

Investigative Report

Arkansas Legislative Audit

Review of Receipts and Deposits Town of Emerson Water and Sewer Department

January 1, 2022 through December 13, 2022



INTRODUCTION

This report is issued in response to a request from the 13th Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review receipts and deposits of the Town of Emerson (Town) Water and Sewer Department (Department). ALA staff assistance was requested after Town officials discovered that Department funds were misappropriated.

OBJECTIVES

Objectives of this review were to:

- Determine if all funds were properly deposited in Department bank accounts.
- Determine if the Department complied with Arkansas Code requirements for obtaining annual financial audits or agreed-upon procedures and compilation reports.
- Assess internal controls over the Department's accounting processes.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2022 through December 13, 2022. ALA staff reviewed relevant Department financial records, including receipts recorded in the computer system, bank statements, deposit slips, and other documentation. In addition, audit and agreed-upon procedures and compilation reports issued by private certified public accounting (CPA) firms were reviewed, various Town personnel were interviewed, and the Department's internal controls were assessed for adequacy.

BACKGROUND

Located in Columbia County, the Town of Emerson is an incorporated town operating under the mayor-council form of government. The Town Council consists of five members who govern the Town and its Water and Sewer Department, which serves approximately 454 customers. Water and sewer services are provided to 122 properties within the town limits, and only water services are provided to 332 properties outside the town limits.

The Town employs a Clerk/Treasurer who is responsible for depositing Department funds. The employment of the individual who served as Clerk/Treasurer, from November 21, 2021 through December 13, 2022, was terminated. Shortly thereafter, Town officials discovered that Department funds had been misappropriated.

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RESULTS OF REVIEW

Unaccounted For Funds

ALA staff review of Department financial records revealed unaccounted for funds totaling \$35,059. The unaccounted for funds consisted primarily of cash receipts that were not deposited. The Clerk/Treasurer was responsible for bank deposits and was custodian of the undeposited funds.

Financial Audit Information

For the years ended December 31, 2020 and 2021, the Town was in substantial compliance with Ark. Code Ann. § 14-234-119, which requires that the Department obtain annual audits or agreed-upon procedures and compilation reports within one year of the Department's fiscal year-end. ALA staff noted the 2020 audit report disclosed that the Department did not segregate financial accounting duties relating to initiating, receipting, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

Internal Control Deficiencies

ALA review revealed internal control deficiencies as follows:

- Receipting and depositing duties were not properly segregated.
- Receipts were not reconciled to 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 receipts reports be reconciled to bank deposit composition by cash and check. In addition, management should exercise proper fiscal oversight, ensure these controls are established, and monitor controls to ensure adherence.

MANAGEMENT RESPONSE

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

SUMMARY

ALA staff review revealed that revenue totaling \$35,059 was not deposited in the Department's bank accounts during the period January 1, 2022 through December 13, 2022. The Clerk/Treasurer, whose employment was terminated in December 2022, was custodian of the funds and responsible for bank deposits. Several internal control deficiencies contributed to funds being misappropriated and the misappropriation not being detected timely.

ALA staff determined the Department was in substantial compliance with Arkansas Code requirements for obtaining annual financial audits or agreed-upon procedures and compilation reports.

This report has been forwarded to the 13th Judicial District Prosecuting Attorney and the Attorney General.

Appendix A

Management Response

This is the Town of Emerson's official response to recommendations on the investigative report on Town of Emerson Water and Sewer Department January 1, 2022 through December 13, 2022.

The Town of Emerson does agree with the findings of the investigative report received from the Arkansas Legislative Audit.

We have started and will be doing the recommendations provided from the AR Legislative Audit. The following have been implemented:

1. Receipting all money by initialing all receipts to deposits made to bank
2. Daily recipes are reconciled to bank deposits by cash & checks. Our electronic payments are already put into the customers' accounts when funds are transferred by RVS System on our computer.
3. Mayor has been taking all deposits to the bank.
4. Emerson's clerk/bookkeeper takes the bank deposit slips Mayor brings from bank and enters the amount into the CenterPoint system. Then she reconciles with the bank statements at the end of the month.
5. If anyone makes a deposit for money that comes through the mail or to the office, that person's initial will be on bank deposit slip.
6. Mayor looks at all of the bank statement funds every month and initials them.
7. Mayor will be fiscally monitoring daily receipts, monthly end reports and bank statements.
8. Mayor will initial all invoices to be paid.

Sincerely,
Linda Mullins, Mayor
(870) 547-2220

