

# **Internal Control and Compliance Assessment**

## **Arkansas Legislative Audit**

### **Department of Labor and Licensing**

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 Labor and Licensing. Assessment procedures disclosed no reportable items of noncompliance.

## **SCOPE AND METHODOLOGY**

We performed an internal control and compliance assessment of the Department of Labor and Licensing, a department of Arkansas state government, as of and for the year ended June 30, 2021, and have issued our report dated September 21, 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, accounts receivable, investments, 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 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 Arkansas Department of Labor and Licensing 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 following state entities were transferred to the Department:

- The Department of Labor, now known as the Division of Labor.
- Abstractors' Board.
- State Board of Public Accountancy.
- Appraiser Licensing and Certification Board.
- State Board of Architects, Landscape Architects, and Interior Designers.
- State Athletic Commission.
- Auctioneer's Licensing Board.
- Professional Bail Bond Company and Professional Bail Bondsman Licensing Board.
- State Board of Barber Examiners.

### **ARKANSAS LEGISLATIVE AUDIT**

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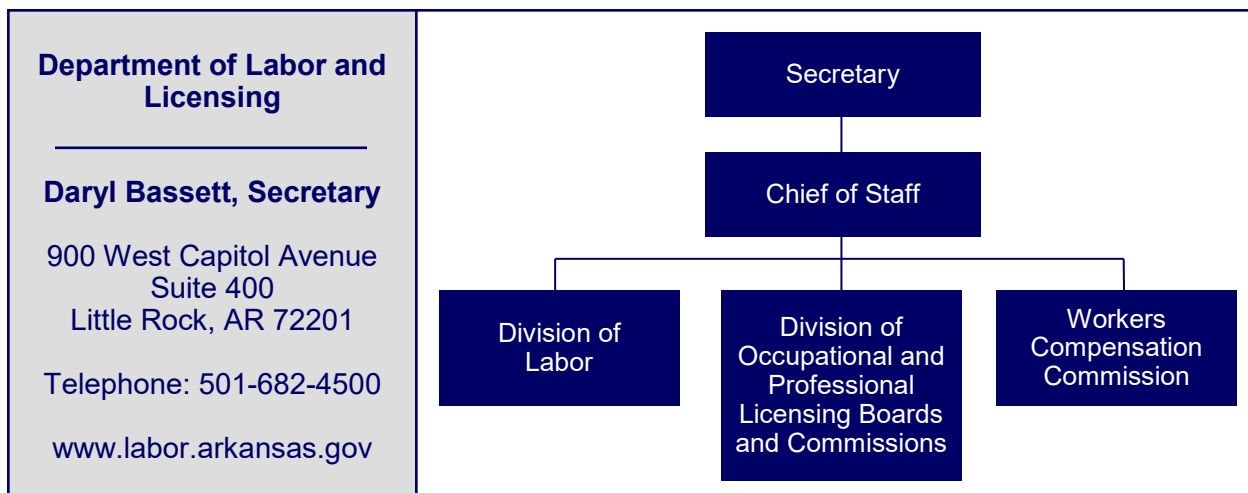
- State Board of Collection Agencies.
- Contractors Licensing Board.
- Board of Electrical Examiners.
- Elevator Safety Board.
- State Board of Licensure for Professional Engineers and Professional Surveyors.
- Fire Protection Licensing Board.
- State Board of Registration for Professional Geologists.
- Home Inspector Registration Board.
- HVACR Licensing Board.
- Manufactured Home Commission.
- Motor Vehicle Commission.
- Pawnbroker Licensure Commission.
- Real Estate Commission.
- Towing and Recovery Board.
- Workers' Compensation Commission.

As shown in **Exhibit I**, the newly-created Department has three divisions:

1. The **Division of Labor** has the responsibility of enforcing labor laws of the State. Its mission is to foster, promote, and develop the health, safety, and welfare of the wage earners of Arkansas by providing services and enforcing laws to improve working conditions and enhance their opportunities for safe and profitable employments.
2. The **Division of Occupational and Professional Licensing Boards and Commissions** was established for the purpose of organizing licensing boards.
3. The **Workers' Compensation Commission** administers and enforces Arkansas workers' compensation law and is directed to the moral, social, and economic benefits of protecting employers, employees, and their dependents from financial burdens imposed by job-related injury and disease.

**Exhibit I**

**Department of Labor and Licensing  
Organizational Chart**



**Source:** *Department of Labor and Licensing*

## FISCAL ANALYSIS

As previously mentioned, in accordance with Act 910 of 2019, effective July 1, 2019, multiple entities were consolidated to form the Department of Labor and Licensing. Summary financial information for each business area is presented in **Exhibit II**.

**Exhibit II**  
**Department of Labor and Licensing**  
**Summary of Financial Information by Business Area**  
**For the Year Ended June 30, 2021**

Board/Commission/Division	Assets and Deferred Outflows	Liabilities and Deferred Inflows	Revenues	Expenditures	Net Transfers In (Out)
Department of Labor and Licensing	\$ 1,693,306	\$ 1,091,895	\$ 656,643	\$ 4,119,758	\$ 3,597,583
Division of Labor	4,625,214	729,404	2,796,435	3,529,318	635,193
Abstractors' Board	117,919	11,412	10,400	5,949	(4,750)
State Board of Public Accountancy	1,758,781	331,609	1,048,904	867,523	(97,159)
Appraiser Licensing and Certification Board	1,440,841	327,261	446,985	309,163	(22,683)
State Board of Architects, Landscape Architects, and Interior Designers	3,514,537	116,062	442,870	121,561	(22,683)
State Athletic Commission	59,338	76	43,389	75,105	(16,125)
Auctioneers Licensing Board	232,121	565	91,252	99,300	(9,772)
Professional Bail Bondsman Licensing Board	2,449,514	117,408	543,568	283,765	(29,152)
State Board of Barber Examiners	281,669	6,677	274,923	189,148	(26,945)
State Board of Collection Agencies	5,846,466	2,688,179	1,413,346	189,817	(1,478,563)
Contractors Licensing Board	4,313,690	790,499	1,556,087	1,215,200	(217,400)
State Board of Licensure for Professional Engineers and Professional Surveyors	2,880,660	520,491	715,472	517,032	(20,677)
Fire Protection Licensing Board	619,015	89,833	236,282	90,181	(14,570)
State Board of Registration for Professional Geologists	95,864	33,597	23,416	14,030	(28,282)
Home Inspectors Registration Board	559,712	58,083	120,562	64,551	(12,958)
Manufactured Home Commission	2,155,790	36,267	327,173	202,701	(30,071)
Motor Vehicle Commission	2,422,604	59,761	537,307	306,235	(227,111)
Real Estate Commission	5,170,652	718,897	1,583,699	1,125,540	(35,080)
Towing and Recovery Board	276,089	115,007	263,080	240,363	(17,307)
Workers' Compensation Commission	127,294,167	223,880,244	16,641,690	9,312,228	(363,938)
<b>Totals</b>	<b>\$ 167,807,949</b>	<b>\$ 231,723,227</b>	<b>\$ 29,773,483</b>	<b>\$ 22,878,468</b>	<b>\$ 1,557,550</b>

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

### Revenues, Expenditures, and Transfers

Revenues, expenditures, and transfers for the Department for fiscal years 2017 through 2021 are presented in **Exhibit III on page 4**.

The Department reported \$29.8 million in total revenues for fiscal year 2021. Of the \$27.6 million in licenses and fees, premium tax fees totaled \$16.8 million, and the remaining \$10.8 million was special revenues related to issuance of licenses. Department expenditures totaled \$22.9 million for the fiscal year ended June 30, 2021. The majority of expenditures was for salaries, which comprised 79% of total expenditures.

The Department reported net transfers of \$1.6 million, which represent general revenue distributions.

### Assets, Liabilities, and Deferred Inflows and Outflows of Resources

Assets, liabilities, and deferred inflows/outflows of resources for fiscal years 2017 through 2021 are presented in **Exhibit IV on page 4**.

The Department's assets totaled \$164.7 million for the year ended June 30, 2021, with cash and cash equivalents comprising 64% and investments comprising 21%. Liabilities totaled \$229.7 million at June 30, 2021, with claims payable representing the largest component, totaling \$196.6 million or 86%.

Deferred inflows and outflows of resources for fiscal year 2021 totaled \$2 million and \$3.1 million, respectively.

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

	Fiscal Year				
	2021	2020	2019	2018	2017
<b>Revenues</b>					
Licenses and fees	\$ 27,636,206	\$ 26,864,972	\$ 27,961,584	\$ 29,366,769	\$ 29,713,617
Fines and penalties	843,579	1,266,725	1,484,711	1,285,246	1,221,447
Investment revenues	(522,245)	2,086,529	4,456,118	1,319,274	1,804,957
Other revenues	1,815,943	1,412,468	1,707,007	1,280,428	1,562,446
<b>Total Revenues</b>	<u>\$ 29,773,483</u>	<u>\$ 31,630,694</u>	<u>\$ 35,609,420</u>	<u>\$ 33,251,717</u>	<u>\$ 34,302,467</u>
<b>Expenditures</b>					
Salaries	\$ 18,172,978	\$ 18,926,871	\$ 17,231,030	\$ 17,357,950	\$ 16,511,578
Utilities and rent	917,512	915,632	923,777	939,556	1,022,385
Refunds, taxes, and claims	702,637	3,976,605	11,426,055	9,645,494	4,023,230
Other expenses	3,085,341	2,849,336	3,519,879	6,109,461	4,528,084
<b>Total Expenditures</b>	<u>\$ 22,878,468</u>	<u>\$ 26,668,444</u>	<u>\$ 33,100,741</u>	<u>\$ 34,052,461</u>	<u>\$ 26,085,277</u>
<b>Net Transfers In (Out)</b>	<u>\$ 1,557,550</u>	<u>\$ 2,049,693</u>	<u>\$ 1,563,317</u>	<u>\$ 1,572,316</u>	<u>\$ 1,684,258</u>

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

**Exhibit IV**  
**Department of Labor and Licensing**  
**Assets, Liabilities, and Deferred Inflows and Outflows 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	\$ 105,088,073	\$ 90,081,553	\$ 104,330,681	\$ 94,058,604	\$ 91,060,869
Investments	33,916,216	51,952,662	38,713,806	47,273,441	50,877,722
Fixed assets	8,075,056	8,122,353	7,722,415	7,549,641	7,388,633
Other assets	17,577,227	20,422,919	20,512,793	24,752,614	24,507,998
<b>Total Assets</b>	<u>\$ 164,656,572</u>	<u>\$ 170,579,487</u>	<u>\$ 171,279,695</u>	<u>\$ 173,634,300</u>	<u>\$ 173,835,222</u>
<b>Deferred Outflows of Resources</b>					
Related to pension expense	\$ 3,151,377	\$ 3,059,355	\$ 1,680,630	\$ 2,462,009	\$ 2,685,655
<b>Liabilities</b>					
Claims payable	\$ 196,598,430	\$ 209,428,879	\$ 219,366,357	\$ 222,216,620	\$ 227,127,819
Long-term liabilities	24,195,635	23,289,119	20,749,015	25,555,661	23,277,788
Unearned revenues	4,659,292	4,329,211	4,160,971	4,264,013	4,035,918
Other liabilities	4,248,011	4,994,209	4,730,557	4,802,196	4,495,043
<b>Total Liabilities</b>	<u>\$ 229,701,368</u>	<u>\$ 242,041,418</u>	<u>\$ 249,006,900</u>	<u>\$ 256,838,490</u>	<u>\$ 258,936,568</u>
<b>Deferred Inflows of Resources</b>					
Related to revenues	\$ 2,021,859	\$ 4,002,810	\$ 3,858,320	\$ 3,496,947	\$ 2,845,664

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

**License Activity**

A summary of license activity is presented in **Exhibit V**. The information represents licenses issued, revenue collected, and average fees for individuals and firms that were issued licenses for the year ended June 30, 2021.

**Exhibit IV**  
**Department of Labor and Licensing**  
**Summary of License Activity**  
**For the Year Ended June 30, 2021**

Board Name	License Type	Fiscal Year 2021		Fiscal Year 2020	
		# Issued	Revenues	# Issued	Revenues
Department of Labor and Licensing					
• HVACR Licensing Board	Individual licenses	8,849	\$ 671,660	7,696	\$ 712,838
Division of Labor					
• Board of Electrical Examiners	Individual licenses	13,554	519,630	12,920	372,121
• Boiler Inspection	Individual licenses	5,785	137,735	6,324	147,576
• Elevator Safety Board	Individual licenses	262	22,225	322	29,920
• Elevator Safety Board	Firm licenses	21	5,020	31	6,370
Abstractors' Board	Individual licenses	62	3,225	167	8,350
	Firm licenses	33	5,220	76	11,455
State Board of Public Accountancy	Individual licenses	5,828	531,905	5,862	531,850
	Firm licenses	746	81,990	739	81,290
Appraiser Licensing and Certification Board	Individual licenses	1,300	244,933	1,241	238,720
	Firm licenses	122	59,500	125	62,500
State Board of Architects, Landscape Architects, and Interior Designers					
• Landscape Architects	Individual licenses	225	25,640	221	25,440
• Interior Designers	Individual licenses	65	7,600	55	5,900
• Architects	Individual licenses	1,868	213,420	1,767	205,810
• Architects	Firm licenses	614	152,500	567	145,500
State Athletic Commission	Individual licenses	765	13,985	536	9,425
Auctioneer's Licensing Board	Individual licenses	775	81,235	791	79,100
Professional Bail Bond Company and Professional Bail Bondsman Licensing Board	Individual licenses	493	49,380	478	47,800
	Firm licenses	42	42,000	43	43,000
State Board of Barber Examiners	Individual licenses	3,580	191,529	3,298	156,800
	Firm licenses	1,055	65,285	1,051	59,065
State Board of Collection Agencies	Individual licenses	70,407	1,405,220	62,671	1,253,420
	Firm licenses	1,540	192,500	1,396	174,500
Contractors Licensing Board	Firm licenses	17,757	802,275	17,768	796,350
State Board of Licensure for Professional Engineers and Professional Surveyors					
• Engineers	Individual licenses	6,048	527,850	5,962	518,960
• Surveyors	Individual licenses	401	25,160	434	28,435
• Engineers and Surveyors	Firm licenses	1,428	149,500	1,286	136,300
Fire Protection Licensing Board	Individual licenses	1,967	111,830	2,105	121,015
	Firm licenses	317	92,796	328	99,530
State Board of Registration for Professional Geologists	Individual licenses	370	21,920	609	36,580
Home Inspector Registration Board	Individual licenses	486	114,475	473	113,700
Manufactured Home Commission	Individual licenses	226	11,270	234	11,700
	Firm licenses	164	59,000	159	57,325
Motor Vehicle Commission	Individual licenses	5,390	322,060	5,852	346,645
	Firm licenses	776	220,550	789	223,890
Real Estate Commission	Individual licenses	18,925	1,170,385	16,336	1,034,945
	Firm licenses	115	39,550	120	40,350
Towing and Recovery Board	Individual licenses	1,924	132,879	1,959	135,849
	Firm licenses	707	105,725	705	105,343

**Source:** Agency revenue records (unaudited by Arkansas Legislative Audit)

