

**City of Dermott, Arkansas**

**Financial and Compliance Report**

**December 31, 2016**

LEGISLATIVE JOINT AUDITING COMMITTEE

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CITY OF DERMOTT, ARKANSAS  
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FOR THE YEAR ENDED DECEMBER 31, 2016

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# Arkansas

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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### Financial and Compliance Report

City of Dermott, Arkansas Officials and Council Members  
Legislative Joint Auditing Committee

A priority of Arkansas Legislative Audit is to assist local government officials by promoting sound financial management and accountability of government resources. The Legislative Auditor reports on the fiscal affairs of local governments, as well as compliance with relevant state laws and observance of good business practices to provide accountability for tax dollars expended to support government operations.

We have performed certain limited procedures with respect to cash basis financial information and compliance with certain state laws and accepted accounting practices for the City of Dermott, Arkansas, as of and for the year ended December 31, 2016, and have issued our report thereon dated August 27, 2018. These procedures were not performed for the Water and Sewer System and Nursing Home Funds. Management of the City is responsible for maintaining the financial records and complying with state laws and accepted accounting practices.

The findings contained in this section relate to the following officials who held office during 2016:

Mayor: Clinton Hampton  
Clerk: Faye Kennedy  
District Court Clerk: Hope Whitten  
Police Chief: Eric Evans

We evaluated the City's compliance with certain state laws concerning general and district court accounting, budgeting, purchasing, and investing and depositing of public funds.

Noncompliance with state law and accepted accounting practices was noted in the offices of **Mayor, Clerk, Police Chief, and District Court Clerk.**

#### Mayor

1. Blank City checks were stolen during a 2016 burglary of City Hall, and the City subsequently discovered two \$200 checks that were forged and cashed. The person responsible for the break-in and forgeries was identified, and the case was turned over to the Prosecuting Attorney. The defendant pled guilty to charges of forgery, was sentenced to 72 months in Arkansas Department of Correction (ADC), and was ordered to pay restitution of \$400, court costs and fines totaling \$435, and \$756 for repairs cost due to the break-in. According to the Chicot County Sheriff's Department, as of August 22, 2017, the defendant had been released from ADC, and no payments had been received. On July 9, 2018, a warrant was issued to the defendant for a parole violation. During the course of our engagement, we discovered another check for \$601 that appears to have been forged and cashed.

We recommend the Mayor or Police Chief notify the Prosecuting Attorney of the \$601 forged check.

2. In 2000, the City entered into a Memorandum of Agreement (MOA) with the Chicot-Desha River Agricultural and Industrial Development Corporation (RAID) for the construction and operation of a water tank, water well, and water system at the Yellow Bend Port. On October 11, 2017, the City signed a new MOA, which states that, after completion of the construction, the City will operate the water system with its licensed water employees; receive all revenues collected from the Yellow Bend Port water users, which are currently 5 with an estimated monthly revenue of \$375; and pay all expenses for operating the water system. In return, RAID will pay the City \$5,000 yearly. Per the MOA, RAID has also requested that the City release a \$25,000 certificate of deposit, along with accrued interest. This certificate is held by the City as a trustee for the system, and is payable to the Arkansas Natural Resources Commission. RAID will apply this money to debt owed by the system. This arrangement appears to conflict with Ark. Const. art. 12 § 5, as interpreted by Op. Atty Gen. nos. 1998-129 and 1991-410.

#### Mayor/City Clerk

1. Review of disbursements revealed undocumented reimbursements to the Mayor and City Clerk totaling \$1,577 and \$502, respectively.
2. During the period January 1 through September 30, 2016, restricted cash totaling \$17,453 was transferred from the Street Fund to the Payroll Fund for non-street related salaries/wages.

### **Mayor/City Clerk (Continued)**

In addition, the City made the following transfers of restricted cash, totaling \$348,814, for which documentation was not provided:

- \$201,471 from the Special Sales Tax Fund to the Street Fund. These monies, which were restricted for street/water capital improvements, had been collected over a 24-month period through a one-half percent (1/2%) sales tax and deposited in a separate account, which was closed in February 2016.
- \$127,365 from the Nursing Home Capital Improvement Fund to the General Fund. These monies, which were restricted for nursing home capital improvements, had been collected over a 24-month period through a one-half percent (1/2%) sales tax and deposited in a separate account, which was closed in June 2016.
- \$19,978 from the Street Fund to the General Fund.

These issues were noted as a finding in the prior report. As of the report date of August 27, 2018, General Fund had reimbursed Street Fund \$16,422.

Subsequent to September 30, 2016, restricted money was transferred to General Fund from the COPS Fast, City Hall Capital Improvement, and Delta Regional Authority Funds in the amounts of \$1,586, \$575, and \$284, for which documentation was not provided.

3. Financial statements again were not provided to the City Council members on a monthly basis, in noncompliance with Ark. Code Ann. § 14-59-115. This precludes management from making appropriate, informed decisions on behalf of the City.

### **Mayor**

1. Wage rates again were neither reflected in the minutes nor the budget.
2. The City exceeded appropriated expenditures in the Street Fund by \$111,951, in noncompliance with Ark. Code Ann. § 14-58-203. A similar finding was issued in the prior report.
3. General and Street Funds were budgeted for 2016, however, the City did not budget the remaining City funds, in noncompliance with Ark. Code Ann. § 14-58-202.

### **Clerk**

1. Prenumbered receipts were not issued for all funds received, in noncompliance with Ark. Code Ann. § 14-59-109.
2. A listing of fixed assets was established, but did not include additions and deletions, in noncompliance with Ark. Code Ann. § 14-59-107.
3. An annual financial statement was not published/posted, in noncompliance with Ark. Code Ann. § 14-59-116.
4. We noted the following payroll errors:
  - Total wages reported on Internal Revenue Service (IRS) Form 941 reports were \$41,478 less than wages reported on IRS Form W-3c.
  - Total wages on IRS Form W-3c were \$6,790 more than wages reported on Arkansas Department of Finance and Administration (DFA) Form AR3.
  - State wages for one employee were not reported on IRS Form W-2c.

### **District Court Clerk**

The balance in the City bank account was not identified with receipts issued for cases not yet adjudicated and the payments made on all unpaid individual time accounts, as required by Ark. Code Ann. § 16-10-209. The unidentified balance was \$9,402. A similar finding was issued in the prior report.

### **Police Chief**

1. Bank reconciliations and a cash disbursements journal were not maintained for the Bond and Fine "On Line Fine Payment" account, in noncompliance with Ark. Code Ann. § 16-10-207.
2. The Police Department made numerous posting errors in the District Court Virtual Justice system as follows, in noncompliance with Ark. Code Ann. § 16-10-207:
  - Amount paid to the District Court per the arrest report was \$1,335 more than the Virtual Justice receipt amount.
  - Manual receipts in the amount of \$3,747 were not entered into the Virtual Justice system.
  - \$1,312 in settlements was paid to the District Court Clerk twice.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local City government, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Roger A. Norman, JD, CPA, CFE, CFF  
Legislative Auditor

Little Rock, Arkansas  
August 27, 2018  
LOM102616

CITY OF DERMOTT, ARKANSAS  
SCHEDULE OF FINANCIAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)

Schedule 1

	General Fund	Special Revenue Funds	Capitol Improvement Revenue Bond Debt Service Fund	Capital Projects Funds	Firemen's Pension Trust Fund
Cash and Investment Balance Balance, January 1, 2016	\$ 227,577	\$ 384,699	\$ 11,290	\$ 188,906	\$ 365,125
Receipts:					
State aid	46,141	194,399			8,780
Federal aid	50,000			59,624	
Property taxes	33,577	12,827			7,078
Franchise fees	108,748				
Sales taxes	565,967				
Fines, forfeitures, and costs	45,014	5,972			
Interest	590	453	17	92	12,437
Local permits and fees	3,574				
Sanitation fees	233,072				
Mosquito control fees	28,786				
Other	70,609	19,237			60
Transfers in	203,800	289,244		90	
Contribution from water	20,724		7,812		
Total Receipts	<u>1,410,602</u>	<u>522,132</u>	<u>7,829</u>	<u>59,806</u>	<u>28,355</u>
Disbursements:					
General government	893,394			118	
Law enforcement	178,979	215			
Highways and streets		327,701			
Public safety	8,427	20,952		116,090	45,187
Sanitation	271,551				
Health	16,546			14	
Recreation and culture	265			200	
Water	13	3,070			
Debt service	17,248		7,812		
Transfers out	16,431	347,088		129,615	
Total Disbursements	<u>1,402,854</u>	<u>699,026</u>	<u>7,812</u>	<u>246,037</u>	<u>45,187</u>
Cash and Investment Balance Balance, December 31, 2016	<u>\$ 235,325</u>	<u>\$ 207,805</u>	<u>\$ 11,307</u>	<u>\$ 2,675</u>	<u>\$ 348,293</u>

CITY OF DERMOTT, ARKANSAS  
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (UNAUDITED)

Schedule 2

	<u>Street</u>	<u>Criminal Justice</u>	<u>Administration of Justice</u>	<u>Municipal Judge and Clerk Retirement</u>	<u>Local Police and Fire Retirement (LOPFI)</u>	<u>Fire Equipment and Training (Act 833)</u>	<u>Home Repairs</u>
Cash and Investment Balance Balance, January 1, 2016	\$ 42,061	\$ 22,709	\$ 14,677	\$ 14,642	\$ 16,785	\$ 16,427	\$ 4,359
Receipts:							
State aid	190,842					3,557	
Property taxes	12,827						
Fines, forfeitures, and costs		960	565	2,276	2,171		
Interest	287						
Other	19,237						
Transfers in	217,893					1,351	
Total Receipts	<u>441,086</u>	<u>960</u>	<u>565</u>	<u>2,276</u>	<u>2,171</u>	<u>4,908</u>	
Disbursements:							
Law enforcement				215			
Highways and streets	327,701						
Public safety						20,952	
Water							
Transfers out	89,978	23,669	15,242	1,488	13,610	40	
Total Disbursements	<u>417,679</u>	<u>23,669</u>	<u>15,242</u>	<u>1,703</u>	<u>13,610</u>	<u>20,992</u>	
Cash and Investment Balance Balance, December 31, 2016	<u>\$ 65,468</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,215</u>	<u>\$ 5,346</u>	<u>\$ 343</u>	<u>\$ 4,359</u>

CITY OF DERMOTT, ARKANSAS  
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (UNAUDITED)

Schedule 2

	Special Sales Tax	COPS Grant	Local Law Enforcement Grant	Drug Control	Yellow Bend	McDermott Cemetery	Safe Routes to School	Total
Cash and Investment Balance Balance, January 1, 2016	\$ 201,471	\$ 1,586	\$ 4	\$ 5,348	\$ 29,863	\$ 14,767		\$ 384,699
Receipts:								
State aid								194,399
Property taxes								12,827
Fines, forfeitures, and costs								5,972
Interest				8	96	62		453
Other								19,237
Transfers in							\$ 70,000	289,244
				<u>8</u>	<u>96</u>	<u>62</u>	<u>70,000</u>	<u>522,132</u>
Disbursements:								
Law enforcement								215
Highways and streets								327,701
Public safety								20,952
Water					3,070			3,070
Transfers out	201,471	1,586	4					347,088
Total Disbursements	<u>201,471</u>	<u>1,586</u>	<u>4</u>		<u>3,070</u>			<u>699,026</u>
Cash and Investment Balance Balance, December 31, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,356</u>	<u>\$ 26,889</u>	<u>\$ 14,829</u>	<u>\$ 70,000</u>	<u>\$ 207,805</u>



CITY OF DERMOTT, ARKANSAS  
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - CAPITAL PROJECTS FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (UNAUDITED)

Schedule 3

	City Hall Building Capital Improvement	City Shop Building	Fire Equipment	Fire Station Construction Capital Improvements	Nursing Home Capital Improvements	Parks and Recreation Capital Improvements	Delta Regional Authority	Total
Cash and Investment Balance Balance, January 1, 2016	\$ 670	\$ 22	\$ 58,154	\$ (5)	\$ 127,291	\$ 2,490	\$ 284	\$ 188,906
Receipts:								
Federal aid			59,624					59,624
Interest	1				88	3		92
Transfers in				90				90
Total Receipts	<u>1</u>		<u>59,624</u>	<u>90</u>	<u>88</u>	<u>3</u>		<u>59,806</u>
Disbursements:								
General government	96	22						118
Public safety			116,000	85			5	116,090
Recreation and culture						200		200
Health					14			14
Transfers out	575		1,391		127,365		284	129,615
Total Disbursements	<u>671</u>	<u>22</u>	<u>117,391</u>	<u>85</u>	<u>127,379</u>	<u>200</u>	<u>289</u>	<u>246,037</u>
Cash and Investment Balance Balance, December 31, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 387</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,293</u>	<u>\$ (5)</u>	<u>\$ 2,675</u>

CITY OF DERMOTT, ARKANSAS  
OTHER INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)

1. Cash and investment balances on the Financial Schedules include demand and savings accounts, certificates of deposit, bond funds and equity funds.
2. The General Fund column on the Financial Schedules includes the following bank accounts:  
General, Escrow, Equipment, Restricted, Police Equipment, Franchise Tax, Fire Station Reserve, Mosquito Control, and Worker's Compensation
3. Cash balances at year-end in the agency funds are as follows:

	December 31, 2016
Police Bond and Fine Fund	\$ 6,599
District Court Fund	30,951
Payroll Fund	11,100
Act 1256 Court Cost	60

These balances represent fines, forfeitures, and costs and payroll taxes that have not been transferred to the appropriate entities.

4. The Municipality's capital assets records are summarized below:

	December 31, 2016
Land	\$ 139,169
Buildings	4,212,099
Equipment	1,226,240
Total	\$ 5,577,508

5. Outstanding balances at year-end for long-term liabilities are as follows:

	December 31, 2016
Notes payable	\$ 509,482

6. At the conclusion of this engagement, Arkansas Legislative Audit is in the process of investigating certain financial transactions of the City. We will issue a report concerning these transactions at the completion of the investigation.