

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas Department of Military

For the Fiscal Year Ended June 30, 2020



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. Assessment procedures disclosed no reportable items of noncompliance.

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, 2020, and have issued our report dated March 30, 2021. 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 2019 State Comprehensive Annual Financial Report and Single Audit Report.

RESULTS OF ASSESSMENT

Assessment procedures did not disclose instances of noncompliance considered reportable.

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.

ARKANSAS LEGISLATIVE AUDIT

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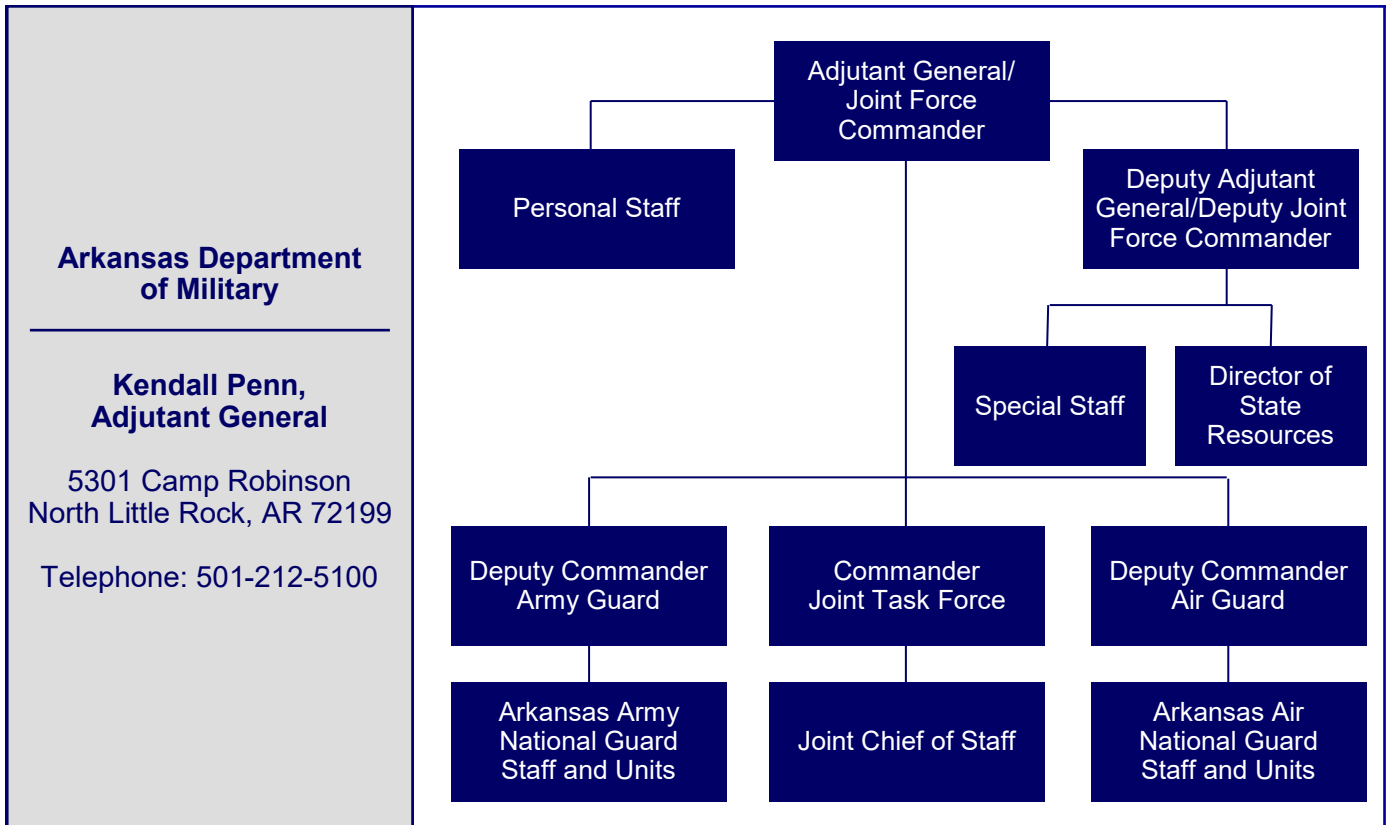
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The Department's organizational chart is presented in **Exhibit I**. In accordance with Act 910 of 2019, effective July 1, 2019, the Arkansas State Military Department became the newly created cabinet-level Department of Military.

Exhibit I
Arkansas Department of Military
Organizational Chart



Source: Arkansas Department of Military

EFFECTS OF CORONAVIRUS DISEASE 2019

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring a public health emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The COVID-19 outbreak is disrupting sales, travel, and everyday life across several industries and governments. The extent of the impact of COVID-19 on the financial results for future periods will depend on certain developments, including the duration of the outbreak and revenue collections – all of which are uncertain and cannot be predicted. The COVID-19 outbreak’s anticipated effects include increased funding to the Emergency Call-Up Fund and additional funding to cover the cost of personal protective equipment. The financial impact of COVID-19 on the Arkansas Department of Military is uncertain.

FISCAL ANALYSIS

Revenues, Expenditures, and Transfers

Department revenues, expenditures, and transfers for fiscal years 2016 through 2020 are illustrated in **Exhibit II on page 3**. Revenues and expenditures totaled \$54.2 million and \$62.8 million, respectively, for the year ended June 30, 2020. The majority of revenue consisted of federal grants and reimbursements.

As shown in **Exhibit III on page 4**, the Department's federal revenue totaled \$50.7 million for the year ended June 30, 2020. Salary and capital outlay expenses were the largest expenditures, comprising 43.7% and 23.4% of total expenditures, respectively.

Net transfers totaled \$9.6 million for the year ended June 30, 2020, as shown in **Exhibit II**. The majority of these transfers were for general revenue distributions.

Assets and Liabilities

Department asset and liability balances at year-end for fiscal years 2016 through 2020 are presented in **Exhibit IV on page 4**. Assets and liabilities totaled \$352.3 million and \$4.2 million, respectively, at June 30, 2020. The increase in assets in 2020 was due to the construction and purchase of fixed assets.

As illustrated in **Exhibit IV on page 4**, the cash and cash equivalents balance was negative as of June 30, 2020. 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 that, 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, 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:

- A federal fund transfer request has been completed and accepted by the federal funding source.
- Federal funds will be transferred for the benefit of the state fund to pay the warrants.

Exhibit II
Arkansas Department of Military
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2016 through 2020

	Fiscal Year				
	2020	2019	2018	2017	2016
Revenues					
Federal grants and reimbursements	\$ 53,602,867	\$ 50,796,266	\$ 48,018,404	\$ 50,310,894	\$ 42,800,625
Grants and reimbursements	141,388	656,533	1,379,397	6,395	8,101
Rents	275,753	94,328	96,414	95,176	95,449
Other income	165,603	122,750	179,589	94,893	83,585
Total Revenues	\$ 54,185,611	\$ 51,669,877	\$ 49,673,804	\$ 50,507,358	\$ 42,987,760
Expenditures					
Salaries	\$ 27,421,353	\$ 27,119,216	\$ 26,079,711	\$ 23,485,416	\$ 22,339,801
Repair and servicing	7,557,473	13,529,758	13,815,156	15,421,550	12,049,573
Capital outlay	14,680,645	6,904,090	6,816,844	8,346,100	6,766,844
Other expenses	13,129,139	16,141,420	15,293,714	15,446,202	15,674,265
Total Expenditures	\$ 62,788,610	\$ 63,694,484	\$ 62,005,425	\$ 62,699,268	\$ 56,830,483
Net Transfers In (Out)	\$ 9,579,229	\$ 10,492,295	\$ 10,385,658	\$ 10,026,413	\$ 9,828,119

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

Exhibit III
Arkansas Department of Military
Schedule of Federal Program Revenues
For the Year Ended June 30, 2020

Program Title	CFDA Number	Federal Program Revenues
Military Construction, National Guard	12.400	\$ 1,301,212
National Guard Military Operations and Maintenance (O&M) Projects	12.401	47,124,203
National Guard Challenge Program	12.404	2,117,034
Miscellaneous U.S. Department of Justice Programs	16.000	2,290
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	152,075
Total Federal Grants and Reimbursements		\$ 50,696,814
<i>CFDA - Catalog of Federal Domestic Assistance</i>		

Source: Department of Finance and Administration 2020 Agency Federal Award Data (unaudited by Arkansas Legislative Audit)

Exhibit IV
Arkansas Department of Military
Assets and Liabilities
For the Years Ended June 30, 2016 through 2020

	Fiscal Year				
	2020	2019	2018	2017	2016
Assets					
Cash and cash equivalents	\$ (1,002,020)	\$ 92,544	\$ 4,378,599	\$ 5,624,772	\$ 6,219,173
Federal receivables	5,831,059	2,853,842	1,707,703	604,322	1,136,609
Fixed assets	347,376,492	333,994,944	328,212,106	322,450,192	313,728,062
Other assets	69,445	340,257	413,309	221,434	51,210
Total Assets	\$ 352,274,976	\$ 337,281,587	\$ 334,711,717	\$ 328,900,720	\$ 321,135,054
Liabilities					
Accounts payable	\$ 2,811,661	\$ 2,233,889	\$ 3,193,920	\$ 2,827,660	\$ 2,118,780
Unearned revenues	0	298,500	2,018,500	706,900	0
Payroll liability	1,119,793	919,631	856,525	766,634	655,808
Other liabilities	256,463	383,246	260,778	260,461	677,034
Total Liabilities	\$ 4,187,917	\$ 3,835,266	\$ 6,329,723	\$ 4,561,655	\$ 3,451,622

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

