

Internal Control and Compliance Assessment

Legislative Joint Auditing Committee
State Agencies Financial and Compliance Audit Section

Arkansas Fair Housing Commission

June 30, 2013 and 2012

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 Fair Housing Commission. As discussed in the Results of Assessment section below, our procedures disclosed inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel (Finding 1), failure to pay invoices timely (Finding 2), and noncompliance with state laws and regulations regarding contract labor (Finding 3) and payment to a political party (Finding 4).

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Arkansas Fair Housing Commission, a commission of Arkansas state government, as of and for the two-year period ended June 30, 2013, and have issued our report dated August 20, 2014. Management of the Agency is responsible for establishing and maintaining internal controls and complying with applicable laws and regulations.

The assessment included cash on deposit, cash receipts, expenditures, 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 Agency and audit work conducted in the fiscal years 2013 and 2012 State Comprehensive Annual Financial Reports (CAFR) and Single Audit Reports. The methodology used in conducting this assessment was developed uniquely for this engagement and, therefore, was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

RESULTS OF ASSESSMENT

Assessment procedures disclosed the following internal control or compliance matters that were discussed with Agency officials during the assessment and at the exit conference:

Finding 1: The Agency had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

ARKANSAS DIVISION OF LEGISLATIVE AUDIT

172 State Capitol, Little Rock, AR 72201

Phone: 501-683-8600 Fax: 501-683-8605

www.arklegaudit.gov

Report ID: SR0722913 Report Date: August 20, 2014



Management response: *The Agency continues to request the additional personnel necessary to adequately segregate duties. The Agency will work with existing resources to maintain fiscal integrity.*

Finding 2: Per the Department of Finance and Administration (DFA) Financial Management Guide, invoices will be paid based on the vendor's due date and payment terms. The Agency paid several invoices after the due date, resulting in \$383 paid for interest or carrying charges on late payments.

We recommend the Agency comply with the DFA Financial Management Guide regarding timely payments.

Management response: *Due to limited personnel (as noted in Finding 1) and the need to segregate duties as required by fiscal guidelines, some late payments were made. Additionally, some of the noted late payments were due to DFA's Office of Accounting procedures that were outside the Agency's control. The Agency is classified as a Service Bureau (a smaller state agency lacking the fiscal and personnel resources of larger agencies). The Agency will continue to work to ensure adequate staffing and has implemented control measures to reduce the exposure to late payment processing.*

Finding 3: Per R3-19-4-1601 of the Financial Management Guide, agencies may not employ contract labor longer than six consecutive weeks or 240 hours per calendar quarter. A Staffmark employee worked at the Agency 427.25 hours in the October-December 2012 quarter and 323.05 hours in the April-June 2013 quarter, exceeding the limit by 187.25 hours and 83.05 hours, respectively. For the two quarters combined, the employee worked 270.30 hours more than allowable, for which the Agency paid \$4,055.

We recommend the Agency review and comply with the DFA Financial Management Guide regarding contract labor.

Management response: *As per regulations, the Agency utilized contract staff to assist with duties due to limited personnel. During the course of the fiscal year, the amount paid for contract labor exceeded the allowable expenses for such services by \$4,055. The Agency identified and mitigated this oversight in May of 2013 by implementing a method to track future contract expenditures. Notably, the Agency provided the auditor with documentation from the Arkansas Department of Finance and Accounting (DFA) Accounting Director, Paul Louthian, and a ratification letter from the Arkansas Office of State Procurement (OSP) Director, Jane Benton, in which the Agency was deemed to have not acted fraudulently or in bad faith. The Agency will limit future use of contract labor to an allowable amount.*

Finding 4: The Agency paid \$1,500 to the Arkansas Democratic Black Caucus, which, according to the Executive Director, was for sponsorship of the 2013 King-Kennedy Dinner; however, the Executive Director stated that no Agency personnel attended the Dinner. Despite the advertisement in the souvenir book, the \$1,500 payment appears to be a contribution to the Arkansas Democratic Black Caucus. Op. Att'y Gen. no. 2008-026 states an entity "...may not contribute public funds to a political party."

We recommend the Agency comply with Governor's Policy Directive No. 9, Arkansas Office of Personnel Management policy 70.12 and Op. Att'y Gen. no. 2008-026 limiting the active support of a political party.

Management response: *The Agency did not actively support any political party by placing a fair housing advertisement in the King-Kennedy souvenir book to raise awareness of state*

and federal laws prohibiting the unlawful treatment of statutorily protected persons.

Per statute, the Agency is charged with statewide education and outreach activities designed to eradicate fair housing/fair lending violations. As the assassination of Dr. King was the impetus for passage of the Fair Housing Act, placing an advertisement about the Fair Housing Act in this souvenir book presented a unique opportunity to advertise to this statutorily protected group (African Americans).

The Arkansas Fair Housing Act prohibits discrimination in housing and real-estate related transactions on the basis of race, color, national origin, sex, disability, religion and familial status. Ark. Code Ann. §§ 16-123-201 et. seq.

Ark. Code Ann. § 16-123-301, recognizes: (1) That the right to seek housing underlies the general public's ability to secure health, safety, and welfare; and (2) Seeks with this subchapter to protect the public's access to [fair] housing.

To accomplish that mission, Ark. Code Ann. § 16-123-346 authorizes the Agency Director to, "establish a statewide education and outreach program through contracts with local governments or their agencies, public or private nonprofit organizations or institutions, or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices."

Additionally, that program shall be designed to provide a centralized, coordinated effort for the development and dissemination of fair housing media products, including:

- (1) Public service announcements, both audio and video;
- (2) Television, radio, and print advertisements;
- (3) Posters; and
- (4) Pamphlets and brochures.

The Agency works diligently to target outreach to both the populous as a whole and to each of the protected classes as they are the most vulnerable to housing and lending discrimination as identified by statute.

As part of its statutory obligation, the Agency routinely advertises with a number of organizations, groups and entities at numerous events targeted to the statutorily protected classes, including the African American community, the Latino community, disability groups and others.

The Black Caucus approached the Agency regarding fair housing advertising for the King-Kennedy Dinner, an annual event at which advertising directly reaches the more than 4,000 attendees each year and indirectly reaches a much larger percentage of the nearly 450,000 African Americans residing within the state. [Advertising] at the King-Kennedy Dinner was an economical way to reach the African American community for a minimal amount of advertising dollars.

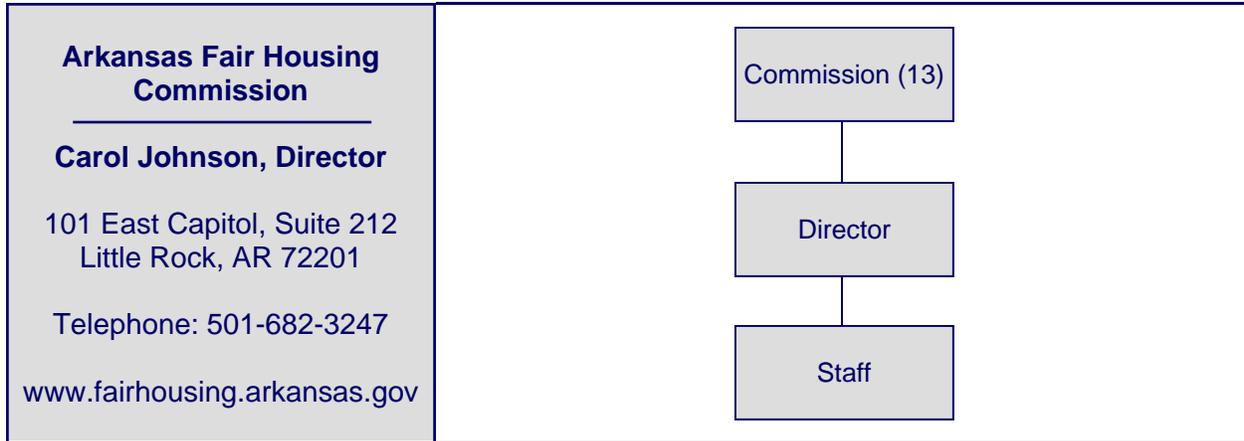
The Agency will not purchase future fair housing/fair lending advertisements at any Black Caucus events.

ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

Act 1785 of 2001 established the Arkansas Fair Housing Act and the Arkansas Fair Housing Commission. The Commission is comprised of 13 Commissioners: seven appointed by the

Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. Six of the Commissioners are industry representatives and seven are consumer representatives. Commissioners serve four-year terms and may serve no more than two terms. Each congressional district must be represented by a Commissioner. The Commission’s organizational chart is presented in **Exhibit I**.

Exhibit I
Arkansas Fair Housing Commission
Organizational Chart



Source: Arkansas Fair Housing Commission

FISCAL ANALYSIS

Revenues, Expenditures, and Transfers

Agency revenues, expenditures, and transfers for fiscal years 2009 through 2013 are presented in **Exhibit II on page 5**. Revenues are generated through training classes for which the Agency collects a fee and through reimbursements from the federal government for housing work performed. The Agency reported total revenues of \$824,032 in fiscal year 2013 and \$460,874 in fiscal year 2012.

Expenditures totaled \$546,987 in fiscal year 2013 and \$613,337 in fiscal year 2012. Salary expense is the Agency’s largest expenditure category, comprising 67% of total expenditures in both fiscal year 2013 and 2012.

Net Transfers In were \$283,855 and \$208,788 in fiscal years 2013 and 2012, respectively.

Assets and Liabilities

Asset and liability balances for fiscal years 2009 through 2013 are presented in **Exhibit III on page 5**. As of June 30, 2013, assets totaled \$1.2 million, of which \$1.1 million was cash, and liabilities were \$9,770. As of June 30, 2012, assets totaled \$723,188, of which \$601,281 was cash, and liabilities were \$84,707.

Exhibit II

**Arkansas Fair Housing Commission
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2009 through 2013**

	Fiscal Year				
	2013	2012	2011	2010	2009
Revenues					
Federal grants and reimbursements	\$ 737,252	\$ 372,910	\$ 81,410	\$ 169,395	\$ 341,950
Sales of goods and services	86,768	87,964	79,636	32,926	368,884
Other income	12	0	0	7	(341,409)
Total Revenues	\$ 824,032	\$ 460,874	\$ 161,046	\$ 202,328	\$ 369,425
Expenditures					
Salaries	\$ 366,135	\$ 413,640	\$ 397,236	\$ 309,022	\$ 250,623
Travel and subsistence	52,787	52,955	44,223	34,926	44,182
Commodities, materials, and supplies	33,622	65,674	40,242	57,650	53,375
Other expenses	94,443	81,068	111,876	64,532	50,095
Total Expenditures	\$ 546,987	\$ 613,337	\$ 593,577	\$ 466,130	\$ 398,275
Net Transfers In (Out)	\$ 283,855	\$ 208,788	\$ 287,504	\$ 241,967	\$ 269,341

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

Exhibit III

**Arkansas Fair Housing Commission
Assets and Liabilities
For the Years Ended June 30, 2009 through 2013**

	Fiscal Year				
	2013	2012	2011	2010	2009
Assets					
Cash and cash equivalents	\$ 1,067,733	\$ 601,281	\$ 495,807	\$ 718,108	\$ 501,680
Federal receivables	0	0	745,910	300,000	225,000
Fixed assets	114,811	119,544	110,347	71,676	53,651
Other assets	2,192	2,363	4,037	14,857	95
Total Assets	\$ 1,184,736	\$ 723,188	\$ 1,356,101	\$ 1,104,641	\$ 780,426
Liabilities					
Deferred revenues	\$ 0	\$ 0	\$ 373,000	\$ 300,000	\$ 225,000
Payroll liability	6,537	7,377	17,644	15,651	9,551
Other liabilities	3,233	77,330	3,322	16,909	5,701
Total Liabilities	\$ 9,770	\$ 84,707	\$ 393,966	\$ 332,560	\$ 240,252

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

