Department of Finance & Administration - Office of Accounting

Arkansas Legislative Audit

1515 W. 7th Street, Suite 300

Little Rock, Arkansas 72201

We are responsible for the fair presentation of our agency’s financial information in AASIS and the Year-End Closing Book. We have entered all transactions into AASIS or have given the Department of Finance and Administration permission to enter the transactions into AASIS on our behalf and have reviewed the results for accuracy. Our general ledger is maintained on the accrual basis of accounting. We have completed all applicable closing forms and supporting data. We have documents on file which support all of the financial information submitted in the Year-End Closing Book. Such records and other information you request, if any, will be made available during the course of your audit. Management is responsible for compliance with the laws and regulations applicable to it. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

In connection with the preparation of the fiscal year 2021 Year-End Closing Book and the AASIS trial balance or provided financial statements, we confirm, to the best of our knowledge and belief, the following:

1. We understand that, as is customary, your audit will be made 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 of the United States, and accordingly, will include such tests of the accounting records and such other auditing procedures as you consider necessary in the circumstances for the purpose of rendering opinions on the financial statements. We also understand that such an audit will not necessarily disclose all instances of fraud should there be any.
2. We are responsible for the fair presentation, in conformity with generally accepted accounting principles, and have adjusted those amounts necessary to properly reflect the agency’s budgetary basis financial results in accordance with GAAP. We have properly reported on a GAAP basis any and all trust, agency or exempt cash accounts in AASIS.
3. At the conclusion of the audit, we will have made available to you all records and related data for all financial transactions of the agency and for all funds administered by the agency. The records, books and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the agency, and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
4. There have been no undisclosed:
   1. Actions taken by management which contravene the provisions of federal laws and Arkansas laws and regulations, or of contracts and grants to the State of Arkansas that would result in an accrual of a liability or that should be disclosed in the financial statements.
   2. Instances of fraud involving management or employees who have significant roles in the internal control.
   3. Communications from other governmental or regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices, requirements related to the administration of federal grant programs, or other matters that could have a material effect on the financial statements.
5. There have been no violations of the covenants of debt instruments.
6. The agency has no plans or intentions that affect the carrying value or classification of assets, liabilities, deferred inflows of resources and deferred outflow of resources.
7. The following, to the extent applicable, have been properly recorded and disclosed in the Year-End Closing Book:
   1. Related party transactions and associated amounts receivable or payable, including: sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral).

The term "related party" refers to affiliates of the State; entities for which investments are accounted for by the equity method by the State; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; key administrative, financial, and legislative personnel and other members of State management or businesses they represent or have an interest in; members of the immediate families of State management and other parties with which the State may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

* 1. Arrangements involving restrictions on cash balances.
  2. Deposits and investments including individual or group credit risk, concentration of credit risk, custodial credit risk, interest rate risk or foreign currency risk.
  3. All laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the determination of financial statement amounts.
  4. Impaired loans receivable.
  5. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
  6. Interfund transactions, including repayment terms.
  7. Contingent assets or liabilities.
  8. Deferred inflows of resources and deferred outflows of resources.
  9. Material component units, joint ventures, jointly governed organizations and other related organizations.

1. We have disclosed in the Year-End Closing Book adequate information to properly determine the amounts for any restrictions, commitments or assignments of fund balances and restrictions of net position (whether externally imposed by creditors, imposed by law or restricted by enabling legislation).
2. We have disclosed adequate information about fund balance classification policies and procedures, encumbrances, stabilization arrangements, and minimum fund balance policies, as necessary.
3. There are no undisclosed:
   1. Violations or possible violations of laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
   2. Unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, paragraphs 96-113, as amended.
   3. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96-113, as amended.
   4. Agreements to repurchase assets previously sold.
   5. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
   6. Environmental Protection Agency regulations or requirements or environmental liabilities that have not been considered in determining the amount of liabilities to be recorded or contingency to be disclosed.
   7. Guarantees, whether written or oral, under which the agency is contingently liable.
   8. Deposits or investments with significant individual or group credit risk, concentration of credit risk, custodial credit risk, interest rate risk or foreign currency risk.
   9. Instances of non-compliance with specific legal or contractual provisions significant to individual or a group of deposits or investments.
   10. Tax abatement agreements.
   11. Conditions or events that will prevent the agency from continuing operations through Fiscal Year 2022.
4. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity’s assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
5. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
   1. Management,
   2. Employees who have significant roles in internal control or
   3. Others where the fraud could have a material effect on the financial statements.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators or others.
7. No division of the agency has reported a material instance of non-compliance with laws, regulations, contracts, grant agreements and debt covenants to us.
8. There are no significant deficiencies in the design or operation of internal control which could adversely affect the agency's ability to initiate, authorize, record, process and report financial data and we have identified all material weaknesses in internal control. As defined by standards established by the American Institute of Certified Public Accountants, a control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the agency's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the agency's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.
9. There are no transactions that have not been properly reported in our closing forms and recorded in the general ledger.
10. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and, if applicable, depreciated. The agency has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
11. Interfund, internal and intra-agency activity and balances have been appropriately classified and reported.
12. We have identified and properly accounted for all nonexchange transactions.
13. We have disclosed all contracts or other agreements with the agency’s third-party service organizations.
14. We have disclosed all communications from the agency's third-party service organization(s) relating to non-compliance with the agency’s operations at the service organization(s).
15. In preparing the Year-End Closing Book, amounts necessary to adjust or properly reflect the agency’s budgetary basis financial results in conformity with accounting principles generally accepted in the United States of America, management uses estimates. We have disclosed in the Year-End Closing Book all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
16. We are responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables and accounts receivable, as well as estimates used to determine such amounts. We believe the allowance is adequate to absorb currently estimated bad debts in the account balances.
17. Using our best estimates based on reasonable and supportable assumptions and projections, we have reviewed for impairment our long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Any permanent impairment of capital assets as well as any related insurance recoveries have been properly accounted for and/or disclosed in accordance with GASB Statement No. 42.
18. The agency’s investment portfolio at June 30, 2021, does not include any off-balance sheet derivative financial instruments (e.g., futures, options or swaps), including outstanding commitments to purchase or sell securities under forward placement and standby arrangements.
19. We have identified and made the appropriate disclosures for all derivative instruments not reported at fair value in the financial statements.
20. We have identified, properly accounted for, and made appropriate disclosures for all service concession arrangements.
21. We have identified and properly accounted for transactions related to government combinations and disposal of government operations and made appropriate disclosures*.*
22. We have identified and properly accounted for transactions related to irrevocable split-interest agreements*.*
23. We have identified and properly accounted for transactions related to asset retirement obligations*.*
24. We have identified and made the appropriate disclosures for all debt, including direct borrowings and direct placements.
25. Using the criteria for obligating events, we have reviewed for recognition of pollution remediation obligations. As benchmarks have occurred, we have reviewed recognized liabilities for any changes in estimates of costs or recoveries. Any recognized liability for pollution remediation and related recoveries have been properly accounted for and/or disclosed, as applicable.
26. No events have occurred subsequent to June 30, 2021, that require consideration as adjustments to, or disclosures in, the financial statements.
27. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the Year-End Closing Book:
    1. The concentration exists at the date of the financial statements.
    2. The concentration makes the agency vulnerable to the risk of a near-term severe impact.
    3. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
28. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the agency and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded.
29. The agency has disclosed whether, subsequent to June 30, 2021, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by the agency with regard to significant deficiencies, including material weaknesses, have occurred.
30. In measuring the fair value of assets and liabilities, the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*, as amended,were applied. We believe the valuation approaches and assumptions used, if any, were appropriate for the circumstances. Appropriate disclosures were made according to Statement 72, as amended, including classification of the fair value measurement in the fair value hierarchy.
31. We have reported activities identified as fiduciary in the appropriate fiduciary fund type in accordance with requirements in GASB Statement 84, *Fiduciary Activities.*
32. In accordance with Government Auditing Standards, we have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, federal compliance audits or reviews, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.
33. We are responsible for the identification of and compliance with all aspects of laws, regulations, contracts or grants that could have a material effect on the basic financial statement amounts or on the administration of federal programs in the event of non-compliance including legal and contractual provisions for reporting specific activities in separate funds and have disclosed those aspects of laws, regulations, contracts or grants to you.
34. We have complied, in all material respects, with applicable laws, regulations, contracts and grants that could have a material effect on the basic financial statements in the event of non-compliance.
35. The agency has followed all applicable laws and regulations in adopting, approving, and amending budgets.

***Agency Director:***

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Please print Signature Date

***Agency Chief Accounting Officer:***

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