Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas Department of Military

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 Arkansas Department of Military. As discussed in the Results of Assessment section below, our procedures disclosed inadequate controls over payroll processes (Finding 1) and an overstated federal receivable balance and deferred inflows of resources amount (Finding 2).

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Arkansas Department of Military, a department of Arkansas state government, as of and for the year ended June 30, 2025, and have issued our report dated July 2, 2026. Management of the Department 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 Department and audit work conducted in the fiscal year 2025 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 Department officials during the assessment and at the exit conference:

> **Finding 1:** Ark. Code. Ann. § 25-1-124 states that "a public employee with supervisory fiduciary responsibility over all fiscal matters of a public employer shall report to Arkansas Legislative Audit (ALA) a loss of public funds that amounts to $1,000 or more in one calendar year. Losses include apparent unauthorized disbursements of public funds; or the apparent theft or misappropriation of state funds or property. This report shall be made within five business days of the date the public employee learns of the loss of public funds."
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> After receiving an email request that appeared to be from an employee, the Department of Military's Human Resources Department changed the employee's direct deposit banking information without verifying the authenticity of the request that resulted in a loss of public funds totaling $1,069. Before the change was identified as unauthorized, a direct deposit was issued to the new bank account. The Agency failed to report the loss to ALA within five business days, and as of report date, the funds had not been recovered.

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We recommend the Department strengthen internal controls related to the processing of payroll-related changes. We also recommend the Agency establish procedures to ensure ALA is notified when there is an apparent loss of public funds, in compliance with Arkansas Code.

Management response: *The HR Office has implemented enhanced verification procedures for all direct deposit updates. Employees are now required to appear in person and present a valid driver's license to verify their identity before any banking changes are processed. Direct deposit changes are no longer accepted or completed via email. Additionally, employees must complete a new direct deposit authorization form during the in-office verification process.*

Finding 2: Agencies are required to record amounts due for receivables in accordance with Ark. Code Ann. § 19-2-304, and receivables at fiscal year-end should reflect amounts owed to the Agency. Our review of the Department's federal receivables balance revealed an overstatement totaling $20,543,581, which was caused by the Agency preparing the entry using inaccurate data. The federal expenses incurred by the Agency for operations used in the calculation were amounts from the prior fiscal year, and all 12 months of activity were included. The amounts for federal payroll used for the calculation were for fiscal year 2025; however, all 12 months of activity were included. The actual amounts included in the calculation should have been only those transactions that occurred at, or near, the fiscal year-end that had not been receipted prior to June 30.

Additionally, because of the federal accrual overstatement, the deferred inflows (i.e., receivables that are not receipted within the first 45 days of the following fiscal year) reported by the Agency were overstated by $18,171,390.

We recommend the Department strengthen internal controls related to federal receipts to ensure receivables and deferred inflows of resources are accurately recorded.

Management response: *The agency is implementing software that will centralize and streamline financial documentation across the DoD and the state. This system will house all SF-270 documentation and purchase order processes, provide secure access for our federal partners, and support workflow automations and reporting dashboards to improve transparency and efficiency. By consolidating these functions into a single platform, the system will modernize and streamline our business processes, reduce manual effort, minimize errors, and improve the flow of financial information across programs. In addition to these capabilities, the implemented solution will automate the deposit process and track outstanding reimbursement amounts owed to the state. Once fully deployed, we expect the new system to resolve this issue going forward. Until the system is completely in place, the agency is using a three-way match process to verify all accounts receivable amounts. Under this temporary process, the Accountant I responsible for recording deposits maintains a dedicated spreadsheet, while the Fiscal Support Administrator maintains a separate spreadsheet approved by the auditor. The Fiscal Support Administrator then reconciles both spreadsheets with the 270 App Tracker to ensure the accuracy of all recorded amounts.*

ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

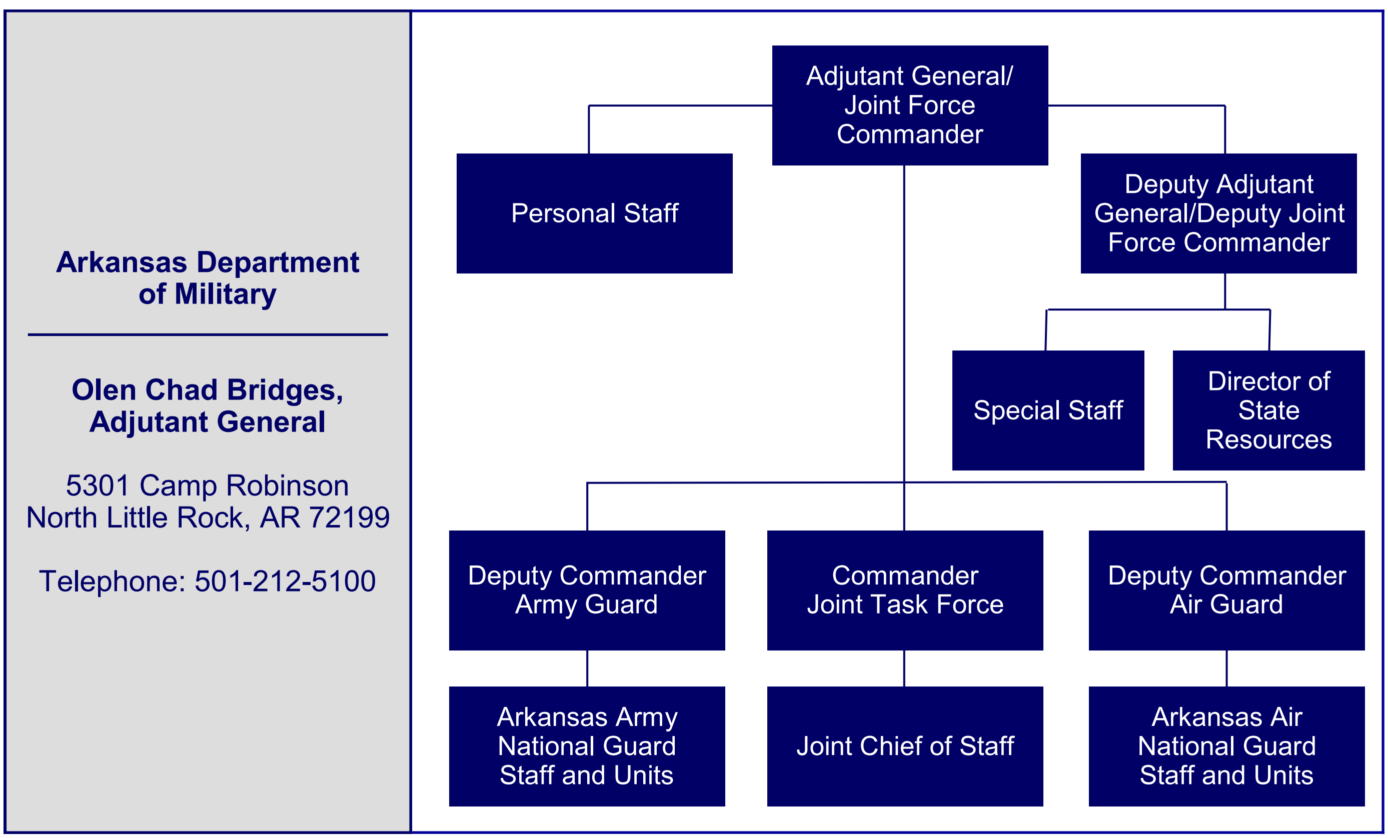
The Arkansas Department of Military is responsible for all matters relating to the command, control, and supervision of the militia, National Guard, or other military organization under the jurisdiction of the Governor. The National Guard is divided into two basic components: Air National Guard and Army National Guard. The Guard primarily serves the State of Arkansas, except when it is federalized by the President, and responds to the Governor's call-up in times of invasion, disaster, insurrection, riot, or breach of peace. Some of the Department facilities and programs are as follows:

- The National Guard Professional Education Center at Camp Robinson provides a structured education program for National Guard and federal technicians.
- The National Guard Marksmanship Center at Camp Robinson provides a structured marksmanship training program for individuals and teams from National Guard units nationwide.

The Department's organizational chart is presented in **Exhibit I**. In accordance with Act 910 of 2019, effective July 1, 2019, the Arkansas State Military Department became the newly created cabinet-level Department of Military.

Exhibit I

Arkansas Department of Military
Organizational Chart



Source: *Arkansas Department of Military*

FISCAL ANALYSIS

Revenues, Expenditures, and Transfers

Department revenues, expenditures, and transfers for fiscal years 2021 through 2025 are illustrated in **Exhibit II**.

Revenues and expenditures totaled $73.2 million and $82.5 million, respectively, for the year ended June 30, 2025. The majority of revenue consisted of federal grants and reimbursements related to construction. As shown in **Exhibit III**, the Department's federal revenue totaled $72.5 million for the year ended June 30, 2025. Salaries were the largest expenditure, comprising 35.7% of total expenditures.

Net transfers totaled $10.9 million for the year ended June 30, 2025, as presented in **Exhibit II**. The majority of transfers were from general revenue.

Exhibit II

Arkansas Department of Military
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	$ 72,679,208	$ 63,370,221	$ 44,038,655	$ 55,072,110	$ 58,456,753
Grants and reimbursements	378,956	686,589	739,752	31,484	19,781
Rent	64,056	92,579	88,996	97,491	94,838
Other income	109,952	4,384,738	365,255	100,682	34,134
Total Revenues	$ 73,232,172	$ 68,534,127	$ 45,232,658	$ 55,301,767	$ 58,605,506
Expenditures					
Salaries	$ 29,470,549	$ 26,969,394	$ 28,316,512	$ 25,249,910	$ 24,223,481
Repair and servicing	21,255,920	23,805,961	17,457,917	12,698,217	7,788,128
Capital outlay	12,712,443	10,605,151	8,311,485	13,464,159	20,945,040
Other expenses	19,022,189	16,699,029	20,338,560	12,154,513	12,504,694
Total Expenditures	$ 82,461,101	$ 78,079,535	$ 74,424,474	$ 63,566,799	$ 65,461,343
Net Transfers In (Out)	$ 10,936,837	$ 13,855,420	$ 14,190,005	$ 10,548,105	$ 9,487,080

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

Exhibit III

Arkansas Department of Military
Schedule of Federal Program Revenues
For the Year Ended June 30, 2025

Program Title	**Assistance Listing Number**	**Federal Program Revenues**
Military Construction, National Guard	12.400	$ 2,001,123
National Guard Military Operations and Maintenance (O&M) Projects	12.401	68,373,122
National Guard Challenge Program	12.404	1,802,156
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	298,971
Total Federal Grants and Reimbursements		**$ 72,475,372**

Source: *Department of Finance and Administration 2025 Agency Federal Award Data (unaudited by Arkansas Legislative Audit)*

Assets, Liabilities and Deferred Inflows of Resources

Department asset and liability balances at year-end for fiscal years 2021 through 2025 are presented in **Exhibit IV**. Asset and liability balances totaled $413.8 million and $8.1 million, respectively.

As illustrated in **Exhibit IV**, the cash and cash equivalents balance was negative as of June 30, 2025. The negative balance was due to timing issues related to the reimbursement for federal expenditures covered by the Cash Management Improvement Act of 1990. Ark. Code Ann. § 19-4-1106 (6)(F) makes an allowance for this situation and states the following:

> "In the case of vouchers written upon specific funds receiving federal funding, according to the Cash Management Improvement Act of 1990, Pub. L. No. 101-453, Oct. 24, 1990, 104 Stat. 1058, agreement, the Auditor of State shall process warrants and the Treasurer of State shall redeem the warrants presented for payment upon notification by the Chief Fiscal Officer of the State that the executive head of the state agency has certified to the Chief fiscal Officer of the State that:
>
> i) A federal fund transfer request has been completed and accepted by the federal funding source; and
>
> ii) Federal funds will be transferred for the benefit of the state fund to pay the warrants."

In fiscal year 2025, the negative cash balance decreased slightly from the prior year; however, the balance is significantly higher than typical balances. In fiscal year 2023, the increase was due to staff turnover. At the end of that fiscal year, the position in charge of processing federal reimbursements was vacated. Reimbursement requests were backlogged, which contributed to a finding being issued. The Department appropriately booked a federal receivable to offset the negative cash balance in fiscal year 2024. As those federal receivables are receipted, the negative cash balance is expected to decrease.

Exhibit IV

Arkansas Department of Military
Assets, Liabilities, and Deferred Inflows of Resources
For the Years Ended June 30, 2021 through 2025

	Fiscal Year				
	2025	**2024**	**2023**	**2022**	**2021**
Assets					
Cash and cash equivalents	$ (11,702,641)	$ (15,525,506)	$ (17,636,036)	$ (1,528,297)	$ 1,190,901
Federal receivables	34,690,471	18,896,218	7,332,320	4,480,368	3,519,996
Fixed assets	390,408,760	392,040,920	383,462,410	376,045,094	368,318,690
Other assets	412,919	490,402	461,880	542,616	151,120
Total Assets	$ 413,809,509	$ 395,902,034	$ 373,620,574	$ 379,539,781	$ 373,180,707
Liabilities					
Accounts payable	$ 6,925,678	$ 4,845,255	$ 3,093,001	$ 2,563,204	$ 1,516,524
Unearned income	0	0	0	351,400	995,000
Payroll liability	635,692	553,790	540,872	1,429,350	1,227,183
Other liabilities	521,083	752,287	224,235	541,555	240,279
Total Liabilities	$ 8,082,453	$ 6,151,332	$ 3,858,108	$ 4,885,509	$ 3,978,986
Deferred Inflows of Resources					
Related to revenues	$ 25,340,489	$ 10,105,897	$ 2,782,683	$ 517,175	$ 143,976

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

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