

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Department of Energy and Environment

For the Fiscal Year Ended June 30, 2025



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, 2025, and have issued our report dated September 2, 2026. 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, 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 Agency and audit work conducted in the fiscal year 2025 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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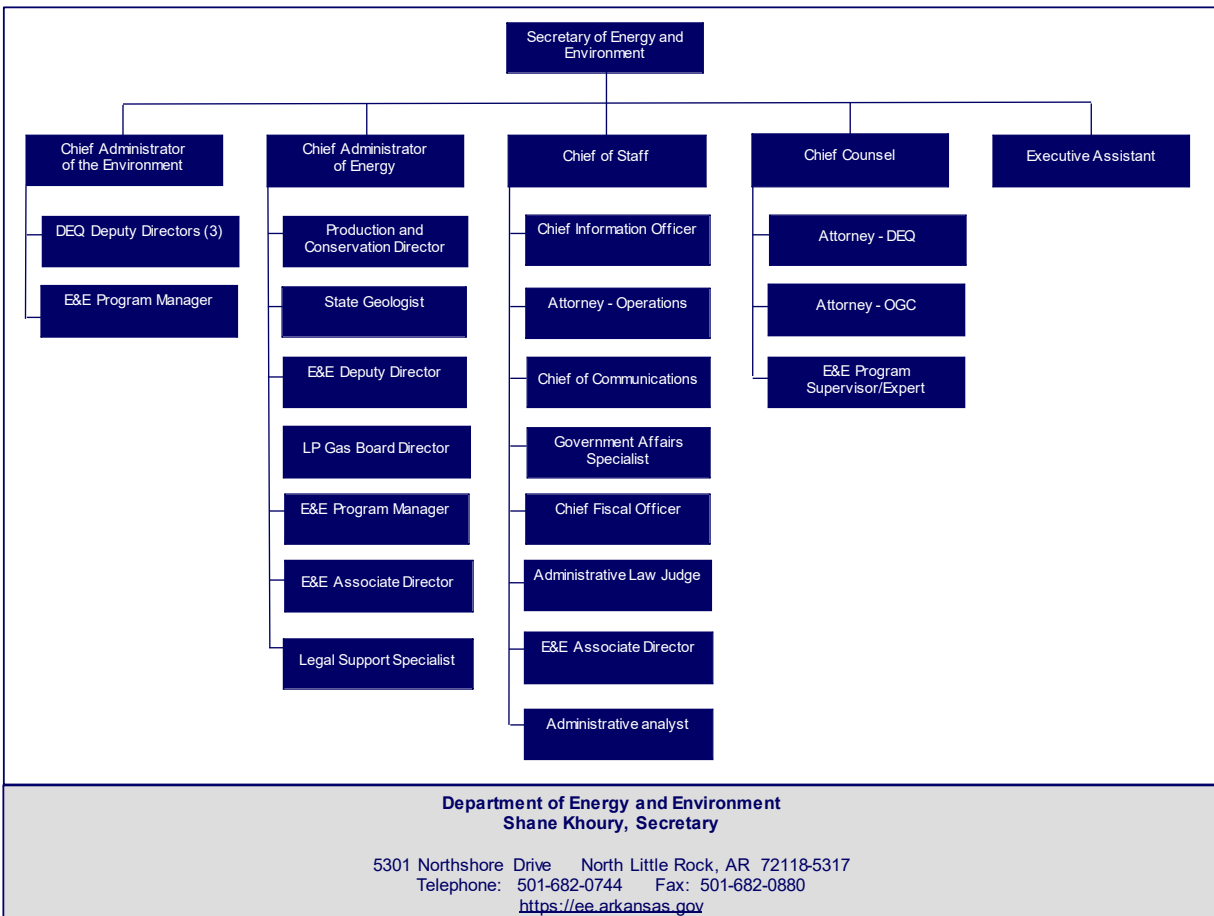
Report Date: September 2, 2026



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: Arkansas 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, 2025

Board/Commission/Division	Assets and Deferred Outflows	Liabilities	Revenues	Expenditures	Net Transfers In/(Out)
Liquefied Petroleum Gas Board	\$ 2,840,671	\$ 178,430	\$ 363,721	\$ 571,235	\$ (51,099)
Oil and Gas Commission	45,229,240	998,356	7,413,246	8,635,527	(1,298,941)
Division of Environmental Quality	166,823,017	84,972,920	94,839,339	100,540,511	(977,641)
Secretarial Office of Energy and Environment	557,139	6,855,906		6,804,038	3,376,859
Totals	\$ 215,450,067	\$ 93,005,612	\$ 102,616,306	\$ 116,551,311	\$ 1,049,178

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

Revenues, Expenditures, and Transfers

Revenues totaled \$102.6 million for the fiscal year ended June 30, 2025. Federal grants and reimbursements of \$51.4 million represent the largest revenue source.

Expenditures totaled \$116.6 million for the fiscal year ended June 30, 2025. Assistance, grants, and aids totaling \$51.7 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 \$33.4 million.

Net transfers in totaled \$1.0 million for the fiscal year ended June 30, 2025, and consisted primarily of general revenues. General revenues totaled \$4.2 million in fiscal year 2025.

Revenues, expenditures, and net transfers for fiscal year 2021 through 2025 are presented in **Exhibit III on page 4**.

Assets and Liabilities, and Deferred Outflows of Resources

As shown in **Exhibit IV on page 4**, assets totaled \$213.7 million as of June 30, 2025, and were primarily comprised of cash and cash equivalents. Of these, cash in State Treasury totaled \$36.5 million, and certificates of deposit totaled \$118.5 million. Assets held to pay specific liabilities include the Petroleum Storage Tank Trust (\$48.9 million), as well as the Hazardous Substance Remedial Action Trust and the Landfill Post-Closure Trust (with a combined balance of \$33.7 million).

Deferred outflows of resources totaled \$1.8 million as of June 30, 2025, and are related to debt refunding for the 2022 ADEQ Headquarters conversion.

Exhibit III
Department of Energy and Environment
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2021 through 2025

	Fiscal Year				
	2025	2024	2023	2022	2021
Revenues					
Federal grants and reimbursements	\$ 51,431,545	\$ 51,603,970	\$ 75,627,928	\$ 72,771,882	\$ 50,472,332
Environmental fees and permits	43,742,637	45,586,183	42,609,826	42,799,698	40,463,637
Other income	7,442,124	10,137,714	6,631,297	173,608	3,632,424
Total Revenues	\$ 102,616,306	\$ 107,327,867	\$ 124,869,051	\$ 115,745,188	\$ 94,568,393
Expenditures					
Salaries	\$ 33,415,458	\$ 31,696,027	\$ 31,663,098	\$ 30,484,765	\$ 29,345,190
Assistance, grants, and aids	51,677,208	58,161,298	71,884,224	67,164,069	48,403,579
Refunds, taxes, and claims	15,362,148	14,256,960	10,914,866	15,542,090	16,899,923
Other expenses	16,096,497	12,170,788	14,370,989	9,882,547	8,659,966
Total Expenditures	\$ 116,551,311	\$ 116,285,073	\$ 128,833,177	\$ 123,073,471	\$ 103,308,658
Net Transfers In (Out)	\$ 1,049,178	\$ 4,606,938	\$ 6,554,736	\$ 6,554,799	\$ 5,527,667

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

Exhibit IV
Department of Energy and Environment
Assets, Liabilities, and Deferred Outflows of Resources
For the Years Ended June 30, 2021 through 2025

	Fiscal Year				
	2025	2024	2023	2022	2021
Assets					
Cash and cash equivalents	\$ 157,157,625	\$ 159,777,059	\$ 159,956,006	\$ 153,507,386	\$ 146,383,163
Receivables, net	8,299,888	9,123,399	11,562,518	3,181,309	4,072,605
Fixed and leased assets	47,837,115	47,185,276	46,316,220	45,068,512	48,076,927
Other assets	358,689	497,040	292,367	372,687	611,178
Total Assets	\$ 213,653,317	\$ 216,582,774	\$ 218,127,111	\$ 202,129,894	\$ 199,143,873
Deferred Outflows of Resources	\$ 1,796,750	\$ 1,913,296	\$ 2,029,842	\$ 2,146,388	\$ 1,076,220
Liabilities					
Claims payable	\$ 32,097,970	\$ 25,293,314	\$ 26,318,217	\$ 23,444,094	\$ 16,657,794
Pollution remediation obligation	27,010,341	26,558,568	22,262,329	21,348,100	21,405,800
Capital lease/installment sales agreement payable	13,458,624	14,204,345	14,874,826	15,608,372	15,278,333
Other liabilities	20,438,677	17,811,035	18,370,314	9,019,970	8,034,766
Total Liabilities	\$ 93,005,612	\$ 83,867,262	\$ 81,825,686	\$ 69,420,536	\$ 61,376,693

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

Liabilities totaled \$93.0 million as of June 30, 2025, and included the following:

- Claims payable of \$32.1 million (35% 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 \$27.0 million (29% 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 \$13.5 million (14% 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.

Assistance, Grants, and Aids Programs

Schedule 1 on page 6 illustrates the distribution of assistance, grants, and aids by grant program to recipients. Accrual entries are not considered for this schedule. 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 serve all 75 counties. Grants are awarded with federal funds from the U.S. Department of Health and Human Services, including funding provided by 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 five 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, 2025

Grant Recipient	Low-Income Home Energy Assistance Program (LIHEAP)	American Rescue Plan Act (ARPA)	Weatherization Assistance Program (WAP)	Used Tire Recycling	Other Programs	Total
Arkansas Development Finance Authority					\$ 877,376	\$ 877,376
Arkansas River Valley Action Council (ARVAC), Inc.	\$ 1,469,033					1,469,033
Better Community Development, Inc.	1,080,540		\$ 1,034,385			2,114,924
Black River Area Development Corp.	1,428,307		606,085			2,034,392
C & L Electric Cooperative Corp.	71,915					71,915
Central Arkansas Development Council	10,058,032		1,569,650			11,627,682
City of Fort Smith					100,000	100,000
Community Action Program for Central Arkansas	1,402,921					1,402,921
Community Services Office of Hot Springs	1,220,933					1,220,933
Crawford-Sebastian Community Development Council	2,450,217		929,640			3,379,857
Crowley's Ridge Development Council	5,581,752		1,149,758			6,731,510
Economic Opportunity Agency of Washington County, Inc.	1,336,626					1,336,626
Entergy Arkansas, Inc.	651,091					651,091
Farmington School District					51,748	51,748
Free Geek of Arkansas					76,241	76,241
Heber Springs School District					76,707	76,707
Hiland Dairy Foods Company, LLC					330,000	330,000
Home, LLP		\$ 64,939				64,939
Mid-Delta Community Services, Inc.	1,600,110					1,600,110
Mississippi County Arkansas Economic Opportunity Comm., Inc.	1,373,175					1,373,175
Northcentral Arkansas Development Council, Inc.	1,608,009					1,608,009
Onterris, Inc. (Formerly CTEH)					57,514	57,514
Our Healthy Communities	443,846					443,846
Ozark Opportunities, Inc.	1,030,268					1,030,268
Pine Bluff Jefferson County Economic Opportunities Commission	379,771					379,771
Pulaski County Regional Solid Waste Management District				\$ 4,291,041		4,291,041
Russellville School District					100,000	100,000
Southeast Arkansas Community Action Corporation	1,564,113					1,564,113
Southeast Arkansas Economic Development, Inc.				582,825		582,825
Southern Disposal, Inc.					65,898	65,898
Summit Utilities Arkansas, Inc.	136,467					136,467
Tri-County Solid Waste District				3,310,477		3,310,477
Upper Southwest Arkansas Solid Waste Management District				955,870		955,870
Vantive US Healthcare, LLC					177,348	177,348
Recipients paid less than \$50,000	10,239				372,343	382,582
Totals	\$ 34,897,365	\$ 64,939	\$ 5,289,518	\$ 9,140,212	\$ 2,285,174	\$ 51,677,208

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

