

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF MILITARY
FOR THE YEAR ENDED JUNE 30, 2023**

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.

Recommendation:

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.

Agency 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.

Recommendation:

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.

Agency 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.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS HIGHWAY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2022**

Finding:

In accordance with Ark. Code Ann. § 25-1-124, Arkansas State Highway Employees Retirement System (the System) reported to Arkansas Legislative Audit in September 2022 overpayments of retiree and beneficiary benefits and an apparent theft of funds through identity theft.

Two annuitant deaths occurred that were not reported to the System and not immediately discovered, resulting in overpayments totaling \$19,494. This amount was offset by a death benefit for one of the annuitants, resulting in a net amount of \$11,994.

An apparent theft of funds through identity theft occurred when a false change of bank form was received and processed by the System. The form appeared valid, with correct Social Security number, copy of a voided check, and notarization. The retiree, having not received the benefit payment, notified the System, and the System then became aware that the form was not valid. The Department of Finance and Administration reversed the \$5,647 ACH payment, but the receiving bank denied the reversal.

As a result of such issues, the assets managed by the System, which are intended for the benefit of all members, are at risk of not being used effectively.

Recommendation:

We recommend the System continue to strengthen internal controls surrounding methods of identifying deceased retirees to ensure that benefits cease within a reasonable period after a retiree or beneficiary is no longer eligible. In addition, we recommend the System continue to explore ways to strengthen internal controls surrounding the acceptance and processing of any change forms. For ineligible payments made, we recommend the System continue to actively pursue collection.

Agency Response:

ASHERS added additional death audit procedures in August 2022 in response to findings from the FY2021 audit. As a result of these additional steps, two prior retiree deaths which had gone unreported were discovered. As of June 30, 2023, ASHERS has received full restitution for these overpayments.

The retiree was made whole by the System through issuance of a replacement annuity payment in the amount of \$5,647. In addition, the System updated the process for banking changes, and the incident was reported to the Arkansas Attorney General.