

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Department of Inspector General

For the Two-Year Period Ended June 30, 2020



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 deficiencies in the Agency's cash receipting procedures.

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 two-year period ended June 30, 2020, and have issued our report dated July 21, 2021. 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, 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 years 2019 and 2020 State Comprehensive Annual Financial Reports and Single Audit Reports.

RESULTS OF ASSESSMENT

Assessment procedures disclosed the following internal control or compliance matter that was discussed with Agency officials during the assessment and at the exit conference:

Finding: In accordance with the Department of Finance and Administration (DFA) Financial Management Guide, R4-19-4-501, all checks received should be numbered, marked, or endorsed as soon as possible, and a log must be prepared in duplicate. 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:

- We reviewed the check log maintained by the Arkansas Fair Housing Commission to determine if checks received were deposited timely.

For the year ended June 30, 2019, 9 of the 30 checks reviewed, totaling \$3,800, were not deposited timely. The time period held until deposit averaged 21 days.

For the year ended June 30, 2020, 26 of the 52 checks reviewed, totaling \$10,717, were not deposited timely. The time period held until deposit averaged 42 days. However, it should be noted that 2 of the 26 checks were held from March 17, 2020 to April 30, 2021.

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In addition, we reviewed the AASIS cash journal deposits to ensure the Commission's check log was complete and discovered four deposits totaling \$1,600 that had not been included in the check log for the year ended June 30, 2020.

Finally, our review revealed that the check log did not contain any entries from April 2, 2020 through June 30, 2020. As a result, we were unable to determine if additional checks were received during this time period.

- The Office of Internal Audit submitted four invoices, totaling \$24,276, to the Arkansas Development Finance Authority (ADFA) and one invoice, totaling \$4,746, to the DFA - Office of Arkansas Lottery representing its quarterly project hours.

The Department was only able to provide documentation for one payment representing the invoices to ADFA, totaling \$3,272, confirming that it was not deposited timely.

Because a check log was not being maintained, we were unable to confirm if the remaining payments received from ADFA and the Office of Arkansas Lottery, totaling \$25,750, were deposited timely.

- The Office of Medicaid Inspector General (OMIG) receives Medicaid reimbursement checks resulting from overpayments identified in audits. OMIG is responsible for ensuring the checks are transferred to the Department of Human Services (DHS), the Agency responsible for depositing the checks into the appropriate Medicaid bank account.

Our review of 60 checks revealed that OMIG failed to transfer 9 checks, totaling \$14,747, to DHS timely. The time period from receipt to transfer for these checks averaged 10 days. One of the nine checks came from the June 30, 2019, sampling, and the remaining eight checks were discovered in the sampling representing the year ending June 30, 2020.

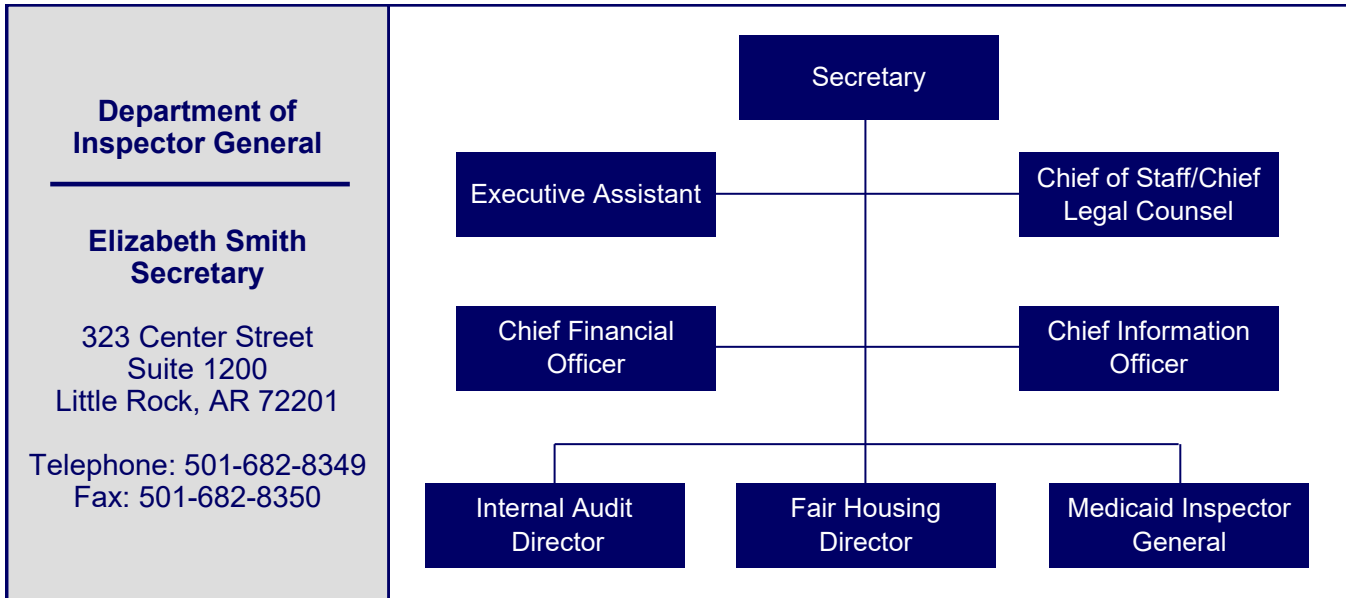
We recommend the Agency develop and implement controls to provide assurance of compliance with DFA regulations in regard to timely deposits and receipting/check logging procedures.

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. Finally, the Arkansas Fair Housing Commission has also developed an online registration and payment portal to provide for receipt of electronic payment, which will create a more efficient receipting and depositing system.*

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 3** illustrates the Department's current structure.

Exhibit I

Department of Inspector General
Organizational Chart

Source: Department of Inspector General

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 establishes 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.

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 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 4**.

Exhibit II
Department of Inspector General
Summary of Financial Information by Business Area
For the Year Ended June 30, 2020

Board/Commission/Division	Assets	Liabilities and Deferred Inflows	Revenues	Expenditures	Net Transfers In (Out)
Department of Inspector General	\$ 63,120	\$ 70,812	\$ 37,248	\$ 1,006,728	\$ 958,025
Office of Medicaid Inspector General	601,800	114,066	1,018	2,204,373	2,211,015
Arkansas Fair Housing Commission	2,039,848	1,178,928	11,167	814,786	37,818
Totals	\$ 2,704,768	\$ 1,363,806	\$ 49,433	\$ 4,025,887	\$ 3,206,858

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

Revenues, Expenditures, and Transfers

Revenues, expenditures, and transfers for fiscal years 2016 through 2020 are presented in **Exhibit III on page 5**.

Revenues totaled \$49,433, and expenditures totaled \$4 million for the fiscal year ended June 30, 2020. Salaries totaled \$3.6 million, comprising 91% of expenditures.

Net transfers totaled \$3.2 million and included \$1.3 million in federal revenues from DHS, \$1.1 million in general revenue, and \$810,000 from the State Central Services fund.

Assets and Liabilities

Asset and liability balances for fiscal years 2016 through 2020 are presented in **Exhibit IV on page 5**.

Assets and liabilities totaled \$2.7 million and \$236,966, respectively, for the fiscal year ended June 30, 2020. Assets were mostly comprised of cash and cash equivalents totaling \$1 million and federal receivables totaling \$1.1 million.

Deferred inflows of resources relate to federal revenues that are not received within 45 days of the fiscal year end.

Exhibit III
Department of Inspector General
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2016 through 2020

	Fiscal Year				
	2020	2019	2018	2017	2016
Revenues					
Grants and reimbursements	\$ 1,194	\$ 325	\$ 3,800	\$ 5,395	\$ 5
Training fees	10,911	0	0	0	0
Other income	37,328	74	78	302	141
Total Revenues	\$ 49,433	\$ 399	\$ 3,878	\$ 5,697	\$ 146
Expenditures					
Salaries	\$ 3,651,183	\$ 2,126,581	\$ 2,334,174	\$ 2,198,408	\$ 1,889,132
Utilities and rent	186,963	161,744	157,525	147,463	133,828
Travel and subsistence	33,554	14,332	12,347	12,265	19,773
Other expenses	154,187	54,456	52,931	121,113	114,490
Total Expenditures	\$ 4,025,887	\$ 2,357,113	\$ 2,556,977	\$ 2,479,249	\$ 2,157,223
Net Transfers In (Out)	\$ 3,206,858	\$ 2,339,759	\$ 2,573,033	\$ 2,372,837	\$ 1,890,862

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, 2016 through 2020

	Fiscal Year				
	2020	2019	2018	2017	2016
Assets					
Cash and cash equivalents	\$ 1,082,904	\$ 210,140	\$ 211,035	\$ 278,131	\$ 672,830
Federal receivables	1,126,840	0	0	0	0
Fixed assets	483,090	348,104	337,478	358,110	291,941
Other assets	11,934	3,125	27,196	4,248	0
Total Assets	\$ 2,704,768	\$ 561,369	\$ 575,709	\$ 640,489	\$ 964,771
Liabilities					
Payroll liability	\$ 159,533	\$ 70,761	\$ 79,323	\$ 76,263	\$ 68,730
Other liabilities	77,433	10,533	10,001	77,143	374,413
Total Liabilities	\$ 236,966	\$ 81,294	\$ 89,324	\$ 153,406	\$ 443,143
Deferred Inflows of Resources					
Related to revenues	\$ 1,126,840	\$ 0	\$ 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)

