

# **Internal Control and Compliance Assessment**

## **Arkansas Legislative Audit**

### **Arkansas Department of Military**

For the Fiscal Year Ended June 30, 2023



## **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 the reporting of accounts payable (Finding 1) and an understated 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, 2023, and have issued our report dated June 4, 2024. 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 2023 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 Agency officials during the assessment and at the exit conference:

**Finding 1:** In accordance with R1-19-4-702 of the Department of Finance and Administration (DFA) Financial Management Guide, a prior-year obligation is one for which goods/services were received and accepted prior to June 30, 2023, for which no remittance had been made. These payments must be identified and recorded as an accounts payable for the prior year.

Our review of payments made shortly after year-end revealed three payments, totaling \$142,000, for services rendered prior to year-end that should have been identified as accounts payable as of June 30, 2023.

We recommend the Department review and strengthen internal controls regarding appropriate recording of accounts payables to provide assurance that the financial statements are accurate and complete.

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**Management response:** *The agency has established a year-end meeting with the Department of the Military staff to inform the employees of the year-end procedures. The Accounts Payable staff will be checking for when the goods/service were received and accepted by placing a Y before the invoice number if received prior to June 30, 2024. The Accounts Payable supervisor and Budget Staff will run reports to make sure that the documents have the Y in the reference field.*

**Finding 2:** In accordance with DFA Financial Management Guide Section R4-19-4-2004, agencies are required to develop and follow procedures to ensure all receivables are collected promptly. In addition, agencies must diligently and actively pursue the collection of receivables.

Our review of the Department's federal receivable balance revealed an understatement of \$10,928,164.

The Department operates on a Cash Management Improvement Act (CMIA) system with federal funds, which allows the cash balance to become negative. The State takes responsibility for paying invoices first and then requests reimbursements from the federal government at the beginning of the following month. Turnover experienced by the Department at the end of fiscal year 2023 resulted in reimbursement requests being delayed; additionally, many expenditures already incurred by the State in fiscal year 2023, and awaiting reimbursement from the federal government, were delayed into fiscal year 2024. Those amounts should have been accrued as a federal receivable at the end of the fiscal year.

Additionally, any receipt recorded in fiscal year 2024 as a reimbursement of fiscal year 2023 expenditures that was not receipted in the first 45 days of the fiscal year should have been recorded as a deferred inflow of resources. Because the Department did not record the proper federal receivable, the deferred inflows of resources was also understated. Based on testing performed, the deferred inflows of resources amount was understated by \$10,958,048 in fiscal year 2023.

We recommend the Department implement appropriate controls to ensure necessary processes regarding federal reimbursements are in place to ensure federal receivables and deferred inflows of resources are accurately tracked on a periodic basis.

**Management response:** *The agency has implemented a new tracking system for the Federal 270 Reimbursements and a procedure that all 270 reimbursement deposit slips will be sent to the Treasury Office for accountability of the receivables. The Deposits in Transit and the tracking system should give us the total receivables for the Department of the Military. The agencies Budget Analyst and Federal Budget Manager will work together to ensure the total receivables are correct.*

## ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

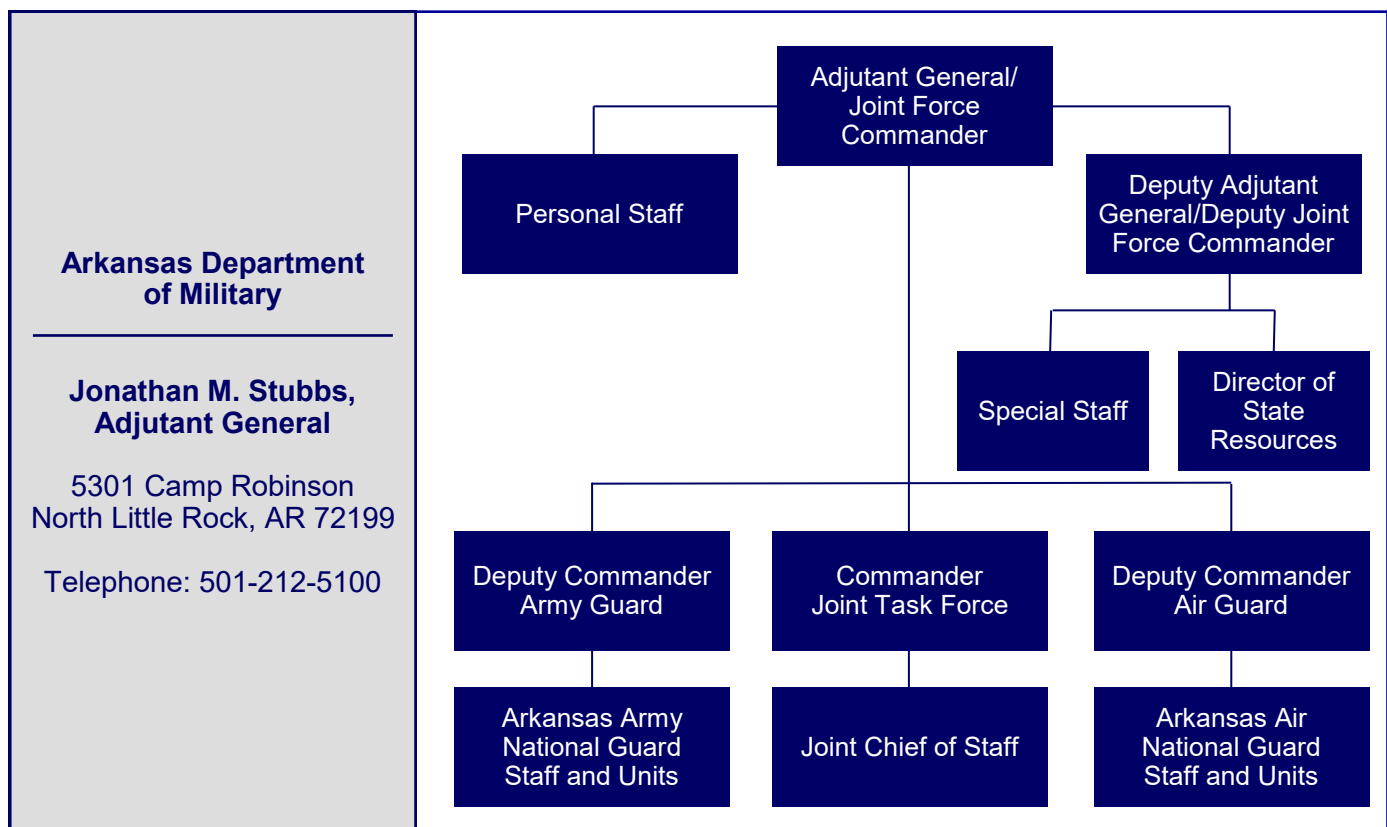
The Arkansas Department of Military is responsible for all matters relating to the command, control, and supervision of the militia, National Guard, or other military organization under the jurisdiction of the Governor. The National Guard is divided into two basic components: Air National Guard and Army 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 Arkansas National Guard Youth Challenge Program is located at Camp Robinson. This program for at-risk youth who have dropped out of high school utilizes a military environment to provide values, skills, education, and self-discipline to help these youth redirect their lives.

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 2019 through 2023 are illustrated in **Exhibit II on page 4**.

**Exhibit II**  
**Arkansas Department of Military**  
**Revenues, Expenditures, and Transfers**  
**For the Years Ended June 30, 2019 through 2023**

	Fiscal Year				
	2023	2022	2021	2020	2019
<b>Revenues</b>					
Federal grants and reimbursements	\$ 44,038,655	\$ 55,072,110	\$ 58,456,753	\$ 53,587,967	\$ 50,796,266
Grants and reimbursements	739,752	31,484	19,781	141,388	656,533
Rent	88,996	97,491	94,838	275,753	94,328
Other income	365,255	100,682	34,134	165,603	122,750
<b>Total Revenues</b>	<b>\$ 45,232,658</b>	<b>\$ 55,301,767</b>	<b>\$ 58,605,506</b>	<b>\$ 54,170,711</b>	<b>\$ 51,669,877</b>
<b>Expenditures</b>					
Salaries	\$ 28,316,512	\$ 25,249,910	\$ 24,223,481	\$ 24,787,356	\$ 24,754,110
Repair and servicing	17,457,917	12,698,217	7,788,128	7,557,474	13,529,758
Capital outlay	8,311,485	13,464,159	20,945,040	14,680,645	6,904,090
Other expenses	20,338,560	12,154,513	12,504,694	13,129,139	16,141,420
<b>Total Expenditures</b>	<b>\$ 74,424,474</b>	<b>\$ 63,566,799</b>	<b>\$ 65,461,343</b>	<b>\$ 60,154,614</b>	<b>\$ 61,329,378</b>
<b>Net Transfers In (Out)</b>	<b>\$ 14,190,005</b>	<b>\$ 10,548,105</b>	<b>\$ 9,487,080</b>	<b>\$ 9,579,229</b>	<b>\$ 10,492,295</b>

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

Revenues and expenditures totaled \$45.2 million and \$74.4 million, respectively, for the year ended June 30, 2023. The majority of revenue consisted of federal grants and reimbursements related to construction. As shown in **Exhibit III on page 5**, the Department's federal revenue totaled \$42.8 million for the year ended June 30, 2023.

Salaries were the largest expenditures, comprising 38% of total expenditures.

Net transfers totaled \$14.2 million for the year ended June 30, 2023, as presented in **Exhibit II**. The majority of transfers (89.8%) were from general revenue distributions and a one-time transfer to the Arkansas National Guard Foundation per Act 189 of 2022.

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

Department asset and liability balances at year-end for fiscal years 2019 through 2023 are presented in **Exhibit IV on page 5**. Asset and liability balances totaled \$373.6 million and \$3.9 million, respectively.

As illustrated in **Exhibit IV**, the cash and cash equivalents balance was negative as of June 30, 2023. 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. § 19-4-1107(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 state agency director 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 2023, the negative cash balance increased significantly over typical balances, as a result of staff turnover. Specifically, at the end of the fiscal year, the position in charge of processing federal reimbursements was vacated, and reimbursement requests were backlogged, which contributed to Finding 2, as discussed on **page 2**. As of the report date, the negative cash balance had decreased by approximately 76%.

### Exhibit III

#### Arkansas Department of Military Schedule of Federal Program Revenues For the Year Ended June 30, 2023

Program Title	Assistance Listing Number	Federal Program Revenues
Military Construction, National Guard	12.400	\$ 214,040
National Guard Military Operations and Maintenance (O&M) Projects	12.401	39,626,084
National Guard Challenge Program	12.404	2,994,151
<b>Total Federal Grants and Reimbursements</b>		<b>\$ 42,834,275</b>

Source: Department of Finance and Administration 2022 Agency Federal Award Data (unaudited by Arkansas Legislative Audit)

### Exhibit IV

#### Arkansas Department of Military Assets, Liabilities, and Deferred Inflows of Resources For the Years Ended June 30, 2019 through 2023

	Fiscal Year				
	2023	2022	2021	2020	2019
<b>Assets</b>					
Cash and cash equivalents	\$ (17,636,036)	\$ (1,528,297)	\$ 1,190,901	\$ (1,002,020)	\$ 92,544
Federal receivables	7,332,320	4,480,368	3,519,996	5,831,059	2,853,842
Fixed assets	383,462,410	376,045,094	368,318,690	347,376,492	333,994,944
Other assets	461,880	542,616	151,120	69,445	340,257
<b>Total Assets</b>	<b>\$ 373,620,574</b>	<b>\$ 379,539,781</b>	<b>\$ 373,180,707</b>	<b>\$ 352,274,976</b>	<b>\$ 337,281,587</b>
<b>Liabilities</b>					
Accounts payable	\$ 3,093,001	\$ 2,563,204	\$ 1,516,524	\$ 2,811,661	\$ 2,233,889
Unearned income	0	351,400	995,000	0	298,500
Payroll liability	540,872	1,429,350	1,227,183	1,119,793	919,631
Other liabilities	224,235	541,555	240,279	256,463	383,246
<b>Total Liabilities</b>	<b>\$ 3,858,108</b>	<b>\$ 4,885,509</b>	<b>\$ 3,978,986</b>	<b>\$ 4,187,917</b>	<b>\$ 3,835,266</b>
<b>Deferred Inflows of Resources</b>					
Related to revenues	\$ 2,782,683	\$ 517,175	\$ 143,976	\$ 14,901	\$ 0

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

