DEPARTMENT OF WORKFORCE SERVICES

Annual Financial Report

June 30, 2019

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF WORKFORCE SERVICES
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FOR THE YEAR ENDED JUNE 30, 2019

Arkansas

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Sen. Lance Eads
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Department of Workforce Services
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Department of Workforce Services, a department of Arkansas state government, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department of Workforce Services' departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Department of Workforce Services as of June 30, 2019; the respective changes in financial position and, where applicable, cash flows thereof; and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As indicated above, the financial statements of the Department of Workforce Services are intended to present the financial position; the changes in financial position and, where applicable, cash flows; and budgetary comparisons of only that portion of each major fund of the State that is attributable to the transactions of the Department of Workforce Services. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2019; the changes in its financial position, or, where applicable, its cash flows; and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Department of Workforce Services are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Department of Workforce Services individually. Our opinions on the departmental financial statements is not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Workforce Services' departmental financial statements. The Schedule of Selected Information and Other General Information are presented for purposes of additional analysis and are not a required part of the departmental financial statements.

The Schedule of Selected Information and Other General Information have not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2019, on our consideration of the Department of Workforce Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Department of Workforce Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department of Workforce Services' internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger Norman

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
December 18, 2019
SA2181019

Arkansas

Sen. Jimmy Hickey, Jr.
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LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Department of Workforce Services
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of each major fund of the Department of Workforce Services (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department of Workforce Services' departmental financial statements, and have issued our report thereon dated December 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-1 and 2019-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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SCHEDULE OF FINDINGS AND RESPONSES

2019-1 During our testing of capital project disbursements, it was determined that the Agency had paid $11,701 in FY2019 and $8,529 in FY2018 to a company, which was owned by an individual who was also a lobbyist for an information technology (IT) service management company, to perform an "independent" assessment of the software produced by that IT company. As of June 30, 2019, the Agency had spent a total of $9,423,212 since fiscal year 2015 on the development of a case management software program for Temporary Assistance for Needy Families (TANF). The majority of the costs for the software program were paid to the IT company, and the continuance of the project was based, in part, upon the "independent" assessments.

We recommend the Agency, in conjunction with the Department of Information Services, consider the need to re-evaluate the software program with a truly independent evaluator, train key personnel on the concepts of independence, and discontinue the practice of contracting with vendors when there is a conflict of interest.

Management Response: *ADWS followed the Arkansas Office of State Procurement guidelines in the onboarding of this IT project management resource. The current procurement process, and the systems used to procure a vendor does not provide any method to ascertain chained vendor relationships such as in this case, i.e. S3 Enterprises DBA S&S Personnel Management and Change Agents, Inc. ADWS followed the existing process and systems that were available and was therefore unaware of the lobbyist link as the current procurement process provided no way of determining such relationships.*

In addition, ADWS has used the terms Project Manager, Project Liaison, and similar verbiage to describe the role that the new resource would play. The term "Independent Evaluator" was used essentially interchangeably with "Program Manager" and "Liaison." Per the Statement of Work (SOW) procedures, the selected Contractor was engaged to be the Project Liaison between ADWS-TANF program and the DIS Director and conduct project management reviews. The position was to ensure continuity of ARWINS IT development (in contrast and with respect to the existing hands-on day-to-day project operations' and support teams) and report on the status of the project. This position would also advise the project team as needed to meet the stated goal of ensuring a statewide rollout of the ARWINS system. To work on this assignment, the Contractor would and did speak with the current project team, review status reports, release notes, and any other related artifacts to arrive at conclusions that would appropriately be communicated to ADWS-TANF leadership and DIS on potential risks and / or health of the project.

It is important to recognize here that the Contractor was not engaged to conduct an independent evaluation and assessment in the traditional sense of an IVV (Independent Verification and Validation). The TANF Systems Support Unit, TANF Policy and Technical Assistance Unit, and designated staff from Financial Management (FMAS) provided the validation and verification that the system produced the features that were expected and were of the quality that was ready to be moved into production. ADWS IT made sure that the process of code versioning and promulgation was followed through by being the gatekeeper to approve or reject the promotion of the right code base and setting up the infrastructure requirements by DIS. The ADWS / TANF field staff uses the system in production and is a living real-time day-to-day validator that system is working and fulfilling the needs of the TANF program operations, and where defects were / are reported they are transparently addressed by going through a submit, reject/approval for fix, and execute the fix. This happens in co-ordination with the TANF systems support staff.

It is also necessary to acknowledge that during project execution, ADWS program leadership, ADWS IT leadership, representatives from ADWS-FMAS, and the project coordinator from DIS regularly met to get an update on the status of the progress of the work items, ask questions, and provide feedback on the same.

The new DIS Director wanted to make sure that in addition to all the checks and balances that ADWS and DIS currently had going, to also engage the services of an experienced Project Management professional with a proven track record, a high level of integrity, and independence to confirm or alert, and communicate transparently on the project status. And should there be any missteps be accordingly advised. We are pleased to note here that the ARWINS system was successfully rolled out on schedule and has been successfully operating in production with a 100% availability rate till date.

2019-1 (Continued)

Management Response: (Continued)
To help prevent reoccurrences, ADWS has added to its processes for all contracts the review of the Secretary of State's web site to search for common ownership and potential conflicts of interests. We have updated our Standard Operating Procedures (SOP) accordingly.

2019-2 In October 2018, the Agency executed a $1.8 million contract with a nonprofit organization to provide fatherhood programs, called "Arkansas Better Dads," within the State using federal Temporary Assistance for Needy Families (TANF) grant funds. Our review of the Agency's documentation supporting the reimbursement payments to the organization, totaling $176,892 from October 2018 through July 2019, revealed the following issues:

- The Agency paid $15,061 in duplicate reimbursements for building depreciation and other general administrative expenses because the organization charged these items as both direct and indirect costs of the program, which is contrary to 2 CFR § 200.414(f).
- The organization received $14,771 for 10 transactions involving related parties of the organization without appropriate disclosure of potential conflicts of interest, as required by 2 CFR § 200.112.
- The organization was reimbursed $4,739 for speaker fees and other costs associated with an annual men's ministry retreat hosted by a different entity. There was no clear evidence or recognition within the retreat brochure or the other entity's materials that the retreat was sponsored or supported by Arkansas Better Dads, the Agency, or TANF.

The Agency's lack of appropriate supervisory review and monitoring of the subrecipient contributed to the questionable transactions. Failure to comply with federal regulations could jeopardize future grant awards.

We recommend the Agency recoup any duplicated or otherwise improper costs, as well as strengthen its controls regarding supervision, subrecipient monitoring, and training to ensure that funds are spent in accordance with federal regulations.

Management Response:

- *The sub recipient charged the federally allowed 10% indirect cost rate, which includes depreciation. The approved budget allows for 6% plus depreciation. Thus, by the end of the grant, the overall 10% limit would not have been exceeded. ADWS will work the sub recipient to amend the budget to provide for the 10% allowed indirect cost rate, to include depreciation.*
- *ADWS will provide technical assistance to the sub recipient to develop the required processes and/or procedures that will disclose any potential conflicts of interest as required by 2 CFR § 200.112.*
- *ADWS will work with the sub recipient to enhance the required documentation that will insure proper recognition of the TANF program, the Agency, and Arkansas Better Dads.*

The Arkansas Division of Workforce Services, Temporary Assistance for Needy Families program appreciates the opportunity to review and provide comments on the Legislative Audit draft report. ADWS-TANF ensures that its stewardship over U.S. taxpayer's money is a high priority. A major responsibility is TANF oversight of its awardee organizations, including their responsibility to oversee their subrecipients. ADWS-TANF welcomes the Legislative Audit suggestions to further strengthen protocols currently in place. ADWS-TANF agrees with the recommendations included in the report. We have already worked to strengthen our sub recipient training, technical assistance, and monitoring processes by working with organizations such as Management Concepts. ADWS-TANF is confident that the actions already taken, and its anticipated actions will result in further improvement of our oversight protocols.

Agency's Response to Findings

The Agency's responses to the findings identified in our audit are described above. The Agency's response were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
December 18, 2019

DEPARTMENT OF WORKFORCE SERVICES
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2019

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	14,477,877
Investments		9,095,000
Receivable, net - interest		127,523
Due from other state agencies		1,370,452
Due from other governments		3,280,141
Prepaid items		3,854,207
Inventories		141,789
TOTAL ASSETS	$	32,346,989
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts payable - vendors	$	429,188
Accrued and other current liabilities		1,714,676
Due to other governments		14,018
Due to other state agencies		3,595,467
Unearned income		625,892
Total Liabilities		6,379,241
Deferred inflows of resources:		
Related to revenues		560,624
Fund balance:		
Nonspendable for:		
Prepaid items		3,854,207
Inventories		141,789
Committed for other		21,411,128
Total Fund Balance		25,407,124
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$	32,346,989

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF WORKFORCE SERVICES

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
JUNE 30, 2019

	General Fund
REVENUES	
Grants and contributions	$ 108,816,945
Investment earnings	360,143
Miscellaneous	442,722
TOTAL REVENUES	109,619,810
EXPENDITURES	
Salary and benefits	44,477,101
Communication and transportation of commodities	3,331,924
Printing and advertising	153,588
Repairing and servicing	1,051,278
Utilities and rent	3,873,762
Travel and subsistence	420,872
Professional services	4,522,608
Insurance and bonds	77,360
Other expenses and services	1,219,743
Commodities, materials, and supplies	1,816,255
Assistance, grants, and aid	19,704,112
Refunds, taxes, and claims	282,967
Capital outlay	1,013,377
TOTAL EXPENDITURES	81,944,947
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	27,674,863

DEPARTMENT OF WORKFORCE SERVICES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
JUNE 30, 2019

		General Fund
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Fund, net	$	7,288,367
Interagency transfers:		
General revenue distribution		3,864,840
General revenue transferred to Department of Human Services		(3,399,480)
Stabilization tax to Department of Career Education		(2,500,000)
Federal grants and reimbursements:		
Department of Human Services		(20,171,972)
Department of Education		(7,632,829)
Department of Higher Education		(6,725,302)
Department of Career Education		(178,173)
Department of Community Correction		(435,764)
Other, net		150,406
Insurance proceeds		81,060
TOTAL OTHER FINANCING SOURCES (USES)		(29,658,847)
NET CHANGE IN FUND BALANCE		(1,983,984)
FUND BALANCE - JULY 1		27,391,108
FUND BALANCE - JUNE 30	$	25,407,124

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF WORKFORCE SERVICES
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2019

		Unemployment Insurance
ASSETS		
Current assets:		
Cash and cash equivalents	$	831,017,278
Investments		5,000,000
Receivables:		
Accounts, net		56,604,852
Interest		88,284
Due from other state agencies		685,043
Due from other governments		1,162,013
Total current assets:		894,557,470
Noncurrent assets:		
Capital assets:		
Buildings		4,000,000
Equipment		15,124
Less accumulated deprecation		(1,754,013)
Total noncurrent assets		2,261,111
TOTAL ASSETS	$	896,818,581
LIABILITIES		
Current liabilities:		
Accounts payable	$	19,809,749
Due to other funds		14,147
Due to other governments		1,205,732
Total Liabilities		21,029,628
NET POSITION		
Invested in capital assets		2,261,111
Unrestricted		873,527,842
Total Net Position		875,788,953
TOTAL LIABILITIES AND NET POSITION	$	896,818,581

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF WORKFORCE SERVICES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
JUNE 30, 2019

Exhibit D

	Unemployment Insurance
OPERATING REVENUES	
Unemployment taxes	$ 185,417,842
Miscellaneous	7,743,039
TOTAL OPERATING REVENUES	193,160,881
OPERATING EXPENSES	
Benefit and aid payments	100,162,568
Deprecation and amortization	133,333
TOTAL OPERATING EXPENSES	100,295,901
OPERATING INCOME	92,864,980
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	17,901,201
Grants and contributions	3,672,513
TOTAL NONOPERATING REVENUES (EXPENSES)	21,573,714
INCOME (LOSS) BEFORE TRANSFERS	114,438,694
Transfers to General Fund, net	(7,288,367)
CHANGE IN NET POSITION	107,150,327
TOTAL NET POSITION - JULY 1	768,638,626
TOTAL NET POSITION - JUNE 30	$ 875,788,953

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF WORKFORCE SERVICES
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
JUNE 30, 2019

Exhibit E

		Unemployment Insurance
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments of benefits	$	(102,384,038)
Unemployment taxes		187,804,634
Other operating receipts (payments)		7,743,039
Net cash provided by (used in) operating activities		93,163,635
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants and contributions		3,672,513
Transfers to General Fund		(7,288,367)
Net cash provided by (used in) noncapital financing activities		(3,615,854)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments		17,845,521
Net cash provided by (used in) investing activities		17,845,521
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		107,393,302
CASH AND CASH EQUIVALENTS - JULY 1		723,623,976
CASH AND CASH EQUIVALENTS - JUNE 30	$	831,017,278
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	$	92,864,980
Adjustments to reconcile operating income (loss) to net cash provided by (used for) in operating activities:		
Depreciation		133,333
Net changes in assets and liabilities:		
Accounts receivable		2,386,792
Accounts payable and other accrued liabilities		(2,221,470)
Total adjustments		298,655
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$	93,163,635

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF WORKFORCE SERVICES Exhibit F

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
JUNE 30, 2019

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Federal grants and reimbursements	$ 153,539,236	$ 153,539,236	$ 108,816,945	$ (44,722,291)
Investment earnings			360,143	360,143
Miscellaneous			442,722	442,722
TOTAL REVENUES	153,539,236	153,539,236	109,619,810	(43,919,426)
EXPENDITURES				
Regular salaries	31,967,252	36,279,305	29,297,701	6,981,604
Extra help	3,300,000	3,480,191	2,796,584	683,607
Personal services matching	12,207,672	14,238,361	12,205,276	2,033,085
Overtime	60,000	77,594	12	77,582
Operating expenses	21,335,741	26,882,638	14,642,995	12,239,643
Conference fees and travel	705,440	102,419	89,085	13,334
Professional fees and services	4,000,000	10,298,639	3,222,133	7,076,506
Assistance, grants, and aids	50,000,000	29,985,247	19,660,892	10,324,355
Unemployment benefits and expenses	605,000,000			
Capital outlay	2,419,001	4,137,899	30,269	4,107,630
Loans to local Workforce Investment Boards	1,500,000	1,500,000		1,500,000
Marketing & redistribution proceeds		268		268
Training allowances	5,000,000	4,294,897		4,294,897
Workforce development grant expenditures	10,000,000	227,482		227,482
Unemployment insurance operating expenses	6,000,000	1,000,000		1,000,000
TANF/ New hire registry	40,009,700	24,797,740		24,797,740
Training Trust Fund operating expenses	3,256,577	7,350,000		7,350,000
Annual assessments	26,000			
Excess administration expenditures	10,000,000			
Payments to participant contractors	10,000,000			
Unemployment Insurance advance repayment	1			
TOTAL EXPENDITURES	816,787,384	164,652,680	81,944,947	82,707,733
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(663,248,148)	(11,113,444)	27,674,863	38,788,307

DEPARTMENT OF WORKFORCE SERVICES

Exhibit F

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

JUNE 30, 2019

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Fund, net:				
Employer penalties and interest	$ 4,015,527	$ 4,015,527	$ 2,298,367	$ (1,717,160)
Stabilization tax	5,000,000	5,000,000	5,000,000	
Other			(10,000)	(10,000)
Interagency transfers:				
General revenue distribution	3,864,840	3,864,840	3,864,840	
General revenue transferred to Department of Human Services			(3,399,480)	(3,399,480)
Stabilization tax to Department of Career Education	(2,500,000)	(2,500,000)	(2,500,000)	
Federal grants and reimbursements to:				
Department of Human Services			(20,171,972)	(20,171,972)
Department of Education			(7,632,829)	(7,632,829)
Department of Higher Education			(6,725,302)	(6,725,302)
Department of Career Education			(178,173)	(178,173)
Department of Community Correction			(435,764)	(435,764)
Other, net			150,406	150,406
Insurance proceeds			81,060	81,060
TOTAL OTHER FINANCING SOURCES (USES)	10,380,367	10,380,367	(29,658,847)	(40,039,214)
NET CHANGE IN FUND BALANCE	(652,867,781)	(733,077)	(1,983,984)	(1,250,907)
FUND BALANCE - JULY 1	27,391,108	27,391,108	27,391,108	
FUND BALANCE - JUNE 30	$ (625,476,673)	$ 26,658,031	$ 25,407,124	$ (1,250,907)

The accompanying notes are an integral part of these financial statements.

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Department of Workforce Services (the "Agency"), a department of the State of Arkansas, was created by Act 391 of 1941 to administer the Arkansas Employment Security Law. The Agency was originally named the Arkansas Employment Security Department, but Act 1705 of 2005 changed the name of the Agency to the Department of Workforce Services. The Director of the Agency is appointed by the Governor and is responsible for the proper administration of the employment security programs. The primary responsibility of the Agency is to promote employment security in the State of Arkansas by administrating federally-assisted programs that provide employment, placement, and training services through local public employment offices within the state.

In addition, the Agency is responsible for administrating the Arkansas Unemployment Insurance Program. This program, funded by employer contributions, provides unemployment benefits to eligible claimants in accordance with the Employment Security Law of 1941, as amended. The Agency is also responsible for the development and dissemination of labor market information.

In accordance with Act 1705 of 2005, the Agency administers the Temporary Assistance for Needy Families (TANF) Program. The TANF Program is federally funded and provides assistance to low-income families in transitioning from dependence on public assistance to self-reliance through employment. After eligibility determination is completed by the Arkansas Department of Human Services, the Agency performs case management functions, including assessment, job training, job registration and placement, job retention services, job readiness preparation, and referral of the client to other state agencies, as necessary, for additional services.

The Agency also serves as the Governor's Administrative Entity for Arkansas programs funded by Title I of the federal Workforce Investment Act (WIA) of 1998, which has been superseded by the federal Workforce Innovation and Opportunity Act (WIOA) of 2014. The WIA/WIOA program seeks to provide needed employment and preparation services to adults, youth, and dislocated workers through programs operated by sub-recipients in the 10 local workforce investment areas of Arkansas.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

<u>Governmental Funds</u>

<u>General Fund</u> – General Fund is the general operating fund and is used to report all financial resources, except those required to be accounted for in another fund.

<u>Proprietary Funds</u>

<u>Enterprise Funds</u> – Enterprise Funds are used to report operations that are financed and operated in a manner similar to private business where the intent of the Agency is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, federal grants, and other Agency funds. The major fund(s) within this classification that are included in this financial report and a summary of the activity therein are as follows:

Unemployment Insurance Fund – This fund accounts for the Unemployment Insurance Program administered by the Agency, which includes contributions received from employers and benefits paid to eligible unemployed individuals.

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met. The economic resources measurement focus and accrual basis of accounting are used in all Proprietary and Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

E. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investments policies and procedures, effective July 14, 2012, as referenced in the Financial Management Guide issued by the Department of Finance and Administration for use by all state agencies.

The stated goal of state cash management is the protection of principal, while maximizing investment income and minimizing non-interest earning balances. Deposits are to be made within the borders of the State of Arkansas and must qualify for Federal Deposit Insurance Corporation (FDIC) deposit insurance coverage. Policy requires a minimum of four bids to be sought on interest-bearing deposits in order to obtain the highest rate possible.

Policy states that funds are to be in transactional and non-transactional accounts as defined in the Financial Management Guide. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

State Board of Finance policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §§ 19-3-510, -518. All noncash investments must be held in safekeeping by a bank or financial institution. In addition, all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized. Collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit.

Deposits

Deposits are carried at cost and consist of cash in bank, cash in United States Treasury, cash in State Treasury, and certificates of deposit totaling $1,723,415, $829,290,567, $14,440,896, and $14,095,000, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Deposits (Continued)

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2019, none of the Agency's bank balance of $2,100,693 was exposed to custodial credit risk.

F. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding $5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

Assets:	Years
Equipment	5-20
Buildings and building improvements	20-50
Infrastructure	10-40
Land improvements	10-100
Intangibles	4-95
Other capital assets	10-15

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 2,815,152		$ 2,666,097	$ 149,055
Improvements	19,286		16,878	2,408
Buildings	10,461,346		411,759	10,049,587
Equipment	4,095,653	$ 30,269	113,331	4,012,591
Infrastructure	21,982			21,982
Construction in progress	9,798,615	892,235	9,694,448	996,402
Other capital assets	9,001,817	9,785,321	1,127,830	17,659,308
Total governmental activities	$ 36,213,851	$ 10,707,825	$ 14,030,343	$ 32,891,333
Proprietary activities:				
Capital assets, being depreciated:				
Buildings	$ 4,000,000			$ 4,000,000
Equipment	15,124			15,124
Total capital assets, being depreciated	4,015,124			4,015,124
Less accumulated depreciation for:				
Buildings	(1,605,556)	$ (133,333)		(1,738,889)
Equipment	(15,124)			(15,124)
Total accumulated depreciation	(1,620,680)	(133,333)		(1,754,013)
Total Proprietary activities, net	$ 2,394,444	$ (133,333)		$ 2,261,111

G. Interfund Balances and Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As of June 30, 2019, the Agency has no interfund receivables or payables. The $7,288,367 transfer from the proprietary fund to the general fund consisted of $2,298,367 in penalties and interest, $5,000,000 in stabilization tax, and ($10,000) in other transfers.

H. Inventories

Inventories represent the cost of consumable supplies and goods on hand at year-end. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets of the respective fund. Inventories, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute “available, spendable financial resources.” Inventories are valued for reporting purposes at actual cost.

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Prepaid Expenses

Prepaid expenses generally represent the cost of consumable supplies on hand or unexpired services at year-end. The cost of these items is included with expenditures at the time of purchase. Prepaid expenses, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute "available, spendable financial resources."

J. Accounts Receivable

The Agency records accounts receivable related to the Unemployment Insurance Program of the proprietary fund at net realizable amounts from employers, program participants, and other governmental entities. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2019, the allowance was $81,638,872.

K. Accounts Payable

The Agency reports accounts payable related to the Unemployment Insurance Program of the proprietary fund at June 30, 2019, in the amount of $19,809,749. This balance consisted of $10,981,264 in estimated unemployment claims and $8,828,485 in employer contribution credits.

L. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

M. Fund Equity

Fund Balance

In the financial statements, fund balance is reported in one of five classifications, where applicable, based on the constraints imposed on the use of the resources.

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables, etc.) or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balance, where applicable, comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

Assigned fund balance. This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

Unassigned fund balance. This amount is the residual classification for the general fund.

NOTE 1: Summary of Significant Accounting Policies (Continued)

M. Fund Equity (Continued)

Fund Balance (Continued)

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

N. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

NOTE 2: Lease Obligations

The Agency has lease agreements for operating space that is accounted for as operating leases. The lease payments are recorded as expenditures over the life of the respective leases. Future minimum commitments under the operating leases as of June 30, 2019, were as follows:

Operating Leases

Years Ending June 30,	Governmental Activities
2020	$ 1,689,461
2021	1,113,601
2022	426,140
2023	141,252
2024	30,977
2025-2029	100,679
2030-2034	9
2035-2039	5
2040-2043	5
2044-2049	4
Total Minimum Lease Payments	$ 3,502,133
Total Lease Expenditures (2019)	$ 3,009,515

NOTE 3: Subsequent Event

In accordance with Act 910 of 2019, effective July 1, 2019, the Department of Workforce Services will become part of the newly created cabinet-level Department of Commerce. The administrative functions of the Department of Workforce Services will be transferred to and administered under the direction and supervision of the cabinet-level department. The employees of the Department of Workforce Services will be considered employees of the cabinet-level department, which will provide all administrative support, employment needs, and staff to carry out the orders, rules, regulations, directives, and standards promulgated or issued by the Department of Workforce Services, unless otherwise provided by law.

Schedule 1

DEPARTMENT OF WORKFORCE SERVICES
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2019
(UNAUDITED)

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
General Fund					
Total Assets	$ 32,346,989	$ 31,630,249	$ 31,227,767	$ 26,369,497	$ 29,348,102
Total Liabilities	6,379,241	4,239,141	4,831,507	2,649,244	2,369,966
Total Deferred Inflows of Resources	560,624				
Total Fund Equity	25,407,124	27,391,108	26,396,260	23,720,253	26,978,136
Net Revenues	109,619,810	108,095,300	110,120,827	106,419,112	121,976,095
Total Expenditures	81,944,947	83,841,462	82,359,514	83,034,356	141,290,107
Total Other Financing Sources (Uses)	(29,658,847)	(23,258,990)	(25,085,306)	(26,642,639)	8,490,000

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
Proprietary Fund					
Total Assets	$ 896,818,581	$ 792,104,621	$ 704,981,183	$ 591,613,836	$ 494,110,925
Total Liabilities	21,029,628	23,465,995	28,008,948	34,028,384	44,751,890
Total Net Position	875,788,953	768,638,626	676,972,235	557,585,452	449,359,035
Total Operating Revenues	193,160,881	207,522,140	251,517,448	310,126,511	355,587,512
Total Operating Expenses	100,295,901	130,894,902	147,060,836	216,398,411	255,751,451
Net Nonoperating Revenues	21,573,714	22,550,553	22,894,858	22,878,680	43,258,415
Total Transfers In (Out), Net	(7,288,367)	(7,511,400)	(7,964,687)	(8,380,363)	(8,490,000)

A. Pension Plan

Arkansas Public Employees Retirement System (APERS)

Plan Description – The Agency contributes to APERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas, 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2019, 2018, and 2017, were $4,892,710, $4,626,143, and $4,302,072, respectively, equal to the required contributions for each year.

B. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-EBD is included in the State of Arkansas's Comprehensive Annual Financial Report (CAFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Finance and Administration, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 501-682-1675.

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DFA-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retires and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed $450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

C. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

Sick leave is earned by all full-time employees and may be accrued up to 120 days. Compensation up to a maximum of $7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2019 and 2018, amounted to $2,753,770 and $2,272,778, respectively. The net changes to compensated absences payable during the year ended June 30, 2019 amounted to $480,992.