

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Department of Energy and Environment

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 Department of Energy and Environment. Assessment procedures disclosed no reportable items of noncompliance.

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Department of Energy and Environment, a department of Arkansas state government, as of and for the year ended June 30, 2023, and have issued our report dated November 12, 2024. Management of the Agency is responsible for establishing and maintaining internal controls and complying with applicable laws and regulations.

The assessment included cash on deposit, cash receipts, 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 Agency and audit work conducted in the fiscal year 2023 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

The Department of Energy and Environment was established as part of the Transformation and Efficiencies Act of 2019 (Act 910) and is led by a Governor-appointed, cabinet-level Secretary. An organizational chart is presented in **Exhibit I on page 2**. The current structure of this cabinet-level entity is three-fold:

1. Division of Energy and Mineral Resources (DEMR) promotes sustainable, orderly, and environmentally-sound development of energy and mineral resources. DEMR is comprised of the following entities:
 - a. Oil and Gas Commission.
 - b. Office of the State Geologist.
 - c. Liquefied Petroleum Gas Board.
 - d. Arkansas Energy Office.
 - e. Office of Mining.
 - f. Emergency Management.

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Report ID: SAC990523

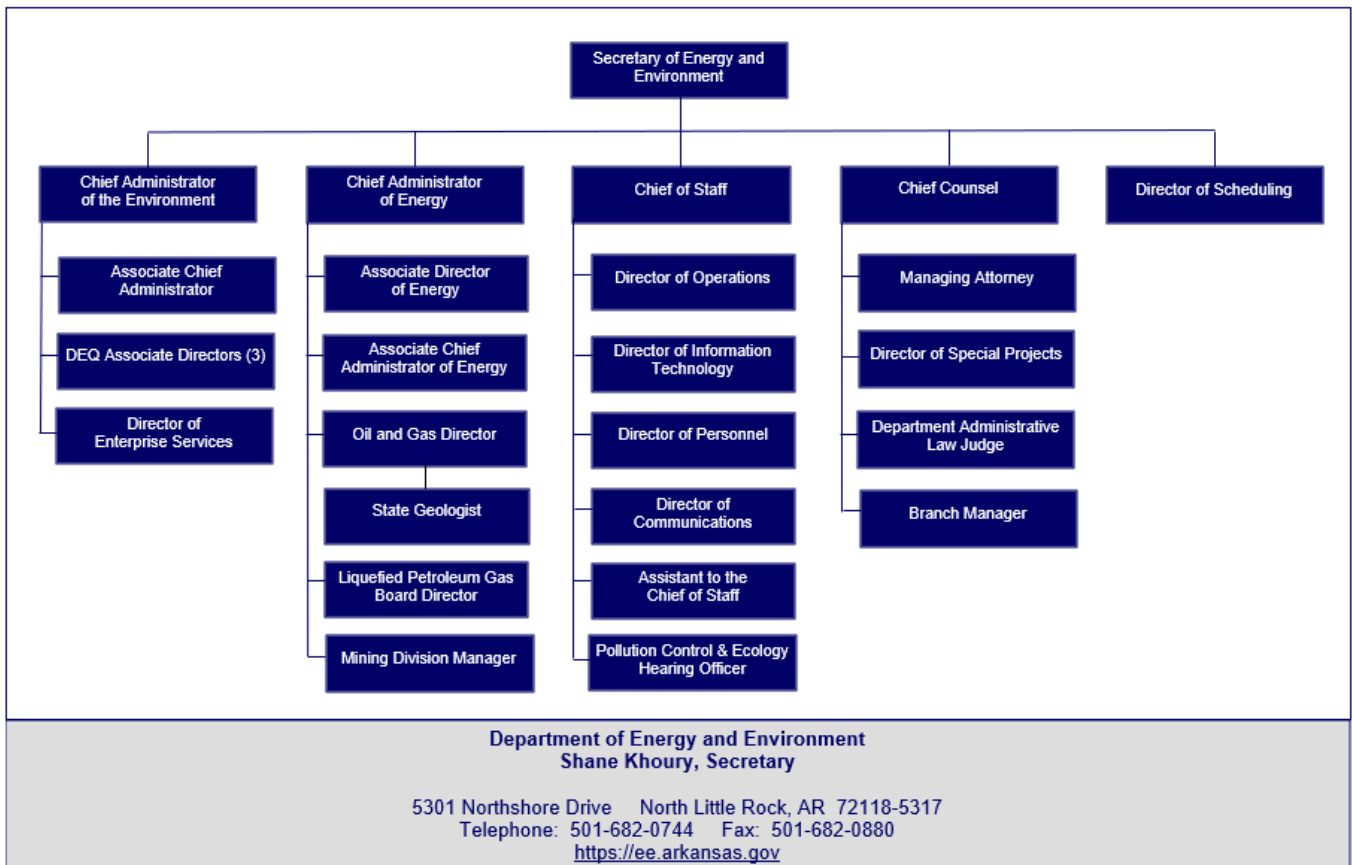
Report Date: November 12, 2024



2. Division of Environmental Quality (DEQ) advances the quality of the environment and economy through the protection of air, land, and water resources. DEQ is comprised of the following entities:
 - a. Office of Air Quality.
 - b. Office of Land Resources.
 - c. Office of Water Quality.
 - d. Enterprise Services.
3. Pollution Control and Ecology Commission (PC&EC) promulgates rules and provides adjudicatory review of certain administrative actions, as authorized by the Arkansas Water and Air Pollution Control Act. The Commission is comprised of seven members. Four members are appointed by the Governor and represent each of the four congressional districts in the State. The other three members are the Secretary of the Department of Health, the Secretary of the Department of Agriculture, and the Director of the Arkansas Game and Fish Commission, or their designee.

Exhibit I

**Department of Energy and Environment
Organizational Chart**



Source: Department of Energy and Environment

FISCAL ANALYSIS

In accordance with Act 910 of 2019, several agencies were consolidated to form the cabinet-level Department of Energy and Environment, effective July 1, 2019. Summary financial information for each business area of the Department is presented in **Exhibit II**.

Exhibit II
Department of Energy and Environment
Summary of Financial Information by Business Area
For the Year Ended June 30, 2023

Board/Commission/Division	Assets and Deferred Outflows	Liabilities	Revenues	Expenditures	Net Transfers In/(Out)
Arkansas Geological Survey	\$ 2,199,367	\$ 24,763	\$ 216,531	\$ 1,528,433	\$ 1,728,123
Liquefied Petroleum Gas Board	3,303,234	277,318	648,922	492,959	(54,740)
Oil and Gas Commission	45,475,983	818,298	2,882,383	4,672,304	(981,208)
Division of Environmental Quality	169,087,849	77,552,291	121,121,215	114,369,938	(1,521,232)
Secretarial Office of Energy and Environment	90,520	3,153,016		7,769,543	7,383,793
Totals	\$ 220,156,953	\$ 81,825,686	\$ 124,869,051	\$ 128,833,177	\$ 6,554,736

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

Revenues, Expenditures, and Transfers

Revenues totaled \$124.9 million for the fiscal year ended June 30, 2023. Federal grants and reimbursements of \$75.6 million represent the largest revenue source.

Expenditures totaled \$128.8 million for the fiscal year ended June 30, 2023. Assistance, grants, and aids totaling \$71.9 million were the Department's largest expenditures. **Schedule 1 on page 6** provides the distribution of assistance, grants, and aids by grant program recipients. Salaries totaled \$31.7 million.

Net transfers in totaled \$6.5 million for the fiscal year ended June 30, 2023, and consisted primarily of general revenues. General revenues totaled \$4.1 million in fiscal year 2023. In fiscal year 2023, a \$299,250 gain on the sale of land and buildings belonging to the Arkansas Geological Survey was recorded.

Revenues, expenditures, and net transfers for fiscal year 2019 through 2023 are presented in **Exhibit III on page 4**. Amounts prior to fiscal year 2020 are only composed of Arkansas Department of Environmental Quality financial information and do not include all agencies transferred into the cabinet-level Department of Energy and Environment.

Assets, Liabilities, and Deferred Outflows of Resources

As shown in **Exhibit IV on page 5**, assets totaled \$218.1 million as of June 30, 2023, and were primarily comprised of cash and cash equivalents. Of the cash and cash equivalents, cash in State Treasury totaled \$90.5 million, and cash equivalents totaled \$67.1 million. Assets used to pay specific liabilities include the Petroleum Storage Tank Trust (\$44.3 million) and the Hazardous Substance Remedial Action Trust and the Landfill Post-Closure Trust (with a combined balance of \$24.5 million).

Exhibit III
Department of Energy and Environment
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2019 through 2023

	Fiscal Year				
	2023	2022	2021	2020	2019
Revenues					
Federal grants and reimbursements	\$ 75,627,928	\$ 72,771,882	\$ 50,472,332	\$ 40,679,196	\$ 11,503,098
Environmental fees and permits	42,609,826	42,799,698	40,463,637	41,552,685	37,136,257
Other income	6,631,297	173,608	3,632,424	3,311,722	1,898,404
Total Revenues	\$ 124,869,051	\$ 115,745,188	\$ 94,568,393	\$ 85,543,603	\$ 50,537,759
Expenditures					
Salaries	\$ 31,663,098	\$ 30,484,765	\$ 29,345,190	\$ 28,753,662	\$ 24,194,668
Assistance, grants, and aids	71,884,224	67,164,069	48,403,579	38,507,390	9,921,461
Refunds, taxes, and claims	10,914,866	15,542,090	16,899,923	7,516,632	17,953,278
Other expenses	14,370,989	9,882,547	8,659,966	11,363,896	8,274,651
Total Expenditures	\$ 128,833,177	\$ 123,073,471	\$ 103,308,658	\$ 86,141,580	\$ 60,344,058
Net Transfers In (Out)	\$ 6,554,736	\$ 6,554,799	\$ 5,527,667	\$ 10,724,421	\$ 7,474,346

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

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

Deferred outflows of resources totaled \$2.0 million as of June 30, 2023, and are related to debt refunding for the 2022 ADEQ Headquarters Conversion.

Liabilities totaled \$81.8 million as of June 30, 2023, and included the following:

- Claims payable of \$26.3 million (32.2% of total liabilities) are obligations of the Petroleum Storage Tank Trust, established to provide expense reimbursement to owners and operators of qualified petroleum storage tanks and compensation to third parties for damages caused by accidental releases from qualified petroleum storage tanks. This obligation is comprised of claims incurred but not reported (an estimate using a five-year average of claims expenditures) and payables (known and estimated) for active projects.
- Pollution remediation obligations of \$22.3 million (27.2% of total liabilities) are to be paid from the Hazardous Substance Remedial Action Trust and/or the Landfill Post-Closure Trust.
- A capital lease, which is recorded as an installment sales agreement payable, of \$14.9 million (18.2% of total liabilities) represents long-term debt associated with the 2022 ADEQ Headquarters Conversion Refunding Bonds that were issued to refund the 2021 ADEQ Headquarters Refunding Bonds, which refunded the 2012 ADEQ Refunding Bonds that had originally been issued for the construction of the Department headquarters in North Little Rock.

Exhibit IV
Department of Energy and Environment
Assets, Liabilities, and Deferred Outflows of Resources
For the Years Ended June 30, 2019 through 2023

	Fiscal Year				
	2023	2022	2021	2020	2019
Assets					
Cash and cash equivalents	\$ 159,956,006	\$ 153,507,386	\$ 146,383,163	\$ 143,538,809	\$ 92,093,842
Receivables	11,562,518	3,181,309	4,072,605	2,961,690	1,635,422
Fixed and leased assets	46,316,220	45,068,512	48,076,927	47,596,071	36,124,316
Other assets	292,367	372,687	611,178	474,461	242,041
Total Assets	\$ 218,127,111	\$ 202,129,894	\$ 199,143,873	\$ 194,571,031	\$ 130,095,621
Deferred Outflows of Resources	\$ 2,029,842	\$ 2,146,388	\$ 1,076,220	\$ 1,131,647	\$ 1,187,075
Liabilities					
Claims payable	\$ 26,318,217	\$ 23,444,094	\$ 16,657,794	\$ 18,868,574	\$ 18,867,360
Pollution remediation obligation	22,262,329	21,348,100	21,405,800	11,940,500	15,397,000
Capital lease/installment sales agreement payable	14,874,826	15,608,372	15,278,333	15,832,083	16,366,667
Other liabilities	18,370,314	9,019,970	8,034,766	7,521,651	5,415,352
Total Liabilities	\$ 81,825,686	\$ 69,420,536	\$ 61,376,693	\$ 54,162,808	\$ 56,046,379

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

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

Assistance, Grants, and Aids Programs

Schedule 1 on page 6 illustrates the distribution of assistance, grants, and aids by grant program to recipients. The primary grant programs are described below:

Low-Income Home Energy Assistance Program (LIHEAP) provides money to help individuals with energy bills and other energy-related expenses. LIHEAP in Arkansas is operated by a network of 15 community-based organizations, which serves all 75 counties. Grants are awarded with federal funds from the U.S. Department of Health and Human Services, including funding provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Infrastructure Investment and Jobs Act (IIJA).

American Rescue Plan Act (ARPA) funds were used in part for programs of regular and crisis assistance.

Weatherization Assistance Program (WAP) utilizes seven service providers to weatherize homes throughout all of Arkansas's 75 counties. The service providers consist of Community Action Agencies (CAAs) and other nonprofit organizations charged with installing energy-efficient upgrades in qualifying low-income homes. In addition to the WAP funds, the Arkansas Weatherization Program is funded by participating utilities for the installation of energy conservation measures on their qualifying utility customers' homes; these funds work in conjunction with WAP funds.

Used Tire Recycling, through the Arkansas Tire Accountability Program (TAP), promotes sustainable, environmentally sound, and cost-effective practices of tire waste reduction, reuse, and recycling through innovative technology, outreach, and education.

Schedule 1

Department of Environmental Quality
Assistance, Grants and Aid
For the Year Ended June 30, 2023

Grant Recipient	Low-Income Home Energy Assistance Program (LIHEAP)	American Rescue Plan Act (ARP A)	Weatherization Assistance Program	Used Tire Recycling	Other Programs	Total
Arkansas Association of Energy Engineers					\$ 98,438	\$ 98,438
Arkansas Development Finance Authority					453,409	453,409
Arkansas River Valley Action Council (ARVAC), Inc.	\$ 2,137,149	\$ 396,235				2,533,384
Benton County Solid Waste District				\$ 650,960		650,960
Better Community Development, Inc.	998,581	114,615	\$ 508,419			1,621,615
Black River Area Development Corp.	1,316,850	145,584	199,910			1,662,344
C & L Electric Cooperative Corp.	111,399	58,970				170,369
Central Arkansas Development Council	13,641,364	1,630,878	661,012			15,933,254
Community Action Program for Central Arkansas	1,980,290	275,641	14,091			2,270,022
Community Services Office of Hot Springs	1,214,543	186,949				1,401,492
Craighead County Solid Waste Disposal Authority				262,774		262,774
Crawford-Sebastian Community Development Council	2,727,433	396,287	648,037			3,771,757
Crowley's Ridge Development Council	7,133,243	802,784	486,233			8,422,260
Economic Opportunity Agency of Washington County, Inc.	1,888,731	206,731				2,095,462
Entergy Arkansas, Inc.	717,573	274,358				991,931
Horne, LLP	6,819,237	1,815,428				8,634,665
Mid-Delta Community Services, Inc.	1,986,002	437,040				2,423,042
Mississippi County Arkansas Economic Opportunity Comm., Inc.	1,642,707	170,163				1,812,870
Northcentral Arkansas Development Council, Inc.	1,965,615	206,731				2,172,346
Our Healthy Communities	690,705	189,504				880,209
Ozark Mountain Solid Waste District				152,505		152,505
Ozark Opportunities, Inc.	1,578,831	246,930				1,825,761
Pine Bluff Jefferson County Economic Opportunities Commission	425,056	54,845				479,901
Pulaski County Regional Solid Waste Management District				3,072,218	63,000	3,072,218
Recycling Research Resources, Inc.						63,000
Southeast Arkansas Community Action Corporation	1,535,593	995,139				2,530,732
Southeast Arkansas Economic Development, Inc.				414,545		414,545
Summit Utilities Arkansas, Inc.	253,087					253,087
Tri-County Solid Waste District				698,768		698,768
Upper Southwest Arkansas Solid Waste Management District				792,842		792,842
West River Valley Regional Solid Waste Management District				821,817		821,817
White River Regional Solid Waste Management District				579,739		579,739
Recipients paid less than \$50,000	19,695	2,970		49,187	226,567	298,419
Totals	\$ 50,783,684	\$ 8,607,782	\$ 2,517,702	\$ 7,495,355	\$ 841,414	\$ 70,245,937

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

