

# LEGISLATIVE AUDIT

## **Enabling Laws**

Act 443 of 2007  
A.C.A. §10-3-401 et seq.  
A.C.A. §10-4-401 et seq.

## **History and Organization**

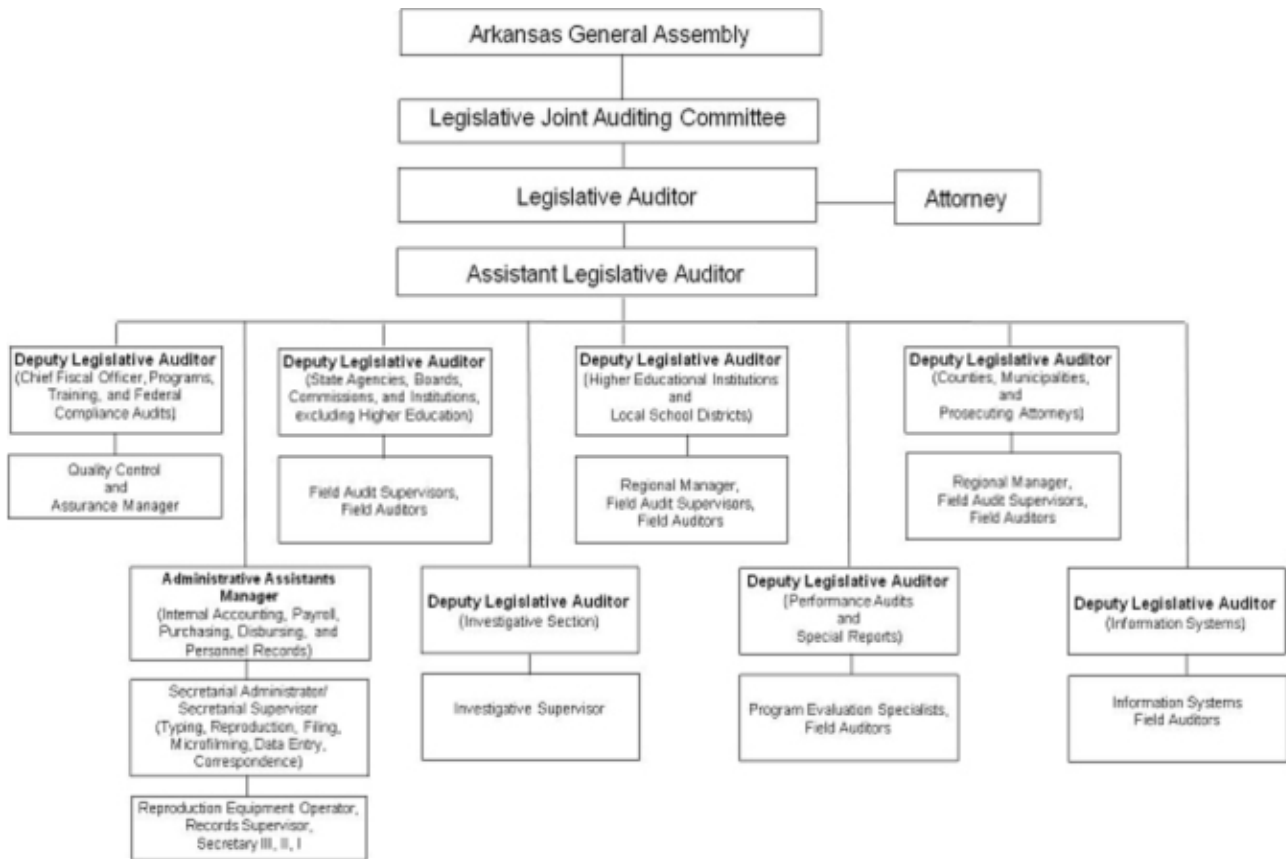
The Legislative Joint Auditing Committee and the Division of Legislative Audit were created by Acts 41 and 268 of 1953. These acts were subsequently repealed, and the Committee and Division recreated under Act 105 of 1955. Act 2201 of 2005 amended certain provisions of A.C.A. §10-3-401 et seq. regarding the Legislative Joint Auditing Committee, repealed A.C.A. §10-4-101 et seq., and established revised enabling legislation for the Division of Legislative Audit at A.C.A. §10-4-401 et seq.

The Legislative Joint Auditing Committee consists of up to forty-four (44) voting members: twenty (20) from the House of Representatives, sixteen (16) from the Senate, and eight (8) Ex Officio members.

The Division of Legislative Audit strives to serve the citizens of Arkansas by encouraging sound management, continuous improved performance, and accountability for all governmental entities. The Division serves the General Assembly as the proper agency to provide for the impartial auditing, independent of the executive branch of state government, of various entities of the state and political subdivisions of the state. The Division provides information that improves public accountability and assists in decision-making processes by those who oversee public funds. Our goal is to effectively and efficiently communicate audit and review results to both government officials and the citizens of Arkansas, thereby promoting accountability, fiscal integrity, and professionalism.

As prescribed by the American Institute of Certified Public Accountants, the Governmental Accounting Standards Board, the United States Government Accountability Office and other authoritative bodies, our audits and reviews provide independent, impartial and timely reporting of Arkansas' various governmental fiscal and financial activities.

Under the direction of the Legislative Joint Auditing Committee and the Legislative Auditor, the staff of the Division of Legislative Audit conducts all engagements in a nonpartisan, unbiased manner. We establish an objective basis for our findings, conclusions, and recommendations, derived solely from reliable evidence. To provide this basis, we strictly adhere to the standards of the auditing profession, striving to exhibit the highest level of ethics, integrity, independence, objectivity and professionalism.



## **Agency Commentary**

The Legislative Joint Auditing Committee, through the Division of Legislative Audit, is responsible for the independent auditing of state entities and political subdivisions of the state. The Division performs the audit of the state's financial statements (Comprehensive Annual Financial Report) and the state's federal single audit, as well as audits and internal control and compliance reviews of individual state agencies. In addition, the Division conducts audits of the financial statements of counties, prosecuting attorneys, municipalities, school districts, and institutions of higher education. During the performance of routine audit procedures misappropriation of public funds is often discovered. These instances are investigated in coordination with the respective prosecuting attorney and appropriate law enforcement officials, reported to the Legislative Joint Auditing Committee and the entity's governing body, and formally referred to the prosecuting attorney as required by law. Through performance audits and special reports the Division provides information of interest to the members of the General Assembly. The Division also performs audits of computer systems of applicable governmental entities in coordination with the financial and performance audits. All work is performed in accordance with applicable professional standards.

Funding for the operations of the Division consists of a combination of sources, including the State Central Services Fund (HSC), ad valorem tax distribution, reimbursements from agencies for the costs of performing the federal compliance audits, and reimbursements for the costs of investigative reports and services. The Division is appropriated 263 positions in Fiscal Year 2009.

The Division's budget request includes the deletion of one position, the addition of 25 new positions, reclassification of positions to better describe the job responsibilities, increases in salaries for Division employees to be competitive in the market place, and an increase in operating costs due to inflation.

Additional positions are required due to a number of events that are occurring simultaneously which affect how the Division meets its legal and professional responsibility to perform the required audits in a timely manner:

- New audit standards have increased the time required to perform an audit by 10% to 25% and also require extra supervision of the audit field work. Further revisions in audit standards are in progress that will also increase the time to complete an audit. Additionally, these new standards necessitate more training time, which decreases available hours to perform audits.
- The new audit standards also require the Division to enhance its internal quality monitoring function of the audit practice to provide assurance that audits are performed in accordance with applicable standards. Three senior auditors are needed to perform this internal quality monitoring function.
- Although these new audit standards result in increased time to complete an audit, the deadlines for completing the annual audit of the State's Comprehensive Annual Financial Report and federal compliance audits have not changed, but are more stringently enforced. The Division performs federal compliance audits for the state's federal programs, including institutions of higher education, and about 190 of the state's school districts.
- Increased emphasis on internal controls at governmental entities and the complexity of these entities' computer systems require more auditors specially trained to audit these computer systems and to perform forensic analysis of computers that may have been used as part of a fraud scheme under investigation.
- Experience indicates that times of downturn in economic conditions result in more instances of fraud to investigate as part of our audit responsibility. Additional time to conduct the fraud portion of the audit delays completion of the remaining audits.
- The Division is experiencing a significant number of retirements of management and senior audit staff. The Division expects 30 retirements, or about 12% of its staff, before the close of the 2010-2011 Biennium. Due to the complex nature of governmental accounting and auditing, new employees encounter a significant learning curve before assuming most of the responsibility and productivity of the retiring auditors. Therefore a training period for new employees before the experienced staff retires is paramount to minimize delay in completion of the audits.

Salary increases are necessary to allow the Division to be competitive with the salaries paid by CPA firms and institutions of higher education with which we compete for new employees and for retention of our existing highly qualified employees. Depending upon the job market research publication one uses, accountants are generally the first or second most-demanded profession in the market place today, with salaries at a premium. The Division requires all new auditors to be eligible to take the CPA examination, which means that the applicant has completed at least 150 hours of college education (the equivalent of 5 years training) with a major in accounting. The Division currently employs 150 CPAs, or approximately 64% of its professional staff. Of the number of experienced audit staff leaving the Division in the last ten years to take jobs with institutions of higher education in the state, one half left in the past two years. These institutions were able to pay salaries significantly higher than the Division. The Division will set the actual salary for each of its employees based upon the amount of responsibility and the experience within the job title.

The Division's non-payroll budget request reflects projected cost increases due to inflation and replacement of capitalized and non-capitalized equipment and computer software that have become obsolete or inoperable. Much of the equipment scheduled for replacement is computer-related equipment. The non-payroll budget request includes Capital Outlay of \$435,000 and \$250,000 for Fiscal Years 2010 and 2011, respectively.

## Audit Findings

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
THE DIVISION OF LEGISLATIVE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007

### Findings

The Division of Legislative Audit does not perform an audit for the Agency.

### Recommendations

## Employment Summary

	Male	Female	Total	%
White Employees	121	122	243	98 %
Black Employees	1	3	4	2 %
Other Racial Minorities	2	0	2	0 %
Total Minorities			6	2 %
Total Employees			249	100 %

## Publications

### A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
Audit Reports	A.C.A. §10-4-403	N	Y	1,000	All our publications are audit reports and related matters required by law. Number of copies published and distributed varies between fiscal years. Engagement reports contain multiple copies issued.

## Agency Position Usage Report

FY2006 - 2007						FY2007 - 2008						FY2008 - 2009					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
256	244	12	256	0	4.69 %	263	252	11	263	0	4.18 %	263	249	13	262	1	5.32 %

## Appropriation Summary

**Appropriation:** 095 - Legislative Audit - Operations

**Funding Sources:** HSC - State Central Services

### Historical Data

### Agency Request and Executive Recommendation

Commitment Item		2007-2008	2008-2009	2008-2009	2009-2010			2010-2011		
		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	18,102,702	19,588,341	19,588,341	22,000,106	24,191,092	0	23,834,506	26,265,862	0
<b>#Positions</b>		<b>256</b>	<b>262</b>	<b>263</b>	<b>262</b>	<b>287</b>	<b>0</b>	<b>262</b>	<b>287</b>	<b>0</b>
Personal Services Matching	5010003	4,427,894	5,065,464	5,065,464	5,434,142	5,969,683	0	5,765,484	6,344,943	0
Operating Expenses	5020002	2,613,548	3,152,800	3,152,800	3,152,800	3,203,300	0	3,152,800	3,847,100	0
Conference & Travel Expenses	5050009	220,484	315,500	315,500	315,500	338,000	0	315,500	363,500	0
Professional Fees	5060010	210,520	1,017,700	1,017,700	1,017,700	1,017,700	0	1,017,700	1,017,700	0
Data Processing	5090012	0	75,000	75,000	75,000	75,000	0	75,000	75,000	0
Capital Outlay	5120011	47,188	260,000	260,000	0	435,000	0	0	250,000	0
<b>Total</b>		<b>25,622,336</b>	<b>29,474,805</b>	<b>29,474,805</b>	<b>31,995,248</b>	<b>35,229,775</b>	<b>0</b>	<b>34,160,990</b>	<b>38,164,105</b>	<b>0</b>
<b>Funding Sources</b>										
State Central Services	4000035	12,074,000	17,574,805		20,095,248	23,329,775	0	22,260,990	26,264,105	0
Ad Valorem Tax	4000060	12,648,694	11,000,000		11,000,000	11,000,000	0	11,000,000	11,000,000	0
Federal Audit Reimbursement	4000242	899,642	900,000		900,000	900,000	0	900,000	900,000	0
<b>Total Funding</b>		<b>25,622,336</b>	<b>29,474,805</b>		<b>31,995,248</b>	<b>35,229,775</b>	<b>0</b>	<b>34,160,990</b>	<b>38,164,105</b>	<b>0</b>
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
<b>Grand Total</b>		<b>25,622,336</b>	<b>29,474,805</b>		<b>31,995,248</b>	<b>35,229,775</b>	<b>0</b>	<b>34,160,990</b>	<b>38,164,105</b>	<b>0</b>

No Executive Recommendation made on this appropriation.

## Change Level by Appropriation

**Appropriation:** 095 - Legislative Audit - Operations

**Funding Sources:** HSC - State Central Services

### Agency Request

Change Level		2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>31,995,248</b>	<b>262</b>	<b>31,995,248</b>	<b>100.0</b>	<b>34,160,990</b>	<b>262</b>	<b>34,160,990</b>	<b>100.0</b>
C01	Existing Program	4,058,027	25	36,053,275	112.7	4,821,115	25	38,982,105	114.1
C03	Discontinue Program	(823,500)	0	35,229,775	110.1	(818,000)	0	38,164,105	111.7