) payments to vendors; related party transactions; applicable Arkansas Code; TAP Quarterly Progress Reports submitted to the Division of Environmental Quality (DEQ), a division of the Department of Energy and Environment; and, if applicable, 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 Used Tire Programs

Act 713 of 2023 (Act) created four "Used Tire Programs" in the State "to address efficiency in tire processing, including without limitation transportation." The Act requires that each District be governed by a Tire Accountability Board (similar to a Board of Directors) composed of 11 members: (a) two county judges appointed from the two most populous counties in the Program, according to the most recent federal census; (b) five county judges elected by the county judges of the Program; and (c) four mayors elected by the mayors of all of the cities in the Program. The Act also authorizes Programs to enter into interlocal agreements to determine the highest level of efficiency regarding tire processing. The State has four Programs, as shown in **Exhibit I on page 2**.

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

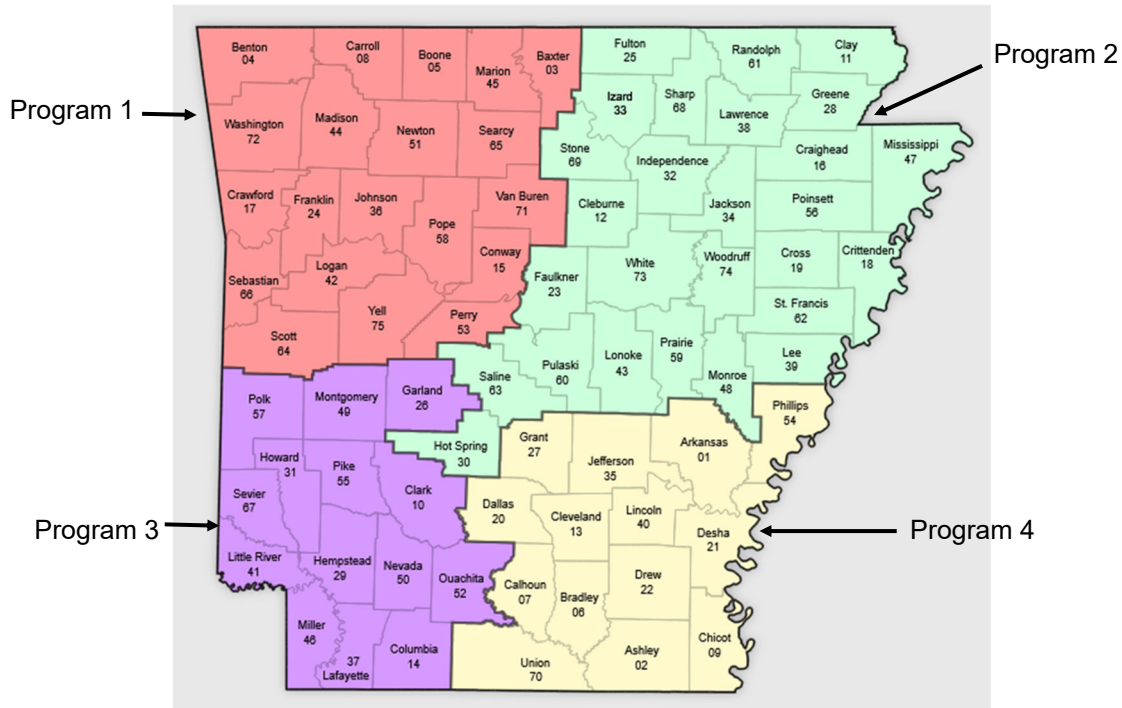
Report ID: SPUT002, 004

Report Date: April 9, 2025



Exhibit I

Arkansas's Used Tire Programs



Note: Map shows Program boundaries after taking into consideration all interlocal agreements.

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

Private Audit Reports

Accounts for Program 2 were included in the audit report for the Pulaski County Regional Solid Waste Management District, which manages the Program for the Board, for the year ended June 30, 2024. The audit was performed by a certified public accounting (CPA) firm and contained no findings.

Accounts for Program 4 are administered by the Southeast Arkansas Economic Development District (SEAEDD), which manages the Program for the Board. Historically, the Southeast Arkansas Regional Solid Waste Management District, including the used tire program it previously operated, was included in the annual financial statement audit of SEAEDD. SEAEDD intends to continue including the used tire program accounts, now operated by Program 4, in the annual financial statement audit of SEAEDD. As of the date of this report, an audit report was not available for SEAEDD for the year ended June 30, 2024.

RESULTS OF REVIEW

For all TAP reimbursements received by Programs 2 and 4 for the period August 21, 2023 through January 30, 2025, ALA noted no exceptions based on review of TAP Quarterly Progress Reports and the approved business plan rates. These reimbursements covered tires processed during the second quarter of 2023 through the fourth quarter of 2024 and totaled \$6,716,674 and \$830,047 for Programs 2 and 4, respectively.

The sections that follow provide brief background information for each of the Programs selected for review, as well as reportable findings, where applicable. Finding 1 for Program 2 was referred to the Sixth Judicial District Prosecuting Attorney and the Attorney General for further review, as required by Ark. Code Ann. § 10-4-419.

Used Tire Program 2 (Program 2)

Establishment

The Act mandated that Program 2 consist of Fulton, Sharp, Randolph, Clay, Izard, Lawrence, Greene, Stone, Independence, Jackson, Craighead, Mississippi, Cleburne, Faulkner, White, Poinsett, Woodruff, Cross, Pulaski, and Crittenden Counties. Program 2 entered into interlocal agreements with Program 3 and Program 4. The agreement with Program 3 stipulates that Program 2 will provide services to Saline and Hot Spring Counties. The agreement with Program 4 stipulates that Program 2 will provide services to Lonoke, Prairie, Monroe, St. Francis, and Lee Counties. Per the approved business plan, Program 2 serves 18,280 square miles and a population of 1,353,499 based on the most recent federal census.

During its organizational Board meeting, held on June 7, 2023, Program 2 adopted its bylaws, a resolution setting an extra-large tire fee at \$30 per tire, and the interlocal agreements noted above. Subsequently, on March 15, 2024, Arkansas Legislative Council (ALC) reviewed and approved the business plan for Program 2 and approved a tire reimbursement rate of \$2.86 per tire.

Board Composition

As previously mentioned, the Board is composed of 11 members: (a) the county judges from the two most populous counties in the Program, who are permanent members; (b) five county judges elected by the county judges of the Program; and (c) four mayors elected by the mayors of all of the cities in the program. As a result of an election facilitated by the County Judges Association of Arkansas and the Arkansas Municipal League, the Program 2 Board consists of (a) the county judges of Pulaski and Faulkner Counties; (b) the county judges of Crittenden, Independence, Izard, Mississippi, and Woodruff Counties; and (c) the mayors of Bono, Calico Rock, Osceola, and Walnut Ridge. Elected members of the Board serve three-year staggered terms.

Sources and Uses of Funds

Program 2 began operating under the new, approved business plan on April 1, 2024, and is comprised of the counties identified in **Exhibit I on page 2** and the cities within those counties. Program 2 receives used tire recycling funds from DEQ and fees on fee-waived paid tires.¹ The Program contracts with a Vendor for transportation and processing of waste tires. The Vendor is allowed to retain any monies derived from the sale of the aggregate produced from processed tires. Program 2 is managed by the Pulaski County Regional Solid Waste Management District (District), and the Program pays set percentages of the District's expenses for personal services and matching, insurance, rent, office, and other miscellaneous expenses, as noted in the Program's approved business plan.

Findings

Finding 1: Program 2 paid \$3,160 to a company owned by the Waste Tire Coordinator for data entry of waste tire manifests into the DEQ electronic portal without a contract or Board approval in the form of an ordinance or resolution, in noncompliance with Ark. Code Ann. § 21-8-1001. On March 13, 2025, the Board approved a contract with the company for the services, and the contract was signed and executed on March 24, 2025.

Management Response: *The District's Waste Tire Coordinator employed a third party to accomplish data entry, which requires in excess of 50 hours of data entry per month. The employment and payments to the third party were designed to have the required data entry*

¹"Fee-waived paid tires" are used tires for which no rim removal fee, commercial generator fee, or import fee has been collected, reported, and paid.

done by a contractor rather than hiring a full-time equivalent district employee to accomplish data entry. Your recommendation of having the district board approve a contract with the Waste Tire Coordinator's independent company for third-party payment was presented and approved unanimously by the Board on March 13, 2025, as noted in your finding. We have provided you with the contract and the minutes of the March 13 Board meeting.

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

Management Response: *We will immediately notify the Centennial Bank we need images of both sides of our checks rather than the front-side image the bank routinely provides. Our District CFO will provide those images to you.*

Finding 3: Prenumbered receipts were not issued for all items of income, in noncompliance with Ark. Code Ann. §§ 8-9-405, 14-25-108.

Management Response: *Our District CFO will ensure prenumbered receipts for all district income is acknowledged via prenumbered receipts.*

Finding 1 was forwarded to the Sixth Judicial District Prosecuting Attorney and the Attorney General for further review, as required by Ark. Code Ann. § 10-4-419.

Used Tire Program 4 (Program 4)

Establishment

The Act mandated that Program 4 consist of Grant, Jefferson, Arkansas, Phillips, Cleveland, Lincoln, Desha, Calhoun, Bradley, Drew, Ashley, Lonoke, Prairie, Monroe, St. Francis, Lee, and Chicot Counties. Program 4 entered into interlocal agreements with Program 2 and Program 3. The agreement with Program 2 stipulates that Program 2 will provide services to Lonoke, Prairie, Monroe, St. Francis, and Lee Counties. The agreement with Program 3 stipulates that Program 4 will provide services to Dallas and Union Counties. Per the approved business plan, Program 4 serves 10,773 square miles and a population of 257,545 based on the most recent federal census.

In an organizational Board meeting held on June 6, 2023, Program 4 adopted its bylaws, a resolution for SEAEDD to administer the Program for the Board, a resolution setting extra-large/agriculture tire processing at \$30 per tire, and the interlocal agreements noted above. Subsequently, on March 15, 2024, ALC reviewed and approved the business plan for Program 4 and approved a tire reimbursement rate of \$2.90 per tire.

Board Composition

As previously mentioned, the Board is composed of 11 members: (a) the county judges from the two most populous counties in the Program, who are permanent members; (b) five county judges elected by the county judges of the Program; and (c) four mayors elected by the mayors of all of the cities in the program. As a result of an election facilitated by the County Judges Association of Arkansas and the Arkansas Municipal League, the Program 4 Board consists of (a) the county judges of Jefferson and Lonoke Counties; (b) the county judges of Arkansas, Chicot, Ashley, Lee, and Grant Counties; and (c) the mayors of Forrest City, Dumas, Lake Village, and McGehee. The elected members of the Board serve three-year staggered terms.

Sources and Uses of Funds

Program 4 began operating under the new, approved business plan on April 1, 2024, and is comprised of the counties identified in **Exhibit I on page 2** and the cities within those counties. Program 4 receives used tire recycling funds from DEQ and fees on fee-waived paid tires. The Program contracts with a hauler to transport waste tires to the processing center operated at the Jefferson County Landfill; pays Jefferson County a per-ton fee to process, recycle, reuse, or dispose of all tires and by-products of processing; and pays fees for those by-products disposed of in a landfill.

Finding

Finding: Prenumbered receipts were not issued for all items of income, in noncompliance with Ark. Code Ann. §§ 8-9-405, 14-25-108. Prior to the report date, Program 4 obtained prenumbered receipts.

Management Response: *We have already begun using prenumbered receipts.*

SUMMARY

ALA staff review of Used Tire Programs 2 and 4 revealed conflicts of interest and violations of Arkansas Code, including check imaging not being sufficient and prenumbered receipts not being used.

Finding 1 for Program 2 has been referred to the Sixth Judicial District Prosecuting Attorney and the Attorney General for further review, as required by Ark. Code Ann. § 10-4-419.

