

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas Department of Agriculture

For the Fiscal Year Ended June 30, 2023



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, the Department reported to us fraudulent payroll transactions at a conservation district.

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, 2023, and have issued our report dated June 20, 2024. 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, 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 2023 State Annual Comprehensive Financial Report (ACFR) and Single Audit Report.

RESULTS OF ASSESSMENT

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

Finding: The Monroe County Conservation District, which receives funding from the Department of Agriculture, notified the Department of questionable payroll disbursements and engaged a certified public accountant to investigate these matters. The investigation revealed that the District Office Manager issued 14 unauthorized payroll checks, totaling \$14,306, to herself over the three-year period ended December 31, 2023. The Office Manager resigned on April 2, 2024.

We recommend the Department continue to monitor conservation districts and encourage districts to strengthen internal controls to prevent unauthorized transactions.

Management response: *The Department concurs with the finding. The Department immediately notified the Arkansas Department of Finance and Administration and Arkansas Legislative Audit as soon as the conservation district board notified the Department that unauthorized payroll disbursements were suspected. While internal controls are the responsibility of the conservation districts and their management, the Department will continue to monitor the districts' controls via reviews of "agreed upon procedures" performed by an independent certified public accountant. Although the Department has no direct authority over the conservation districts, the Department will recommend the following to the districts:*

ARKANSAS LEGISLATIVE AUDIT

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

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

www.arklegaudit.gov

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- Regular review of payroll expenditures, with comparison to their annual budget.
- Strengthening of their internal controls, including designation of a single board member with signature authority for all checks issued by the district to prevent unauthorized payroll disbursements.
- Review of financial reports at every regularly scheduled meeting.

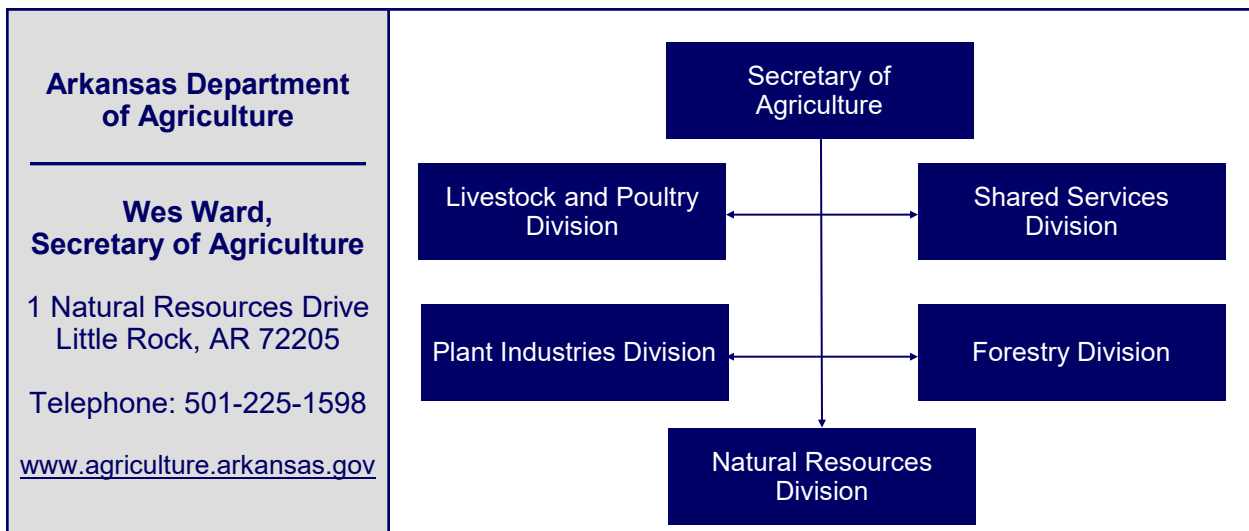
ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

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 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. In accordance with Act 910 of 2019, effective July 1, 2019, these agencies, along with 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 combined to create the cabinet-level Department of Agriculture. As shown in **Exhibit I**, the 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.
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**.

Exhibit II
Arkansas Department of Agriculture
Summary of Financial Information by Business Area
For the Year Ended June 30, 2023

Board/Commission/Division	Assets	Deferred Outflows of Resources	Liabilities	Revenues	Expenditures	Net Transfers In (Out)
State Board of Registration for Foresters	\$ 115,215		\$ 5,904	\$ 16,783	\$ 2,695	\$ (435)
Arkansas State Board of Registration for Professional Soil Classifiers	17,302		280	1,185	52	
Veterinary Medical Examining Board	732,737		93,646	130,846	91,843	(7,299)
Arkansas Agriculture Department	123,864,971		5,581,580	35,061,114	47,312,573	13,961,145
Arkansas Natural Resources Commission	220,329,096	\$ 5,651,717	205,960,682	12,408,521	32,810,819	(14,034,853)
Department of Agriculture (cabinet level)	1,878,484		568,097	500,797	25,222,293	23,470,494
Totals	\$ 346,937,805	\$ 5,651,717	\$ 212,210,189	\$ 48,119,246	\$ 105,440,275	\$ 23,389,052

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

Revenues, Expenditures, and Transfers

The Department reported \$48.1 million in total revenue for fiscal year 2023. The primary source of these funds was special revenues. Expenditures totaled \$105.4 million for fiscal year 2023, with salaries comprising 38.9%. The Department reported net transfers in of \$23.4 million for fiscal year 2023. Total general revenue transfers in were \$25.8 million. Revenues, expenditures, and transfers for fiscal years 2019 through 2023 are presented in **Exhibit III**. 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 III
Arkansas Department of Agriculture
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2019 through 2023

	Fiscal Year				
	2023	2022	2021	2020	2019
Revenues					
Special revenues	\$ 23,600,236	\$ 23,294,416	\$ 20,375,491	\$ 20,279,597	\$ 20,217,769
Fees	614,440	2,339,621	4,636,290	3,099,424	1,042,512
Other revenues	6,022,418	5,630,236	6,053,670	7,215,211	1,256,891
Federal grants and reimbursements	17,882,152	16,175,129	15,717,176	12,469,080	4,767,109
Total Revenues	\$ 48,119,246	\$ 47,439,402	\$ 46,782,627	\$ 43,063,312	\$ 27,284,281
Expenditures					
Salaries	\$ 41,061,074	\$ 39,376,966	\$ 36,885,756	\$ 36,107,448	\$ 27,211,162
Commodities, materials, and supplies	4,938,002	4,844,134	4,301,637	3,564,784	4,057,539
Assistance, grants, and aids	25,385,747	13,477,819	19,249,211	11,254,507	2,333,763
Other expenses	34,055,452	25,835,040	8,502,036	2,532,290	9,421,344
Total Expenditures	\$ 105,440,275	\$ 83,533,959	\$ 68,938,640	\$ 53,459,029	\$ 43,023,808
Net Transfers In (Out)	\$ 23,389,052	\$ 16,400,642	\$ 18,704,927	\$ 6,276,399	\$ 18,268,017

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 Trial Balance (unaudited by Arkansas Legislative Audit)

Assets, Deferred Outflows of Resources, and Liabilities

As of June 30, 2023, the Department's assets totaled \$346.9 million, and liabilities totaled \$212.2 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 2019 through 2023 are presented in **Exhibit IV**. 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, 2019 through 2023**

	Fiscal Year				
	2023	2022	2021	2020	2019
Assets					
Cash and cash equivalents	\$ 132,826,704	\$ 123,399,773	\$ 86,689,130	\$ 86,799,514	\$ 34,591,129
Receivables	133,163,752	133,202,148	147,087,498	147,011,466	2,587,931
Fixed assets	78,016,568	72,053,628	70,824,692	68,575,786	61,360,951
Other assets	2,930,781	5,931,283	5,871,138	5,844,154	2,068,468
Total Assets	\$ 346,937,805	\$ 334,586,832	\$ 310,472,458	\$ 308,230,920	\$ 100,608,479
Deferred Outflows of Resources					
Related to bond amortization	\$ 5,651,717	\$ 6,099,806	\$ 6,547,896	\$ 4,744,487	\$ 0
Liabilities					
Bonds payable	\$ 199,770,000	\$ 174,669,236	\$ 149,695,000	\$ 165,520,000	\$ 0
Payroll liability	724,960	2,057,889	1,755,290	1,466,029	1,070,092
Due to other state agencies	1,358,422	2,459,999	1,805,826	2,053,887	461,619
Unearned income	3,138,484	2,700,810	3,112,441	2,794,659	2,561,756
Other liabilities	7,218,323	7,132,368	6,263,247	6,365,744	738,642
Total Liabilities	\$ 212,210,189	\$ 189,020,302	\$ 162,631,804	\$ 178,200,319	\$ 4,832,109

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 Trial Balance (unaudited by Arkansas Legislative Audit)

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 \$126.7 million: total loans receivable of \$232.0 million less allowance for doubtful accounts and deferred loans of \$105.3 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 2057. A schedule of loan activity by type for the year ended June 30, 2023, 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 \$199.8 million in bonds payable for the fiscal year ended June 30, 2023, as shown in **Exhibit VI on page 5**. In fiscal year 2023, the Department issued \$43.0 million in new bond debt.

Exhibit V

**Arkansas Natural Resources Commission
Loans Receivable Roll Forward Summary
For the Year Ended June 30, 2023**

	<u>WDF</u>	<u>WSSW</u>	<u>CGO</u>	<u>Totals</u>
Beginning Loan Receivable Balance	\$ 13,858,244	\$ 17,273,012	\$ 184,191,826	\$ 215,323,082
Prior-year adjustment	5,455	17,782	17,320	40,557
Interest added to loan				
Reclass				
Conversions to grants				
Loan disbursements	798,233	863,984	24,421,241	26,083,458
Principal payments	(1,409,773)	(1,617,991)	(6,455,976)	(9,483,740)
Ending Loan Receivable Balance	<u>\$ 13,252,159</u>	<u>\$ 16,536,787</u>	<u>\$ 202,174,411</u>	<u>\$ 231,963,357</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 Trial Balance (unaudited by the Arkansas Legislative Audit)

Exhibit VI

**Arkansas Department of Agriculture
Bonds Payable Roll Forward Summary
For the Years Ended June 30, 2023 and 2022**

	<u>Fiscal Year</u>	
	<u>2023</u>	<u>2022</u>
Bonds Payable at Beginning of Year	\$ 174,170,000	\$ 149,695,000
Additions		
Bond issues	43,000,000	40,535,000
Deletions		
Scheduled principal payments	(17,400,000)	(16,060,000)
Bonds Payable at Year-End	<u>\$ 199,770,000</u>	<u>\$ 174,170,000</u>

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

SUBSEQUENT EVENT

As a result of Act 712 of 2023, the following entities and their administrative functions were transferred to the Department of Agriculture: the Arkansas Catfish Promotion Board, Arkansas Soybean Promotion Board, Arkansas Rice Research and Promotion Board, Arkansas Wheat Promotion Board, Arkansas Corn and Grain Sorghum Promotion Board, and Arkansas Beef Council. Arkansas Farm Bureau, which had performed administrative duties for these agencies, continued to assist with the administration of the agencies until July 31, 2023.

