

Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions

Drew County Museum

January 1, 2011 through September 8, 2015



INTRODUCTION

This report is issued in response to a request from the Tenth Judicial District Prosecuting Attorney for Arkansas Legislative Audit (ALA) to review selected transactions of the Drew County Museum (Museum), which is owned and operated by the Drew County Historical Society. Specific concerns included potential misappropriation of revenue, improper payments to the Museum Treasurer and other individuals, and unaccounted for funds from a certificate of deposit (CD) withdrawal.

OBJECTIVES

Objectives of this review were to determine if:

- Revenue was deposited.
- Payments to the Treasurer and other individuals were for Museum purposes.
- Funds from CD withdrawals were accounted for properly.
- Financial records and internal controls were adequate.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2011 through September 8, 2015. ALA staff reviewed relevant Museum records, including meeting minutes of the governing body, fundraiser documentation, bank account statements, deposit slip images, cancelled check images, and CD records. In addition, certain individuals were interviewed, and internal controls were 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.

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BACKGROUND

The Drew County Historical Society was founded on June 15, 1959, by individuals interested in preserving the heritage of Drew County and was incorporated as a nonprofit organization on March 4, 1969.

The Drew County Museum Commission was created under the authority of Act 430 of 1967 and Monticello City Code §§ 13-13 – 13-20 (1970) to secure facilities for housing an historical museum and to procure articles, artifacts, and other items of historical significance for display at the Museum. The Commission, which governs the Museum, consists of nine members who each serve three-year terms and are jointly appointed by the Mayor of the City of Monticello (City) and the County Judge of Drew County (County), with approval from the City Council and Quorum Court.

The building that houses the Museum was purchased in 1970. The Historical Society also owns two houses that were donated to the Museum and are used as income-producing rental properties.

Museum revenues consist primarily of funds appropriated by the City and County, membership fees, donations, and rental property and fundraising proceeds. The Treasurer, who resigned on September 8, 2015, was responsible for depositing and disbursing all Museum funds.

RESULTS OF REVIEW

ALA staff review of Museum financial records revealed discrepancies involving deposits, \$2,360 in unaccounted for funds, \$182,446 in undocumented or questionable disbursements, inadequate internal controls, and other issues, as discussed below.

Analysis of Deposits

Based on minutes from the October 2014 Commission meeting, raffle ticket sales totaled \$4,175. However, only \$2,515 was deposited, resulting in unaccounted for fundraising proceeds of \$1,660. Due to inadequate records, ALA staff were unable to determine if other revenue was properly deposited.

A deposit slip dated June 7, 2013, for \$1,900 indicated "Rent for May & June 2013." However, documentation obtained from the bank showed this deposit actually consisted of transfers from other Museum accounts (\$1,000 from a CD and \$900 from a savings account) and was unrelated to rent. Also, there was no indication in the meeting minutes that the Commission approved these transfers.

Deposits totaling \$28,500 included "donations" and other unidentified funds from the Treasurer and/or her cousin, who share a personal bank account. The Treasurer's cousin also served as a Commissioner until her resignation on September 8, 2015.

Analysis of Disbursements

The Treasurer, her cousin, and Individual A received reimbursements totaling \$57,753, \$20,186, and \$3,051, respectively. There was no documentation provided to support these payments totaling \$80,990.

The Treasurer issued two checks payable to "Cash" and made a debit withdrawal for cash so that she would have change for various events. In these instances, the cash, which totaled \$700, did not appear to have been redeposited in the Museum's bank account.

Rental Property

Checks totaling \$101,456 were payable to Individual B (\$24,456), her husband (\$58,375), and her son (\$18,625) for various services allegedly provided by the family. Although a few of these checks were for work done at the Museum, most check notations indicated they were for painting, cleaning, repairing, and cutting trees at the rental houses. Interviews conducted by ALA staff and Arkansas State Police revealed that:

- Individual B and her husband provided very few services at the rental houses and did not receive most of the checks payable to them.
- The son did not provide any services and never received any payments from the Museum.
- Several of the checks received by Individual B were for cleaning the Treasurer's personal residence. Based on Individual B's recollection, which ALA staff could not verify, these checks totaled \$900.
- Individual B and her husband were often paid with cash when they worked at the Museum. According to Individual B, the Treasurer would tell her there was not enough money in the Museum bank account to issue a check and would use personal funds (cash) to pay them. Several days later, the Treasurer would tell her that the Museum received some money, so she would ask Individual B to endorse a check, which was always blank, so the Treasurer could reimburse herself. After looking at some of these checks that had cleared the bank, Individual B confirmed that the amounts on most of the checks were much larger than what she had received in cash from the Treasurer.

Additionally, during the time period reviewed, ALA staff identified \$10,082 in rent deposited and \$89,524 in rental house-related expenses. However, there were no records indicating when the houses were rented and when they were vacant. Therefore, ALA staff were unable to determine how much rent should have been collected.

Certificate of Deposit (CD) Withdrawals

ALA staff noted nine CD withdrawals totaling \$59,533. Each withdrawal was traced to a deposit in the Museum's bank account. Based on available Commission meeting minutes, ALA staff could not determine whether the Commission formally approved these withdrawals.

Other Issues

Inadequate financial records and internal control deficiencies were noted. Receipts were not issued, invoices were not retained, a journal/ledger was not maintained, checks only contained one signature, duties were not adequately segregated, and the Commission did not provide adequate fiscal oversight.

As a result of insufficient funds in its bank account, the Museum incurred bank charges totaling \$2,580. During the review period, the cash balances in checking accounts, savings accounts, and CDs decreased by \$87,478 as shown in **Exhibit I on page 4**.

Exhibit I

Drew County Historical Society and Museum Commission Cash Balances by Account Type As of January 1, 2011 and September 8, 2015			
Account Type	Cash Balances		
	January 1, 2011	September 8, 2015	Decrease
Checking	\$ 26,475	\$ 3,694	\$ 22,781
Savings	5,198	34	5,164
Certificates of Deposit	213,427	153,894	59,533
Totals	\$ 245,100	\$ 157,622	\$ 87,478

Source: Financial institutions used by the Museum (unaudited by Arkansas Legislative Audit)

RECOMMENDATIONS

ALA staff recommend that adequate financial records, including invoices to support all disbursements, and meeting minutes documenting Commission decisions be maintained; checks contain two authorized signatures; duties be segregated to the extent possible; and Commissioners provide adequate fiscal oversight of the Museum. At a minimum, someone other than the Treasurer should receive, open, and review monthly bank statements.

SUMMARY

ALA staff review revealed unaccounted for funds totaling \$2,360 (raffle proceeds of \$1,660 and change funds of \$700) and the following improper and undocumented disbursements totaling \$182,446:

- \$57,753 to the Treasurer, who resigned from employment on September 8, 2015.
- \$20,186 to the Treasurer's cousin who served as a Commissioner and resigned on September 8, 2015.
- \$104,507 to other individuals, who appear to have not received most of these funds.

In addition, the Treasurer misrepresented the source of funds on a deposit slip and did not maintain basic accounting and financial records. Internal controls were inadequate, and the Commission did not provide fiscal oversight.

This report has been forwarded to the Tenth Judicial District Prosecuting Attorney. As of report date, these matters were being investigated by Arkansas State Police.

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