

# **Internal Control and Compliance Assessment**

## **Arkansas Legislative Audit**

### **Arkansas Department of Agriculture**

For the Fiscal Year Ended June 30, 2022



## **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. Assessment procedures disclosed no reportable items of noncompliance.

## **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, 2022, and have issued our report dated August 8, 2023. 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 2022 State Annual Comprehensive Financial Report (ACFR) and Single Audit Report.

## **RESULTS OF ASSESSMENT**

Assessment procedures did not disclose instances of noncompliance considered reportable.

## **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 2**, the Department has five divisions:

### **ARKANSAS LEGISLATIVE AUDIT**

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 Fax: 501-683-8605

[www.arklegaudit.gov](http://www.arklegaudit.gov)

Report ID: SAC990122

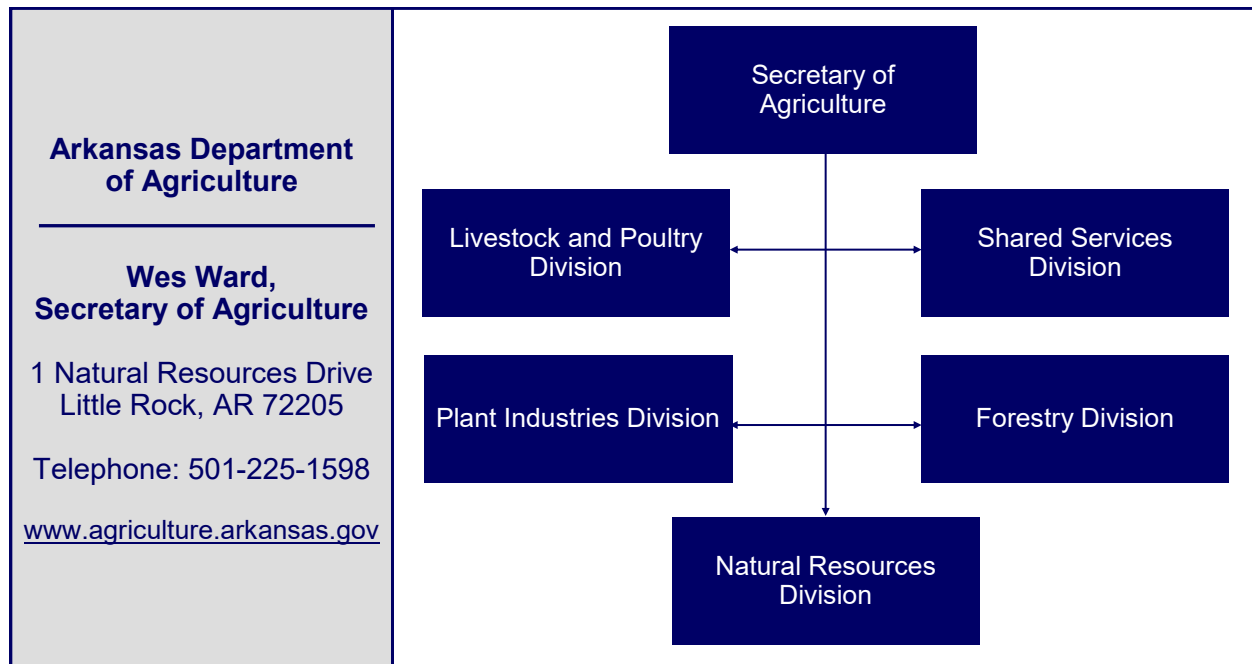
Report Date: August 8, 2023



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.
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.

**Exhibit I**

**Arkansas Department of Agriculture  
Organizational Chart**



Source: Arkansas Department of Agriculture

## 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 3**.

### Revenues, Expenditures, and Transfers

The Department reported \$47.4 million in total revenue for fiscal year 2022. The primary source of these funds was special revenues. Expenditures totaled \$83.5 million for fiscal year 2022, with salaries comprising 47.1%. The Department reported net transfers in of \$16.4 million for fiscal year 2022.

**Exhibit II**  
**Arkansas Department of Agriculture**  
**Summary of Financial Information by Business Area**  
**For the Year Ended June 30, 2022**

Board/Commission/Division	Assets	Liabilities	Revenues	Expenditures	Net Transfers
					In (Out)
Arkansas Agriculture Department	\$ 120,102,789	\$ 6,490,771	\$ 33,905,581	\$ 48,484,881	\$ 15,891,394
Arkansas Natural Resources Commission	213,559,062	182,121,535	13,392,685	27,570,187	(7,234,435)
Arkansas State Board of Registration for Professional Soil Classifiers	16,150	260	887	94	
Department of Agriculture (cabinet level)	100,114	308,268	585	7,371,996	7,756,955
State Board of Registration for Foresters	101,326	5,668	14,645	16,388	(2,452)
Veterinary Medical Examining Board	707,391	93,800	125,019	90,413	(10,820)
<b>Totals</b>	<b>\$ 334,586,832</b>	<b>\$ 189,020,302</b>	<b>\$ 47,439,402</b>	<b>\$ 83,533,959</b>	<b>\$ 16,400,642</b>

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

Total general revenue transfers in were \$25.7 million. Revenues, expenditures, and transfers for fiscal years 2018 through 2022 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.

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

As of June 30, 2022, the Department's assets totaled \$334.6 million, and liabilities totaled \$189.0 million. A significant portion of assets is related to loans receivable, 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 2018 through 2022 are presented in **Exhibit IV 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.

### **Loans Receivable**

One major Department activity is administering loans for various water, sewer, and wastewater projects of the State. Related to these activities, the Department reported net loans receivable of \$127.6 million: total loans receivable of \$215.3 million less allowance for doubtful accounts and deferred loans of \$87.7 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, 2022, is provided in **Exhibit V on page 5**.

### **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 \$174.2 million in bonds payable for the fiscal year ended June 30, 2022, as shown in **Exhibit VI on page 5**. In fiscal year 2022, the Department issued \$40.5 million in new bond debt.

## Exhibit III

**Arkansas Department of Agriculture  
Revenues, Expenditures, and Transfers  
For the Years Ended June 30, 2018 through 2022**

	Fiscal Year				
	2022	2021	2020	2019	2018
<b>Revenues</b>					
Special revenues	\$ 23,294,416	\$ 20,375,491	\$ 20,279,597	\$ 20,217,769	\$ 20,597,429
Fees	2,339,621	4,636,290	3,099,424	1,042,512	1,254,926
Other revenues	5,630,236	6,053,670	7,215,211	1,256,891	1,122,912
Federal grants and reimbursements	16,175,129	15,717,176	12,469,080	4,767,109	6,340,440
<b>Total Revenues</b>	<b>\$ 47,439,402</b>	<b>\$ 46,782,627</b>	<b>\$ 43,063,312</b>	<b>\$ 27,284,281</b>	<b>\$ 29,315,707</b>
<b>Expenditures</b>					
Salaries	\$ 39,376,966	\$ 36,885,756	\$ 36,107,448	\$ 27,211,162	\$ 26,659,118
Commodities, materials, and supplies	4,844,134	4,301,637	3,564,784	4,057,539	3,032,382
Assistance, grants, and aids	13,477,819	19,249,211	11,254,507	2,333,763	1,873,970
Other expenses	25,835,040	8,502,036	2,532,290	9,421,344	9,838,483
<b>Total Expenditures</b>	<b>\$ 83,533,959</b>	<b>\$ 68,938,640</b>	<b>\$ 53,459,029</b>	<b>\$ 43,023,808</b>	<b>\$ 41,403,953</b>
<b>Net Transfers In (Out)</b>	<b>\$ 16,400,642</b>	<b>\$ 18,704,927</b>	<b>\$ 6,276,399</b>	<b>\$ 18,268,017</b>	<b>\$ 17,328,719</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)

## Exhibit IV

**Arkansas Department of Agriculture  
Assets, Deferred Outflows of Resources, and Liabilities  
For the Years Ended June 30, 2018 through 2022**

	Fiscal Year				
	2022	2021	2020	2019	2018
<b>Assets</b>					
Cash and cash equivalents	\$ 123,399,773	\$ 86,689,130	\$ 86,799,514	\$ 34,591,129	\$ 33,346,938
Receivables	133,202,148	147,087,498	147,011,466	2,587,931	2,055,230
Fixed assets	72,053,628	70,824,692	68,575,786	61,360,951	59,945,905
Other assets	5,931,283	5,871,138	5,844,154	2,068,468	2,108,091
<b>Total Assets</b>	<b>\$ 334,586,832</b>	<b>\$ 310,472,458</b>	<b>\$ 308,230,920</b>	<b>\$ 100,608,479</b>	<b>\$ 97,456,164</b>
<b>Deferred Outflows of Resources</b>					
Related to bond amortization	\$ 6,099,806	\$ 6,547,896	\$ 4,744,487	\$ 0	\$ 0
<b>Liabilities</b>					
Bonds payable	\$ 174,669,236	\$ 149,695,000	\$ 165,520,000	\$ 0	\$ 0
Payroll liability	\$ 2,057,889	1,755,290	1,466,029	1,070,092	1,026,137
Due to other state agencies	2,459,999	1,805,826	2,053,887	461,619	269,784
Unearned income	2,700,810	3,112,441	2,794,659	2,561,756	2,178,769
Other liabilities	7,132,368	6,263,247	6,365,744	738,642	967,378
<b>Total Liabilities</b>	<b>\$ 189,020,302</b>	<b>\$ 162,631,804</b>	<b>\$ 178,200,319</b>	<b>\$ 4,832,109</b>	<b>\$ 4,442,068</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)

## Exhibit V

**Arkansas Natural Resources Commission  
Loans Receivable Roll Forward Summary  
For the Year Ended June 30, 2022**

	<b>WDF</b>	<b>WSSW</b>	<b>CGO</b>	<b>Totals</b>
Beginning Loan Receivable Balance	\$ 16,489,341	\$ 18,964,710	\$ 179,628,302	\$ 215,082,353
Prior-year adjustment	(38,442)		(33,236)	(71,678)
Interest added to loan				
Reclass				
Conversions to grants		(224,161)	(83,616)	(307,777)
Loan disbursements	218,000	473,966	12,594,750	13,286,716
Principal payments	(2,810,655)	(1,941,503)	(7,914,374)	(12,666,532)
Ending Loan Receivable Balance	<u>\$ 13,858,244</u>	<u>\$ 17,273,012</u>	<u>\$ 184,191,826</u>	<u>\$ 215,323,082</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, 2022 and 2021**

	<b>Fiscal Year</b>	
	<b>2022</b>	<b>2021</b>
<b>Bonds Payable at Beginning of Year</b>	<u>\$ 149,695,000</u>	<u>\$ 165,520,000</u>
<b>Additions</b>		
Bond issues	<u>40,535,000</u>	<u>48,975,000</u>
<b>Deletions</b>		
Scheduled principal payments	<u>(16,060,000)</u>	<u>(15,825,000)</u>
Bond refunds		<u>(48,975,000)</u>
<b>Total Deletions</b>	<u>(16,060,000)</u>	<u>(64,800,000)</u>
<b>Bonds Payable at Year-End</b>	<u>\$ 174,170,000</u>	<u>\$ 149,695,000</u>

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

