

# *Internal Control and Compliance Assessment*

## *Arkansas Legislative Audit*

### **Arkansas Department of Agriculture**

For the Fiscal Year Ended June 30, 2021



## **INTRODUCTION**

This report is issued to inform the Legislative Joint Auditing Committee of compliance with state fiscal laws and regulations as well as deficiencies in internal controls for the Arkansas Department of Agriculture. As discussed in the Results of Assessment section below, our procedures disclosed inadequate monitoring of subrecipients by the Department.

## **SCOPE AND METHODOLOGY**

We performed an internal control and compliance assessment of the Arkansas Department of Agriculture, a department of Arkansas state government, as of and for the year ended June 30, 2021, and have issued our report dated August 16, 2022. Management of the Department is responsible for establishing and maintaining internal controls and complying with applicable laws and regulations.

The assessment included cash on deposit, cash receipts, accounts receivable, investments, expenditures, liabilities, capital assets, and data entry to the Arkansas Administrative Statewide Information System (AASIS). The assessment consisted principally of inquiries, observations, analytical procedures, and selected tests of internal control policies and procedures, accounting records, and other relevant documents. We relied on financial data in AASIS recorded by the Department and audit work conducted in the fiscal year 2021 State Annual Comprehensive Financial Report and Single Audit Report.

## **RESULTS OF ASSESSMENT**

Assessment procedures disclosed the following internal control or compliance matter that was discussed with Department officials during the assessment and at the exit conference:

**Finding:** The Department of Agriculture did not adequately monitor all subrecipients for the Arkansas Meat and Poultry Processing Grant Program, funded by the federal CARES Act and approved for a 90/10 cost-share by the Arkansas CARES Act Steering Committee. We reviewed expenditures totaling \$7.8 million for 16 of 31 subrecipients who received funding under the grant; of these 16 subrecipients, 11 did not submit adequate documentation to the Department to prove the cost-share had been achieved. According to the Department, this cost-share was intended to be used to determine the maximum distribution of funds to each applicant. However, the written rules state, "A grant award can be used to reimburse up to 90% of eligible expenses." As a result of this rule and in combination with other questionable expenditures noted below, subrecipients were overpaid \$1.0 million.

- Two subrecipients made payments totaling \$343,548 with grant funding to related parties. These payments from one subrecipient included \$60,000 for a two-year lease of land and \$30,000 for consulting services. Additionally, one year of the land lease (\$30,000) was for dates outside the period of performance of the federal CARES Act and, therefore, was not an allowable cost. For the other subrecipient, a \$253,548 payment was made to a related-party construction company without an associated itemized invoice.

#### **ARKANSAS LEGISLATIVE AUDIT**

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- Two subrecipients purchased real estate totaling \$376,044 with grant funds, although real estate was not listed as an eligible expense category in the grant guidelines issued by the Department. Additionally, based on federal guidance, the acquisition of real estate must be “necessary” in that the need cannot be met “in a cost-effective manner by leasing property...or by improving property already owned....” As both subrecipients already owned land and stated on their grant applications that they intended to use that land to build facilities, the real estate purchase does not meet the definition of “necessary.”
- One subrecipient submitted a \$10,000 invoice for “equipment” that did not contain sufficient detail to verify the eligibility of the expense.

We recommend the Department strengthen its monitoring of subrecipient expenses to ensure compliance with all grant criteria..

**Management response:** *The Department agrees to strengthen the monitoring of subrecipient expenses to ensure compliance with all grant criteria. The Department will revise its control self-assessment on subrecipient monitoring. The Department made extensive efforts to correctly implement and monitor the Arkansas Meat and Poultry Processing Grant Program despite the short timeframe between the selection of awardees and the CARES Act deadline for expenditures. In addition to numerous calls, emails, and meetings with all awardees, the Department has more than 200 emails between the Department and the three plants referenced in the audit finding. Department staff also made a site inspection of each of the three facilities.*

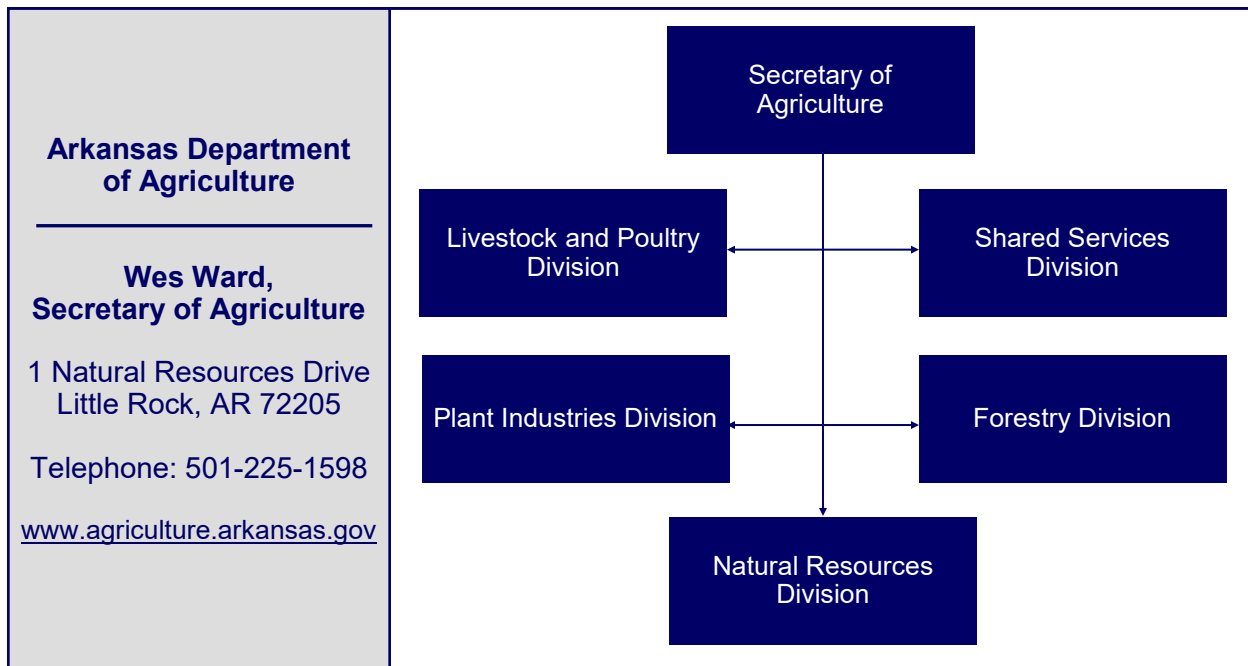
## ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

In accordance with Act 910 of 2019, effective July 1, 2019, the Arkansas Agriculture Department became part of the newly created cabinet-level Department of Agriculture. Additionally, the Arkansas Natural Resources Commission, the Arkansas State Board of Registration for Professional Soil Classifiers, the Arkansas State Board of Registration for Foresters, and the Arkansas Veterinary Medical Examining Board were also combined under the new cabinet-level department.

The Arkansas Agriculture Department was created by Act 1978 of 2005 to enhance marketing of the State’s agricultural products in state, national, and international markets. The creation of the Department also combined the administrative functions of three existing state agencies (i.e., Arkansas Forestry Commission, Arkansas Livestock and Poultry Commission, and Arkansas State Plant Board) with the Agriculture Department. The Arkansas Natural Resources Commission was established to provide adequate, acceptable water for all users; to plan and coordinate water resource development; to protect individual water rights; to inspect and approve all dam construction; and to perform research to improve water and soil conservation. These agencies were combined along with the boards listed in the previous paragraph to create the cabinet-level Department of Agriculture. As shown by **Exhibit I on page 3**, the newly created Department has five divisions:

1. **Livestock and Poultry Division** was established to control and eradicate diseases and pests in livestock and poultry and to supervise enforcement actions related to livestock and poultry.
2. **Shared Services Division** administers shared services that are available to and used by all divisions in the Department of Agriculture.

## Exhibit I

Arkansas Department of Agriculture  
Organizational Chart

Source: Arkansas Department of Agriculture

3. **Plant Industries Division** protects the citizens of Arkansas and the agriculture industry by enforcing laws and regulations related to insect and disease control.
4. **Forestry Division**, led by the State Forester, protects Arkansas's forests from wildfires and other natural hazards and promotes forest health, stewardship, development, and conservation.
5. **Natural Resources Division** establishes policy and makes funding and regulatory decisions related to the conservation, development, and management of Arkansas's waters.

## FISCAL ANALYSIS

As previously mentioned, in accordance with Act 910 of 2019, multiple boards and commissions were consolidated to form the cabinet-level Department of Agriculture, effective July 1, 2019. Summary financial information for each business area is presented in **Exhibit II on page 4**.

### Revenues, Expenditures, and Transfers

The Department reported \$46.8 million in total revenue for fiscal year 2021. The primary source of these funds was special revenues. Expenditures totaled \$68.9 million for fiscal year 2021, with salaries comprising 53.5%. The Department reported net transfers in of \$18.7 million for fiscal year 2021. Total general revenue transfers in were \$24.9 million. Revenues, expenditures, and transfers for fiscal years 2017 through 2021 are presented in **Exhibit III on page 4**. Amounts prior to fiscal year 2020 are only composed of Arkansas Agriculture Department financial information and do not include all agencies transferred into the cabinet-level Department of Agriculture.

## Exhibit II

**Arkansas Department of Agriculture  
Summary of Financial Information by Business Area  
For the Year Ended June 30, 2021**

<b>Board/Commission/Division</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Net Transfers In (Out)</b>
Arkansas Agriculture Department	\$ 116,412,748	\$ 5,574,101	\$ 34,388,776	\$ 52,479,165	\$ 22,132,915
Arkansas Natural Resources Commission	193,195,402	156,633,129	12,247,856	8,788,023	(10,766,588)
Arkansas State Board of Registration for Professional Soil Classifiers	15,447	350	808	47	0
Department of Agriculture (cabinet level)	67,116	330,350	1,260	7,574,443	7,341,947
State Board of Registration for Foresters	107,280	7,428	15,026	13,919	7
Veterinary Medical Examining Board	674,465	86,446	128,901	83,043	(3,354)
<b>Totals</b>	<b>\$ 310,472,458</b>	<b>\$ 162,631,804</b>	<b>\$ 46,782,627</b>	<b>\$ 68,938,640</b>	<b>\$ 18,704,927</b>

*Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)*

## Exhibit III

**Arkansas Department of Agriculture  
Revenues, Expenditures, and Transfers  
For the Years Ended June 30, 2017 through 2021**

	<b>Fiscal Year</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Revenues</b>					
Special revenues	\$ 20,375,491	\$ 20,279,597	\$ 20,217,769	\$ 20,597,429	\$ 20,445,591
Fees	4,636,290	3,099,424	1,042,512	1,254,926	1,496,124
Other revenues	6,053,670	7,215,211	1,256,891	1,122,912	1,023,747
Federal grants and reimbursements	15,717,176	12,469,080	4,767,109	6,340,440	6,543,855
<b>Total Revenues</b>	<b>\$ 46,782,627</b>	<b>\$ 43,063,312</b>	<b>\$ 27,284,281</b>	<b>\$ 29,315,707</b>	<b>\$ 29,509,317</b>
<b>Expenditures</b>					
Salaries	\$ 36,885,756	\$ 36,107,448	\$ 27,211,162	\$ 26,659,118	\$ 26,141,286
Commodities, materials, and supplies	4,301,637	3,564,784	4,057,539	3,032,382	3,354,596
Assistance, grants, and aids	19,249,211	11,254,507	2,333,763	1,873,970	2,470,550
Other expenses	8,502,036	2,532,290	9,421,344	9,838,483	9,923,570
<b>Total Expenditures</b>	<b>\$ 68,938,640</b>	<b>\$ 53,459,029</b>	<b>\$ 43,023,808</b>	<b>\$ 41,403,953</b>	<b>\$ 41,890,002</b>
<b>Net Transfers In (Out)</b>	<b>\$ 18,704,927</b>	<b>\$ 6,276,399</b>	<b>\$ 18,268,017</b>	<b>\$ 17,328,719</b>	<b>\$ 19,431,120</b>

**Note:** Amounts prior to fiscal year 2020 are only composed of Arkansas Agriculture Department financial information and do not include all agencies transferred into the cabinet-level Department of Agriculture.

*Source: Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)*

**Assets, Deferred Outflows of Resources, and Liabilities**

As of June 30, 2021, the Department's assets totaled \$310.5 million, and liabilities totaled \$162.6 million. A significant portion of assets is related to loan receivables, and a significant portion of liabilities is related to bonds payable, both of which are discussed separately below. Asset and liability balances at year-end for fiscal years 2017 through 2021 are presented in **Exhibit IV on page 5**. Amounts prior to fiscal year 2020 are only composed of Arkansas Agriculture Department financial information and do not include all agencies transferred into the cabinet-level Department of Agriculture.

**Exhibit IV**  
**Arkansas Department of Agriculture**  
**Assets, Deferred Outflows of Resources, and Liabilities**  
**For the Years Ended June 30, 2017 through 2021**

	Fiscal Year				
	2021	2020	2019	2018	2017
<b>Assets</b>					
Cash and cash equivalents	\$ 86,689,130	\$ 86,799,514	\$ 34,591,129	\$ 33,346,938	\$ 31,396,237
Receivables	147,087,498	147,011,466	2,587,931	2,055,230	1,490,275
Fixed assets	70,824,692	68,575,786	61,360,951	59,945,905	57,470,932
Other assets	5,871,138	5,844,154	2,068,468	2,108,091	1,277,030
<b>Total Assets</b>	<b>\$ 310,472,458</b>	<b>\$ 308,230,920</b>	<b>\$ 100,608,479</b>	<b>\$ 97,456,164</b>	<b>\$ 91,634,474</b>
<b>Deferred Outflows of Resources</b>					
Related to bond amortization	\$ 6,547,896	\$ 4,744,487	\$ 0	\$ 0	\$ 0
<b>Liabilities</b>					
Bonds payable	\$ 149,695,000	\$ 165,520,000	\$ 0	\$ 0	\$ 0
Payroll liability	1,755,290	1,466,029	1,070,092	1,026,137	975,149
Due to other state agencies	1,805,826	2,053,887	461,619	269,784	46,735
Unearned income	3,112,441	2,794,659	2,561,756	2,178,769	170,760
Other liabilities	6,263,247	6,365,744	738,642	967,378	789,171
<b>Total Liabilities</b>	<b>\$ 162,631,804</b>	<b>\$ 178,200,319</b>	<b>\$ 4,832,109</b>	<b>\$ 4,442,068</b>	<b>\$ 1,981,815</b>

**Note:** Amounts prior to fiscal year 2020 are only composed of Arkansas Agriculture Department financial information and do not include all agencies transferred into the cabinet-level Department of Agriculture.

**Source:** Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

### Loans Receivable

One major Department activity is administering loans for various water, sewer, and waste water projects of the State. Related to these activities, the Department reported net loans receivable of \$139.1 million: total loans receivable of \$215.1 million less allowance for doubtful accounts and deferred loans of \$76.0 million. Allowance for doubtful accounts refers to loans that meet criteria determined by the Department in the normal course of business. Deferred loans are for irrigation projects with project completion not expected until additional funding from federal sources is available. Payments are not due until project completion. These loans have maturities through 2055. A schedule of loan activity by type for the year ended June 30, 2021, is provided in **Exhibit V on page 6**.

### Bonds Payable and Debt Service

Funding for loans is from general obligation and other bond proceeds. Debt service is from collections on loans, other Department funds, and general revenue. The Department reported \$149.7 million in bonds payable for the fiscal year ended June 30, 2021, as shown in **Exhibit VI on page 6**. In fiscal year 2021, the Department refunded \$49.0 million in bond debt.

**Exhibit V**

**Arkansas Natural Resources Commission  
Loans Receivable Roll Forward Summary  
For the Year Ended June 30, 2021**

	<b>WDF</b>	<b>WSSW</b>	<b>CGO</b>	<b>Totals</b>
Beginning Loan Receivable Balance	\$ 16,795,286	\$ 21,383,111	\$ 183,682,669	\$ 221,861,066
Prior-year adjustment	(5,000)		219,555	214,555
Interest added to loan				
Reclass				
Conversions to grants		(27,101)		(27,101)
Loan disbursements	1,555,699	331,275	3,623,969	5,510,943
Principal payments	(1,856,644)	(2,722,575)	(7,897,891)	(12,477,110)
Ending Loan Receivable Balance	<u>\$ 16,489,341</u>	<u>\$ 18,964,710</u>	<u>\$ 179,628,302</u>	<u>\$ 215,082,353</u>

WDF = Water Development Fund

WSSW = Water, Sewer, and Solid Waste Management Systems Program

CGO = Water, Waste, Disposal, and Pollution Abatement Facilities General Obligation Bond Program

**Source:** Arkansas Natural Resources Commission and Arkansas Administrative Statewide Information System (unaudited by the Arkansas Legislative Audit)

**Exhibit VI**

**Arkansas Department of Agriculture  
Bonds Payable Roll Forward Summary  
For the Years Ended June 30, 2021 and 2020**

	<b>Fiscal Year</b>	
	<b>2021</b>	<b>2020</b>
<b>Bonds Payable at Beginning of Year</b>	\$ 165,520,000	\$ 186,510,000
<b>Additions</b>		
Bond issues	48,975,000	
<b>Deletions</b>		
Scheduled principal payments	(15,825,000)	(20,990,000)
Bond refunds	(48,975,000)	
<b>Total Deletions</b>	(64,800,000)	(20,990,000)
<b>Bonds Payable at Year-End</b>	<u>\$ 149,695,000</u>	<u>\$ 165,520,000</u>

**Source:** Arkansas Administrative Statewide Information System (unaudited by Arkansas Legislative Audit)

