

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas Tobacco Control

For the Fiscal Year Ended June 30, 2014



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 Arkansas Tobacco Control. Assessment procedures disclosed no reportable items of noncompliance.

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of Arkansas Tobacco Control, a board of Arkansas state government, as of and for the year ended June 30, 2014, and have issued our report dated August 28, 2015. 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, expenditures, 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 2014 State Comprehensive Annual Financial Report (CAFR) and Single Audit Report. 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 Tobacco Control Board was created through Act 1337 of 1997 and subsequently named Arkansas Tobacco Control by Act 785 of 2009. Its primary responsibility is to regulate the sale of tobacco in Arkansas and enforce all laws pertaining to tobacco, especially the prohibition of sales to minors. Arkansas Tobacco Control provides free training to merchants and performs undercover operations to determine if retailers are complying with laws related to minors.

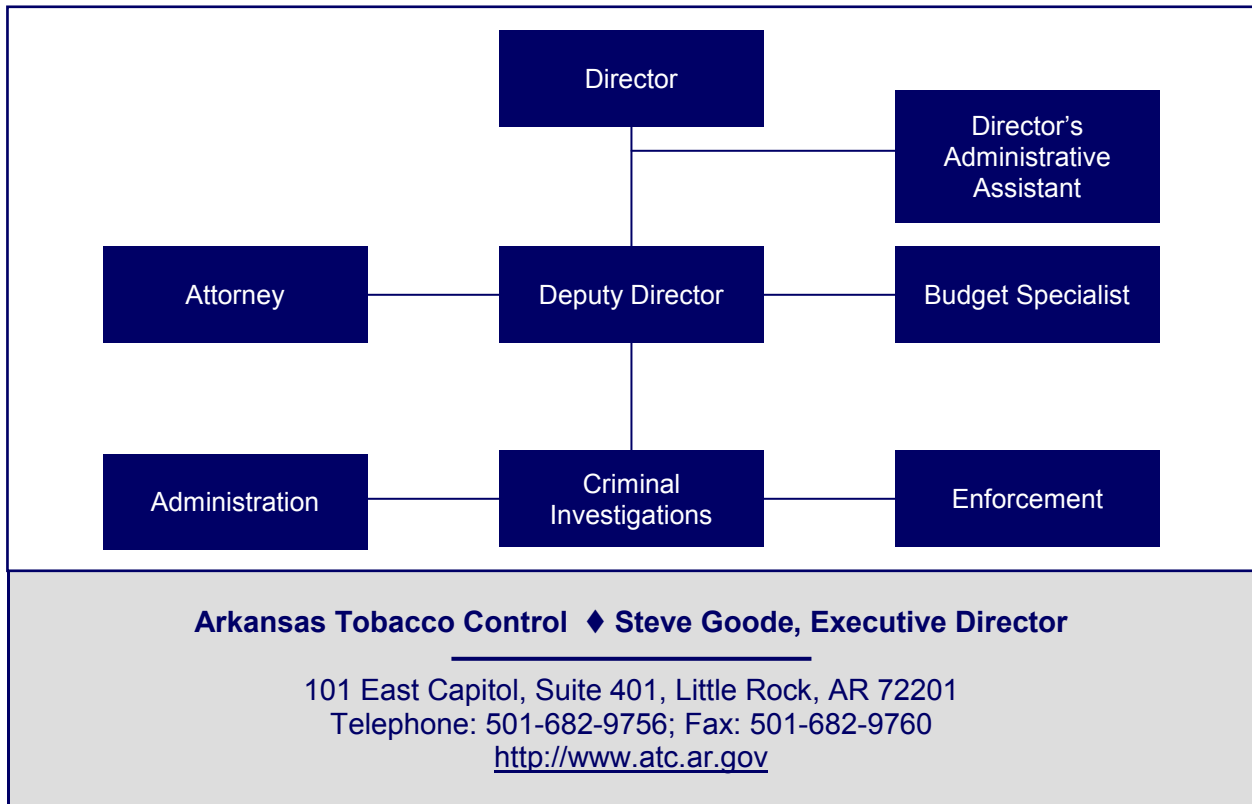
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Report ID: SR0726114 Report Date: August 28, 2015



The Agency's Board consists of eight members appointed by the Governor: two tobacco product wholesalers, two tobacco product retailers, and four members of the public at-large who are not public employees or officials, at least one of whom must be African American and two of whom must be selected from a list of at least eight candidates nominated by the Arkansas Medical Society. The Agency's organizational chart is presented in **Exhibit I**.

Exhibit I
Arkansas Tobacco Control
Organizational Chart



Source: Arkansas Tobacco Control

FISCAL ANALYSIS

Revenues, Expenditures, and Transfers

Agency revenues, expenditures, and transfers for fiscal years 2010 through 2014 are presented in **Exhibit II on page 3**.

Agency revenue totaled \$608,407 for fiscal year 2014. Revenues were primarily comprised of federal grants and reimbursements received from the U.S. Department of Health and Human Services (Food and Drug Administration). Other revenues totaling \$40,222 were collected in 2014 for tobacco-related asset forfeitures and for civil penalties assessed under Ark. Code Ann. § 26-27-248 for possession or sale of products with unpaid taxes. Finally, revenues were also recognized for funds collected in current and prior fiscal years for manufacturer fire safety fees.

Agency expenditures totaled \$2.2 million, with salaries comprising 71% of the expenditure total for fiscal year 2014. Other expenses included enforcement expenses for agents, associated travel, capital outlay purchases, and payments to a contractor to administer the sales to minors compliance checks.

Net transfers, which represent the General Revenue Distribution and the Tobacco Settlement – Prevention and Cessation program with the Arkansas Department of Human Services, totaled \$1.6 million at June 30, 2014.

Exhibit II

Arkansas Tobacco Control Revenues, Expenditures, and Transfers For the Years Ended June 30, 2010 through 2014

	Fiscal Year				
	2014	2013	2012	2011	2010
Revenues					
Federal grants and reimbursements	\$ 539,650	\$ 435,089	\$ 398,117	\$ 0	\$ 0
Asset forfeiture	40,222	0	65,000	10,300	0
Cigarette manufacturer safety fees (net)	28,257	80,647	4,917	12,805	109,335
Other revenues	278	5,713	3,383	11,026	2,784
Total Revenues	\$ 608,407	\$ 521,449	\$ 471,417	\$ 34,131	\$ 112,119
Expenditures					
Salary expense	\$ 1,528,992	\$ 1,360,794	\$ 1,259,585	\$ 1,007,558	\$ 926,654
Commodities, materials, and supplies	135,223	184,745	171,893	214,911	118,225
Utilities and rent	172,196	154,128	105,457	99,444	96,781
Other expenditures	330,383	327,448	219,936	170,463	395,687
Total Expenditures	\$ 2,166,794	\$ 2,027,115	\$ 1,756,871	\$ 1,492,376	\$ 1,537,347
Net Transfers In (Out)	\$ 1,611,252	\$ 1,738,782	\$ 1,489,640	\$ 1,575,706	\$ 1,781,340

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

Assets and Liabilities

Agency assets and liabilities for fiscal years 2010 through 2014 are presented in **Exhibit III on page 4**. Assets totaled \$1.6 million at June 30, 2014, and liabilities totaled \$195,399. Other assets were comprised primarily of federal grant receivables, and other liabilities was comprised primarily of the 2014 General Revenue Reclaim liability.

Exhibit III
Arkansas Tobacco Control
Assets and Liabilities
For the Years Ended June 30, 2010 through 2014

	Fiscal Year				
	2014	2013	2012	2011	2010
Assets					
Cash and cash equivalents	\$ 601,805	\$ 601,552	\$ 487,770	\$ 329,688	\$ 449,108
Fixed assets	971,376	935,959	858,097	871,388	853,436
Other assets	61,280	74,851	97,016	18,600	12,147
Total Assets	\$ 1,634,461	\$ 1,612,362	\$ 1,442,883	\$ 1,219,676	\$ 1,314,691
Liabilities					
Accounts payable	\$ 4,839	\$ 1,451	\$ 7,564	\$ 6,861	\$ 5,707
Payroll liability	35,231	25,370	38,342	57,648	44,886
Other liabilities	155,329	149,570	170,329	24,222	186,979
Total Liabilities	\$ 195,399	\$ 176,391	\$ 216,235	\$ 88,731	\$ 237,572

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

