

Performance Audit UPDATE

Legislative Joint Auditing Committee

June 8, 2007

Analysis of Regulatory Boards and Social Welfare Commissions

INTRODUCTION

A report to the Legislative Joint Auditing Committee on December 14, 2001 provided a discussion of the potential cost savings to the State and its citizenry through the consolidation of selected regulatory boards and commissions resulting in a decrease in the number of staff and administrative costs to the State while simultaneously reducing the likelihood of fraud or misappropriation of funds. This report is being issued to update the revenues and expenditures of Arkansas regulatory boards and social welfare commissions previously reported to the Committee. As in the original report, this update excludes regulatory boards and commissions too large or complex in their nature for consideration of consolidation. A listing of the excluded entities is provided in **Schedule 3 on page 7**.

OBJECTIVES

The objectives in conducting this audit were as follows:

- *Compile the total revenues and expenditures of regulatory boards and social welfare commissions for the year ending June 30, 2005;*
- *Determine the number and dollar amounts of unauthorized disbursements and unaccounted for funds relating to boards and commissions; and*
- *Review and update the recommendations to the original performance audit.*

SCOPE AND METHODOLOGY

This audit was conducted for the period July 1, 1999 through June 30, 2005 in accordance with the applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In conducting this audit, financial information from the Arkansas Administrative Statewide Information System (AASIS) was examined and financial audits and review reports conducted by the Division were reviewed along with applicable sections of Arkansas Code Annotated. A review of the success of consolidation in other states was compiled in the previous report and has not been duplicated here.

BACKGROUND

Regulatory boards and social welfare commissions in the State of Arkansas have been created by various sections of the Arkansas Code and, for the most part, operate independently with separate administrative and investigative staffs. A regulatory board is an oversight authority charged with establishing rules and regulations for a specific occupation or profession within the State. Social welfare commissions represent people of differing backgrounds, educate the public of specific needs for an identified group, or provide equal treatment of individuals through the dissemination of information and compliance measures.

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UPDATED FIGURES

As shown in Exhibit I, the number of regulatory boards and commissions continued to increase from the seventy-seven (77) listed in the original audit at June 30, 1999 to eighty-three (83) at June 30, 2005¹. Exhibit II summarizes the change in revenues, expenditures, and cash/investment balances of regulatory boards and commissions from June 30, 1999 to 2005. **Cash/Investment balances for regulatory boards and commissions totaled \$73.6 million at June 30, 2005.** The Arkansas Securities Department and the Department of Aeronautics comprise \$27 million or 37.3% of the total cash/investments balance. The Arkansas Securities Department uses its balance for general operations and the Department of Aeronautics for debt service funding for local airport improvement grant projects. A detailed listing of each entity and its balance is provided in **Schedules 1 and 2 beginning on page 4.**

REPEAT FINANCIAL AUDIT FINDINGS

Due to the limited numbers of financial staff, regulatory boards and social welfare commissions inherently are less able to establish adequate segregation of financial duties thereby creating a higher risk for the occurrence of fraud or mismanagement of funds. As noted in the financial audits and review reports for the five (5) year period July 1, 2000 through June 30, 2005, **regulatory boards and social welfare commission's unauthorized disbursements and unaccounted for funds totaled \$176,433** as shown in **Exhibit III.** The original report detailed shortages at boards and commissions totaling \$120,389 for the ten (10) year period July 1, 1990 through June 30, 2000.

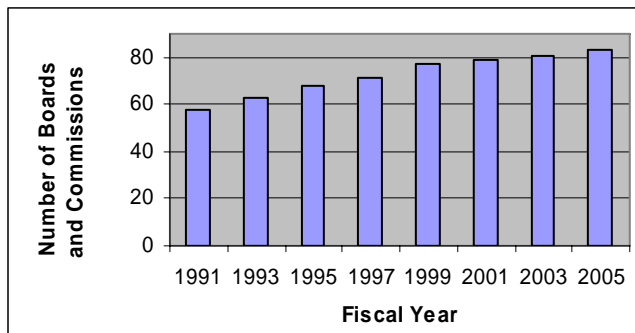
RECOMMENDATIONS

The audit recommendations presented in the original report are provided below followed by corresponding updated recommendations. The original recommendations culminated from a review of cost savings experienced by other states that have enacted various forms of consolidation. The original report noted Arkansas maintained a greater number of boards and commissions and recorded more expenditures by the boards and commissions than any of the fifteen (15) states chosen for comparison. Missouri, Tennessee, and Utah, the comparative states with the greatest degree of consolidation, demonstrated the reduction in regulatory boards in their states resulted in less board-related expenditures than recorded in Arkansas. The original report also provided a summary of potential advantages/disadvantages

¹The six (6) entities created after July 1, 1999 are identified in **Schedules 1 and 2 beginning on page 4.**

Exhibit I

Number of Regulatory Boards and Social Welfare Commissions July 1, 1990 through June 30, 2005



Note: Excludes regulatory boards and commissions too large or complex in their nature for consideration of consolidation.

Source: Arkansas Administrative Statewide Information System (AASIS)

associated with consolidating administrative and investigative functions of Arkansas boards and commissions including a decrease in overall staffing and related expenses as well as the centralization of licensing for the convenience of Arkansas citizens. A copy of the original report containing these discussions is available on the Division's website at www.legaudit.state.ar.us.

ORIGINAL RECOMMENDATIONS:

We recommend consolidating the number of regulatory boards as well as the administrative and investigative functions of the boards. This could be accomplished by a number of methods including the following:

- Option 1 -** Merging related boards into a single general policy board for setting regulations and requirements;
- Option 2 -** Consolidating the administrative and investigative functions into a single department of state government dedicated to the protection of consumers and charged with all regulatory functions of the state; or
- Option 3 -** Consolidating the administrative and investigative functions into a division of state government within the Department of Finance and Administration.

Each of these methods would require the development of a pool of investigators to investigate complaints and violations of state laws and regulations. Under Options 2 and 3, current regulatory boards would retain their rulemaking procedural authority.

Exhibit II
Regulatory Boards and Social Welfare Commissions
Financial Summary
June 30, 2005

Regulatory Boards			
	Balance at June 30, 1999	Balance at June 30, 2005	Change in Balance
Revenues	\$ 28,864,687	\$ 30,862,854	\$ 1,998,167
Expenditures	27,270,714	28,394,094	1,123,380
Cash and Investments	28,582,827	50,648,804	22,065,977
Social Welfare Commissions			
	Balance at June 30, 1999	Balance at June 30, 2005	Change in Balance
Revenues	\$ 34,316,749	\$ 56,949,911	\$ 22,633,162
Expenditures	31,547,946	53,822,413	22,274,467
Cash and Investments	14,570,476	22,987,996	8,417,520

Note 1: The Arkansas Securities Department and the Department of Aeronautics comprise \$27 million or 37.3% of the total cash/investments balance. The Arkansas Securities Department uses its balance of special revenue for general operations and the Department of Aeronautics uses its balance of special revenue for debt service funding for local airport improvement grant projects.

Note 2: \$14 million of the increase in revenues for Commissions is attributable to Act 2090 of 2005 relating to the Arkansas Assessment Coordination Department for the purpose of paying counties and professional reappraisal companies for the reappraisal of real property as required by law.

Source: Arkansas Administrative Statewide Information System (AASIS)

The consolidation of regulatory boards could benefit from the purchase and implementation of a licensing software program, thereby, standardizing licenses within the State and providing automation of license renewals. Both state developed and commercially available software programs have the capability to issue renewal notices, receipt all revenues, and track investigations. Additionally, the renewal process could be streamlined with the use of Internet-based license renewals.

We also recommend the social welfare commissions be merged into larger related agencies. For commissions that do not have a similar agency established, such as the Martin Luther King, Jr. Commission, we recommend the creation of a general services division, under the Department of Finance and Administration, dedicated to providing general financial and accounting services to the individual social welfare commissions of the State. This consolidation could result in a decrease in overall staffing and related expenses.

By consolidating the administrative and investigative functions into a single department or division and merging social welfare commissions into larger related agencies, the State and its citizens could realize a monetary savings while enhancing taxpayer conveniences and diminishing the potential for misappropriation of funds.

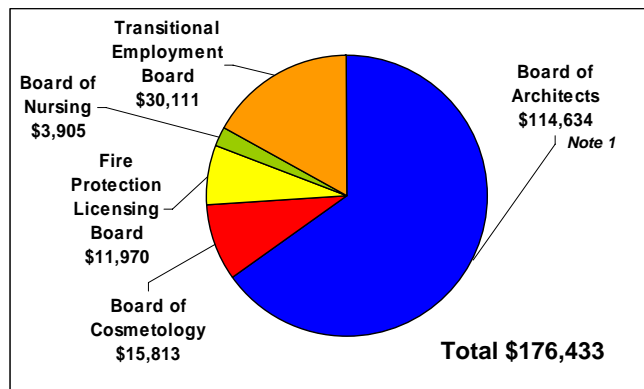
UPDATED RECOMMENDATIONS:

There have been no consolidations of regulatory boards or social welfare commissions since the previous report. We recommend consideration of

the consolidation of regulatory boards, including the administrative and investigative functions of the boards, into a single department or division.

We also recommend the consideration of the merging of social welfare commissions into larger related agencies where possible or the creation of a general services division dedicated to providing general financial and accounting services.

Exhibit III
Unauthorized Disbursements and
Unaccounted for Funds at Regulatory
Boards and Social Welfare Commissions
For the Audit Period
July 1, 2000 through June 30, 2005



Note 1: For the audit period July 1, 1995 to February 28, 2006, the figure for the Board of Architects increased to \$230,247.

Source: Financial audit and review reports prepared by the Division of Legislative Audit

Analysis of Regulatory Boards and Social Welfare Commissions
Summary of Financial Data for Regulatory Boards
For the Year Ended June 30, 2005

Boards	Total Revenues	Total Expenditures	Cash and Investments Balance	Change in Cash and Investments Balance (1)	Internal Control Weakness Reported
Abstractor's Board of Examiners, Arkansas	\$ 26,620	\$ 25,465	\$ 1,913	\$ (10,521)	✓
Accountancy, Arkansas State Board of Public	872,038	615,501	609,445	340,214	
Acupuncture and Related Techniques, Arkansas State Board of	2,150	7,612	15,208	9,082	✓
Appraiser Licensing and Certification Board, Arkansas	306,050	294,861	712,396	27,187	✓
Architects, Arkansas State Board of	512,695	271,676	614,746	350,356	✓
Athletic Commission, Arkansas State (2)	40,089	52,862	151,543	134,719	✓
Athletic Training, Arkansas State Board of (3)	15,785	7,647	86,701	86,701	✓
Auctioneers Licensing Board, Arkansas	108,683	115,237	224,306	156,822	✓
Bail Bond Company Licensing Board, Arkansas Professional	282,468	214,758	2,145,811	1,987,668	✓
Barber Examiners, Arkansas State Board of	181,429	161,528	167,624	41,158	✓
Beef Council, Arkansas	962,712	1,023,785	91,995	(270,018)	
Burial Association Board, Arkansas	201,640	164,070	414,316	44,169	✓
Catfish Promotion Board, Arkansas (3)	148,543	154,462	227,167	227,167	
Cemetery Board, Arkansas (2)	20,180	76,689	88,500	(137,598)	
Chiropractic Examiners, Arkansas State Board of	108,701	115,375	162,687	8,346	✓
Collection Agencies, Arkansas State Board of	1,102,600	321,963	4,897,491	3,917,538	
Contractor's Licensing Board, Arkansas	1,161,042	1,213,281	2,645,189	1,215,419	
Corn and Grain Sorghum Promotion Board, Arkansas	308,805	373,918	183,550	81,259	
Cosmetology, Arkansas State Board of	526,075	518,054	1,349,139	(259,250)	
Counseling, Arkansas Board of Examiners in (2)	195,080	157,894	198,326	42,555	
Dental Examiners, Arkansas State Board of	127,252	287,138	575,463	139,901	✓
Dietetics Licensing Board, Arkansas	27,640	23,175	115,412	30,560	✓
Disease Intervention Specialists, Board of	-	120	2,470	390	✓
Dispensing Opticians, Board of	47,625	35,096	164,662	93,185	✓
Embalmers and Funeral Directors, Arkansas State Board of	172,547	154,139	449,776	135,786	✓
Engineers and Land Surveyors, Arkansas Board of Registration for Professional	367,532	626,646	282,409	(45,454)	✓
Fire Protection Licensing Board, Arkansas	128,021	84,862	202,931	176,795	✓
Foresters, Arkansas State Board of Registration for	22,351	16,413	48,784	40,309	✓
Geologists, Arkansas Board of Registration for Professional	52,193	47,362	166,829	3,299	✓
Health Services Permit Agency, Arkansas	1,208,946	1,137,771	306,796	302,639	✓
Hearing Instrument Dispensers, Arkansas Board of	19,462	20,576	13,111	2,664	✓
Home Inspectors Registration Board, Arkansas (3)(4)	131,892	13,513	118,380	118,380	
Interior Designers, Arkansas State Board of Registered	4,483	4,039	13,529	6,983	✓
Landscape Architects, Arkansas State Board of	36,933	23,192	119,945	60,146	✓

Analysis of Regulatory Boards and Social Welfare Commissions
Summary of Financial Data for Regulatory Boards
For the Year Ended June 30, 2005

Boards	Total Revenues	Total Expenditures	Cash and Investments Balance	Change in Cash and Investments Balance (1)	Internal Control Weakness Reported
Liquefied Petroleum Gas Board, Arkansas	\$ 655,713	\$ 440,219	\$ 753,183	\$ (619,365)	
Manufactured Home Commission, Arkansas	309,034	263,658	1,337,749	205,505	✓
Massage Therapy, Arkansas State Board of	106,830	70,026	248,316	122,328	✓
Medical Board, Arkansas State	2,817,641	2,287,769	1,207,017	(164,939)	
Motor Vehicle Commission, Arkansas	650,218	302,972	2,313,795	1,551,883	
Nursing, Arkansas State Board of	1,424,628	1,451,383	2,212,763	586,807	
Optometry, Arkansas State Board of	118,896	110,155	271,614	124,246	✓
Pharmacy, Arkansas State Board of	894,517	806,811	1,691,725	1,018,945	
Physical Therapy, Arkansas State Board of	173,306	135,889	370,963	4,359	✓
Podiatry Examining Board, Arkansas State	10,029	985	123,834	52,798	✓
Private Career Education, Arkansas State Board of	352,130	243,441	1,353,726	868,094	
Psychology, Arkansas Board of Examiners in	186,327	164,611	336,432	118,206	✓
Real Estate Commission, Arkansas	1,192,514	964,788	1,880,597	183,096	✓
Rice Research and Promotion Board, Arkansas	5,336,498	5,490,139	125,387	(148,064)	
Sanitarians, Arkansas State Board of Registered Professional	6,482	2,933	20,498	(13,125)	✓
Securities Department, Arkansas (2)	1,410,783	2,145,582	16,072,038	7,155,900	✓
Social Work Licensing Board, Arkansas	109,751	72,165	189,783	97,266	✓
Soil Classifiers, Arkansas State Board of Registration for Professional	1,194	720	8,159	1,400	✓
Soybean Promotion Board, Arkansas	3,460,925	3,197,708	1,172,004	1,050,357	
Speech-Language Pathology and Audiology, Arkansas Board of Examiners in	155,925	81,415	323,286	231,994	✓
Teachers Housing Development Foundation (3)(4)	301,131	-	301,131	301,131	
Title Insurance Agents' Licensing Board, Arkansas (3)	110,980	55,444	191,774	191,774	✓
Tobacco Control Board, Arkansas	1,181,514	1,294,365	48,914	17,914	
Towing and Recovery Board, Arkansas	91,582	96,636	218,702	73,450	✓
Veterinary Medical Examining Board, State of Arkansas	97,582	68,579	250,084	94,355	✓
Wheat Promotion Board, Arkansas	276,463	285,022	56,783	(98,891)	
Total	\$ 30,862,854	\$ 28,394,094	\$ 50,648,804	\$ 22,065,977	

Note : Excludes fourteen (14) Boards due to size, complexity, and inclusion with other State Agencies that were included in the original report.

(1) - Amount represents the difference between June 30, 1999 and June 30, 2005 Cash and Investments balances

(2) - Based on FY2004 review (FY2005 fiscal review not completed at time of fieldwork for this report)

(3) - Created after July 1, 1999

(4) - Fiscal year 2005 was the first year of operations

Source: Arkansas Administrative Statewide Information System (AASIS) and Legislative Audit Financial Reports and Reviews

Regulatory Boards and Social Welfare Commissions
Summary of Financial Data for Social Welfare Commissions
For the Year Ended June 30, 2005

Commission	Total Revenues	Total Expenditures	Cash and Investments Balance	Change in Cash and Investments Balance (1)	Internal Control Weakness Reported
Aeronautics, Arkansas Department of	\$ 5,956,514	\$ 3,853,814	\$ 11,386,242	\$ 4,655,085	
Assessment Coordination Department, Arkansas (2)	16,813,929	16,527,374	667,789	561,899	
Capitol Zoning District Commission, Arkansas	199,784	189,248	4,147	4,147	
Child Abuse and Neglect Prevention Board, Arkansas	525,686	449,662	1,753,726	615,614	✓
Disabled Veterans Service Office (2)	28,169	26,354	1,213	1,213	
Election Commissioners, Arkansas State Board of	412,868	1,625,290	1,549,288	1,549,288	
Ethics Commission, Arkansas	556,760	521,299	14,021	(16,097)	
Fair Housing Commission, Arkansas	122,689	194,854	35,633	35,633	✓
Governor's Mansion Commission, Arkansas	645,819	839,368	61,061	(116,572)	
Martin Luther King, Jr. Commission	398,778	392,217	8,984	(9,192)	
Minority Health Commission, Arkansas	1,912,692	2,393,060	16,698	16,448	✓
Parole, Arkansas Board of	1,125,321	1,030,139	1,680	1,680	
Prosecutor Coordinator, Office of	779,790	799,157	8,017	(18,673)	
Public Defenders Commission, Arkansas	15,865,785	14,180,100	1,343,041	255,797	
Rural Services, Arkansas Department of	899,318	883,970	31,255	(12,125)	✓
Science and Technology Authority, Arkansas (2)	2,806,233	2,598,208	3,986,387	(953,729)	✓
Sentencing Commission, Arkansas	298,392	283,293	247	247	
Spinal Cord Commission, Arkansas	2,019,028	1,929,320	123,795	55,147	✓
Transitional Employment Board, Arkansas	1,229,941	859,567	360,303	360,303	✓
Veterans Child Welfare Service, Arkansas	152,466	137,131	76,440	12,296	
War Memorial Stadium Commission	3,307,172	3,239,128	1,520,014	1,381,096	✓
Waterways Commission, Arkansas	203,538	189,525	3,489	3,489	
Workforce Investment Board, Arkansas (3)	689,239	680,335	34,526	34,526	
Total	\$ 56,949,911	\$ 53,822,413	\$ 22,987,996	\$ 8,417,520	

(1) - Amount represents the difference between June 30, 1999 and June 30, 2005 Cash and Investments balances

(2) - Based on FY2004 review (FY2005 fiscal review not completed at time of fieldwork for this report)

(3) - Created after July 1, 1999

Source: Arkansas Administrative Statewide Information System (AASIS) and Legislative Audit Financial Reports and Reviews

**Analysis of Regulatory Boards and Social Welfare Commissions
Regulatory Boards and Commissions Excluded from Analysis
Due to Large Size or Complexity
For the Year Ended June 30, 2005**

<u>Entity Name</u>
Alcoholic Beverage Control
Alcoholism and Drug Abuse Counselors, Board of Examiners of
Bank Department, Arkansas State
Boiler Advisory Board
Electrical Examiners of the State of Arkansas, Board of
Elevator Safety Board, Arkansas
Health Education, Arkansas Board of
Heating, Ventilation, Air Conditioning and Refrigeration Licensing Board, Arkansas
Insurance Department, Arkansas
Livestock and Poultry Commission, Arkansas
Oil and Gas Commission, Arkansas
Plant Board, Arkansas State
Plumbing Examiners, State Committee of
Private Investigators and Private Security Agencies, Arkansas Board of



A copy of the original report is on the Division's website at www.legaudit.state.ar.us

