Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions
Chicot County Drainage District and Chicot Junction Water System

For the Period October 1, 2020 through December 31, 2025



INTRODUCTION

This report is issued in response to a request from the 10th Judicial District Prosecuting Attorney (PA) for Arkansas Legislative Audit (ALA) to review selected transactions of the Chicot County Drainage District (Drainage District) and the Chicot Junction Water System (Water System). ALA assistance was requested after the PA received allegations that Drainage District and Water System funds were being misappropriated.

OBJECTIVES

Objectives of this review were to determine if Drainage District and Water System funds were being misappropriated and to report internal control deficiencies that came to our attention.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period October 1, 2020 through December 31, 2025. ALA staff reviewed meeting minutes, bank statements, cancelled check images, invoices, and other financial records. In addition, certain individuals were interviewed, including members of the governing bodies for the Drainage District and Water System.

BACKGROUND

Chicot County Drainage District

The Drainage District was created by Act 405 of the Extraordinary Session of 1920 “for the purpose of reclaiming and relieving from inundation of the lands . . . from surface water due to overflow from river or rainfall” and “to construct drainage ditches, flood gates, and all other works” necessary to accomplish this purpose. The Drainage District is governed by a five-member Commission appointed by the Chicot County Judge.

Funding sources are primarily assessment fees collected by the Chicot County Tax Collector and remitted to the Drainage District. The Drainage District maintains one bank account and seven certificates of deposit. Ark. Code Ann. § 14-121-311 requires districts with revenues in excess of $5,000 per year to have the “books, records, and last annual report of the district” examined at least one time per year by a certified public accountant (CPA). The CPA shall file a report with the county court within 30 days after completing the examination. Yearly reports were not obtained by the Drainage District.

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: IROA03424 Report Date: July 29, 2026

Chicot Junction Water System

The Water System is a nonprofit corporation created in September 1977 to provide potable water to the residents living within its boundaries. The Water System has approximately 200 water connections and purchases treated water from Lake Village Waterworks and the City of Portland. The Water System is governed by a six-member Board of Directors (Board) elected at the annual members' meeting.

Funding sources are primarily from water usage fees. The Water System maintains two bank accounts: an operating account and a meter deposit account. Ark. Code Ann. § 14-234-119 requires the System to obtain an audit or agreed-upon procedures and compilation report to be completed within one year following each fiscal year end. Yearly audits or agreed-upon procedures reports were not obtained by the Water System.

Bookkeeping Company

Both the Drainage District and the Water System employed the same bookkeeping company to provide services, including maintaining ledgers, reconciling bank accounts, depositing receipts, and writing checks, which were carried out by the company owner (Bookkeeper). This company also provided billing and collection services for the Water System. The Drainage District and the Water System terminated the Bookkeeper's services in October and December 2025, respectively.

RESULTS OF REVIEW

Analysis of Selected Disbursements

Drainage District and Water System

Review of selected disbursements for the period October 1, 2020 through December 31, 2025, revealed improper disbursements totaling $206,616: $34,650 from the Drainage District and $171,966 from the Water System. These amounts were paid directly to the Bookkeeper or the Bookkeeper's business in excess of authorized amounts and without supporting documentation, as noted in **Exhibit I on page 3**.

Water System

Review of records for the period October 1, 2023 through December 31, 2025, revealed the Water System made 120 payments totaling $167,698 to a business owned by a Board member to operate and maintain the Water System facilities and read the water meters, without a contract or other formal action taken by the Board. Adequate supporting documentation was not maintained for 111 of these disbursements totaling $153,035.

Additionally, ALA staff noted two disbursements totaling $120 to the same Board member's spouse and one disbursement of $100 to a second Board member. Due to a lack of supporting documentation, the validity of these disbursements could not be determined.

Analysis of Water System Revenue

Review of Water System billing information and bank deposits for the period January 1, 2021 through December 31, 2025, revealed the following:

- Customer payments totaling $10,405 could not be traced to deposits in Water System bank accounts.

Exhibit I

Chicot County Drainage District and Chicot Junction Water System
Review of Selected Disbursements
For the Period October 1, 2020 through December 31, 2025

Calendar Year	Total Paid	Number of Months	Total Authorized Payments	Total Unauthorized Payments
Chicot County Drainage District				
*2020	$ 2,000	3	$ 1,200	$ 800
2021	5,200	12	4,800	400
2022	10,350	12	4,800	5,550
2023	15,150	12	4,800	10,350
2024	9,350	12	4,800	4,550
2025	17,000	10	4,000	13,000
Totals	**$ 59,050**		**$ 24,400**	**$ 34,650**
Chicot Junction Water System				
2021	$ 14,036	12	$ 7,368	$ 6,668
2022	25,550	12	7,368	18,182
2023	21,810	12	9,412	12,398
2024	64,879	12	12,000	52,879
2025	93,689	12	12,000	81,689
			Undocumented Cash Withdrawal	150
Totals	**$ 219,964**		**$ 48,148**	**$ 171,966**
Combined Totals				
*2020	$ 2,000		$ 1,200	$ 800
2021	19,236		12,168	7,068
2022	35,900		12,168	23,732
2023	36,960		14,212	22,748
2024	74,229		16,800	57,429
2025	110,689		16,000	94,689
			Undocumented Cash Withdrawal	150
Grand Totals	**$ 279,014**		**$ 72,548**	**$ 206,616**

* October 1 through December 31.

Source: *Chicot County Drainage District and Chicot Junction Water System financial records (unaudited by Arkansas Legislative Audit)*

- The previously mentioned company owned by a Board member:
  - Owed $383 in past due billings to the Water System as of December 31, 2025.
  - Failed to make 53 of the monthly payments due on its account during the 72-month period reviewed, with up to 12 consecutive months between payments.
- The Water System did not assess penalties for 23 months of unpaid water bills for the company owned by a Board member.

As of January 2026, the wife of the Board member noted above was appointed Office Manager for the Water System. Board meeting minutes noted approval of this appointment but did not include a Board resolution.

Other Matters

The Water System did not comply with Ark. Code Ann. § 14-234-802, which requires all retail water providers with a customer base of 500 or fewer to submit a rate study prepared by an approved rate study provider by July 1, 2024. The Arkansas Department of Agriculture notified the Water System on July 9, 2025, of this noncompliance and placed the Water System in fiscal distress for failure to obtain and file a rate study.

Assessment of Internal Controls

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, mistakes, errors, or noncompliance with applicable Arkansas Code, regulations, and policies. Failure to maintain adequate internal controls increases the risk of misappropriation of assets and potential waste and abuse of funds.

ALA review revealed the following internal control deficiencies for both the Drainage District and the Water System:

- Invoices or other supporting documentation were not maintained for disbursements.
- Checks were not required to have the signatures of two authorized disbursing officers.
- Financial accounting duties were not properly segregated, and adequate compensating controls were not implemented.
- Required financial reports and rate studies (Water System) were not obtained or submitted to the appropriate entities.
- The governing bodies did not exercise proper oversight of fiscal operations.

RECOMMENDATIONS

ALA recommends the Drainage District have its books, records and last annual report examined by a CPA at least one time per year, as required by Ark. Code Ann. § 14-121-311.

ALA recommends the Water System obtain:

- An annual water audit or agreed-upon procedures and compilation report, as required by Ark. Code Ann. § 14-234-119.
- A rate study, as required by Ark. Code Ann. § 14-234-802.
- A contract for services for the Board member hired to operate and maintain the Water System's facilities and read the meters.
- Approval of a formal resolution by the Board allowing the Water System to do business with the Board member's company and to employ the Board member's spouse as Office Manager.

Additionally, both the Drainage District and the Water System should:

- Maintain adequate financial records, including adequate supporting documentation for expenditures and contracts for services approved by their governing bodies.

- Ensure checks are signed by two disbursing officers.
- Segregate financial duties to the extent possible.

Finally, the governing bodies of both the Drainage District and Water System should provide adequate fiscal oversight and ensure adequate internal controls are implemented.

MANAGEMENT RESPONSE

Management responses from the Drainage District and the Water System are provided in **Appendices A and B**, respectively.

SUMMARY

ALA staff review of select disbursements revealed that Drainage District and Water System funds totaling $206,616 were paid to the Bookkeeper or Bookkeeper's business in excess of authorized amounts and without adequate supporting documentation. Additionally, Water System customer payments totaling $10,405 could not be traced to deposits. Several internal control deficiencies contributed to both the misappropriation of funds and the lack of timely detection of the misappropriation.

A business owned by a Water System Board member was paid $167,698 without a contract or other formal action taken by the Board. Adequate supporting documentation was not maintained for $153,035 of these payments.

In addition, the Drainage District did not obtain annual financial reviews required by Arkansas Code. The Water System also did not obtain yearly audits or agreed-upon procedures reports, as required by Arkansas Code. Additionally, the Water System did not obtain rate studies required by Arkansas Code and, as a result, was placed in fiscal distress in July 2025 by the Arkansas Department of Agriculture. As of report date, the Water System had not submitted the required rate study.

The Drainage District and the Water System terminated the Bookkeeper's services in October and December 2025, respectively, and the Bookkeeper was charged with theft of property on June 23, 2026.

This report has been forwarded to the 10th Judicial District Prosecuting Attorney and the Attorney General.

Appendix A

Management Response
Chicot County Drainage District

Mr. Anthony Weston with the Arkansas Legislative Audit reviewed with Chicot County Drainage District the finding of his investigation of the Chicot County Drainage District financial transactions. Mr. Weston reviewed the recommendation in the report. The Chicot County Drainage District upon discovery of possible unauthorized transactions implemented the following controls:

1. Retained the services of McQueen and Company certified public accountants to provide a review and report of the Chicot County Drainage District financials and business practices.

2. All financial transactions requires the signature of two board members.

3. At each meeting the secretary will provide a statement of expense and receipts to the board for approval.

4. All banking records are now reviewed by the chairman and secretary from online access to statements.

These are the items implement for the Chicot County Drainage District to maintain an accounting of the funds handle by the board. I hope this meets with your approval and if you have any concerns or suggestions, please give me a call.

I have copied the board secretary Mr. Tad Keller on this email so that he may include this in the record of the board.

Melvin Cannatella, Chaiman
Harris Law Firm
C/O Chicot County Drainage District
251 Main Street
Lake Village, AR 71653
Phone No. (662) 822-7441

Appendix B

Management Response
Chicot County Water System

Chicot Junction Water System
P.O. Box 781
Lake Village AR 71653-0781

September 4, 2026

Via Email: tim.jones@arklegaudit.gov
Attn: Mr. Tim Jones, CPA, CFF
Assistant Legislative Auditor
Legislative Joint Auditing Committee

RE: Chicot Junction Water System- Response To Recommendations In Legislative Audit Report

Dear Mr. Jones:

I am the board president of Chicot Junction Water System, and I am in receipt of the legislative audit's report and recommendations. Please accept this as the system's response to the recommendations in the report.

First, thank you for the recommendations, and please know our board is working to ensure that we implement plans and procedures. Since the matters with Ms. Chandler who has been released from all duties and responsibilities with the system, our board has hired a Certified Public Accountant, Freddie Weeks, with McQueen & Associations in Dermott, Arkansas, to serve as the accountant for the water system. We have also hired a new bookkeeper, Marsha Dodson. Each month, Ms. Dodson will send the system's bookkeeping to Mr. Weeks, CPA. We also plan that Mr. Weeks will perform an annual audit, which we hope the monthly system between the bookkeeper and CPA will greatly help with that. Additionally, we received the system's new checks, which now require the signatures of two board members.

Additionally, the board member, David Dodson, who was also the water system operator, passed away this summer, so the concern with system operator being a board member is resolved. However, we have noted that if the issues arises in the future, we must have a proper contract on file. Moreover, we are planning to draft a contract between the new system operator and the system. Lastly, we are in the process of working on having a rate study performed, which we will address and discuss again at our next meeting, which will be held in the next few weeks.

If you have any other questions or concerns, please do not hesitate to let me know. Again, thank you for the report and recommendations.

Respectfully Yours,

David McNemar
Board President


LEGISLATIVE AUDIT
REGNAT POPULUS
MERCY
JUSTICE
ARKANSAS