

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas State Board of Collection Agencies

For the Fiscal Year Ended June 30, 2018



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 State Board of Collection Agencies. Assessment procedures disclosed no reportable items of noncompliance.

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Arkansas State Board of Collection Agencies, a board of Arkansas state government, as of and for the year ended June 30, 2018, and have issued our report dated July 16, 2019. 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, 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 2018 State Comprehensive Annual Financial Report (CAFR). The methodology used in conducting this assessment was developed uniquely for this engagement and, therefore, was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

RESULTS OF ASSESSMENT

Assessment procedures did not disclose instances of noncompliance considered reportable.

ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

The Arkansas State Board of Collection Agencies (ASBCA) was created by Act 145 of 1965 and regulates collection agency activities in Arkansas. ASBCA works to protect creditors who give their accounts to collection agencies to be collected, as well as consumers who are being contacted by collection agencies. Collection agencies are required to be licensed, and ASBCA collects a nominal fee for each license. ASBCA also investigates consumer complaints of unfair or unconscionable collection practices. The Board, which meets semiannually, is comprised of four members appointed by the Governor. Two members must be actively engaged in the operation of a collection agency and are appointed by the Governor after consultation with the Associated Credit Bureaus of Arkansas and the Arkansas members of the American Collectors Association; both of these members are subject to confirmation by the Senate. One member is selected from the public at-large and must not be a member of the above-mentioned associations. One member aged 60 or older represents the elderly and must not be actively engaged in or retired from the operation of a collection agency. One additional member representing the banking industry was approved as a result of Act 542 of 2019, bringing the membership up to five.

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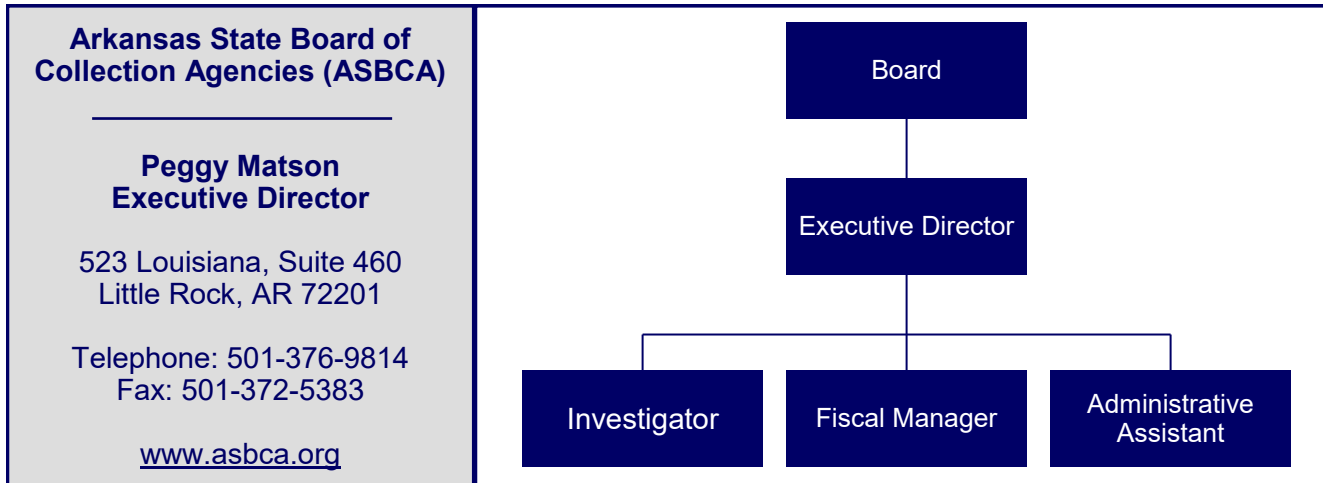
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The ASBCA organizational chart is provided in **Exhibit I**. In accordance with Act 910 of 2019, effective July 1, 2019, the ASBCA will become part of the newly created Department of Labor and Licensing.

Exhibit I
Arkansas State Board of Collection Agencies
Organizational Chart



Source: Agency Budget Manual

FISCAL ANALYSIS

Revenues, Expenditures, and Transfers

ASBCA revenues, expenditures, and transfers for fiscal years 2014 through 2018 are provided in **Exhibit II on page 3**. The majority of the \$1.7 million in revenues for fiscal year 2018 is attributed to license fees. The Board issued licenses to 1,409 collection agencies. Of these, only 48 (3%) were Arkansas companies. The majority of collection agencies are out-of-state companies, with a large number from other countries. Interest totaling \$29,095 was earned from the Board’s checking account and a certificate of deposit.

Expenditures for fiscal year 2018 totaled \$319,562. Most of the expenditures are related to payroll, which totaled \$230,624.

Net transfers amounted to \$1.27 million for the year ended June 30, 2018. As outlined in Ark. Code Ann. § 17-24-305, the Board is required to annually disburse \$1.265 million of the funds collected through licensing to selected state agencies and institutions of higher education. Beginning in fiscal year 2020, the General Assembly, through the passage of Act 489 of 2019, increased the required disbursements by \$150,000, which will be distributed to two additional institutions of higher learning. The Board does not receive any general revenue funding.

Assets and Liabilities

ASBCA assets and liabilities for fiscal years 2014 through 2018 are provided in **Exhibit III on page 3**. ASBCA operates from a bank account and utilizes a State Treasury fund for payroll activities. The Board also invests in a certificate of deposit. Cash and investments balances at year-end were successfully reconciled or confirmed with either the State Treasury or financial institutions without exception.

Accounts payable balances at the end of the year consist mainly of interagency payables for the upcoming distributions, as required by Ark. Code Ann. § 17-24-305 and noted above. Unearned revenue represents renewal fees collected for licenses that will be active in the next fiscal year.

Exhibit II

**Arkansas State Board of Collection Agencies
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2014 through 2018**

	Fiscal Year				
	2018	2017	2016	2015	2014
Revenues					
License fees	\$ 1,669,541	\$ 1,576,869	\$ 1,738,175	\$ 1,715,750	\$ 1,346,154
Interest income	29,095	22,201	10,963	10,183	11,701
Other income	1,353	81	1,456	3,561	0
Total Revenues	\$ 1,699,989	\$ 1,599,151	\$ 1,750,594	\$ 1,729,494	\$ 1,357,855
Expenditures					
Payroll expenses	\$ 230,624	\$ 231,572	\$ 273,482	\$ 286,483	\$ 235,391
Other expenses	88,938	90,724	78,037	91,782	70,250
Total Expenditures	\$ 319,562	\$ 322,296	\$ 351,519	\$ 378,265	\$ 305,641
Transfers In (Out)					
Distributions per Ark. Code Ann. § 17-24-305	\$ (1,265,000)	\$ (1,265,000)	\$ (1,265,000)	\$ (1,265,000)	\$ (1,265,000)
Other transfers	(6,096)	(4,686)	(4,343)	(5,678)	(4,358)
Net Transfers In (Out)	\$ (1,271,096)	\$ (1,269,686)	\$ (1,269,343)	\$ (1,270,678)	\$ (1,269,358)

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

Exhibit III

**Arkansas State Board of Collection Agencies
Assets and Liabilities
For the Years Ended June 30, 2014 through 2018**

	Fiscal Year				
	2018	2017	2016	2015	2014
Assets					
Cash and cash equivalents	\$ 2,187,461	\$ 1,990,389	\$ 1,991,383	\$ 2,431,172	\$ 2,397,809
Investments	3,592,140	3,566,721	3,545,423	3,036,712	3,027,745
Other assets	71,655	56,715	75,489	54,032	60,217
Total Assets	\$ 5,851,256	\$ 5,613,825	\$ 5,612,295	\$ 5,521,916	\$ 5,485,771
Liabilities					
Accounts payable	\$ 1,266,386	\$ 1,266,398	\$ 1,268,106	\$ 1,268,828	\$ 1,267,416
Payroll liability	8,651	8,423	7,828	7,424	5,787
Unearned revenue	1,410,265	1,290,065	1,293,595	1,332,630	1,374,975
Total Liabilities	\$ 2,685,302	\$ 2,564,886	\$ 2,569,529	\$ 2,608,882	\$ 2,648,178

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

