

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Department of Transformation and Shared Services

For the Fiscal Year Ended June 30, 2024



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 Transformation and Shared Services.¹ As discussed in the Results of Assessment section below, our procedures disclosed an overpayment of a lump-sum career service payment (Finding 1), failure to maintain accurate equipment records (Finding 2), overstatement of assets due to double counting of cash (Finding 3), accounting errors by the Employee Benefits Division (EBD) (Finding 4), and failure to properly maintain state vehicle usage logs (Finding 5).

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Department of Transformation and Shared Services, a department of Arkansas state government, as of and for the year ended June 30, 2024, and have issued our report dated December 1, 2025. 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, 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 2024 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: Department of Transformation and Shared Services-Office of Personnel Management (DTSS-OPM) Policy Number 23 and Ark. Code Ann. § 21-5-106 authorize annual lump-sum career service payments to reward state employees upon completion of 10 or more years of service. In our review of 35 career service payments, we noted one payment made by the Division of Information Systems for \$800, the amount awarded for 10 to 14 years of service, to which the employee was not entitled. The employee had a break in service, and errors were made when the re-hire information was entered in AASIS. Therefore, the employee's career service and annual leave accrual dates were not updated correctly, resulting in 1.52 years more career service credit than was due.

¹ Act 205 of the 2025 Regular Session of the Arkansas General Assembly changed the name of the Agency to the Arkansas Department of Shared Administrative Services (SAS), effective July 1, 2025. This report uses the Agency name that was in place during the audit period.

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We recommend the Agency strengthen controls to ensure correct career service and leave accrual dates are entered into AASIS. We also recommend the Agency contact DTSS-OPM for guidance on recouping overpayments to the employee.

Management response: SAS agrees with the finding and has taken steps to prevent this from occurring again. SAS will complete an OMNI calculation for all new hires and is conducting a review of existing employees to ensure accuracy across the department. After conducting an updated OMNI calculation, SAS has corrected the career service date of the employee in question. We are holding their career service payment this year to recoup the overpayment.

Finding 2: State Financial Management Guide P2-19-4-1801 states that all assets disposed of and received by Marketing and Redistribution (M&R) must be promptly removed from capital assets within the month the Surplus Disposal Form (SDF) is received from M&R. State Financial Management Guide P1-19-4-1503 states that all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets.

During current-year testing of 15 asset retirements, we identified one asset, totaling \$30,553, that was included on a surplus disposal form dated May 24, 2021, but was not deactivated in AASIS until December 19, 2023.

Also, during current-year testing of 42 items, we discovered 2 cameras, valued at \$8,492, that were still included on the Agency's fixed asset listing as of June 30, 2024, even though the Agency determined the items were stolen after an internal investigation completed on July 10, 2023.

Failure to remove items from their asset listing timely results in an overstatement of the Agency's capital asset balance. This is the fifth year in a row that an equipment-related issue has been communicated in some form to DTSS.

We recommend the Agency strengthen controls over capital assets by ensuring that assets that have been transferred, lost, stolen, destroyed, or sold are properly documented, approved, and promptly removed from the AASIS asset listing.

Management response: SAS agrees with the finding and now has a dedicated individual (Inventory Manager) who has taken steps to ensure each step of the asset disposal process is completed in a timely manner.

Finding 3: Ark. Code Ann. § 19-4-102(a)(1)(B) requires "adequate accounting for all fiscal transactions." During a review of Agency cash holdings, we discovered that the Agency double counted \$940,182 on its year-end financial records. The deposits were included on the Agency's year-end cash in transit report, even though the deposits were already fully processed and included in their cash in bank totals. By not ensuring that items listed as cash in transit were not already deposited and included in their records, the Agency overstated its assets.

We recommend the Agency strengthen controls by comparing amounts on its cash in transit report to recently completed deposits to ensure that there is no double counting of cash balances.

Management response: SAS agrees with the finding and has implemented a new procedure to compare the cash in transit report to the deposits instead of relying on the treasury dates on the report.

Finding 4: According to Section R1-19-4-702 of the DFA Financial Management Guide, if an agency pays an invoice in the fiscal year after goods are received, that invoice should be recorded as a payable. The Employee Benefits Division (EBD) paid \$3,765,296 for Arkansas State Employee (ASE) Health Claims and \$6,504,086 for Public School Employee (PSE) Health Claims in fiscal year 2025 that should have been recorded as a payable in fiscal year 2024, resulting in the understatement of accounts payable and expenditures at the end of fiscal year 2024.

We recommend the Agency ensure all liabilities are recorded in the year they are incurred.

Management response: SAS agrees with the finding and SAS payables staff received additional training on prior year payables. To more easily determine the applicable fiscal year for payments, we have begun including additional backup documentation with all Employee Benefits Division payments.

Finding 5: Per 17.1 of the State of Arkansas Vehicle Use and Management Guide, every vehicle owned by the State must carry a log, and drivers of the vehicle must update the log with each use. The following information must be recorded in the log every time the vehicle is used:

- Date and time of use.
- Starting location and destination.
- Beginning and ending mileage.
- Cost and amount of fuel purchased, if any.
- Any problems encountered with the vehicle.

During review of Agency vehicle logs, we once again noted numerous violations, including failure to record date and time of use, starting location or destination, beginning and ending mileage, and fuel purchases in the vehicle mileage logs. Agency logs either did not contain the proper fields required by state guidelines or were not properly filled out by Agency personnel.

Maintaining accurate vehicle logs ensures that state vehicles are used appropriately.

We recommend the Agency increase oversight to ensure that state vehicle use is appropriate, and logs are maintained in accordance with state guidelines.

Management response: SAS agrees with the finding and has created new vehicle logs which contain all the required fields. These were distributed to each area with instructions and a start date of 6/1/2025 to begin using the new forms.

ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

Act 910 of 2019 created the Arkansas Department of Transformation and Shared Services as a new cabinet-level department consisting of three divisions that were formerly part of the Department of Finance and Administration (Employee Benefits Division, Office of State Procurement, and Office of Personnel Management) and three other agencies (Division of Building Authority, Geographic Information Systems Office, and Division of Information Systems).

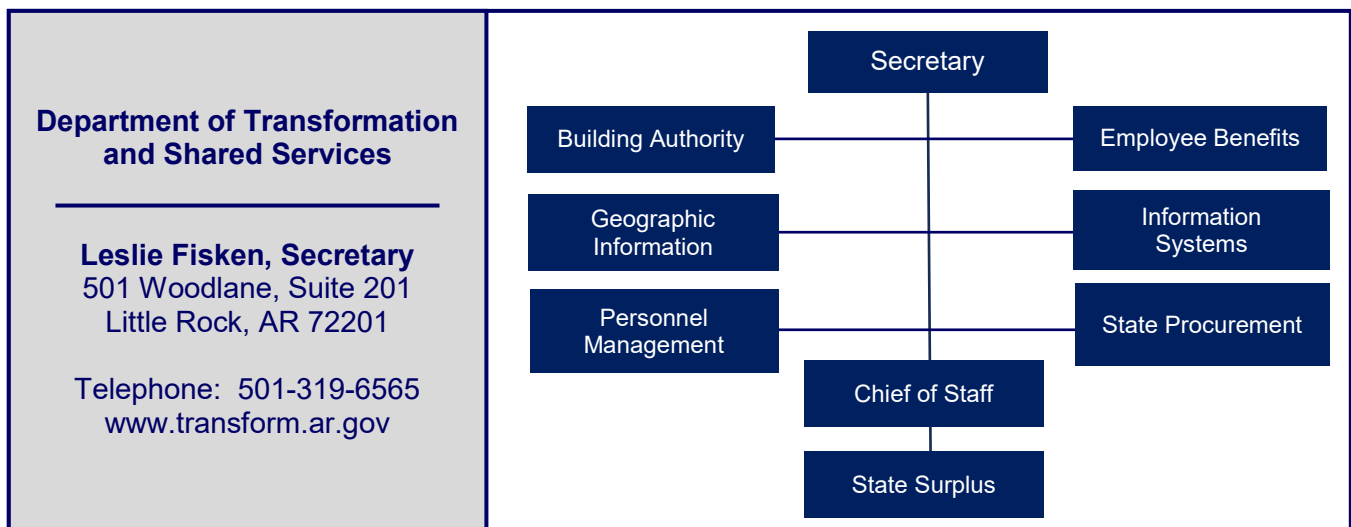
Act 205 of the 2025 Regular Session changed the name of the Agency to the Arkansas Department of Shared Administrative Services (SAS), effective July 1, 2025.

As shown in **Exhibit I**, the Department has seven divisions:

1. **Division of Building Authority (DBA)** provides transparent oversight and knowledgeable guidance for state agency capital improvements and real estate acquisitions.
2. **Division of Employee Benefits (EBD)** manages the group health and life insurance plans and other select benefits to build quality programs for eligible members while promoting customer service, education, accessibility, and affordability.
3. **Office of Geographic Information Systems (GIS)** promotes efficient development, maintenance, and distribution of Arkansas' geographic information resources.
4. **Division of Information Systems (DIS)** provides IT products and solutions to state entities, K-12 public schools, cities and counties, and public safety organizations across the State. It is responsible for managing the private state network dedicated for the sole use of governmental sites throughout the State. DIS works 24/7/365 to ensure that the network is constantly available to these sites responsible for delivering public services to the citizens of Arkansas.
5. **Office of Personnel Management (OPM)** provides human resource management to the State to maintain an effective workforce delivering the highest level of service for our citizens.
6. **Office of State Procurement (OSP)** has primary responsibility and oversight for the statewide procurement of commodities and technical/professional services for all state agencies, boards and commissions and colleges and universities. OSP provides training in the procurement law, regulations, and policies.
7. **Arkansas State Surplus (Marketing & Redistribution)** oversees the redistribution and sale of state surplus property between state agencies, tax-supported entities, and nonprofits, as well as to the general public.

Exhibit I

**Department of Transformation and Shared Services
Organizational Chart**



Source: Department of Transformation and Shared Services

FISCAL ANALYSIS

As previously mentioned, in accordance with Act 910 of 2019, several divisions and agencies were consolidated to form DTSS, effective July 1, 2019. Summary financial information for each business area is presented in **Exhibit II**.

Exhibit II

Department of Transformation and Shared Services Summary of Financial Information by Business Area For the Year Ended June 30, 2024

Division	Assets	Liabilities	Deferred Inflows of Resources	Revenues	Expenditures	Other Financing Sources (Uses)
Division of Information Systems	\$ 83,793,931	\$ 1,542,566	\$ 26,462	\$ 67,861,334	\$ 117,616,556	\$ 52,418,399
Geographic Information Systems	8,069,196	3,302	17,141	341,054	2,070,501	5,742,565
Division of Building Authority	196,489,678	672,386	79,136	13,966,695	19,746,450	4,799,944
Department of Transformation and Shared Services - Statewide Services	440,475,986	57,492,940	2,613,573	831,010,206	797,300,703	6,618,370
Department of Transformation and Shared Services (Administration)	4,917,240	629,840		66,529	3,078,670	7,336,607
Totals	\$ 733,746,031	\$ 60,341,034	\$ 2,736,312	\$ 913,245,818	\$ 939,812,880	\$ 76,915,885

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

Revenues, Expenditures, and Other Financing Sources (Uses)

The Department reported \$913.2 million in total revenues for fiscal year 2024. Health and life insurance premium collections accounted for \$811 million, or 88.8%, of that revenue. Department expenditures totaled \$939.8 million for the fiscal year ended June 30, 2024, with payments related to insurance claims and benefit payments comprising 83.2%. The Department reported total Other Financing Sources of \$76.9 million. This amount includes \$50.8 million of other financing sources recorded in fiscal year 2024 for contractual agreements entered into by the Agency to acquire the right-to-use another party's information technology (IT) software for a period of time under the Governmental Accounting Standards Board (GASB) Statement No. 96. The Agency received General Improvement transfers in and State Central Services transfers in during the fiscal year. Revenues, expenditures, and transfers for the Department for fiscal years 2020 through 2024 are presented in **Exhibit III on page 6**.

Assets, Liabilities, and Deferred Inflows of Resources

As of June 30, 2024, the Department's assets totaled \$733.7 million, and liabilities totaled \$60.3 million. Significant portions of assets are made up of cash and cash equivalents and fixed assets, and a significant portion of liabilities is claims payable. Assets and related liabilities associated with construction and renovation of various state agency facilities are discussed separately below. Deferred inflows of resources for fiscal year 2024 totaled \$2.7 million. Assets, liabilities, and deferred inflows of resources for fiscal years 2020 through 2024 are presented in **Exhibit IV on page 6**.

Long-Term Debt

One major Department activity is the Division of Building Authority (DBA) acting as the State's agent in all state lease negotiations; providing direction, assistance, and approvals to departments in all aspects of capital improvement projects and property transfer needs; and actively maintaining and operating DBA-owned or managed buildings in an efficient and economical manner pursuant to laws, rules, and regulations. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Exhibit III
Department of Transformation and Shared Services
Revenues, Expenditures, and Other Financing Sources (Uses)
For the Years Ended June 30, 2020 through 2024

	Fiscal Year				
	2024	2023	2022	2021	2020
Revenues					
Health and life insurance premiums	\$ 810,969,661	\$ 800,658,695	\$ 799,291,033	\$ 683,134,249	\$ 627,116,194
Licenses, permits, rents, and fees	81,026,157	74,895,299	77,532,916	78,377,163	73,631,498
Other revenues	21,250,000	18,376,106	7,629,404	14,253,611	15,928,883
Total Revenues	\$ 913,245,818	\$ 893,930,100	\$ 884,453,353	\$ 775,765,023	\$ 716,676,575
Expenditures					
Salaries	\$ 30,929,211	\$ 30,827,926	\$ 29,843,396	\$ 28,549,385	\$ 29,903,123
EBD claims and administration cost	781,468,497	740,964,576	741,008,118	727,944,710	632,480,414
Commodities, materials, and supplies	23,829,505	26,157,367	30,530,950	21,985,919	15,224,477
Other expenses	103,585,667	84,943,233	81,797,882	100,667,947	101,095,196
Total Expenditures	\$ 939,812,880	\$ 882,893,102	\$ 883,180,346	\$ 879,147,961	\$ 778,703,210
Other Financing Sources (Uses)					
SBITA related other financing sources	\$ 50,828,179	\$ 17,377,788	\$ 0	\$ 0	\$ 0
Net transfers in	25,476,572	68,743,944	43,056,186	12,290,386	255,097,509
Other	611,134	5,111,596	8,608,585	28,837,374	631,637
Total Other Financing Sources (Uses)	\$ 76,915,885	\$ 91,233,328	\$ 51,664,771	\$ 41,127,760	\$ 255,729,146

EBD = Employee Benefits Division

Note: FY2020 was the first year the Department of Transformation and Shared Services existed.

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

Exhibit IV
Department of Transformation and Shared Services
Assets, Liabilities, and Deferred Inflows of Resources
For the Years Ended June 30, 2020 through 2024

	Fiscal Year				
	2024	2023	2022	2021	2020
Assets					
Cash and cash equivalents	\$ 453,687,606	\$ 408,493,556	\$ 303,002,889	\$ 254,956,557	\$ 318,450,607
Receivables	29,105,878	21,795,272	20,456,293	14,687,338	37,199,604
Fixed assets	242,978,078	237,704,709	232,588,775	211,215,061	176,319,186
Other assets	7,974,469	10,812,887	15,130,638	7,315,659	3,991,169
Total Assets	\$ 733,746,031	\$ 678,806,424	\$ 571,178,595	\$ 488,174,615	\$ 535,960,566
Liabilities					
Accounts payable	\$ 11,762,868	\$ 20,951,950	\$ 22,749,596	\$ 18,758,789	\$ 53,616,548
Claims payable	45,300,000	37,790,000	37,820,000	35,890,000	23,320,000
Other liabilities	3,278,166	6,083,213	4,278,206	3,291,773	4,517,501
Total Liabilities	\$ 60,341,034	\$ 64,825,163	\$ 64,847,802	\$ 57,940,562	\$ 81,454,049
Deferred Inflows of Resources	\$ 2,736,312	\$ 637,639	\$ 548,265	\$ 647,727	\$ 112,436

Note: FY2020 was the first year the Department of Transformation and Shared Services existed.

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

A schedule of this long-term debt is presented in **Exhibit V on page 8**. The information represents the future amounts for principal and interest obligated by the Department for installment purchases, note payments, and lease payments as of June 30, 2024.

Installment Purchases – Installment purchases consist of agreements issued to Arkansas Development Finance Authority (ADFA) for construction and renovation of various state agency facilities.

Notes Payable – Notes payable consists of notes issued to ADFA for construction and renovation of various state agency facilities.

Lease Obligations – The State leases a significant amount of nonfinancial assets, including land, land improvements, buildings, equipment, and infrastructure. The related obligations are presented in the amounts equal to the present value of lease payments expected to be made during the lease term (less any lease incentives). The State had no significant lease expenses related to variable payments as of June 30, 2024. The State did not incur any lease expenses related to residual value guarantees, lease termination penalties, or losses due to impairment. The State did not have any commitments for any leases prior to the start of the lease term.

Subscription-Based IT Arrangements (SBITA) Obligations – The State leases a significant amount of IT Software. The related obligations are presented in the amounts equal to the present value of lease payments expected to be made during the lease term (less any SBITA incentives). The State had no significant lease expenses related to variable payments as of June 30, 2024. The State did not incur any SBITA expenses related to SBITA termination penalties, or losses due to impairment.

Exhibit V
Department of Transformation and Shared Services
Schedule of Future Principal and Interest Payments
For the Year Ended June 30, 2024

Years Ending June 30,	Installment Contract Payments			Note Payments			GASB 87 Lease Payments			GASB 96 Lease Payments - SBITAs		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 3,705,762	\$ 1,101,713	\$ 4,807,475	\$ 320,000	\$ 555,241	\$ 875,241	\$ 86,298	\$ 7,564	\$ 93,862	\$ 12,358,541	\$ 1,192,544	\$ 13,551,085
2026	3,849,166	955,943	4,805,109	330,000	502,325	832,325	76,890	6,120	83,010	14,107,077	749,527	14,856,604
2027	1,802,500	811,824	2,614,324	340,000	494,233	834,233	78,428	4,862	83,290	13,409,657	285,345	13,695,002
2028	1,862,917	748,174	2,611,091	345,000	487,375	832,375	59,174	3,626	62,800	1,144,702	3,209	1,147,911
2029	1,929,167	682,267	2,611,434	355,000	480,358	835,358	21,920	3,050	24,970			
2030-2034	4,693,750	2,713,529	7,407,279	1,925,000	2,226,682	4,151,682	115,089	9,760	124,849			
2035-2039	4,310,417	2,112,796	6,423,213	2,330,000	1,804,833	4,134,833	61,136	1,288	62,424			
2040-2044	4,956,667	1,452,007	6,408,674	2,835,000	1,287,649	4,122,649						
2045-2049	5,724,167	683,915	6,408,082	3,445,000	660,016	4,105,016						
2050-2054	1,141,250	33,630	1,174,880	1,580,000	58,533	1,638,533						
Totals	\$ 33,975,763	\$ 11,295,798	\$ 45,271,561	\$ 13,805,000	\$ 8,557,245	\$ 22,362,245	\$ 498,935	\$ 36,270	\$ 535,205	\$ 41,019,977	\$ 2,230,625	\$ 43,250,602

GASB = Governmental Accounting Standards Board

SBITA = Subscription-Based Information Technology Arrangement

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

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