

City of Cave Springs, Arkansas

Financial and Compliance Report

December 31, 2016 and 2015

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF CAVE SPRINGS, ARKANSAS
TABLE OF CONTENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Financial and Compliance Report

	<u>Schedule</u>
2016	
Schedule of Financial Information (Unaudited)	1
Combining Schedule of Financial Information – Special Revenue Funds (Unaudited)	2
2015	
Schedule of Financial Information (Unaudited)	3
Combining Schedule of Financial Information – Special Revenue Funds (Unaudited)	4
2016 and 2015	
Other Information (Unaudited)	5

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Financial and Compliance Report

City of Cave Springs, 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 Cave Springs, Arkansas, as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated May 10, 2017. These procedures were not performed for the Water and Wastewater Department. 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 and 2015:

Mayor: Travis Lee
Recorder/Treasurer: Office combined October, 2015. Kimberly Hutcheson (appointed October 12, 2015)
Recorder: Kimberly Masters (resigned June 1, 2015)
Kimberly Hutcheson (appointed June 9, 2015)
Treasurer: Penny Mertes (resigned July 16, 2015)
District Court Clerk: Brenda Varvil (resigned September 21, 2015)
Theresa Thompson (appointed September 21, 2015; resigned November 17, 2015)
Grace Fielding (appointed as interim November 18, 2015; appointed October 11, 2016)
Police Chief: Mike Caudill (resigned December 15, 2015)
Joe Powell (appointed December 29, 2015; resigned August 30, 2016)
Rick Crisman (appointed December 31, 2016)

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.

Our procedures indicated that the office of **Police Chief** was in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices was noted in the offices of **Mayor**, **Recorder/Treasurer** and **District Court Clerk**.

MAYOR AND RECORDER/TREASURER

1. The Recorder/Treasurer was overpaid by \$14,509 in 2016, and we were unable to test the salaries of Recorder and Treasurer, whose offices were combined in October 2015, because authorized salaries were not documented.
2. The City overpaid the former Police Chief and another officer \$6,993 and \$531, respectively, for sick leave balances at employment termination, in noncompliance with Cave Springs Resolution no. 2016-5. The former Police Chief was also paid twice for unused annual leave, resulting in an overpayment of \$2,600.
3. The City provided unauthorized family health insurance to two employees in 2016, with premiums totaling \$3,600 and \$4,500, respectively.
4. A City employee was paid a car allowance of \$4,800 that was not authorized by the Council.
5. The City's General Fund included an account entitled Benevolent Fund. Disbursements for benevolent purposes appear to be in conflict with the public purpose doctrine, as discussed in Op. Att'y Gen. no. 1991-410. Transactions included a duplicate reimbursement of \$391 to the Mayor and \$731 in disbursements for Shop with a Cop in excess of donations.

MAYOR AND RECORDER/TREASURER (Continued)

6. The following travel reimbursement deficiencies were noted:

- The City reimbursed travel mileage without a documented business purpose and a mileage log, as required by city policy.
- The City reimbursed travel mileage at 57.5 cents per mile, although city policy called for adherence to the reimbursement rate of 42 cents per mile used by the Department of Finance and Administration (DFA).

7. The City commingled General and Street Fund activity by:

- Depositing 2016 franchise tax of \$131,488 that was pledged for debt service disbursements into the Street Fund.
- Depositing Street Fund property tax of \$61,307 and \$19,709 into General Fund for 2016 and 2015, respectively, in noncompliance with Ark. Code Ann. § 14-59-104.
- Allocating general government expenses for legal fees and information technology services to the Street Fund, in noncompliance with Ark. Code Ann. § 27-70-207.

8. The following payroll deficiencies were noted:

- Payroll and benefits were not authorized by the Council.
- A salary schedule was not attached to the budget.
- Wage increases were not documented as authorized.
- The City contracted with a payroll company but did not adopt an ordinance providing for internal accounting controls and documentation for audit and accounting procedures, as required by Ark. Code Ann. § 14-59-105.
- City vehicles were used for routine commuting, in noncompliance with the City's personnel policy, and the benefit was not reported on employees' Internal Revenue Service (IRS) Form W-2, as required by the IRS.
- Payroll was not properly documented with timesheets prepared by the employee and approved by the appropriate supervisor.
- The City did not retain payroll reports for 2015, and the payroll service provider did not provide the City with accurate documentation of amounts remitted to the IRS and DFA for 2016.
- Management did not provide proper oversight of payroll:
 - A payroll company disbursed payroll from the City's bank account, but the City did not reconcile the electronic activity.
 - All eligible employees were not enrolled in retirement plans, and employee retirement contributions were not properly deducted from employees' paychecks, reconciled to retirement statements, and paid by the City.

9. The City disbursed funds as electronic payments, rather than with prenumbered checks, without an electronic payment method approved by the Legislative Joint Auditing Committee, in noncompliance with Ark. Code Ann. § 14-59-105.

10. The City's 2015 final amended budget and the 2016 original and amended budgets were not attached to the authorizing resolutions; therefore, we were unable to compare expenditures to appropriations.

MAYOR

1. The City paid a vendor \$1,093 to set up a nonprofit organization, Friends of Cave Springs, for which the Mayor, Recorder/Treasurer, and a City employee were officers, in conflict with Ark. Const. art. 12, § 5.
2. The City disbursed \$969 and \$1,599 in 2016 and 2015, respectively, to a business owned by an employee without an authorizing ordinance, in noncompliance with Ark. Code Ann. § 14-42-107.
3. The City did not properly certify its real and personal property taxation rates to the Benton County Clerk for the year 2016, to be collected in 2017, as required by Ark. Code Ann. § 26-73-202.
4. Cave Springs Resolution no. 2016-9 (April 12, 2016) appropriated \$23,165 for the purchase of a vehicle; however, the City paid \$23,500 for a vehicle, plus accessories of \$10,155, resulting in a disbursement in excess of appropriation totaling \$10,490.

MAYOR (Continued)

5. The Council did not review the prior report and accompanying findings and recommendations, as required by Ark. Code Ann. § 10-4-418.
6. The City's Water and Sewer Departments did not obtain a financial audit or agreed-upon procedures and compilation report for 2015 or 2014, as required by Ark. Code Ann. § 14-234-119.
7. The following disbursement authorization deficiencies were noted:
 - Notation of the Mayor's authorization was omitted from the face of invoices.
 - Checks were not always issued with two authorizing signatures.
 - Checks were sometimes issued prior to services being rendered.
 - The following disbursements were not documented as authorized by the Council:
 - An unauthorized car allowance of \$4,800 for the Mayor's Assistant.
 - Payment of \$14,350 and \$800 for 2016 and 2015, respectively, to the Court Clerk as contract labor rather than as an employee.
 - A check for \$2,850 issued to an architect without an authorizing contract.
 - A \$194,835 contract entered into by the Mayor with an engineering firm without Council approval.
 - A grant of \$150,000 accepted by the Mayor without Council approval. The grantee's check had an issue date of December 1, 2016; was never deposited; and was returned to the grantee by certified mail on March 28, 2017.
 - Attorneys hired by the Mayor without Council approval, in noncompliance with Ark. Code Ann. § 14-42-112(2) (B).

RECORDER / TREASURER

1. Cash receipts journals did not contain yearly totals, in noncompliance with Ark. Code Ann. § 14-59-110. In addition, the following receipting deficiencies were noted:
 - Funds received were not receipted at the time of collection, as required by Ark. Code Ann. § 14-59-109.
 - Receipts were not deposited timely and intact.
 - Receipt numbers were not properly accounted.
 - Receipts did not identify the receiving fund.
 - Receipt books were not maintained, as required by Ark. Code Ann. § 14-59-109; therefore, we could not perform receipt tests for all funds for 2016 and 2015.
 - Numerous posting errors were noted, including:
 - Duplicate postings.
 - Receipts posted to disbursements accounts.
 - Receipts improperly classified.
 - Receipts not posted by receipt date.
 - Receipt numbers omitted from ledger.
2. A detailed fixed asset listing had not been updated since 2014, in noncompliance with Ark Code Ann. § 14-59-107.
3. Cash receipts and disbursements journals were not maintained for the City's Debt Service Funds, in noncompliance with Ark. Code Ann. §§ 14-59-110, -111.
4. Reconciliations for City and Court funds were not completed timely or properly approved, in noncompliance with Ark. Code Ann. §§ 14-59-108, 16-10-209, which resulted in unidentified differences between the bank and book balances. The Administration of Justice Fund had an unidentified account balance of \$11,841 at December 31, 2016.

RECORDER / TREASURER (Continued)

5. The City did not remit timely settlements from the Administration of Justice Fund to the State Administration of Justice Fund by the fifteenth of the following month, as required by Ark. Code Ann. § 16-10-308.
6. Annual financial statements were not prepared and published/posted in two public places, as required by Ark. Code Ann. § 14-59-116.
7. Disbursement deficiencies were noted as follows:
 - Disbursements were not correctly posted as a function of broad expenditure type.
 - Disbursements were improperly classified.
 - Disbursements were made from incorrect bank accounts and/or funds.
 - Disbursements journals omitted annual totals, in noncompliance with Ark. Code Ann. §§ 14-59-111, 16-10-209.
 - Invoices and supporting documentation were not properly maintained and did not agree to amounts disbursed, in noncompliance with Ark. Code Ann. § 14-59-105.

DISTRICT COURT CLERK

1. The Court Clerk did not make a direct monetary settlement by the tenth day of the following month with the City Treasurer, County Treasurer, and Department of Finance and Administration, and the Court Fund had an unidentified cash balance of \$30,247 at December 31, 2016, in noncompliance with Ark. Code Ann. § 16-10-209.
2. The Court Account disbursements were made by the Recorder/Treasurer, in noncompliance with Ark. Code Ann. § 16-10-209.

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



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

Little Rock, Arkansas
May 10, 2017
LOM202716

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

Schedule 1

	General Fund	Special Revenue Funds	Debt Service Funds
Cash Balance, January 1, 2016	\$ 454,787	\$ 164,012	\$ 17,057
Receipts:			
State aid	35,216	167,423	
Federal aid	34,016		
Property taxes	373,414		
Franchise fees	16,712	131,488	
Sales taxes	717,980		
Fines, forfeitures, and costs		1,505	
Interest		114	3
Fire department membership dues and contracts		62,640	
Other	2,637	2,462	
Transfers in		25,110	49,084
Unclassified	697,911	39,705	
Total Receipts	<u>1,877,886</u>	<u>430,447</u>	<u>49,087</u>
Disbursements:			
General government	1,373,690		
Law enforcement	653,281	500	
Highways and streets		277,111	
Public safety		65,347	
Recreation and culture	632		
Debt service	31,386		49,666
Transfers out	48,438	25,756	
Unclassified	93,794		
Total Disbursements	<u>2,201,221</u>	<u>368,714</u>	<u>49,666</u>
Cash Balance, December 31, 2016	<u>\$ 131,452</u>	<u>\$ 225,745</u>	<u>\$ 16,478</u>

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

Schedule 2

	Street	Fire Association	Fire Equipment and Training (Act 833)	Court Automation	Rescue Emergency Management Account	Total
Cash Balance, January 1, 2016	\$ 43,313	\$ 84,304	\$ 36,068	\$ 327		\$ 164,012
Receipts:						
State aid	147,918		19,505			167,423
Franchise fees	131,488					131,488
Fines, forfeitures, and costs				1,035	\$ 470	1,505
Interest	85		29			114
Fire department membership dues and contracts		62,640				62,640
Other	2,462					2,462
Transfers in		20,968	4,142			25,110
Unclassified	39,705					39,705
Total Receipts	<u>321,658</u>	<u>83,608</u>	<u>23,676</u>	<u>1,035</u>	<u>470</u>	<u>430,447</u>
Disbursements:						
Law enforcement				500		500
Highways and streets	277,111					277,111
Public safety		65,347				65,347
Transfers out		4,142	21,614			25,756
Total Disbursements	<u>277,111</u>	<u>69,489</u>	<u>21,614</u>	<u>500</u>		<u>368,714</u>
Cash Balance, December 31, 2016	<u>\$ 87,860</u>	<u>\$ 98,423</u>	<u>\$ 38,130</u>	<u>\$ 862</u>	<u>\$ 470</u>	<u>\$ 225,745</u>

CITY OF CAVE SPRINGS, ARKANSAS
SCHEDULE OF FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

Schedule 3

	General Fund	Special Revenue Funds	Debt Service Fund
Cash Balance, January 1, 2015	\$ 500,149	\$ 260,842	\$ 12,340
Receipts:			
State aid	42,232	146,183	
Federal aid	3,636	500	
Property taxes	242,598	32,074	
Franchise fees	127,031		
Sales taxes	611,156		
Fines, forfeitures, and costs	30,811	843	
Interest	1,080	356	6
Local permits and fees	304,945		
Fire department membership dues and contracts		59,567	
Contribution from water department	76,255		
Other	40,772	9,812	
Transfers in			54,661
Unclassified	122,937		
Total Receipts	<u>1,603,453</u>	<u>249,335</u>	<u>54,667</u>
Disbursements:			
General government	892,183		
Law enforcement	337,442	550	
Highways and streets	75,192	290,440	
Public safety	62,253	38,283	
Recreation and culture	3,334		
Debt service	31,925		49,950
Transfers out	37,769	16,892	
Unclassified	208,717		
Total Disbursements	<u>1,648,815</u>	<u>346,165</u>	<u>49,950</u>
Cash Balance, December 31, 2015	<u>\$ 454,787</u>	<u>\$ 164,012</u>	<u>\$ 17,057</u>

CITY OF CAVE SPRINGS, ARKANSAS
 COMBINING SCHEDULE OF FINANCIAL INFORMATION - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (UNAUDITED)

Schedule 4

	Street	Fire Association	Fire Equipment and Training (Act 833)	Court Automation	Total
Cash Balance, January 1, 2015	\$ 171,717	\$ 50,709	\$ 38,382	\$ 34	\$ 260,842
Receipts:					
State aid	127,500	4,142	14,541		146,183
Federal aid		500			500
Property taxes	32,074				32,074
Fines, forfeitures, and costs				843	843
Interest	319		37		356
Fire department membership dues and contracts		59,567			59,567
Other	2,143	7,669			9,812
Total Receipts	<u>162,036</u>	<u>71,878</u>	<u>14,578</u>	<u>843</u>	<u>249,335</u>
Disbursements:					
Law enforcement				550	550
Highways and streets	290,440				290,440
Public safety		38,283			38,283
Transfers out			16,892		16,892
Total Disbursements	<u>290,440</u>	<u>38,283</u>	<u>16,892</u>	<u>550</u>	<u>346,165</u>
Cash Balance, December 31, 2015	<u>\$ 43,313</u>	<u>\$ 84,304</u>	<u>\$ 36,068</u>	<u>\$ 327</u>	<u>\$ 164,012</u>

CITY OF CAVE SPRINGS, ARKANSAS
OTHER INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(UNAUDITED)

Schedule 5

1. Cash balances on the Financial Schedules include demand accounts.
2. The General Fund column on the Financial Schedules includes the following bank accounts:
General Fund and Undercover Operations
3. Cash balances at year-end in the agency funds are as follows:

	December 31, 2016	December 31, 2015
Police Bond and Fine Fund		\$ 100
District Court Fund	\$ 38,492	8,432
Administration of Justice Fund	42,826	

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

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

	December 31, 2016	December 31, 2015
Land	\$ 56,651	\$ 56,651
Buildings	549,888	549,888
Equipment	1,115,261	1,115,261
Totals	<u>\$ 1,721,800</u>	<u>\$ 1,721,800</u>

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

	December 31, 2016	December 31, 2015
Notes payable	\$ 19,832	\$ 49,505
Bonds payable	369,000	402,000
Totals	<u>\$ 388,832</u>	<u>\$ 451,505</u>