Internal Control and Compliance Assessment
Arkansas Legislative Audit

Department of Inspector General
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 Department of Inspector General. As discussed in the Results of Assessment section below, our procedures disclosed issues related to cash receipts (Finding 1), lump sum payments (Finding 2), and shared services expense allocations (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, 2022, and have issued our report dated September 6, 2023. 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 2022 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: In accordance with R4-19-4-501 of the Department of Finance and Administration (DFA) Financial Management Guide, a log of all checks received in the mail must be completed and 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 Agency receives Medicaid reimbursement checks resulting from overpayments identified by Office of Medicaid Inspector General (OMIG) audits. 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 15 checks, totaling $46,568, to DHS timely. The time period from receipt to transfer of these checks ranged from 8 to 28 days.

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- Our review of 33 items from the Arkansas Fair Housing Commission (Commission) check logs and related deposits revealed following deficiencies:
  1) Nine checks, totaling $1,073, were not included in the monthly check logs.
  2) Four checks, totaling $900, were not deposited timely. The number of days held until deposit ranged from 9 to 35 days.
  3) We were unable to determine if one check, totaling $23, was deposited timely because the date the check was received was not documented.

Our review also revealed that a check log is not being maintained for the Office of Internal Audit.

In addition, the Commission receives settlement checks resulting from fair housing cases and is responsible for ensuring those checks are forwarded to the appropriate entity. Our review revealed that in two instances, for checks totaling $12,000, the Commission was able to provide correspondence with an entity regarding conciliation agreements. However, the information in the correspondence was inadequate because it did not specifically state that settlement checks were enclosed.

Finally, we were unable to determine whether three settlement checks, totaling $2,200, were submitted timely to the appropriate entity because the date the checks were forwarded was not documented.

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

Management response: *The Department of Inspector General hired a new CFO in July 2023. The CFO has worked with staff to implement a procedure that checks are taken to DHS once a week.*

The Fair Housing Commission has implemented the following procedures for receipts and checks:

- *All incoming checks will be accurately logged in within 24 business hours of receipt.*
- *All checks will be deposited into the State Treasury within 48 business hours of receipt.*
- *Settlement checks will be logged upon receipt and forwarded to the appropriate entity within 48 business hours of receipt. The only exception will be in the instance of a pending/signed Conciliation Agreement. In this case, the check may be held in the Agency safe for up to five business days.*

Finding 2: In accordance with 19-4-1613(a) of the Department of Finance and Administration (DFA) Financial Management Guide, the amount due an employee, upon termination, or to his or her estate, including accrued unpaid annual or holiday leave and lump-sum payments of sick leave balances, should be included in the final pay to the employee.

Our review of lump-sum payments for fiscal year 2022 revealed the following:

- The Agency failed to update one employee's employment record timely. The employee's last working day was July 23, 2021 (pay period ended July 24, 2021). However, the employee was paid for the subsequent pay period ended August 7, 2021. As a result, an overpayment occurred totaling $1,479.
- The Agency failed to process a holiday lump-sum payment, totaling $181, upon termination of one employee.

We recommend the Agency implement adequate controls to ensure lump-sum payments are processed in accordance with DFA guidance. In addition, we recommend the Agency proceed with efforts to recoup the overpayment for one former employee and process the amount still due to another employee.

Management response: *The Department of Inspector General sent a certified letter on September 23, 2021, to the employee requesting the terminated employee repay the $1,479. As of today (September 20, 2023), the Department has not received confirmation of receipt. The Department has implemented procedures where all lump sum payments are reviewed by the CFO prior to processing. In addition, the paperwork for all involuntary terminations is given to the HR manager to ensure employees are terminated timely in AASIS.*

The Department is currently working with OPM to pay the terminated employee the $181 due for the holiday lump sum payment. This payment will be made on October 6, 2023. The Department has implemented procedures where all lump sum payments are reviewed by the CFO prior to processing. In addition, the paperwork for all involuntary terminations is given to the HR manager to ensure employees are terminated timely in AASIS.

Finding 3: In accordance with Act 910 of 2019, effective July 1, 2019, the Office of Medicaid Inspector General (OMIG) became part of the newly created cabinet-level Department of Inspector General (Department) along with the Arkansas Fair Housing Commission (the Commission) and the Department of Finance and Administration Internal Audit Division (IA). As part of the transition, the Department began allocating certain costs between the various divisions.

The Agency did not document the allocation process; therefore, our understanding of the process was obtained through discussions with Agency staff and is reflected below:

a) Monthly allocation of rent expense is calculated based on floor space utilized by dedicated division staff. The Agency measured floor space for each office, cubicle or other space utilized by each division (OMIG, the Commission, and IA) and calculated the percentage of space utilized. The full rent amount is then allocated based on these percentages.

b) Monthly allocation of other non-salary expenditures.

   - Individuals in shared positions complete a weekly timecard for one week of the month. Time is identified as spent by division (OMIG, the Commission, and IA). Time can also be identified as “other” and may include leave or time spent on work not related to a specific division.
   - The Chief Financial Officer (CFO) calculates a time allocation based on the previous six months of timecards for each employee. Time allotted to “other” is removed from the total prior to determining the allocation between the divisions.
   - The total full-time equivalent (FTE) for each division is then calculated by multiplying the average percentage for all shared positions applied to the division by the total number of shared positions.
   - The shared FTE total is then added to the number of dedicated positions for each division, and the CFO calculates the overall percentage of staff for each division.
   - This percentage is used to calculate the portion of the Agency’s shared services expense applicable to each division.

c) Quarterly allocation of salary expense.

- According to the Agency CFO, the Agency utilizes the last monthly calculation of the prior quarter to determine salary allocation percentages.
- Changes to salary percentages must be forwarded to OPM for entry into AASIS.

Our review of the process revealed several inconsistencies and deficiencies, as noted below:

Rent Allocation

- We identified two instances in which the square footage used in the calculation was not supported by the Agency's floor plan. A 62-square-foot cubicle was included in the calculation of IA floor space but was not identified in the Agency's floor plan. In addition, 151 square feet was included in the calculation of OMIG floor space but could not be found on the Agency's floor plan.
- We identified two instances in which the square footage for space utilized by shared services employees was improperly included in the calculation of dedicated space for OMIG.
- One instance was identified in which square footage for the Commission was incorrectly included in the calculation for OMIG.

Other Administrative Expenditures Allocation

- The Agency's calculation was not consistent with described procedures. According to discussions with Agency staff, the Agency calculates the expenditure allocation based on time reported for the previous six months (1 weekly timecard per month). ALA noted the allocation for the June 2022 expenditures should have included the months from December 2021 through May 2022. However, the Agency excluded April 2022 but included October 2021. In addition, the Agency was unable to provide any timecards for the month of April 2022, and we could not determine if using the time recorded for October 2021, as a replacement for April 2022, significantly impacted the calculation.
- ALA noted nine instances in which timecards were not available to support the hours included in the calculation as follows:
  - ⇒ One employee did not have a timecard for all six months.
  - ⇒ One employee did not have a timecard for the months of January, February, and May 2022.

Salary Allocation

- The Agency's calculation was not consistent with described procedures. According to discussions with Agency staff, the Agency calculates the quarterly salary allocation based on time reported for the previous six months (1 weekly timecard per month). We noted the salary allocation for the quarter beginning on April 1, 2022, and ending on June 30, 2022, should have included the months from October through December 2021 and January through March 2022. However, the Agency excluded November 2021 but included September 2021. In addition, the Agency was unable to provide any timecards for the month of November 2021 and we could not determine if using the time recorded for September 2021, as a replacement for November 2021, significantly impacted the calculation.
- We noted two instances in which the detailed hours by division listed in the allocation for one employee did not agree to the timecard for October 2021 and January 2022.

- We noted eight instances in which timecards were not available to support the hours included in the calculation as follows:

  ⇒ One employee did not have a timecard for the months of September and October 2021, as well as January 2022.

  ⇒ One employee did not have a timecard for the months of December 2021 and January through March 2022.

  ⇒ One employee did not have a timecard for the month of February 2022.

- The Agency was unable to provide supporting documentation for excluding from the allocation the salary for one employee, who performed Human Resources duties for all divisions of the Department. This employee's salary was, instead, fully allocated to one division. According to the Agency, the salary was not allocated across the divisions because the individual was only employed for the month of March 2022.

We determined that because the Agency failed to document its allocation process, an adequate and consistent review was not being performed. The inconsistencies in performing calculations provide the opportunity for manipulation and do not ensure expenditures are allocated as intended.

We recommend the Agency immediately document the allocation process and establish an adequate review process.

Management response: *The Department has replaced the previous CFO, who conducted these calculations, and hired a new CFO in July 2023. Management is reviewing the floor plan to calculate accurate square footage for each Agency. Once the correct square footage is calculated and allocated to the four Agencies, the corrected entries will be made in AASIS for payments already made in fiscal year 2024, and the proper allocation will be used on all future rent payments.*

The Department has revised the cost allocation plan for shared services. The costs for salaries, fringe, and operating expenses will be based on the number of budgeted positions for the fiscal year for the four Agencies in the Department. Each Agency will contribute according to the percentage of positions they hold within the Department: Fair Housing 12.24%, Internal Audit 18.37%, OMIG 51.02%, and TAC 18.37%. This will eliminate the inconsistency of timesheets and will simplify the allocation process, resulting in the same percentage each time.

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 6** illustrates the Department's current structure.

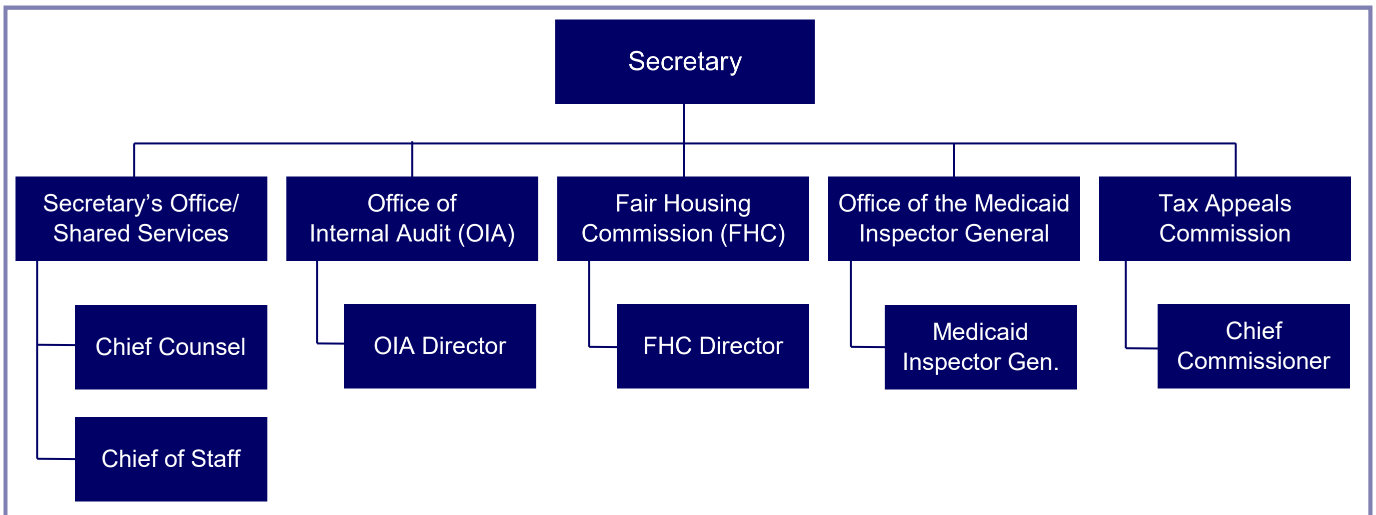
The Office of Medicaid Inspector General (OMIG) serves as the Program Integrity (PI) Unit for the Arkansas Medicaid Program. Under federal law, all states that participate in the federal Medicaid program and receive funding are required to have a PI division that conducts Medicaid fraud investigations 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 2, 2023.

Exhibit I

Department of Inspector General
Organizational Chart



Department of Inspector General

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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 7**.

Exhibit II

Department of Inspector General
Summary of Financial Information by Business Area
For the Year Ended June 30, 2022

Board/Commission/Division	Assets	Liabilities and Deferred Inflows	Revenues	Expenditures	Net Transfers In (Out)
Department of Inspector General	$ 1,038,284	$ 167,366	$ 244,809	$ 3,047,693	$ 3,312,940
Office of Medicaid Inspector General	563,892	84,972	556	1,346,130	1,369,239
Arkansas Fair Housing Commission	1,732			(699)	(636,736)
Totals	$ 1,603,908	$ 252,338	$ 245,365	$ 4,393,124	$ 4,045,443

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

Revenues, Expenditures, and Transfers

Revenues, expenditures, and transfers for fiscal years 2018 through 2022 are presented in **Exhibit III.**

Revenues totaled $245,365, and expenditures totaled $4.4 million for the fiscal year ended June 30, 2022. Federal revenue totaled $219,000 and comprised 89% of total revenues. Federal revenue included amounts awarded to the Arkansas Fair Housing Commission. Salaries totaled $3.8 million and comprised 87% of total expenditures.

Net transfers totaled $4 million and included $1.5 million in federal revenues transferred from the Department of Human Services, $1.4 million in general revenue, and $1.1 million from the State Central Services Fund.

Assets, Liabilities, and Deferred Inflows of Resources

Assets and liabilities balances for fiscal years 2018 through 2022 are presented in **Exhibit IV on page 8**. Assets and liabilities totaled $1.6 million and $252,338, respectively, for the year ended June 30, 2022. Assets were mostly comprised of cash and cash equivalents totaling $1.2 million.

Exhibit III

Department of Inspector General
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2018 through 2022

	Fiscal Year				
	2022	2021	2020	2019	2018
Revenues					
Federal grants and reimbursements	$ 219,000	$ 1,126,840	$ 0	$ 0	$ 0
Grants and reimbursements	10,663	4,600	1,194	325	3,800
Training fees	10,400	22,524	10,911	0	0
Other income	5,302	8,808	37,328	74	78
Total Revenues	$ 245,365	$ 1,162,772	$ 49,433	$ 399	$ 3,878
Expenditures					
Salaries	$ 3,825,458	$ 3,575,560	$ 3,651,183	$ 2,126,581	$ 2,334,174
Utilities and rent	171,221	170,704	186,963	161,744	157,525
Travel and subsistence	7,584	8,913	33,554	14,332	12,347
Other expenses	388,861	158,397	154,187	54,456	52,931
Total Expenditures	$ 4,393,124	$ 3,913,574	$ 4,025,887	$ 2,357,113	$ 2,556,977
Net Transfers In (Out)	$ 4,045,443	$ 3,196,715	$ 3,206,858	$ 2,339,759	$ 2,573,033

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)*

Exhibit IV

Department of Inspector General
Assets, Liabilities, and Deferred Inflows of Resources
For the Years Ended June 30, 2018 through 2022

	Fiscal Year				
	2022	2021	2020	2019	2018
Assets					
Cash and cash equivalents	$ 1,177,863	$ 1,061,680	$ 1,082,904	$ 210,140	$ 211,035
Federal receivables	0	0	1,126,840	0	0
Fixed assets	425,130	477,171	483,090	348,104	337,478
Other assets	915	12,373	11,934	3,125	27,196
Total Assets	$ 1,603,908	$ 1,551,224	$ 2,704,768	$ 561,369	$ 575,709
Liabilities					
Payroll liability	$ 226,995	$ 177,116	$ 159,533	$ 70,761	$ 79,323
Other liabilities	25,343	45,292	77,433	10,533	10,001
Total Liabilities	$ 252,338	$ 222,408	$ 236,966	$ 81,294	$ 89,324
Deferred Inflows of Resources					
Related to revenues	$ 0	$ 0	$ 1,126,840	$ 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)*