

# Internal Control and Compliance Assessment

## Arkansas Legislative Audit

### Department of Inspector General

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 Department of Inspector General. As discussed in the Results of Assessment section below, our procedures disclosed calculation errors for career service payments (Finding 1), internal control deficiencies in processing cash receipts (Finding 2), and an overstatement of federal revenues (Finding 3).

## SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Department of Inspector General, a department of Arkansas state government, as of and for the year ended June 30, 2021, and have issued our report dated July 25, 2022. 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 2021 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 Agency officials during the assessment and at the exit conference:

**Finding 1:** Ark. Code Ann. § 21-5-106 states that “an employee who meets eligibility requirements... shall become eligible for annual career service recognition payments on the anniversary date of the completion of such service...” A review of career service payments revealed three instances of incorrectly calculated and issued payments:

- An employee’s career service date was incorrectly calculated and used as the basis for four career service payments. As a result, the employee was overpaid \$700 for career service between fiscal years 2019 and 2022.
- An employee’s career service date was incorrectly keyed in AASIS and used as the basis for three payments, resulting in overpayments totaling \$4,500 between fiscal years 2020 and 2022. The employee had only reached nine years of service as of fiscal year 2022 and, therefore, was not eligible for a career service payment.

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- An employee's prior state service was not completely considered when calculating the career service date. As a result, the employee was underpaid for six career service payments, totaling \$1,100, between fiscal years 2016 and 2021.

We recommend the Agency review and strengthen internal controls and procedures to ensure the accuracy of the manually calculated and keyed career service dates in AASIS.

**Management response:** *The Department has implemented payment plans to recover the funds owed to the State. Furthermore, we have reviewed the finding and developed and implemented controls to provide assurance of compliance with properly calculated and issued payments to employees for career service payments. The controls include the following:*

1. *The Department administrative services manager will review the AASIS records of all individuals who are granted career service credit from employment with other employers. The manager will then compare the personnel records to the AASIS records and correct any inconsistencies between the AASIS and the personnel records.*
2. *The Department administrative services manager has developed a new form that will be completed by any new department employee. The intent of this form is to contain all previous service credit and attested to by the employee. The personnel file will then also contain all previous employer records to corroborate the information on this form supplied by the employee.*

**Finding 2:** In accordance with the Department of Finance and Administration (DFA) Financial Management Guide, R4-19-4-501, the Agency is required to maintain a log of all checks received in the mail. The log should include sufficient detail to allow an audit trail. The regulation also states that good internal controls dictate daily deposits, but weekly deposits are allowable if an agency receives only minimal amounts of cash and/or checks. The following deficiencies were noted during our review:

- The Arkansas Fair Housing Commission (AFHC) failed to maintain a check log during fiscal year 2021. In addition, our review to determine that checks were deposited timely revealed the following:
  - a) Twenty-one checks, totaling \$6,188, were not deposited timely. The number of days held until deposit ranged from 11 to 131 days.
  - b) We were unable to determine if 63 checks, totaling \$19,285, were deposited timely because the checks were not receipted properly (i.e., the receipt date was not documented).
  - c) We were unable to determine if 5 checks, totaling \$2,381, were deposited timely because scanned images of the checks were not available for review.
- The Agency receives Medicaid reimbursement checks resulting from overpayments identified during audits by the Office of Medicaid Inspector General (OMIG). The Agency is responsible for ensuring the checks are transferred timely to the Department of Human Services (DHS), which is responsible for depositing the checks into the appropriate Medicaid bank account.

Our review of 30 checks revealed the Agency failed to transfer 22 checks, totaling \$24,759, to DHS timely. The time period from receipt to transfer of these checks ranged from 8 to 43 days.

- The Agency failed to maintain a check log for the Office of Internal Audit (IA) during fiscal year 2021. In addition, our review to determine that checks were deposited timely revealed that one check, totaling \$8,226, was held for 82 days before being deposited.

**We recommend** the Agency develop and implement controls to ensure compliance with DFA regulations for timely deposits and receipting/check logging procedures.

**Management response:** *We have reviewed the finding and developed and implemented controls to provide assurance of compliance with DFA regulations regarding timely deposits and receipting/check logging procedures. Check logs are maintained, and checks are deposited on a daily basis, unless only a minimal amount of checks are received in a day. In the case of minimal checks, the Department controls will ensure that the checks are deposited weekly. In addition, the Department has brought on new staff and specifically trained on this procedure.*

**Finding 3:** For modified accrual basis financial statements, accounting standards require revenues received from federal awards to be recognized when the entity has met all eligibility criteria and the funds are available to the entity.

While completing the year-end closing process, the Agency made an error in recording a prior-year adjustment to correct the federal receivables balance, which resulted in an overstatement totaling \$452,140 for fiscal year 2021.

**We recommend** the Agency establish adequate internal control procedures to ensure revenue balances are properly recorded.

**Management response:** *We have reviewed the finding and developed and implemented controls to provide assurance of compliance with DFA regulations regarding recording revenue. The Department is now aware of the proper recording of different components of these federal awards. Therefore, there should be no need for future adjustments. Additionally, a second party will review all entries prior to final disposition.*

## ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

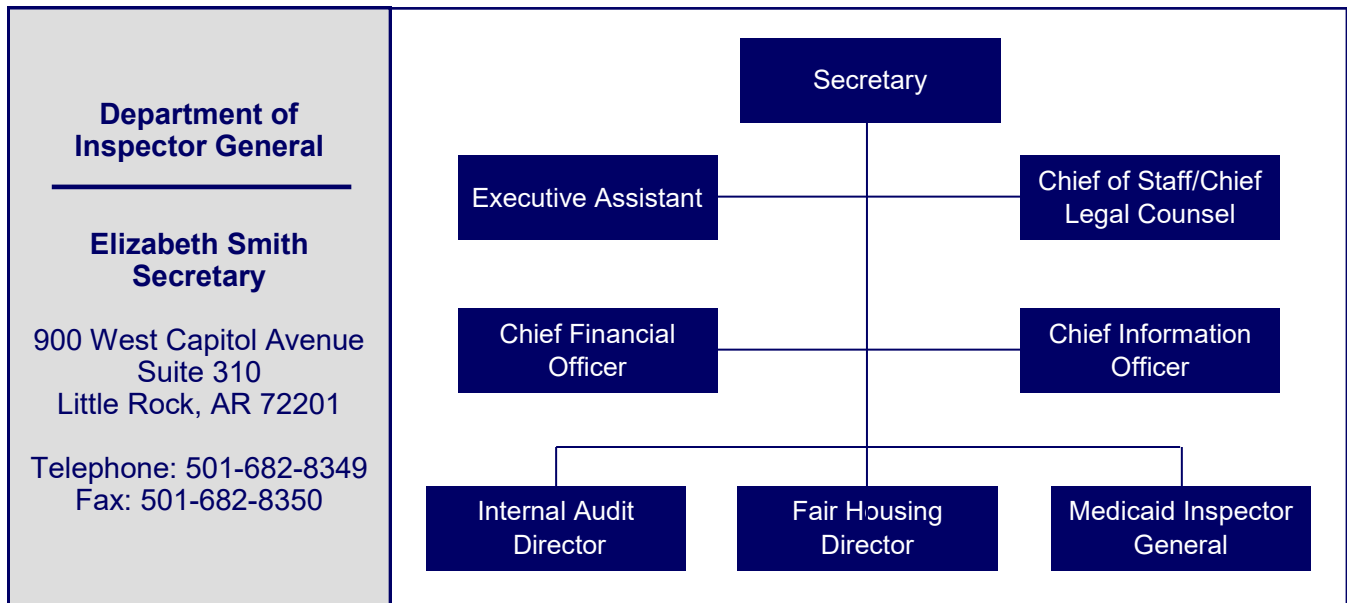
The Department of Inspector General is a cabinet-level department established by The Transformation and Efficiencies Act of 2019 (Act 910 of 2019). Under the Act, the administrative functions of the Office of Medicaid Inspector General, Arkansas Fair Housing Commission, and Internal Audit Section (previously under DFA), were transferred to the Department of Inspector General. **Exhibit I on page 4** illustrates the Department's current structure.

The Office of Medicaid Inspector General (OMIG) serves as the Program Integrity (PI) Unit for the Arkansas Medicaid Program. Under federal law, all states that participate in the federal Medicaid program and receive funding are required to have a PI division that conducts Medicaid fraud investigations and audits.

The Arkansas Fair Housing Commission (the Commission) acts as a quasi-judicial regulatory agency that enforces state and federal fair housing and fair lending laws. The Commission has the authority to hold administrative hearings and litigate cases where discriminatory conduct is found to have occurred. The Commission is comprised of 13 Commissioners: seven appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. Six of the Commissioners are industry representatives, and seven are consumer representatives. Each congressional district must be represented by a Commissioner.

During the Regular Session of 2021, the General Assembly passed Act 586 of 2021, which established the Independent Tax Appeals Commission within the Department of Inspector General. The Tax Appeals Commission will serve as an independent tax tribunal to provide taxpayers with a “means of resolving controversies with the Department of Finance and Administration before a neutral body.” The Tax Appeals Commission is to be designated by July 1, 2022 and shall begin accepting and trying tax disputes by January 1, 2023.

**Exhibit I  
Department of Inspector General  
Organizational Chart**



Source: Department of Inspector General

**FISCAL ANALYSIS**

As previously mentioned, in accordance with Act 910 of 2019, effective July 1, 2019, the Office of Medicaid Inspector General, Arkansas Fair Housing Commission, and Internal Audit Section of DFA were consolidated to form the cabinet-level Department of Inspector General. Summary financial information for each business area is presented in **Exhibit II on page 5**.

**Revenues, Expenditures, and Transfers**

Revenues, expenditures, and transfers for fiscal years 2017 through 2021 are presented in **Exhibit III on page 5**.

Revenues totaled \$1.2 million, and expenditures totaled \$3.9 million for the fiscal year ended June 30, 2021. Federal revenue totaled \$1.1 million and comprised 97% of total revenue. Federal revenue included amounts awarded to the Arkansas Fair Housing Commission for fiscal years 2018 and 2020. Salaries totaled \$3.6 million and comprised 91% of total expenditures.

Net transfers totaled \$3.2 million and included \$1.2 million in federal revenues from the Department of Human Services, \$1.1 million in general revenue, and \$800,000 from the State Central Services fund.

**Exhibit II**  
**Department of Inspector General**  
**Summary of Financial Information by Business Area**  
**For the Year Ended June 30, 2021**

Board/Commission/Division	Assets	Liabilities and		Revenues	Expenditures	Net Transfers In (Out)
		Deferred Inflows				
Department of Inspector General	\$ 68,811	\$ 129,266		\$ 1,955	\$ 2,261,537	\$ 2,193,445
Office of Medicaid Inspector General	583,261	86,237		2,243	1,424,074	1,422,163
Arkansas Fair Housing Commission	899,152	6,905		1,158,574	227,963	(418,893)
<b>Totals</b>	<b>\$ 1,551,224</b>	<b>\$ 222,408</b>		<b>\$ 1,162,772</b>	<b>\$ 3,913,574</b>	<b>\$ 3,196,715</b>

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

**Exhibit III**  
**Department of Inspector General**  
**Revenues, Expenditures, and Transfers**  
**For the Years Ended June 30, 2017 through 2021**

	Fiscal Year				
	2021	2020	2019	2018	2017
<b>Revenues</b>					
Federal grants and reimbursements	\$ 1,126,840	\$ 0	\$ 0	\$ 0	\$ 0
Grants and reimbursements	4,600	1,194	325	3,800	5,395
Training fees	22,524	10,911	0	0	0
Other income	8,808	37,328	74	78	302
<b>Total Revenues</b>	<b>\$ 1,162,772</b>	<b>\$ 49,433</b>	<b>\$ 399</b>	<b>\$ 3,878</b>	<b>\$ 5,697</b>
<b>Expenditures</b>					
Salaries	\$ 3,575,560	\$ 3,651,183	\$ 2,126,581	\$ 2,334,174	\$ 2,198,408
Utilities and rent	170,704	186,963	161,744	157,525	147,463
Travel and subsistence	8,913	33,554	14,332	12,347	12,265
Other expenses	158,397	154,187	54,456	52,931	121,113
<b>Total Expenditures</b>	<b>\$ 3,913,574</b>	<b>\$ 4,025,887</b>	<b>\$ 2,357,113</b>	<b>\$ 2,556,977</b>	<b>\$ 2,479,249</b>
<b>Net Transfers In (Out)</b>	<b>\$ 3,196,715</b>	<b>\$ 3,206,858</b>	<b>\$ 2,339,759</b>	<b>\$ 2,573,033</b>	<b>\$ 2,372,837</b>

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

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

### **Assets and Liabilities**

Assets and liabilities balances for fiscal years 2017 through 2021 are presented in **Exhibit IV on page 6**. Assets and liabilities totaled \$1.6 million and \$222,408, respectively, for the fiscal year ended June 30, 2021. Assets were mostly comprised of cash and cash equivalents totaling \$1.1 million.

**Exhibit IV**  
**Department of Inspector General**  
**Assets, Liabilities, and Deferred Inflows of Resources**  
**For the Years Ended June 30, 2017 through 2021**

	Fiscal Year				
	2021	2020	2019	2018	2017
<b>Assets</b>					
Cash and cash equivalents	\$ 1,061,680	\$ 1,082,904	\$ 210,140	\$ 211,035	\$ 278,131
Federal receivables	0	1,126,840	0	0	0
Fixed assets	477,171	483,090	348,104	337,478	358,110
Other assets	12,373	11,934	3,125	27,196	4,248
<b>Total Assets</b>	<b>\$ 1,551,224</b>	<b>\$ 2,704,768</b>	<b>\$ 561,369</b>	<b>\$ 575,709</b>	<b>\$ 640,489</b>
<b>Liabilities</b>					
Payroll liability	\$ 177,116	\$ 159,533	\$ 70,761	\$ 79,323	\$ 76,263
Other liabilities	45,292	77,433	10,533	10,001	77,143
<b>Total Liabilities</b>	<b>\$ 222,408</b>	<b>\$ 236,966</b>	<b>\$ 81,294</b>	<b>\$ 89,324</b>	<b>\$ 153,406</b>
<b>Deferred Inflows of Resources</b>					
Related to Revenues	\$ 0	\$ 1,126,840	\$ 0	\$ 0	\$ 0

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

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

