

# Internal Control and Compliance Assessment

## Arkansas Legislative Audit

### Department of Labor and Licensing

For the 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 Labor and Licensing. As discussed in the Results of Assessment section below, our procedures disclosed that the Agency failed to review travel reimbursements for accuracy (Finding 1), complete required statements of financial interest (Finding 2), accurately record and approve compensatory time (Finding 3), and properly calculate lump sum payments (Finding 4).

## 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, 2022, and have issued our report dated July 24, 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, 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 2022 Annual Comprehensive Financial Reports (ACFR) and Single Audit Reports.

## 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 R1-19-4-903 of the State Financial Management Guide, travel reimbursements, including private vehicle mileage, are allowable for official business. The shortest major highway route between destinations determines the maximum mileage allowed.

During our analysis of mileage reimbursements, we noted one employee with reimbursements totaling \$5,736, an increase of \$4,640 compared to fiscal year 2021. Upon review of the employee's TR-1 forms for fiscal year 2022, we discovered that the mileage between destinations was calculated incorrectly on several forms, resulting in overpayments totaling \$441.

Additional review revealed another employee was overpaid for mileage reimbursements, totaling \$39, because of a formula error.

**We recommend the Agency review all TR-1 forms for accuracy prior to approval and issuance of payment.**

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**Management response:** *The division employee will prepare and submit their TR-1's subject to approval by the employee's supervisor. Agency travel supervisors will review and approve these TR-1's to ensure that travel expenses comply with State travel laws and rules. In addition, the finance section of the Agency will provide training for all travel supervisors approved by the Secretary during fiscal year 2024.*

**Finding 2:** Ark. Code Ann. § 21-8-701(4-5) requires an agency head, department director, or division director of state government; a chief of staff or chief deputy of a constitutional officer; and a public appointee to a state board or commission to file a written statement of financial interest with the Secretary of State by January 31 of each year for the previous year.

Our review revealed that, of 185 individuals required to file a statement, 69 failed to do so, as summarized below:

<b>Agency</b>	<b>Tested</b>	<b>Exceptions</b>
Department of Labor and Licensing	11	6
Division of Labor	20	11
Abstractors' Board	5	4
State Board of Public Accountancy	7	1
Appraiser Licensing and Certification Board	10	3
State Board of Architects, Landscape Architects, and Interior Designers	9	4
State Athletic Commission	8	8
Auctioneer's Licensing Board	7	1
Professional Bail Bond Company and Professional Bail Bondsman Licensing Board	8	2
State Board of Barber Examiners	5	0
State Board of Collection Agencies	6	2
Contractors Licensing Board	15	1
State Board of Licensure for Professional Engineers and Professional Surveyors	10	3
State Board of Registration for Professional Geologists	8	2
Real Estate Commission	6	2
Home Inspector Registration Board	7	1
Towing and Recovery Board	10	5
Fire Protection Licensing Board	12	3
Manufactured Home Commission	7	4
Motor Vehicle Commission	10	5
Workers' Compensation Commission	4	1
<b>Totals</b>	<b>185</b>	<b>69</b>

We recommend the Agency implement procedures to ensure statements of financial interest are filed as required by state law.

**Management response:** *The Department is currently working on a comprehensive and consistent procedure to remind all required employees to timely file their Statements of Financial Interest. Please note, however, that further review of the Secretary of State's website revealed eleven Statements of Financial Interest that were, in fact, filed.*

**Finding 3:** Seven business areas had 53 employees who earned 1,336 hours of compensatory time for fiscal year 2022 as shown below:

Agency	# of Employees	Hours Earned
State Board of Public Accountancy	1	2
State Athletic Commission	1	8
Professional Bail Bonds Company and Professional Bail Bondsmen Licensing Board	1	8
State Board of Collection Agencies	1	47
Real Estate Commission	10	77
Division of Labor and Licensing	29	803
Department of Labor and Licensing	10	391
<b>Total</b>	<b>53</b>	<b>1,336</b>

Office of Personnel Management (OPM) policy 28 and the Agency's internal policies state that compensatory time may only be earned with prior approval from the employee's supervisor for a legitimate business purpose.

Our review revealed the following deficiencies:

- Department of Labor and Licensing (BA 9910) – Prior documented approval could not be provided for the compensatory time accrued by two employees:
  - > *HVACR Mechanical Inspector* – One employee earned compensatory time in two weekly periods, but documented prior approval was only obtained for one of those periods. Unauthorized compensatory time totaled 9 hours.
  - > *Fiscal Support Supervisor* – One employee earned compensatory time in 17 weekly periods, but documented prior approval was not obtained. Unauthorized compensatory time totaled 150 hours.
- Division of Labor (BA 0800) – Prior documented approval could not be provided for the compensatory time accrued by three employees:
  - > *Elevator Division/Code Enforcement* – One employee earned compensatory time in eight weekly periods, but documented prior approval was only obtained for two of those periods. Unauthorized compensatory time totaled 46 hours.
  - > *Labor Mediator* – One employee earned compensatory time in six weekly periods, but documented prior approval was not obtained. Unauthorized compensatory time totaled 76 hours.
  - > *Arkansas Occupational Safety and Health (AOSH)* – One employee earned compensatory time in eight weekly periods but documented prior approval was not obtained. Unauthorized compensatory time totaled 79 hours.
- Board of Collection Agencies (BA 0221) – One employee earned 47 hours of compensatory time, but the Agency could provide documented approval for only 5 hours.

OPM policy 28 also requires Agencies to maintain complete and accurate records in AASIS regarding compensatory time earned and used. Our review revealed the following:

- Department of Labor and Licensing (BA 9910) – In two weekly periods, one employee recorded time worked in 5-minute increments instead of 15-minute increments, causing an incorrect accrual of .76 hours of unearned compensatory time.
- Athletic Commission (BA 0209) – One employee with an 8-hour workday recorded annual leave of 16 hours on the same day, resulting in the incorrect accrual of 8 hours of compensatory time. On April 25, 2023, prior to the end of fieldwork, the Agency corrected the accrual.
- Professional Bail Bondsman Licensing Board (BA 0211) – One employee with an 8-hour workday recorded 8 hours of sick leave and 8 hours of annual leave on the same day, resulting in the incorrect accrual of 8 hours of compensatory time. As of the end of fieldwork, the Agency had not corrected the accrual of compensatory time in AASIS. (Note: The compensatory time had not been used by the employee.)
- Real Estate Commission (BA 0248) – One employee with an 8-hour workday recorded 7.25 hours of attendance and 1.25 hours of authorized leave on the same day, resulting in the incorrect accrual of .5 hours of compensatory time.

We recommend the Agency implement procedures to ensure prior written approval is obtained before compensatory time is worked by employees. In addition, procedures should also ensure that employee time worked is accurately recorded, reviewed, and approved to prevent the accrual of unearned compensatory time.

**Management response:** *The Department has implemented an overtime and compensatory time policy that determines the process for earning and using compensatory time. It specifically states that employees should have written approval from their supervisor in advance of earning compensatory time and that failure to do so may result in disciplinary action. Furthermore, this policy states that accrued compensatory time shall be used prior to the use of any accrued annual leave hours.*

**Finding 4:** Office of Personnel Management (OPM) Policy 54 outlines the requirements for leave payouts for state employees at separation of employment. Our review of payouts revealed the following deficiencies:

- Division of Labor (BA 0800) – One employee was overpaid \$210 in annual leave payout.
- Workers Compensation Commission (BA 0390)
  - > One employee submitted paperwork to take two weeks of annual leave prior to the actual retirement date. Because the Agency incorrectly entered the retirement date, the employee was not paid for the 88 hours of annual leave taken between the last day of work and the actual retirement date. As a result, the employee is due \$2,886 (gross). In addition, because this employee was not compensated for an additional 39.5 hours of annual leave and 8 hours of birthday leave, an additional \$1,558 (gross) is due to the employee.
  - > Annual leave payouts, totaling \$435 and \$137, respectively, were not paid for two additional employees.

We recommend the Agency review and strengthen its procedures regarding lump sum payments to ensure calculations are accurate prior to issuing payment. In addition, the Agency should contact OPM to initiate payment to the three employees noted above.

**Management response:** *The Department is currently exploring the manner and method of making former employees whole in consultation with OPM. Regarding the overpayment of \$210 on the former employee's annual leave payout, the Department will consult with DFA on appropriate action to recover the loss. The Department's Chief Human Resource Officer is developing a standard operating procedure regarding lump sum payouts that will be followed by all human resource employees within the Department in order to keep these errors from occurring in the future.*

## 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.
- 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.
- Real Estate Commission.
- Towing and Recovery Board.
- Workers' Compensation Commission.

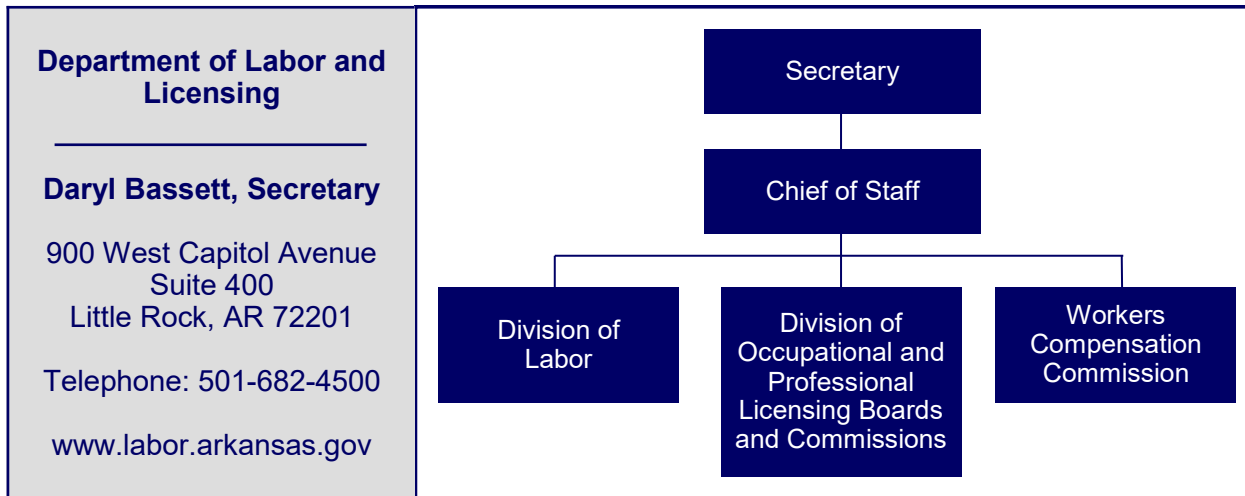
As shown in **Exhibit I on page 6**, the Department has three divisions:

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 Arkansas Department of Labor and Licensing. Summary financial information for each business area is presented in **Exhibit II on page 7**.

### Revenues, Expenditures, and Transfers

Revenues, expenditures, and transfers for the Department for fiscal years 2018 through 2022 are presented in **Exhibit III on page 7**.

The Department reported \$29.2 million in total revenues for fiscal year 2022. Of the \$27 million in licenses and fees, premium tax fees totaled \$15 million, and the remaining \$12 million consisted of special revenues related to issuance of licenses.

Department expenditures totaled \$13.9 million for the fiscal year ended June 30, 2022. Expenditures were mainly comprised of salaries totaling \$15 million.

The Department reported net transfers of \$2.5 million, which represent general revenue distributions.

**Exhibit II**  
**Arkansas Department of Labor and Licensing**  
**Summary of Financial Information by Business Area**  
**For the Year Ended June 30, 2022**

Board/Commission/Division	Assets and		Liabilities and		Net Transfers
	Deferred Outflows		Deferred Inflows		
			Revenues	Expenditures	In (Out)
Department of Labor and Licensing	\$ 2,203,529	\$ 1,107,657	\$ 826,321	\$ 3,766,691	\$ 2,881,095
Division of Labor	5,610,261	418,593	3,984,075	4,204,832	1,476,158
Abstractors' Board	130,374	10,165	18,303	4,601	0
State Board of Public Accountancy	1,835,015	326,325	1,006,441	905,364	(11,860)
Appraiser Licensing and Certification Board	1,479,453	311,442	491,848	425,479	(11,937)
State Board of Architects, Landscape Architects, and Interior Designers	3,737,839	117,534	487,010	200,940	(15,434)
State Athletic Commission	332,640	33	66,979	119,023	325,390
Auctioneers Licensing Board	242,056	617	87,003	72,830	(5,421)
Professional Bail Bondsman Licensing Board	2,535,797	113,852	518,044	406,568	(24,811)
State Board of Barber Examiners	328,437	6,297	271,032	206,885	(16,999)
State Board of Collection Agencies	5,687,119	2,540,572	1,683,284	236,918	(1,438,393)
Contractors Licensing Board	4,681,266	1,250,278	1,468,890	1,390,528	(179,688)
State Board of Licensure for Professional Engineers and Professional Surveyors	3,043,752	537,593	738,909	598,204	5,286
Fire Protection Licensing Board	84,920	20,576	52,302	17,858	(32,368)
State Board of Registration for Professional Geologists	5,435,081	718,421	1,646,959	1,374,592	(13,559)
Home Inspectors Registration Board	620,172	56,114	139,672	67,964	(9,280)
Manufactured Home Commission	253,599	128,040	255,061	291,498	914
Motor Vehicle Commission	707,478	111,816	227,558	139,215	(21,862)
Real Estate Commission	2,264,120	35,627	363,397	227,077	(27,350)
Towing and Recovery Board	2,559,552	27,106	513,293	274,225	(45,049)
Workers' Compensation Commission	118,838,608	200,382,507	14,309,236	(1,041,590)	(308,825)
<b>Totals</b>	<b>\$ 162,611,068</b>	<b>\$ 208,221,165</b>	<b>\$ 29,155,617</b>	<b>\$ 13,889,702</b>	<b>\$ 2,526,007</b>

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

**Exhibit III**  
**Arkansas Department of Labor and Licensing**  
**Revenues, Expenditures, and Transfers**  
**For the Years Ended June 30, 2018 through 2022**

	Fiscal Year				
	2022	2021	2020	2019	2018
<b>Revenues</b>					
Licenses and fees	\$ 26,967,289	\$ 27,636,206	\$ 26,864,972	\$ 27,961,584	\$ 29,366,769
Fines and penalties	1,260,537	843,579	1,266,725	1,484,711	1,285,246
Investment revenues	(1,318,806)	(522,245)	2,086,529	4,456,118	1,319,274
Other income	2,246,597	1,815,943	1,412,468	1,707,007	1,280,428
<b>Total Revenues</b>	<b>\$ 29,155,617</b>	<b>\$ 29,773,483</b>	<b>\$ 31,630,694</b>	<b>\$ 35,609,420</b>	<b>\$ 33,251,717</b>
<b>Expenditures</b>					
Salaries	\$ 15,019,151	\$ 18,172,978	\$ 18,926,871	\$ 17,231,030	\$ 17,357,950
Utilities and rent	908,292	917,512	915,632	923,777	939,556
Refunds, taxes, and claims	(5,510,066)	702,637	3,976,605	11,426,055	9,645,494
Other expenses	3,472,325	3,085,341	2,849,336	3,519,879	6,109,461
<b>Total Expenditures</b>	<b>\$ 13,889,702</b>	<b>\$ 22,878,468</b>	<b>\$ 26,668,444</b>	<b>\$ 33,100,741</b>	<b>\$ 34,052,461</b>
<b>Net Transfers In (Out)</b>	<b>\$ 2,526,007</b>	<b>\$ 1,557,550</b>	<b>\$ 2,049,693</b>	<b>\$ 1,563,317</b>	<b>\$ 1,572,316</b>

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

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

Assets, liabilities, and deferred inflows/outflows of resources for fiscal years 2018 through 2022 are presented in **Exhibit IV**.

The Department’s assets totaled \$161 million for the year ended June 30, 2022, with cash and cash equivalents comprising 73% and investments comprising 10%. Liabilities totaled \$200.2 million at June 30, 2022, with claims payable representing the largest component totaling \$177.6 million or 89%.

Deferred inflows and outflows of resources for fiscal year 2022 totaled \$8 million and \$1.7 million, respectively.

**License Activity**

A summary of license activity is presented in **Exhibit V on page 9**. The information represents licenses issued and revenue collected for individuals and firms that were issued licenses for the two years ended June 30, 2021 and June 30, 2022.

**Exhibit IV**  
**Arkansas Department of Labor and Licensing**  
**Assets, Liabilities, and Deferred Inflows and Outflows of Resources**  
**For the Years Ended June 30, 2018 through 2022**

	Fiscal Year				
	2022	2021	2020	2019	2018
<b>Assets</b>					
Cash and cash equivalents	\$ 117,210,566	\$ 105,088,073	\$ 90,081,553	\$ 104,330,681	\$ 94,058,604
Investments	16,738,820	33,916,216	51,952,662	38,713,806	47,273,441
Fixed assets	8,566,883	8,075,056	8,122,353	7,722,415	7,549,641
Other assets	18,443,897	17,577,227	20,422,919	20,512,793	24,752,614
<b>Total Assets</b>	<b>\$ 160,960,166</b>	<b>\$ 164,656,572</b>	<b>\$ 170,579,487</b>	<b>\$ 171,279,695</b>	<b>\$ 173,634,300</b>
<b>Deferred Outflows of Resources</b>					
Related to pension expense	\$ 1,650,901	\$ 3,151,377	\$ 3,059,355	\$ 1,680,630	\$ 2,462,009
<b>Liabilities</b>					
Claims payable	\$ 177,625,603	\$ 196,598,430	\$ 209,428,879	\$ 219,366,357	\$ 222,216,620
Long-term liabilities	14,253,051	24,195,635	23,289,119	20,749,015	25,555,661
Unearned revenues	4,230,583	4,659,292	4,329,211	4,160,971	4,264,013
Other liabilities	4,117,065	4,248,011	4,994,209	4,730,557	4,802,196
<b>Total Liabilities</b>	<b>\$ 200,226,302</b>	<b>\$ 229,701,368</b>	<b>\$ 242,041,418</b>	<b>\$ 249,006,900</b>	<b>\$ 256,838,490</b>
<b>Deferred Inflows of Resources</b>					
Related to revenues	\$ 7,994,863	\$ 2,021,859	\$ 4,002,810	\$ 3,858,320	\$ 3,496,947

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



**Exhibit V**  
**Arkansas Department of Labor and Licensing**  
**Summary of License Activity**  
**For the Year Ended June 30, 2022**

Board Name	License Type	Fiscal Year 2022		Fiscal Year 2021	
		# Issued	Revenues	# Issued	Revenues
Department of Labor and Licensing					
• HVACR Licensing Board	Individual licenses	8,792	\$ 645,300	8,849	\$ 671,660
Division of Labor					
• Board of Electrical Examiners	Individual licenses	12,726	404,125	13,554	519,630
• Boiler Inspection	Individual licenses	6,113	141,607	5,785	137,735
• Elevator Safety Board	Individual licenses	260	21,355	262	22,225
• Elevator Safety Board	Firm licenses	22	5,040	21	5,020
Abstractors' Board					
	Individual licenses	145	7,520	62	3,225
	Firm licenses	93	13,755	33	5,220
State Board of Public Accountancy					
	Individual licenses	5,818	532,785	5,828	531,905
	Firm licenses	759	83,490	746	81,990
Appraiser Licensing and Certification Board					
	Individual licenses	1,018	162,514	1,300	244,933
	Firm licenses	128	61,500	122	59,500
State Board of Architects, Landscape Architects, and Interior Designers					
• Landscape Architects	Individual licenses	256	28,350	225	25,640
• Interior Designers	Individual licenses	67	7,800	65	7,600
• Architects	Individual licenses	2,012	228,910	1,868	213,420
• Architects	Firm licenses	694	162,590	614	152,500
State Athletic Commission	Individual licenses	1,031	27,665	765	13,985
Auctioneer's Licensing Board	Individual licenses	749	78,555	775	81,235
Professional Bail Bond Company and Professional Bail Bondsman Licensing Board					
	Individual licenses	466	46,420	493	49,380
	Firm licenses	43	43,000	42	42,000
State Board of Barber Examiners					
	Individual licenses	3,301	171,337	3,580	191,529
	Firm licenses	1,058	65,290	1,055	65,285
State Board of Collection Agencies					
	Individual licenses	64,022	1,280,440	70,407	1,405,220
	Firm licenses	1,569	196,125	1,540	192,500
Contractors Licensing Board	Firm licenses	17,543	814,700	17,757	802,275
State Board of Licensure for Professional Engineers and Professional Surveyors					
• Engineers	Individual licenses	6,205	547,910	6,048	527,850
• Surveyors	Individual licenses	436	29,735	401	25,160
• Engineers and Surveyors	Firm licenses	1,431	148,600	1,428	149,500
Fire Protection Licensing Board					
	Individual licenses	2,419	151,850	1,967	111,830
	Firm licenses	288	109,264	317	92,796
State Board of Registration for Professional Geologists	Individual licenses	553	32,890	370	21,920
Home Inspector Registration Board	Individual licenses	598	140,220	486	114,475
Manufactured Home Commission					
	Individual licenses	232	11,600	226	11,270
	Firm licenses	161	59,175	164	59,000
Motor Vehicle Commission					
	Individual licenses	765	255,940	5,390	322,060
	Firm licenses	768	227,125	776	220,550
Real Estate Commission					
	Individual licenses	19,420	1,207,525	18,925	1,170,385
	Firm licenses	105	32,250	115	39,550
Towing and Recovery Board					
	Individual licenses	1,975	136,926	1,924	132,879
	Firm licenses	692	101,863	707	105,725

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

