

Investigative Report

Arkansas Legislative Audit

Review of Receipts and Deposits Bald Knob Water and Sewer Department

January 1, 2015 through December 31, 2015



INTRODUCTION

This report is issued in response to a request for Arkansas Legislative Audit (ALA) to review receipts and deposits of the Bald Knob (City) Water and Sewer Department (Department). After the completion of a report by a private certified public accounting firm (CPA Firm) regarding allegations of misappropriated funds at the Department, the Seventeenth Judicial District Prosecuting Attorney (PA) requested ALA staff assistance.

OBJECTIVES

Objectives of this review were to:

- Determine if all funds were properly deposited.
- Determine if the Department obtained a financial audit, in compliance with Arkansas Code, and if so, ascertain the audit findings and type of opinion issued on the financial statements.
- Assess internal control over the Department's receipting and depositing processes.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2015 through December 31, 2015. ALA staff analyzed relevant Department financial records, including computer-generated receipt listings, bank statements, deposit slips, and other documentation; compared receipts with deposits; reviewed a report, entitled "Independent Accountants' Report on Alleged Misappropriation of Funds from City of Bald Knob, Arkansas Water and Sewer Department" (Special Report) prepared by the CPA Firm; and interviewed certain City and Department personnel. In addition, the Department's internal control relevant to the receipting and depositing processes was assessed for adequacy.

The methodology used in conducting this investigative review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

BACKGROUND

Located in White County, Bald Knob is a municipality of the first class operating under the mayor-council form of government. The City Council consists of six aldermen who govern the City and its Water and Sewer Department. The Department provides water and sewer services to properties within the City limits and certain properties outside the City limits. The Department receives an annual financial audit by a CPA firm.

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During 2015, Department personnel with bookkeeping responsibilities consisted of an Office Manager and a Water Clerk. Both individuals collected funds and maintained separate cash drawers. However, at the end of each day, all funds were remitted to the Water Clerk, along with a computer printout showing all funds collected that day. The Water Clerk was then responsible for preparing and making the bank deposit.

In July 2018, Department personnel discovered cash missing from several daily bank deposits. When questioned by Department personnel, the Water Clerk, whose employment was terminated on July 26, 2018, acknowledged misappropriating Department funds. The CPA Firm hired by the City determined that \$126,856 was misappropriated during the period January 2016 through July 2018, as shown in **Exhibit I**. The PA requested ALA staff assistance in determining if any additional funds were misappropriated in calendar year 2015.

RESULTS OF REVIEW

Unaccounted For Funds

Determined by ALA

ALA comparison of cash receipts entered in the Department’s computer system to cash bank deposits indicated receipts exceeded deposits by \$20,862 during the period January 1, 2015 through December 31, 2015, as shown in **Exhibit I**. As previously mentioned, the employment of the Water Clerk, who was responsible for bank deposits and was custodian of the funds not deposited, was terminated in July 2018. Based on additional procedures performed by ALA staff, it appears that all cash receipts were properly deposited for the two-month period (August and September 2018) following the Water Clerk’s termination.

Determined by CPA Firm

According to the Special Report issued by the CPA Firm, there was substantial evidence to allege that \$126,856 was misappropriated from the Department for the period January 1, 2016 through July 31, 2018, as shown in **Exhibit I**.

Exhibit I		
Bald Knob Water and Sewer Department		
Summary of Unaccounted For Funds		
For the Period January 1, 2015 through July 31, 2018		
	Time Period	Unaccounted For Funds
Analysis by ALA	January 1 - December 31, 2015	\$ 20,862
Analysis by CPA Firm*	January 1, 2016 - July 31, 2018	126,856
Total		\$ 147,718

* The conclusions reached by the CPA Firm were not verified by Arkansas Legislative Audit (ALA).

Source: Bald Knob Water and Sewer Department financial records and CPA Firm report (unaudited by Arkansas Legislative Audit).

Department Financial Audit Information

As required by Ark. Code Ann. § 14-234-119, the Department obtained annual financial audits conducted by the CPA Firm. The CPA Firm issued a qualified opinion on the financial statements in the 2017 audit report, which was dated September 21, 2018. Explaining the qualified opinion, the auditor stated, "Due to the inadequacies in the Department's accounting records and lack of reconciliation of revenue to cash deposits, we were unable to form an opinion regarding the amount of revenue in the accompanying statement of revenue...." In addition, the CPA Firm audit report contained a note to the financial statements disclosing misappropriated funds as well as an audit finding concerning misappropriated funds and internal control deficiencies.

Internal Control Deficiencies

The Department's financial audit report for the year ended December 31, 2017, disclosed several deficiencies in internal controls that were also noted during ALA staff review:

- Receipting and depositing duties were not adequately segregated.
- Receipts were not reconciled with bank deposits.
- Management did not provide adequate fiscal oversight.

RECOMMENDATIONS

ALA staff recommend that receipting and depositing duties be segregated to the extent possible and daily receipt listings be reconciled to bank deposits.

In addition, management should exercise proper fiscal oversight, ensure adequate internal controls are established, and monitor controls to ensure adherence.

MANAGEMENT RESPONSE

Management response is provided in its entirety in **Appendix A**.

SUMMARY

ALA review revealed that cash receipts totaling \$20,862 that were entered in the Department's computer system were not deposited in the Department's bank account during the period January 1, 2015 through December 31, 2015. Separate procedures performed by a CPA Firm revealed \$126,856 in misappropriated funds during the period January 1, 2016 through July 31, 2018. Therefore, unaccounted for funds totaled \$147,718 during the period January 1, 2015 through July 31, 2018, as shown in **Exhibit I on page 2**.

The Water Clerk, whose employment was terminated on July 26, 2018, was custodian of the funds and was responsible for bank deposits. Several internal control deficiencies contributed to funds being misappropriated and the misappropriation not being detected timely.

This report has been forwarded to the Seventeenth Judicial District Prosecuting Attorney.

Appendix A
Management Response

City of Bald Knob

Barth Grayson/Mayor
P.O. Box 1119
Bald Knob, AR 72010

Kim Williams, CPA, CFE, CFF
Assistant Legislative Auditor
500 Woodlane Street
Suite 172
Little Rock, Arkansas 72201-1099

June 20, 2019

Dear Kim,

The answers below are in reference to findings concerning the Investigative Report for the Bald Knob Water and Sewer Department review of receipts and deposits audit exit conference held on February 20, 2019.

Changes have been made in the procedure of the water and sewer receipting and depositing funds.

The mayor has implemented the following changes:

1. The water and sewer superintendent, Anthony Pistone who normally makes the bank deposits will count and cross check each deposit. His initial will be placed on each deposit slip for cross check verification.
2. No one receives payments but the two office personnel, Terri Cox and Mindy Newnum.

As mayor I will provide an overview by recommending these changes. Also attached to this letter is a written statement from Terri Cox who is officer manager at the water and sewer department. In the last paragraph she notes all the changes that have been made since the audit report.

If I may be of further assistance or you have any questions please feel free to contact me.


Mayor
City of Bald Knob

Bald Knob Water & Sewer

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Find us on Facebook @ Bald Knob Water

Open 7:30-4:30 Monday thru Friday

Any emergencies after hours, please call dispatch at 501-724-5193

Old Way and Responsibilities when hired

When I first started at Bald Knob Water, Linda and I were both taking money. We circled the side the customer paid and stamped paid. She had a red and black stamp and I had a black Paid Stamp. We counted out each day around 2:30-3:00 so that the bank bag would be ready to be taken to the bank. The Water Superintendent took the bank bag and dropped it off. There were a few times that one of the guys took it or I would ride with them to take the bank bag when the Superintendent wasn't available.

Linda and I prepared, counted out our payment stubs. I always made sure my cash and batch payment stubs equaled out and also my check and payment stubs equaled out before I gave her my money. She was responsible to check on her own to make sure hers matched as well then add both of ours together. She would count all the cash and add all the checks and list them on the deposit slip and then initial the deposit slip. Linda would put in the batch stubs the next morning. I would receive the monthly bank statements and check off from the bank bag deposit slips to make sure they matched with a red pen. The office never had a check book to check off transactions so this was the only option available to make sure everything was deposited correctly since I was not trained any other way.

Linda had done very little in the office so when I was hired, I was told if I wanted this position that I would have more responsibilities than what I normally would have had since Linda refuses to do certain things as her job was required to do. Her only job responsibilities were to answer the phone, write out work orders, put in meter readings, take payments, do the deposits, and put in the payment batches each day.

My job responsibilities were to answer the phone, take payments, put in turn on's for new customers, call customers for any leaks, shut off customer's when they leave, pay the Accounts Payables, run the penalty list after the 15th each month, apply deposits to final accounts, water adjustments, create the shut off list for the 24th, run monthly reports for the council, refilled paper in all printers, copiers, order supplies for the office and inventory for meters, etc. After Linda put in the meter readings, I would go through each book to make sure of any high readings, get them reread to check on leaks, run bill register, print water bills and review, while both of us tore down the water bills and routed them for the Post Office.

New responsibilities as of August 2018

Mindy took over as our new Customer Service Representative in August 2018. Her responsibilities include putting in meter readings once our meter reader is done reading meters. If there are any high leaks, she writes out work orders to reread and check for any leaks, and then calls the customer to notify them of a high water bill or leak involved.

Mindy and I both have our own paid stamp, hers is blue and mine is green. We stamp our own payment stubs, initial, and batch the batch number on each stub. We enter our own payments and print out our own payment edit lists. We then add each one to make sure they add up to match with our cash, cash tickets and cash edit lists from Cusi. We do the same for our checks and match them with our payment stubs and edit lists. We add up our cash together, add up our payment stubs, our edit lists to make sure everything matches. We both initial the deposit slip and then our Water Superintendent takes the bag to deposit and brings it back. The next day, I print out a transaction list that breaks down the total for cash, check, money order, credit cards, and echecks from Cusi. I then break it down and enter them in QuickBooks to make sure everything matches that we received the previous day. All transactions that are done in the office are also done in QuickBooks. All Bank accounts are reconciled each month in QuickBooks. I received substantial training from our local Auditor to not only help our yearly audit to go through smoothly but to also be able to balance out our accounts receivable.

