



AUDIT FINDINGS

Provided by the Division of Legislative Audit

PRE-FISCAL SESSION - JBC Budget Hearings March 5-12, 2020

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**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF CORRECTION
FOR THE YEAR ENDED JUNE 30, 2018**

Finding :

The FY2017 audit of the Agency, dated July 2, 2018, included a finding (2017-4) regarding discrepancies between inventory records of amounts issued to inmates and the requests made by inmates on their order forms at the McPherson Unit Inmate Council. Agency management's response to this finding as presented in the FY2017 ADC audit report was, "The Agency agrees with this finding that internal controls in this area should be strengthened. ADC internal audit tests Inmate Council inventories and point of sale controls on a regular basis. Their findings will be reported to Unit Warden and ADC Management for action on discrepancies and recommendation for best practices to be implemented uniformly at all inmate council locations."

We requested that Agency internal audit provide reports or other documentation of any testing procedures performed on Inmate Council inventories since the FY2017 report date, and none were provided.

Recommendation:

We recommend Agency management implement the procedures described in Agency responses to audit findings.

Agency Response:

The issue of Inmate Council operations in general, and the McPherson incident in particular, was the subject of an institution-wide staff meeting including all ADC facilities which have an Inmate Council. We have reviewed our policies related to accounting and inventory and find those policies sufficient and effective, when assiduously applied. Thus, our need is less for updated procedures and more for thorough and regular oversight. Our internal audit has been instructed to develop a plan to provide more frequent audits of unit Inmate Council operations.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF EDUCATION
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

The Arkansas Department of Education (ADE) and one school district paid professional fees totaling \$6,300 to a corporation owned by an ADE employee for services provided by the employee. The employee did not file the required income and financial interest disclosure statements with the Director of the Department of Finance and Administration (DFA) and the Secretary of State. These actions are inconsistent with Arkansas Code, DFA regulations, and ADE policy.

Recommendation:

We recommend ADE and all ADE employees comply with Arkansas Code, DFA regulations, and ADE policy.

Agency Response:

Management agrees with this audit finding. New employees are introduced to disclosure requirements during the orientation process. ADE provides annual notification to all employees in December regarding income disclosure requirements, per Arkansas Code and DFA Regulations. The ADE employee that received \$6,300 in professional fees from the Agency has been formally counseled by the ADE Internal Auditor and agency management in regards to the unallowable activity. ADE also sent a letter to the Director of the Department of Finance and Administration, disclosing the violations noted in the finding. ADE has not been notified by the Department of Finance and Administration that any further action is required.

Finding:

In the prior report, we noted noncompliance in monitoring child care providers for the Arkansas Better Chance (ABC) Program. ADE responded that it was "working with DHS – DCCECE to develop a risk-based monitoring protocol for the ABC program" to be implemented effective July 1, 2018.

The Department of Human Services - Division of Child Care and Early Childhood Education (DHS-DCCECE) administers the Program under contract with ADE, and expense reports submitted by all child care providers should be subject to review. DHS-DCCECE focused corrective action for the prior-year finding on child care providers serving 20 and fewer children. DHS-DCCECE staff are still not performing a review of expense report documentation for the vast majority of providers (i.e., those serving more than 20 children). Monitoring of all providers is required by program rules, and providers must reimburse the program for any undocumented expenses.

Recommendation:

We again recommend ADE require DHS-DCCECE to adhere to rules for administering the ABC program. Specifically, all providers must be subject to review of expense report documentation to fully implement the risk-based monitoring protocol.

Agency Response:

Management agrees with the audit finding, as stated. The Arkansas Better Chance program, through its Division of Child Care and Early Childhood Education (DCCECE), has been moved to the Secretary of Education under transformation. ADE and the staff of the Arkansas Better Chance program met and discussed the need for a monitoring tool to be developed by the ABC program for fiscal monitoring purposes. The ABC program staff developed said protocol with examples of the completed monitoring reports for each program tested. ADE, however, was not aware that only four programs were tested in FY2019. As the ABC program staff will be transitioned to the department, ADE will ensure that fiscal monitoring is implemented for all subrecipients.

Finding:

The Commissioner of Education and the Deputy Commissioner of Education commuted in state-owned vehicles between their homes and ADE offices from the time they took these positions until ALA questioned ADE about this practice. The Commissioner of Education was appointed by the State Board of Education at the recommendation of the Governor on March 25, 2015. The Deputy Commissioner of Education took this position on July 1, 2017.

Arkansas Code and DFA regulations require reimbursement to the State for all commuting and other personal use of state-owned vehicles at a rate of \$.42 per mile. DFA regulations require usage logs for every mile driven in state-owned vehicles. DFA and IRS regulations require the value of commuting and other personal mileage be reported as taxable fringe benefits to the employees using the vehicles.

The Commissioner and the Deputy Commissioner did not maintain vehicle usage logs as required or reimburse the State for commuting and other personal mileage. The amounts reported as taxable fringe benefits were not valued according to DFA and IRS regulations.

Recommendation:

We recommend ADE comply with Arkansas Code, DFA regulations, and IRS regulations. ADE should coordinate with DFA to value and report taxable fringe benefits and determine amounts to be reimbursed for commuting and other personal use of state-owned vehicles.

Agency Response:

Management agrees with the audit finding, as stated. In response to this finding, the Commissioner and Deputy Commissioner of Education have relinquished the vehicles that were assigned to them and made them available for all agency personnel in the vehicle fleet. Any travel expenses incurred by the Commissioner and Deputy Commissioner for the use of their personal vehicles for business purposes will be reimbursed by the Agency.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF HEALTH
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Procedures performed to test the June 30, 2018, inventories balance totaling \$19.7 million revealed material weaknesses in the Agency's internal controls. Department of Finance and Administration year-end closing instructions require year-end inventory counts to determine the proper year-end balance; however, the Agency did not perform inventory counts for HIV/STD prescription medications totaling \$7.9 million and bioterrorism emergency preparedness supplies totaling \$83,057. In addition, four of the Agency's 96 clinics were selected for testing, and the inventory records for all four included errors totaling \$6,031 (net). Failure to properly design, implement, and maintain internal controls increases the risk that material misstatements due to fraud or error will not be detected.

Recommendation:

We recommend the Agency strengthen internal controls over inventory by maintaining accurate, perpetual subsidiary records that include an audit trail and by performing a complete year-end count of all inventory to determine the proper year-end balance.

Agency Response:

To strengthen internal controls over the Department's overall inventory, the Arkansas Department of Health (ADH) Compliance Section will meet with each Center ADMO (Associate Director for Management and Operations) to review, design, and implement improved continuous inventory processes. A complete year-end counting methodology will be included in the design. The target date for implementation of all enhanced processes is January 1, 2020.

To address the finding regarding HIV/STD prescription medications, the ADH AIDS Drug Assistance Program (ADAP) and Ryan White Part B Program will implement the following:

- A current count of all ADAP medications will be maintained in an electronic format (Excel) with the Ryan White Program Manager.
- An audit of all inventory will be conducted once a quarter, and program officials will sign documentation attesting that results are factual and complete.
 - Documentation of the current stockpile inventory list and signature sheets will be available upon request.

Regarding the finding concerning bioterrorism emergency preparedness supplies:

- On June 7, 2019, all PHP (Public Health Preparedness) coordinators in each region were reminded to conduct a year end bioterrorism inventory in each of the SNS (Strategic National Stockpile) Sheds by June 28, 2019.
- Subsequently, a year-end audit will be conducted annually on the last business day of the state fiscal year.

Finding:

A review of eight employees receiving mileage reimbursements totaling \$90,410 during fiscal year 2018 revealed that one employee was overpaid \$664. This employee was reimbursed \$11,159 for driving 26,569 miles to provide computer and technical support to Agency staff at various locations. However, the employee was always reimbursed mileage between the destination and the official station, even when the employee's residence was closer to the destination and when the employee left from and/or returned to the residence. Reimbursements for these miles were not in compliance with state travel regulations and resulted in the employee being overpaid for 1,582 miles.

Recommendation:

We recommend the Agency provide additional training to employees who travel and approve travel and hold them accountable for compliance with state regulations.

Agency Response:

ADH will provide additional training on state travel regulations to employees who travel and employees who approve travel.

- Beginning in July 2019, all ADH employees will be instructed biannually to review the Agency's travel policy by means of an email that will include a link to training material.

To address the finding regarding an employee repeatedly being reimbursed for mileage from their official station rather than their home when the home was closer.

- Effective immediately, ADH will require that an explanation is given within the "Mileage Description" field of the electronic travel reimbursement (TR-1) when the shortest distance is not being claimed whether leaving from the traveler's residence or official station.
 - If an explanation for not claiming the shortest distance is not included in the TR-1, the reimbursement request will not be processed and it will be returned to the traveler and their supervisor.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
STATE CRIME LABORATORY
(DEPARTMENT OF PUBLIC SAFETY)
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Procurement ethics prescribed in Arkansas law establish the standards all employees should follow when expending public funds. Ark. Code Ann. § 19-11-706(a) requires an employee to disclose "any benefit from any state contract with a business in which the employee has a financial interest."

The Agency's Assistant Director, who previously served as the Scientific Operations Director, and her spouse, who is a former branch chief at the Arkansas Department of Health, were among the founding partners of Pinpoint Testing, LLC (Company) in 2013 and are both partial owners of the Company, which is currently located in the Arkansas Children's Hospital Research Institute. The Company utilized resources from the University of Arkansas for Medical Sciences BioVentures to develop the ToxBox®, a toxicology testing product (Product), which is the Company's sole product.

The Agency's Assistant Director did not properly disclose her individual relationship with the Company on the form required by Executive Order 98-04 until May 2019, at which time she disclosed a 12% ownership interest. It should be noted that the Assistant Director's spouse reported on a 2016 business disclosure form that he was CEO of the Company and the Assistant Director had a 20% ownership interest in the Company. The Agency expended \$31,117 and \$81,898 with Vendor A and Vendor B, respectively, for the Product during the period March 22, 2017 through March 15, 2019.

Recommendation:

We recommend the Agency comply with Ark. Code Ann. § 19-11-706(a).

Agency Response:

As Agency Director, I was aware of the relationship between the Assistant Director and the company. I personally had discussions with the Assistant Director to assure complete transparency in the relationship that existed. Since the company disclosed the fact that the Assistant Director was the spouse of the CEO and had a 20% ownership, it was assumed that the 98-04 filed in 2016 was in compliance with Ark. Code Ann. § 19-11-706(a). This was an internal mistake in the interpretation of the Code and an individual 98-04 should have been submitted in conjunction with the company's.

All associated paperwork regarding the relationship between the Assistant Director and the company was addressed in writing and submitted to the Department of Finance and Administration for prior approval.

The purpose of the relationship between the company and the Arkansas State Crime Laboratory was in the best interest of the State of Arkansas in order to provide the best scientific toxicology services that are critical to the citizens of Arkansas, specifically in the timely delivery of official death certificates for the victims of crime.

Finding:

A data analytics review of purchasing card (P-card) transactions revealed the following undocumented purchases totaling \$1,685 that were not for an Agency purpose for the period July 1, 2016 through January 31, 2018:

- \$1,105 for wireless services.
- \$299 for utilities.
- \$162 for fuel and parking.
- \$101 for school lunches.
- \$18 for grocery items.

Discussions with Agency staff indicated that the Procurement Manager made the purchases and recorded the charges in the Agency's online banking system for review by management. In several instances, the purchases were classified incorrectly, which concealed the nature of the purchases. The Agency did not have adequate controls over purchasing, recording, and approving transactions made with P-cards. The Procurement Manager resigned from employment on December 31, 2017.

Recommendation:

We recommend the Agency establish adequate controls over P-card purchases.

Agency Response:

The Arkansas State Crime Lab did not have adequate controls in place for the regulation of purchasing card (P-Card) transactions. When this was brought to the Lab's attention, a preventive action plan was immediately developed, and policy was put in place to ensure adequate controls. This policy and procedure were implemented prior to the exit of auditing staff. It is also noted that the Procurement Manager resigned her position prior to any identification of P-Card misuse and was in good standing with the Laboratory at the time of her separation from the Laboratory.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-001
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.559 – Summer Food Service Program for Children
(Child Nutrition Cluster)
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 2 CFR § 200.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

2 CFR § 200.62 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

- 1) Transactions are properly recorded and accounted for to:
 - a) Permit the preparation of reliable financial statements and reports.
 - b) Maintain accountability over assets.
 - c) Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- 2) Transactions are executed in compliance with:
 - a) Federal statutes, regulations, and the terms and conditions of the award.
 - b) Federal statutes and regulations identified in the compliance supplement.
- 3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Finally, according to 7 CFR § 225.8(a), each state agency shall maintain complete, accurate, and current accounting records of its Program operations that adequately identify funds authorizations, obligations, unobligated balances, assets, liabilities, income, claims against sponsors and efforts to recover overpayments, and expenditures for administrative and operating costs.

Condition and Context:

ALA staff reviewed the FNS-777 reports for two quarters, December 31, 2017, and June 30, 2018, to verify accuracy and completeness of expenditure data reported to the federal awarding agency compared to the Agency's financial records. The quarterly and final FNS-777 reports are completed by managerial accounting staff.

ALA examination revealed that net adjustments, totaling \$167,473, were not supported by the Agency's financial records in the closeout report for the 2017 grant award.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-001 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.559 – Summer Food Service Program for Children
(Child Nutrition Cluster)
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Cause:

The Agency did not maintain adequate records.

Effect:

It is unknown if the reports submitted to the federal awarding agency contained accurate expenditure data.

Recommendation:

ALA staff recommend the Agency update current internal control procedures over the reporting process to specifically address retention of documentation utilized to complete reports submitted to the federal awarding agency.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency developed a reconciliation template to ensure costs flow to the correct line on the FNS-777. Additional reporting requirements, which will support any net adjustments, were created and must be completed when preparing the FNS-777 and closeout report.

Anticipated Completion Date: Complete

Contact Person:

Christine Coutu
Deputy Chief Managerial Accounting
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 537-2195
Christine.coutu@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-002
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Cash Management
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 2 CFR § 200.400(b), a non-federal entity assumes responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award.

Condition and Context:

The Agency receives the following three grant awards from the U.S. Department of Agriculture:

- 1) CNP Block Consolidated (CFDA 10.555).
- 2) CNP CACFP Cash in Lieu (CFDA 10.558).
- 3) CNP CACFP Sponsor Administrative (CFDA 10.558).

ALA discussion with managerial accounting staff at the end of fieldwork for the June 30, 2017, Single Audit revealed the following practices:

- Sponsor administrative expenditures were inappropriately drawn from the CNP Block Consolidated grant instead of the CNP CACFP Sponsor Administrative grant. During the closeout period, the Agency would “repay” the CNP Block grant with funds drawn from the Sponsor Administrative grant.
- Cash in Lieu (CIL) expenditures were also inappropriately drawn from the CNP Block Consolidated grant when CIL funds became depleted. When additional CIL funds were received from the federal awarding agency, the Agency would “repay” the CNP Block grant.

ALA correspondence with the federal awarding agency indicated that each grant award has a designated purpose, and the use of funds between the grant awards is not interchangeable. The correspondence was shared with the Agency's managerial accounting staff on January 24, 2018, and with Agency management during the final exit conference on February 8, 2018.

To determine if the Agency had corrected its previous unallowable practice, ALA's June 30, 2018, Single Audit review included the cash draws completed in March 2018 through June 2018. This review revealed the following:

- \$935,267 of meal reimbursement expenditures that should have been drawn from the CNP Block Consolidated grant were inappropriately drawn from the CIL grant award.
- \$284,607 of CIL expenditures and \$119,535 of sponsor administrative expenditures were inappropriately drawn from the CNP Block grant award.

ALA noted that the final cash draw of fiscal year 2018 from the CNP Block federal award did not include CIL expenditures.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$1,339,409

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-002 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Cash Management
Type of Finding: Noncompliance and Material Weakness

Cause:

Changes in personnel contributed to the noncompliance. Additionally, the Agency did not take immediate action to correct the errors.

Effect:

The Agency's ability to manage the federal awards was limited, and funds were drawn for unallowable uses of the federal awards.

Recommendation:

ALA staff recommend the Agency ensure expenditures are allowable prior to federal cash draws by reviewing the objectives, terms, and conditions of the federal awards.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. This finding was caused by a programming error in the Agency's accounting dashboard system. The error was corrected on or around October 1, 2018, to ensure that program funding is drawn from proper grants.

Anticipated Completion Date: Complete

Contact Person: Christine Coutu
Deputy Chief Managerial Accounting
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 537-2195
Christine.coutu@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-003
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 2 CFR § 200.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

2 CFR § 200.62 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

- 1) Transactions are properly recorded and accounted for to:
 - a) Permit the preparation of reliable financial statements and reports.
 - b) Maintain accountability over assets.
 - c) Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- 2) Transactions are executed in compliance with:
 - a) Federal statutes, regulations, and the terms and conditions of the award.
 - b) Federal statutes and regulations identified in the compliance supplement.
- 3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Finally, according to 7 CFR § 226.7(d), each state agency shall submit to the Food and Nutrition Service (FNS) a quarterly Financial Status Report (FNS-777) on the use of program funds. Obligations shall be reported only for the fiscal year in which they occur.

Condition and Context:

ALA staff reviewed the FNS-777 reports for the 2017 and 2018 federal awards to verify accuracy and completeness of expenditure data to the Agency's financial records. It should be noted that the FNS-777 reports are completed by managerial accounting staff. It is the responsibility of Division of Child Care and Early Childhood Education (DCCECE) staff to provide expenditure information to managerial accounting staff, and it is the responsibility of managerial accounting staff to communicate concerns regarding the data to DCCECE staff.

ALA examination revealed the following:

- Expenditures reported in the final FNS-777 for the 2017 grant award were **understated** by \$53,676, as the result of three inaccurate error corrections.
- Expenditures reported in the four FNS-777 quarterly reports for the 2018 grant award resulted in a **net overstatement** of \$10,587.

Errors were the result of a lack of communication between DCCECE and managerial accounting staff.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-003 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Cause:

The Agency has not developed adequate training and communication policies for staff. Additionally, effective internal control procedures have not been implemented to ensure accuracy of error corrections.

Effect:

Failure to implement appropriate procedures for internal control over compliance limits the Agency's ability to submit reliable reports to the federal awarding agency.

Recommendation:

ALA staff recommend the Agency update current internal control procedures to ensure expenditure data submitted to the federal awarding agency are accurate and complete.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. Expenditures were incorrectly reported due to program draws being processed during the wrong grant year, and the subsequent error corrections were processed incorrectly. The Agency will develop internal controls to ensure draws are processed within the correct grant year and error corrections are accurate prior to posting.

Anticipated Completion Date: 03/31/19

Contact Person:

Laura Webb
Director of Finance, Division of Child Care and Early Childhood Education
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-8933
Laura.webb@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-004
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.658 – Foster Care Title IV-E
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 1701ARFOST and 1801ARFOST
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Cash Management
Type of Finding: Significant Deficiency

Repeat Finding:

A similar issue was reported in prior-year finding 2017-009.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over a federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Additionally, 45 CFR § 75.302(b)(5) states that the financial management system of a non-federal entity must be able to provide a comparison of actual expenditures with budgeted amounts for each federal award.

Finally, 45 CFR § 75.342(a) states that a non-federal entity is responsible for the oversight of operations for activities supported by a federal award. The non-federal entity must monitor its activities to assure compliance with applicable federal requirements.

Condition and Context

ALA staff review of the Agency's internal control procedures over cash management revealed the following deficiencies:

- The Agency does not perform procedures to compare budgeted expenditures to actual expenditures.
- The Agency does not prepare adequate quarterly reconciliations to ensure draws do not exceed allowable expenditures. (Note: An adequate reconciliation was prepared after ALA review, and the Agency's draws did not exceed allowable expenditures.)

Statistically Valid Sample:

Not applicable

Questioned Costs:

None

Cause:

The Agency did not establish adequate internal controls to ensure a process was in place to track federal revenue and expenditures to budgeted amounts or monitor federal revenue with allowable expenditures.

Effect:

Failure to properly monitor revenue and expenditures and the budgeted amounts could result in noncompliance.

Recommendation:

ALA staff recommend the Agency compare federal expenditures and revenue to expected budgeted amounts. Any variances should be investigated. In addition, the Agency should review and strengthen control procedures to ensure that staff properly monitor federal draws by reconciling with reported expenditures.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with and disputes, in part, this finding. To ensure draws do not exceed allowable expenditures, the Agency has developed an internal control addressing the reconciliation of funding draws to program expenditures. The Agency regularly compared budgeted expenditures to actual expenditures during the audit period through the creation and review of the DCFS Weekly Spend Report.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number:	2018-004 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.658 – Foster Care Title IV-E
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	1701ARFOST and 1801ARFOST
Federal Award Year(s):	2017 and 2018
Compliance Requirement(s) Affected:	Cash Management
Type of Finding:	Significant Deficiency

Views of Responsible Officials and Planned Corrective Action (Continued):

Anticipated Completion Date: 3/31/19

Contact Person: Christine Coutu
Deputy Chief Managerial Accounting
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 537-2195
Christine.coutu@dhs.arkansas.gov

Additional Comments from the Auditor:

Although the Agency stated that it "regularly compared budgeted expenditures to actual expenditures during the audit period," documentation was never provided to ALA during the audit period, at the preliminary exit conference held on January 18, 2019, or at the final exit conference held on February 4, 2019.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-005
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over a federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes a process for ensuring claims are identified, disbursed, and reported correctly.

In addition, 42 CFR § 457.320 states that services for CHIP recipients are allowable up to, but not including, age 19. The age is calculated at the end of a birth month.

Condition and Context:

The Agency’s OPTUM group provided ALA with a claims data dump in June 2018. ALA staff used these data to determine if claims activity for CHIP recipients occurred subsequent to their 19th birthday. This query found a population totaling \$146,619 with such claims. ALA staff selected a sample of 60, with claims totaling \$1,022, to determine if the claims were allowable.

An issue was discovered, similar to one reported in finding **2018-006** regarding an aid category conflict. For the claims selected, ALA review revealed that in CURAM (eligibility system) and in the history files of the Medicaid Management Information System (MMIS), these recipients were correctly identified as Medicaid recipients. However, for reasons unknown, the claims were attaching to CHIP aid categories and, as a result, were incorrectly reported to the federal awarding agency as CHIP expenditures.

ALA staff met with Division of County Operations (DCO) staff on November 29, 2018, because DCO is responsible for eligibility issues, and DCO confirmed that incorrect aid categories were attached to claims. This process was also confirmed by the Division of Medical Services on December 7, 2018. The cause of the error was still unknown as of the end of fieldwork.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$146,619

Cause:

Adequate system processing controls have not been designed or implemented to ensure that accurate recipient aid categories are reflected for CHIP and Medicaid claims during the transfer process. In addition, the Agency’s claims system does not have adequate controls in place to prevent claims from being processed beyond an identified CHIP recipient’s 19th birthday.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-005 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed
Type of Finding: Noncompliance and Material Weakness

Effect:

Claims cannot be confirmed as accurately reported to the federal awarding agency and cannot be confirmed as funded at the appropriate federal rate.

Recommendation:

ALA staff recommend the Agency design and implement internal controls over compliance to ensure that CHIP and Medicaid recipient claims are identified accurately for federal reporting purposes.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency, along with its MMIS contractor, is reviewing all deficient claims to determine the root cause of the incorrect aid category identification. Internal controls will be developed following the determination of the root cause to ensure accurate identification of claims, and the appropriate federal share will be returned for all incorrectly reported claims.

Anticipated Completion Date: 6/30/19

Contact Person: Matt Rocconi
Arkansas Medicaid Enterprise IT Director
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6175
Matt.rocconi@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-006
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with CFR 45 § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition and Context:

The Agency’s OPTUM group provided ALA with a claims data dump in June 2018. From the claims data, ALA staff selected 60 CHIP recipients to determine if the claims were allowable in accordance with the CHIP state plan and federal guidelines.

The review revealed the following:

- One claim was paid for a recipient that was no longer eligible. *Questioned costs totaled \$3.*
- One claim was paid when dual segments for both Medicaid and CHIP were open. *Questioned costs totaled \$20.*
- Sixty-one claims for four recipients were paid in error because of an aid category conflict between Medicaid and CHIP. As a result, the CHIP ARKids B aid category indicator was attached to Medicaid claims. *Questioned costs totaled \$1,756.* (Note: Similar issue with finding **2018-005**.)

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$1,779

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

Cause:

Adequate system processing controls have not been designed or implemented to ensure that accurate recipient aid categories are reflected for CHIP and Medicaid claims during the transfer process.

Effect:

Claims cannot be confirmed as accurately reported to the federal awarding agency and cannot be confirmed as funded at the appropriate federal rate.

Recommendation:

ALA staff recommend the Agency design and implement internal controls over compliance to ensure that CHIP and Medicaid recipients’ claims are accurately reported to the federal awarding agency.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-006 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency, along with its MMIS contractor, is reviewing all deficient claims to determine the root cause of the incorrect aid category identification. Internal controls will be developed following the determination of the root cause to ensure the accurate identification of claims, and the appropriate federal share will be returned for all incorrectly reported claims.

Anticipated Completion Date: 6/30/19

Contact Person: Matt Rocconi
Arkansas Medicaid Enterprise IT Director
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6175
Matt.rocconi@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-007
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes ensuring that claims paid because of manual or “forced” overrides are appropriate and sufficiently documented.

Condition and Context:

ALA staff reviewed 60 claims initially suspended in the Medicaid Management Information System (MMIS) but subsequently paid to determine if the claims were appropriately processed in accordance with the established guidance in the Arkansas Resolution Manual (Manual). The Manual provides method of correction guidance for claims that are suspended due to systems edits and audits. Method of correction for claims includes making manual adjustments to allow system processing, forcing the claim through the system for payment, or denying payment. ALA staff review revealed the following deficiencies for 16 claims:

- One claim was suspended because the services were for a recipient already covered by ARWorks. The Manual states that the appropriate method of correction is to deny the claim. The Agency failed to follow the guidance in the Manual. Two additional manually-forced claims were discovered for this recipient. Medicaid questioned costs totaled \$10,042.
- Ten claims were suspended because they were identified as duplicates. The Manual did not contain a method of correction that would have directed a reviewer to manually override these claims. Medicaid questioned costs totaled \$503.
- Four claims were suspended, and although the Manual contained a method of correction, the Agency failed to follow the guidance in the Manual. One claim was suspended because of a procedure billing rule, one claim was a duplicate, another claim was for similar emergency services not over a day apart from another claim, and one claim was a Medicare crossover. Medicaid questioned costs totaled \$3,001.
- For one claim, identified as an ARKids claim, the Manual’s method of correction was to deny the claim. The Agency failed to follow the guidance in the Manual. CHIP questioned costs totaled \$26.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$13,546 (Medicaid Cluster)
\$ 26 (Children’s Health Insurance Program)

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-007 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Cause:

The Agency did not have effective procedures in place to ensure that claims were being manually-processed for payment in accordance with the documented allowable methods in the Arkansas Resolution Manual.

Effect:

Claims initially suspended and subsequently processed for payment could be unallowable.

Recommendation:

ALA staff recommend the Agency strengthen policies and procedures to ensure that the documented methods of correction included in the Arkansas Resolution Manual are complete and adhered to when manually processing claims for payment.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency will limit employees authorized to approve suspended claims to the ARWorks Manager, DMS Deputy Director, and DMS Director and update the method of correction for reviewing claims that are suspended due to ARWorks coverage and duplicate claims. The Agency will develop and conduct training on the approval process for suspended ARWorks and duplicate claims.

Anticipated Completion Date: 6/30/19

Contact Person:

Janet Mann
Director, Division of Medical Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6270
Janet.mann@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-008
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Material Weakness

Repeat Finding:
Not applicable.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes establishing controls to ensure confidentiality agreements are in place for individuals who have access to the sensitive information housed in the Medicaid Management Information System (MMIS).

Condition and Context:

ALA staff reviewed 60 active MMIS users classified as contractors or external users to determine if a confidentiality agreement was in place as required. Effective August 31, 2015, the Agency updated its policy so that it no longer required contractors to have confidentiality agreements if they were covered under an existing business associate agreement. ALA staff review revealed five external users that were granted MMIS access in fiscal year 2016 and had confidentiality agreements on file. However, the agreements were not dated, and ALA staff were unable to determine an effective date.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

Cause:

The Agency did not have effective procedures in place to ensure access to MMIS was restricted to those external users with appropriate and complete confidentiality agreements on file.

Effect:

Access to program information was obtained without proper, complete agreements, which could jeopardize all data stored in MMIS.

Recommendation:

ALA staff recommend the Agency strengthen policies and procedures to ensure that external users granted access to MMIS have complete confidentiality agreements on file as required.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency now requires all external MMIS users to be employed by an organization with which DHS has a business associates agreement. The Agency has developed an internal control that ensures all inactive users are deleted from MMIS on a quarterly basis.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-008 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Material Weakness

Views of Responsible Officials and Planned Corrective Action (Continued):

Anticipated Completion Date: Complete

Contact Person: Matt Rocconi
Arkansas Medicaid Enterprise IT Director
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6175
Matt.rocconi@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-009
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP;
05-1705AR5ADM; 05-1805AR5ADM
(Medicaid Cluster)
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar finding was reported in prior-year findings 2017-020, 2016-017, 2016-028, 2015-025, and 2014-021.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Additionally, 42 CFR § 430.30(c) requires submission of a quarterly statement of expenditures report (CMS-64) for the Medical Assistance Program (MAP) no later than 30 days after the end of each quarter. The Agency maintains policies and procedures for the preparation of the CMS-64 report. Specifically, the procedures state that the Agency will prepare quarterly reconciliations, review and investigate identified variances, and provide explanations for identified variances. Reconciliations, along with the variance explanations, should be included as supporting documentation for the CMS-64.

Condition and Context:

ALA requested written documentation of the Agency’s internal controls in place to ensure required reports are accurate and are filed timely. The documentation provided was developed by the Agency during state fiscal year 2019; therefore, written documentation of controls was not maintained during the audit period.

ALA requested quarterly reconciliations between expenditures recorded in its financial management system and expenditures reported to the federal awarding agency. According to Agency management, reconciliations for the Medicaid Cluster were not completed for state fiscal year 2018 quarterly expenditure reports.

In addition, Agency management stated quarterly reports are reviewed and approved by management prior to certification of the reports. ALA requested documentation of review and approval of reports covering the quarters ended March 31, 2018, and June 30, 2018. Documentation of management review prior to certification was not maintained, and documentation of approval prior to final certification of the report for the quarter ending June 30, 2018, could not be provided because the approval was not documented.

ALA staff also performed procedures to determine if the CMS-64 reports were submitted within 30 days of the end of each quarter as required. This review revealed two CMS-64 reports for state fiscal year 2018 had not been submitted timely as follows:

- The September 30, 2017, report, due for submission on October 30, 2017, was originally certified and submitted on January 25, 2018, 87 days late. This report was later uncertified on February 12, 2018, to allow the State to revise the report, which was re-certified that same day.
- The December 31, 2017, report, due for submission on January 30, 2018, was submitted on March 21, 2018, 50 days late. This report was later uncertified on April 3, 2018, at the request of CMS so that the Agency could make corrections to the report. The report was re-certified on the same date.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-009 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP;
05-1705AR5ADM; 05-1805AR5ADM
(Medicaid Cluster)
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

ALA staff also performed testing of expenditures reported on the CMS-64 for the quarters ended March 31, 2018, and June 30, 2018, to confirm accuracy and completeness compared to the expenditures recorded in the Agency’s financial management system. ALA review revealed the following errors:

From the March 31, 2018, report:

- Twenty-two line items totaling \$1,416,012,666 and representing 86% of MAP expenditures were selected. Errors were identified in four line items, resulting in an **overstatement** of the federal portion of expenditures totaling \$1,216,171.
- Nine line items totaling \$88,253,503 and representing 93% of administrative expenditures were selected. Errors were identified in three line items, resulting in an **understatement** of the federal portion of expenditures totaling \$3,457.

From the June 30, 2018, report:

- Twenty-two line items totaling \$1,407,693,743 and representing 87% of MAP expenditures were selected. Eight errors were identified, resulting in an **overstatement** of the federal portion of expenditures totaling \$1,825,480.
- Nine line items totaling \$104,664,514 and representing 91% of administrative expenditures were selected. Errors were identified in three line items, resulting in an **overstatement** of the federal portion of expenditures totaling \$986,033.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

Cause:

For the quarters selected for testing, the Agency implemented a new reporting system for MAP expenditures. Errors noted were mostly due to incorrect or missing adjustments to amounts determined by the new system or to errors in reporting Medicare premiums. Additionally, failure to implement adequate controls, including timely completion of reconciliations, resulted in unidentified errors.

Effect:

The Agency failed to accurately report expenditures for the selected quarters.

Recommendation:

ALA staff recommend the Agency implement additional procedures and controls over the reporting process to ensure reports are accurate and complete prior to certification.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-009 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021
(Children’s Health Insurance Program)
05-1705AR5MAP; 05-1805AR5MAP;
05-1705AR5ADM; 05-1805AR5ADM
(Medicaid Cluster)
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with and disputes, in part, this finding. The Agency has developed internal controls to ensure reports are accurate and timely filed and has procured a contract with a company to develop a process and perform reconciliations for the CMS-64 and CMS-21 reports. Agency management has also obtained access to electronically certify these reports. The Agency does not dispute that the two CMS-64 reports noted in the finding were submitted after the deadline stated in federal regulations. However, executive management within the Agency was in constant communication with the CMS Regional Office concerning the filing of these reports. Dawn Stehle, Arkansas Medicaid Director, had regular phone calls with the CMS Regional Administrator for Region 6 concerning the operations of the Medicaid agency in Arkansas. CMS routinely requested updates on these filings, which were provided.

Anticipated Completion Date: 06/30/19

Contact Person: David McMahon
CFO for Medicaid Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 396-6421
David.mcmahon@dhs.arkansas.gov

Additional Comments from the Auditor:

While the Agency stated it concurs with the finding regarding the timely filing issue, the portion of the finding it disputes is unclear. Additionally, the response does not address the errors identified during our review of the March 31, 2018, and June 30, 2018, CMS-64 reports.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-010
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with CFR 45 § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition and Context:

The Agency’s OPTUM group provided ALA with a claims data dump in June 2018. ALA staff reviewed and compared the claims data to all CHIP quarterly reports submitted to the federal awarding agency during 2018. ALA staff discovered a variance for the quarter ended September 30, 2017, totaling \$4,920,931.

The claims data for line item 61-C, representing MCHIP, exceeded the amount the Agency reported to the federal awarding agency. ALA requested the Agency’s supporting documentation and was informed by the OPTUM group that the claims support provided to Agency staff was identified at a point in time and could not be recreated and that the detail was not retained supporting the amount reported.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$4,920,931

Cause:
An adequate record retention policy is not in place to ensure that claims data used for federal reporting can be traced to original support.

Effect:
Claims cannot be confirmed as accurately reported to the federal awarding agency and cannot be confirmed as funded at the appropriate federal rate.

Recommendation:
ALA staff recommend the Agency design and implement adequate internal controls to ensure that CHIP claims data are appropriately maintained as evidence to support the quarterly reports submitted to the federal awarding agency.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency’s implementation of a new MMIS caused these claims to be coded improperly with a CHIP aid category. This deficiency was corrected with the implementation of the new MMIS. DHS is investigating whether the CMS-64 and CMS-21 were understated for the quarter ended September 30, 2019, and if the \$4.9 million understatement was reported as Medicaid expenditures as opposed to CHIP expenditures. Based on review, DHS will make the appropriate correction on the CMS-64 and CMS-21 for the quarter ending March 31, 2019.

Anticipated Completion Date: 04/30/19

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number:	2018-010 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.767 – Children’s Health Insurance Program
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	05-1605AR5021; 05-1705AR0301; 05-1805AR5021
Federal Award Year(s):	2016, 2017, and 2018
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed
Type of Finding:	Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action (Continued):

Contact Person:	David McMahon CFO for Medicaid Services Department of Human Services 700 Main Street Little Rock, AR 72201 (501) 396-6421 David.mcmahon@dhs.arkansas.gov
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Additional Comments from the Auditor:

The Agency’s response is unclear because it states that the implementation of a new MMIS caused the improper coding and also corrected the deficiency addressed in the finding.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-011
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:

A similar issue was reported in prior-year findings 2017-013 and 2017-014.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and other terms and conditions of the award.

42 CFR § 457.630 states that form CMS-21 (Quarterly Children’s Health Insurance Program Statement of Expenditures for Title XXI) must be submitted to the Centers for Medicare and Medicaid Services (CMS) no later than 30 days after the end of the quarter.

Condition and Context:

ALA requested written documentation of the Agency’s internal controls in place to ensure required reports are accurate and filed timely. The documentation provided was developed by the Agency during state fiscal year 2019; therefore, written documentation of controls was not maintained during the audit period.

In addition, Agency management stated quarterly reports are reviewed and approved by management prior to certification. ALA requested documentation supporting the review and approval of the March 31, 2018, and June 30, 2018, quarterly reports. The Agency was unable to provide the requested documentation.

Finally, quarterly reports are required to be submitted to the federal awarding agency no later than 30 days after the end of each quarter unless an extension has been approved by the federal awarding agency. The Agency did not receive any extensions and failed to submit two CMS-21 quarterly reports timely as summarized below:

- The September 30, 2017, report, due on October 30, 2017, was certified on January 25, 2018, 87 days late.
- The December 31, 2017, report, due on January 30, 2018, was certified on March 15, 2018, 44 days late.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency has experienced staff turnover and, again, did not develop or document internal control procedures for its staff.

Effect:

Failure to establish an adequate process ensuring expenditures are accurately reported negates the intended purpose of the reports submitted to the federal awarding agency.

Recommendation:

ALA staff recommend the Agency immediately establish and implement internal control procedures to ensure expenditure information submitted quarterly to the federal awarding agency is accurate and complete.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-011 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1605AR5021; 05-1705AR0301; 05-1805AR5021
Federal Award Year(s): 2016, 2017, and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Significant Deficiency

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with and disputes, in part, this finding. The Agency has developed internal controls to ensure reports are accurate and timely filed and has procured a contract with a company to develop a process and perform reconciliations for the CMS-64 and CMS-21 reports. Agency management has also obtained access to electronically certify these reports. The Agency does not dispute that the two CMS-64 reports noted in the finding were submitted after the deadline stated in federal regulations. However, executive management within the Agency was in constant communication with the CMS Regional Office concerning the filing of these reports. Dawn Stehle, Arkansas Medicaid Director, had regular phone calls with the CMS Regional Administrator for Region 6 concerning the operations of the Medicaid agency in Arkansas. CMS routinely requested updates on these filings which were provided.

Anticipated Completion Date: 06/30/19

Contact Person: David McMahon
CFO for Medicaid Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 396-6421
David.mcmahon@dhs.arkansas.gov

Additional Comments from the Auditor:

While the Agency stated it concurs with the finding regarding the timely filing issue, the response does not contain a plan to ensure sufficient, appropriate evidence is maintained of communications with CMS to support Agency assertions for audit purposes.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-012
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes ensuring that appropriate controls and processes are in place to properly administer ARWorks premiums and cost-sharing reduction (CSR) payments.

Condition and Context:

ALA staff reviewed 60 recipient claims to determine the accuracy of ARWorks premiums and CSR payments. This included verifying that the premium paid agreed to the authorized amount as defined by the State's rating and service areas. There are seven defined rating and service areas, and the recipient's address determines the authorized premium amount. In addition, ALA staff reviewed documentation maintained in CURAM to ensure the Agency maintained appropriate, sufficient evidence for recoupments or adjustments, as applicable. This review revealed the following deficiencies:

- Five recipients had at least one payment that exceeded the amount allowable as defined for the rating area. Questioned costs totaled \$438.
- The Agency did not receive appropriate credit from an insurance carrier for premiums of two recipients. Questioned costs totaled \$37.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$475

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

Cause:

The Agency did not have effective procedures in place to ensure that the appropriate rating area was identified prior to issuing premium payments to insurance carriers. Additionally, there was no documentation of any review procedures performed on the annual insurance carrier reconciliations. The reconciliations determine the final net premium payments.

Effect:

Incorrect premium amounts were paid to the insurance carriers.

Recommendation:

ALA staff recommend the Agency strengthen control policies and procedures to confirm that the correct rating area is reflected for individuals so that appropriate premium and CSR payments are made. Additionally, ALA staff recommend the Agency document and perform review procedures prior to authorizing additional payments to the insurance carriers.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-012 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with these findings. The Agency's eligibility system has been updated to include an address validation system. Users are prompted when it appears a better address may be available when an address is updated. Users select the best address at that point. The Agency has also updated its process for reconciling unpaid ARWorks premium payments. Upon implementation of the new MMIS in November 2017, DHS began making reconciliation payments retrospectively for unpaid ARWorks premium payments.

Anticipated Completion Date: Complete

Contact Person: Mary Franklin
Director, Division of County Operations
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 682-8377
Mary.franklin@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-013
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Home and Community-Based Services (ARChoices)
Type of Finding: Noncompliance and Significant Deficiency
Repeat Finding: Not applicable

Criteria:

Section 212.300 of the ARChoices provider manual states that each beneficiary must have an individualized Person-Centered Service Plan (PCSP) and that attendant care hours authorized are based on the Resource Utilization Group (RUG) score produced from the ARPath assessment. Services must be provided according to the beneficiary's PCSP, with reimbursement limited to the amount and frequency authorized in the PCSP.

Condition and Context:

ALA staff selected 60 beneficiaries for review to ensure that attendant care services were provided in accordance with the PCSP and hours authorized were based on the RUG score. ALA review revealed that in seven instances, reimbursements were in excess of the PCSP or the RUG score.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$2,073

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

Cause:

The Agency failed to ensure that there were adequate controls in the claims payment system to both identify and deny claims, as applicable, if the amount billed exceeded the amount authorized. Additionally, the Agency allowed the amount authorized on the PCSP to exceed the RUG score without adequate supporting documentation from CMS, the federal awarding agency.

Effect:

Amounts paid were in excess of amounts authorized.

Recommendation:

ALA staff recommend the Agency review its policies and procedures and take necessary corrective action to ensure that all amounts paid are in accordance with amounts authorized and that amounts authorized are supported by the RUG score (CMS-approved assessment tool).

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with and disputes, in part, this finding. In five of the identified instances, providers billed and were paid for attendant care hours in excess of the number of hours authorized on the beneficiary's service plan. As of January 1, 2019, DHS requires prior authorization for attendant care services, which will enable the Agency to timely identify any situation in which the number of service hours billed exceeds the number of service hours authorized for the beneficiary.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-013 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Home and Community-Based Services
(ARChoices)
Type of Finding: Noncompliance and Significant Deficiency

Views of Responsible Officials and Planned Corrective Action (Continued):

In the remaining two instances, the beneficiaries underwent reassessments, and their service plans were initially modified to reduce their attendant care hours due to the RUG scores received by the beneficiaries. Agency staff later revised the care plans to rescind these service reductions. Although the revised care plans were not consistent with the RUG methodology results, Agency staff determined that subsequent court orders in similar cases compelled the Agency to revise the care plans, rescind the reductions, and restore the original number of attendant care hours. As of January 1, 2019, the Agency no longer uses the RUG methodology to determine attendant care hours.

Anticipated Completion Date: Completed

Contact Person: Mark White
Deputy Director, Division of Aging, Adult, and Behavioral Health Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6009
Mark.white@dhs.arkansas.gov

Additional Comments from the Auditor:

Authorized attendant care hours on the PCSP must be in accordance with the RUG score produced from the ARPath assessment, the CMS-approved assessment tool. Any deviation from this methodology must be approved by CMS, the federal awarding agency. The deviations were not approved by CMS, and the hours provided in excess of those allowed per the ARPath assessment are considered questioned costs.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-014
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP;
05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1305ARBIPP; 05-1405ARBIPP;
05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year findings 2017-016, 2016-025, 2015-023, and 2014-020.

Criteria:

It is the State's responsibility to determine that Medicaid applicants meet the eligibility criteria as specified in the approved State Plan. Eligibility requirements for the Medicaid Program are outlined in the Arkansas Medical Services (MS) manual. The MS manual is specific to Medicaid eligibility policies and procedures and is, in addition to the approved State Plan, required in accordance with 45 CFR § 75.206.

In addition, case documentation is governed by 42 CFR § 435.913, which states, "The Agency must include in each application record facts to support the Agency's decision...."

Guidance for timely eligibility determinations is outlined in 42 CFR § 435.912, which states that initial determinations should be made within 45 days unless the applicant is applying upon the basis of disability; in that case, the initial determination should be made within 90 days. Also, 42 CFR § 435.916 requires that eligibility re-determinations be performed at least once every 12 months.

Condition and Context:

ALA staff reviewed 60 traditional Medicaid recipient files in the ANSWER system to ensure sufficient, appropriate evidence was provided to support the Agency's determination of eligibility. The review revealed deficiencies as summarized below:

- One client file, with 84 claims totaling \$50,034, did not contain documentation supporting the resources or income criteria, affecting 81 claims. Questioned costs totaled \$34,604.
The annual reevaluations were also not completed timely. The 2018 reevaluation, due in July 2017, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 74 claims totaling \$8,636, did not contain a DCO-704 signed by a registered nurse verifying medical necessity and did not contain documentation supporting the resources or income criteria, affecting all 74 claims. Questioned costs totaled \$6,107.
In addition, 326 claims paid in 2017, 2016, 2015, 2014, and 2013 were also affected. Questioned costs totaled \$3,865, \$4,358, \$5,365, \$4,080, and \$323, respectively.
The annual reevaluations were also not completed timely. The 2013 reevaluation, due in May 2013, had not been completed at the conclusion of audit fieldwork, and there were no reevaluations for 2014, 2015, 2016, 2017, or 2018 (Aid to the Aged).
- One client file, with 658 claims totaling \$47,378, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 47 claims. Questioned costs totaled \$1,788 (Aid to the Disabled).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP;
05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1305ARBIPP; 05-1405ARBIPP;
05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file, with 164 claims totaling \$18,762, did not contain documentation supporting the resources or income criteria, affecting 154 claims. Questioned costs totaled \$13,050.
In addition, 400 claims paid in 2017 and 2016 were also affected. Questioned costs totaled \$28,867 and \$376, respectively.
The annual reevaluations were also not completed timely. Even though a reevaluation was completed for April 2018, the 2016 and 2017 reevaluations, due in June of the respective years, had not been completed at the conclusion of audit fieldwork (Aid to the Disabled).
- One client file, with 135 claims totaling \$49,029, did not contain documentation supporting the resources or income criteria, affecting 62 claims. Questioned costs totaled \$16,277.
The annual reevaluation was also not completed timely. The 2018 reevaluation, due in January 2018, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 26 claims totaling \$23,963, did not contain a DCO-704 signed by a registered nurse verifying medical necessity. However, no claims were paid for dates when the recipient would have been ineligible. Questioned costs totaled \$0. (DDS Waiver).
- One client file, with 511 claims totaling \$29,738, did not contain documentation supporting the resources or income criteria, affecting 134 claims. Questioned costs totaled \$7,622.
In addition, 399 claims paid in 2017 were also affected. Questioned costs totaled \$22,258.
The annual reevaluation was also not completed timely. Even though a reevaluation was completed for August 2017, the SFY2017 reevaluation, due in October 2016, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 294 claims totaling \$11,867, did not contain documentation supporting the resources or income criteria, affecting 280 claims. Questioned costs totaled \$8,079.
In addition, 788 claims paid in 2017 and 2016 were also affected. Questioned costs totaled \$19,529 and \$5,274, respectively.
The annual reevaluations were also not completed timely. Even though a reevaluation was completed for March 2018, the 2016 and 2017 reevaluations, due in March of the respective years, had not been completed at the conclusion of audit fieldwork (Aid to the Disabled).
- One client file, with 158 claims totaling \$4,008, did not contain a DCO-704 signed by a registered nurse verifying medical necessity or verification of disability determination, affecting 108 claims. Questioned costs totaled \$1,869 (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1805AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file, with 312 claims totaling \$71,648, did not contain documentation supporting the resources or income criteria, affecting 237 claims. Questioned costs totaled \$19,447.
In addition, 229 claims paid in 2017, 2016, and 2015 were also affected. Questioned costs totaled \$52,324, \$47,515, and \$1,928, respectively.
The annual reevaluations were also not completed timely. Even though a reevaluation was completed for November 2017, the 2015, 2016, and 2017 reevaluations, due in June of the respective years, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 164 claims totaling \$54,253, did not contain documentation supporting the resources or income criteria, affecting 128 claims. Questioned costs totaled \$32,336.
In addition, 68 claims paid in 2017 were also affected. Questioned costs totaled \$25,711.
The annual reevaluations were also not completed timely. Even though a reevaluation was completed for April 2018, the SFY2017 reevaluation, due in November 2016, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 1 claim totaling \$4, did not contain documentation supporting the resource criteria, affecting the claim. Questioned costs totaled \$3.
In addition, 38 claims paid in 2017 were also affected. Questioned costs totaled \$4,550 (Aid to the Aged).
- One client file, with 10 claims totaling \$15,000, did not contain documentation supporting the resources or income criteria, affecting 9 claims. Questioned costs totaled \$9,090.
The annual reevaluations were also not completed timely. Even though a reevaluation was completed for May 2018, the 2017 and 2018 reevaluations, due in January of the respective years, had not been completed at the conclusion of audit fieldwork (Assisted Living Waiver).

Deficiencies related to eligible recipients with late initial determinations (no questioned costs):

- One client file did not have a timely initial eligibility determination. The application was received on December 5, 2017, but was not approved until January 30, 2018, exceeding the 45-day limit (ARChoices).
- One client file did not have a timely initial eligibility determination. The application was received on September 14, 2017, but was not approved until November 30, 2017, exceeding the 45-day limit (Aid to the Aged).
- One client file did not have a timely initial eligibility determination. The application was received on June 20, 2017, but was not approved until November 8, 2017, exceeding the 45-day limit (Aid to the Aged).
- One client file did not have a timely initial eligibility determination. The application was received on June 2, 2017, but was not approved until October 17, 2017, exceeding the 90-day limit for disability determinations (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1805AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file did not have a timely initial eligibility determination. The application was received on November 24, 2017, but was not approved until March 5, 2018, exceeding the 45-day limit (Aid to the Aged).
- One client file did not have a timely initial eligibility determination. The application was received on August 17, 2017, but was not approved until October 10, 2017, exceeding the 45-day limit (Aid to the Aged).

Deficiencies related to eligible recipients with late re-determinations. Although there are no questioned costs associated with these recipients, the total amount of claims paid (state and federal) as of fieldwork date of November 27, 2018, for dates of services between the time the reevaluation was due and the day before it was performed is noted below in order to show what could have been paid in error if the recipient had ultimately been deemed ineligible:

- One client file did not have a timely reevaluation, as it was due in October 2017 but was not completed until February 5, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$5,601 in state fiscal year 2018 and \$4 in state fiscal year 2019 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in December 2017 but was not completed until January 31, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$8,416 in state fiscal year 2018 and (\$263) in state fiscal year 2019 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in January 2018 but was not completed until February 28, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$356 in state fiscal year 2018 and \$282 in state fiscal year 2019 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in January 2018 but was not completed until March 7, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$636 in state fiscal year 2018 (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child).
- One client file did not have a timely reevaluation, as it was due in June 2017 but was not completed until September 10, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$1,472 in state fiscal year 2017, \$12,099 in state fiscal year 2018, and \$627 in state fiscal year 2019 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in November 2017 but was not completed until December 4, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$323 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in July 2017 but was not completed until November 7, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$1,057 in state fiscal year 2018 (Assisted Living Waiver).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number:	2018-014 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1805AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP
Federal Award Year(s):	2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected:	Eligibility
Type of Finding:	Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file did not have a timely reevaluation, as it was due in May 2018 but was not completed until June 21, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$5,615 in state fiscal year 2018 and \$773 in state fiscal year 2019 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in November 2017 but was not completed until January 5, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$528 in state fiscal year 2018 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in April 2018 but was not completed until June 20, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$685 in state fiscal year 2018 and \$511 in state fiscal year 2019 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in June 2016 but was not completed until October 22, 2018, after the recipient's file was selected for review. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$3,937 in state fiscal year 2016, \$49,890 in state fiscal year 2017, \$13 in state fiscal year 2018, and (\$923) in state fiscal year 2019 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in October 2017 but was not completed until November 1, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$4,884 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in August 2017 but was not completed until October 13, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$786 in state fiscal year 2018 (ARChoices).
- One client file did not have a timely reevaluation, as it was due in October 2017 but was not completed until February 21, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$10,888 in state fiscal year 2018 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in January 2017 but was not completed until October 25, 2018, after the recipient's file was selected for review. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$6,838 in state fiscal year 2018 (Assisted Living Waiver).
- One client file did not have a timely reevaluation, as it was due in October 2016 but was not completed until March 22, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$11,481 in state fiscal year 2018 and \$32 in state fiscal year 2019 (ARChoices).
- One client file did not have a timely reevaluation, as it was due in May 2017 but was not completed until October 19, 2018, after the recipient's file was selected for review. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$12,318 in state fiscal year 2018 and \$95 in state fiscal year 2019 (ARChoices).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP;
05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1305ARBIPP; 05-1405ARBIPP;
05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:

State Fiscal Year 2018 – \$ 150,272
State Fiscal Year 2017 – \$ 157,104
State Fiscal Year 2016 – \$ 57,523
State Fiscal Year 2015 – \$ 7,293
State Fiscal Year 2014 – \$ 4,080
State Fiscal Year 2013 – \$ 323

Cause:

Although the Agency has designed internal control procedures to review recipient files to ensure sufficient, appropriate evidence is provided to support the Agency's determination of eligibility, certain areas still require continued communication to and training of the appropriate Agency personnel.

Based on testing results, specific areas related to resource and income criteria require continued communication and training. Additionally, the Agency should review its procedures related to making determinations timely to ensure that both the initial determinations as well as the re-determinations are made in accordance with federal regulations.

Effect:

Payments to providers were made on behalf of ineligible recipients.

Recommendation:

ALA staff recommend the Agency continue providing adequate communication and training to appropriate personnel to ensure compliance with all program requirements as defined in the MS manual.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the findings. Effective October 1, 2017, financial eligibility for the Long Term Services and Supports Program was transferred to the Division of County Operations. The Long Term Services and Supports staff are specialized to focus only on this program. Additional resources have been allocated to this unit to reduce and eliminate the backlog of overdue re-evaluations and increase the number of second party reviews completed on these cases to ensure that appropriate documentation is included in the case files. The reallocation of staff was completed as of March 2018. The backlog of evaluations was eliminated as of January 1, 2019. The Agency will continue to follow the process implemented as part of the corrective action to ensure continued timely processing of applications and evaluations. The Agency has also updated the DHS-704 (Decision for Nursing Home/Waiver Placement Form) to capture the effective date and review date for the medical necessity determination, which will prevent what appears to be a lack of a medical necessity determination.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1305AR5MAP; 05-1405AR5MAP;
05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1305ARBIPP; 05-1405ARBIPP;
05-1505ARBIPP
Federal Award Year(s): 2013, 2014, 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action (Continued):

Anticipated Completion Date: Complete
Contact Person: Mary Franklin
Director, Division of County Operations
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 682-8377
Mary.franklin@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number:	2018-015
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	05-1705AR5MAP; 05-1805AR5MAP; 05-1705AR5ADM; 05-1805AR5ADM; 05-1705ARINCT; 05-1805ARINCT; 05-1705ARIMPL; 05-1805ARIMPL
Federal Award Year(s):	2017 and 2018
Compliance Requirement(s) Affected:	Matching, Level of Effort, Earmarking
Type of Finding:	Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year findings 2017-017, 2016-016, 2015-015, and 2014-010.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over a federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the term and conditions of the federal award.

42 CFR §§ 433.10 and 433.15 established rates to be used to calculate non-administrative and administrative state match and require that the State pay part of the costs for providing and administering the Medical Assistance Program (MAP).

Condition and Context:

The Agency's documented internal control policies and procedures state that quarterly comparisons of federal draws to expenditures are completed and variances are researched, ensuring that state matching funds are adequate and meet the required non-federal portion. During discussions between ALA and Agency staff, the Agency disclosed that quarterly comparisons were not prepared in fiscal year 2018. As a result, ALA concluded that the Agency's documented internal control policies and procedures were not implemented or effective.

Because the Agency did not prepare any quarterly comparisons to identify and research variances, ALA reviewed all 12 monthly funding reports for 2018 and compared the information to the reported match on the four quarterly reports to determine if the required state match for fiscal year 2018 was adequate. ALA review revealed that the Agency did not meet the required match by \$47,343,219.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$47,343,219

Cause:

The Agency did not adhere to its documented internal control policies and procedures by preparing the quarterly comparisons.

Effect:

State match was not met, limiting the Agency's ability to effectively manage the grant.

Recommendation:

ALA staff recommend the Agency adhere to its established internal control policies and procedures over matching to ensure appropriate state match.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-015 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP; 05-1705AR5ADM;
05-1805AR5ADM; 05-1705ARINCT; 05-1805ARINCT;
05-1705ARIMPL; 05-1805ARIMPL
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Matching, Level of Effort, Earmarking
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with and disputes, in part, this finding. The Agency has submitted a reconciliation to Arkansas Legislative Audit that shows a variance of less than 1%. The CMS-21 and CMS-64 reports contained prior-period adjustments that correct previous quarters but do not impact actual non-federal draws. The Agency must calculate a non-federal share on any item that is reported on the reports. The Agency believes the finding that it did not meet the required match by \$47,343,219 is not accurate.

DHS concurs that timely reconciliations of CMS-21 and CMS-64 filings have not been completed. The Agency has developed internal controls to ensure reports are accurate and timely filed and has procured a contract with a company to develop a process and perform reconciliations for the CMS-64 and CMS-21 reports beginning with the December 31, 2018, filings.

Anticipated Completion Date: 06/30/19

Contact Person: David McMahon
CFO for Medicaid Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 396-6421
David.mcmahon@dhs.arkansas.gov

Additional Comments from the Auditor:

As stated in the finding, the Agency was unable to provide any supporting documentation for the reported match. The Agency's response states it provided ALA a reconciliation showing a variance of less than 1%. The Agency provided ALA the reconciliation on February 26, 2019, **10 weeks after the end of fieldwork (December 14, 2018)**. As a result, ALA has not reviewed the accuracy or completeness of the reconciliation as it relates to this finding. The reconciliation will be reviewed during ALA's required follow-up procedures during the 2019 Single Audit that will begin in July 2019.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number:	2018-016
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s):	2017 and 2018
Compliance Requirement(s) Affected:	Period of Performance
Type of Finding:	Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding 2017-011.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over a federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the term and conditions of the federal award.

2 CFR § 200.62 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

- 1) Transactions are properly recorded and accounted for to:
 - a) Permit the preparation of reliable financial statements and reports.
 - b) Maintain accountability over assets.
 - c) Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- 2) Transactions are executed in compliance with:
 - a) Federal statutes, regulations, and the terms and conditions of the award.
 - b) Federal statutes and regulations identified in the compliance supplement.
 - c) Funds, property, and other assets are safeguarded against loss.
- 3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Additionally, 42 CFR § 447.45(d) requires the Medicaid Agency to require providers to submit all claims no later than 12 months from the date of service. For claims also paid under Medicare (crossover claims), the provider must submit the Medicaid claim for the same service within six months after the Agency or the provider receives notice of the disposition of the Medicare claim. The Agency may make payments at any time in accordance with a court order; to carry out hearing decisions or Agency corrective actions taken to resolve a dispute; or to extend the benefits of a hearing decision, corrective action, or court order to others in the same situation as those directly affected by it.

Per Section 302.400 of the Arkansas Medicaid provider manuals, retroactive eligibility does not constitute an exception to the timely filing requirement. If an administrative action delays an eligibility determination, the provider must submit the claims within the 12-month filing deadline. If the claim is denied for recipient ineligibility, the provider may resubmit the claim after eligibility is determined. The provider manual lists specific instructions for filing claims when recipient eligibility has not been determined.

Condition and Context:

During the state fiscal year 2016 audit, the Agency notified ALA that the Agency was temporarily removing the timely filing edits from the Medicaid Management Information System (MMIS) during state fiscal year 2017. Documentation provided to ALA revealed that CMS had denied the Agency's request for a waiver from the timely filing regulations. In response to a prior-year finding, the Agency provided documentation that the timely filing edits were reinstated effective July 1, 2017. However, ALA discovered that, at the time the edits were reinstated, the Agency updated the "method of correction" for the timely filing edits to instruct Agency and DXC staff to force claims for payment if the claims were filed during the time the edits were turned off and met criteria established during that time period (i.e., date of service after October 1, 2013).

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-016 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Period of Performance
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

Also, while performing follow-up procedures for prior-year findings, Agency staff discovered that the logic for the new MMIS, which was implemented on November 1, 2017, was changed (as requested by DMS) to bypass the timely filing edit if a recipient's eligibility add date was within one year from the date of service. This change is in direct conflict with the federal code noted above (42 CFR § 447.45(d)) and Section 302.400 of the Arkansas Medicaid provider manual and caused the timely filing edit to be ineffective for some claims.

Additionally, ALA performed testing to determine the effectiveness of the timely filing edits. For this testing, ALA obtained claims data for all claims payments made during state fiscal year 2018 through a direct data download established with the Agency. From these data, ALA identified all claims that failed to meet the timely filing requirement and separated them into two separate populations for review. To determine if claims were allowable, ALA requested documentation of previously filed claims, in accordance with section 302.400 of the provider manual, or documentation of a court order, hearing decision, or corrective action, in accordance with 42 CFR § 447.45, for the identified claims for each population.

Medicare Crossover Claims Without Medicare Paid Date: ALA identified 4,343 Medicare crossover claims without Medicare paid dates, totaling \$181,179, that did not meet the timely filing requirement. ALA selected a sample of 60 claims for testing. Testing revealed 26 claims totaling \$683 were paid in violation of federal regulations for timely filing requirements. The federal portion of known questioned costs totaled \$429 for the Medical Assistance Program (MAP). Likely questioned costs were calculated and totaled \$38,797, which is above the \$25,000 threshold requiring the issue to be reported.

Regular Timely Filing Claims: ALA identified 3,735 claims, including Medicare Crossover claims, with Medicare paid dates, totaling \$1,807,206, that did not meet the timely filing requirement. ALA selected a sample of 60 claims for testing. Testing revealed 56 claims totaling \$16,992 were paid in violation of federal regulations for timely filing requirements. The federal portion of known questioned costs totaled \$11,992 for the MAP. Likely questioned costs were calculated and totaled \$1,244,284, which is above the \$25,000 threshold requiring the issue to be reported.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$12,421

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-016 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Period of Performance
Type of Finding: Noncompliance and Material Weakness

Cause:

Prior-year finding 2017-011 revealed the Agency removed the timely filing requirement edits in the MMIS Legacy System. To correct this issue, the Agency reinstated the edits effective July 1, 2017; however, when the edits were reinstated, the Agency also changed the “method of correction” in the Claims Resolution Manual to instruct Agency and DXC staff to force the claims for payment if the claims were filed during the time period the edits were removed. This change caused the edit to be ineffective for these claims.

Additionally, the Agency instructed DXC to change the logic in the timely filing edits for the new MMIS Interchange system to use the date the eligibility segment was added to determine if the claims were filed timely, for claims that did not meet the timely filing requirements based on the date of service. This change is in direct conflict with both the federal regulations governing the timely filing requirement and with the Agency’s Arkansas Medicaid Provider Manual and allowed the Agency to turn the timely filing edit back on but continue to bypass the rules set by the federal regulations.

Effect:

Failure to develop, implement, and follow documented internal controls limits the Agency’s ability to manage grants and track expenditures effectively.

Recommendation:

ALA staff recommend the Agency promptly correct the logic in the MMIS Interchange system to properly determine compliance with timely filing regulations and to develop and implement internal controls over claims payments in MMIS to ensure consistency and accuracy. The Agency should allow existing internal controls that are operating effectively to remain in place. The Agency should establish a process to manually review the claims that MMIS rejects due to timely filing requirements. ALA also recommends the Agency institute a review system to ensure that management understands the potential impact of all system logic changes made by the vendor to the MMIS Interchange System.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. DHS has submitted a corrective action plan to CMS detailing the corrective action taken to address timely filing issues. The Agency updated the MMIS to deny claims submitted outside of the timely filing deadline and performs a monthly review of all claims billed in excess of 365 days of the date of service to ensure their validity. Additionally, the Agency holds a bi-weekly meeting in which all MMIS system edits are reviewed and discussed with the MMIS vendor and the Office of Medicaid Inspector General. The Agency will continue to work with the MMIS contractor to prioritize system changes that could potentially impact the timely filing process. The Agency has limited personnel authorized to approve claims suspended for timely filing to the DMS Director and DMS Deputy Director and will develop training materials addressing timely filing and the approval process.

Anticipated Completion Date: 06/30/19

Contact Person: Janet Mann
Director, Division of Medical Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6270
Janet.mann@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-017
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP; 05-1705ARINCT; 05-1805ARINCT
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

Not applicable

Criteria:

In accordance with 45 CFR § 75.327(a), a non-federal entity must use its own documented procurement procedures that reflect applicable state regulations, provided that the procurements conform to applicable federal law.

In addition, 45 CFR § 75.413 defines direct costs as those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity or that can be directly assigned to such activities relatively easily and with a high degree of accuracy.

Finally, 45 CFR § 75.405(d) states that if a cost benefits two or more projects or activities, the cost must be allocated to the projects based on the proportional benefit.

Condition and Context:

ALA's review of contracts revealed two instances of noncompliance.

Contracts are governed by Ark. Code Ann. §§ 19-11-1001 – 19-11-1014. Ark. Code Ann. § 19-11-1006(a)(1) provides that contracts be presented to specific legislative committees if the total initial amount or the total projected amount of the contract is at least \$50,000. First, ALA review revealed that the Agency issued payments for travel expenses that were not included in a contract agreement, even though the travel was necessary for the vendor's fulfillment of its contract obligation. The contract for professional services totaled \$49,999, and the vendor received the full payment. In addition, two warrants, totaling \$9,531, were issued to the vendor for reimbursement of travel expenses. Expenditure documentation obtained from the Agency revealed that the travel was directly related to the fulfillment of the contract. Because these payments were split, the contract did not exceed the \$50,000 threshold that would have required additional oversight by the Legislature. Additionally, Ark. Code Ann. § 19-11-1006(f) states that it is a violation of state procurement laws for an Agency to procure services in an incremental or split purchase.

Second, ALA staff discovered that contract expenditures, totaling \$725,961, for the Agency's cost allocation system were paid using 100% Medicaid funds. The Agency's cost allocation system is designed to allocate costs to various Agency divisions and federal programs and is not used solely for Medicaid or Division of Medical Services (DMS) purposes. The contract expenditures for the cost allocation system should have been allocated across other divisions and programs.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Travel issue: \$59,530 (federal portion is \$29,765)

Cost allocation issue: \$725,961 (federal portion is \$362,981)

Cause:

The Agency misinterpreted Arkansas Code and also failed to adhere to appropriate federal regulations regarding allocation of costs when the cost benefits two or more projects.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-017 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP;
05-1705ARINCT; 05-1805ARINCT
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Noncompliance and Material Weakness

Effect:

The Agency did not receive appropriate oversight regarding the contract, as it would have exceeded the \$50,000 threshold. In addition, because the cost allocation system benefits more than the Medicaid program, only a portion of the costs should have been paid with Medicaid funds.

Recommendation:

ALA staff recommend the Agency adhere to applicable state and federal procurement laws. ALA staff further recommend that the Agency ensure all costs are allocated to the proper federal programs to ensure proper reporting and expenditure records.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The Agency will follow all statutorily required contract thresholds as related to procurement method and legislative review, including any and all travel expenses or "other items of costs contemplated to be paid." While Medicaid and divisions supported by Medicaid funding received the greatest portion of the benefit from the new cost allocation system, DHS has adjusted its method of payment to reapportion the costs of the system. Invoices for dates of service from October 1 through December 31, 2018, were spread among divisions and offices. The vendor, Public Consulting Group (PCG), and the Agency discussed at the January on-site meeting potential ways to allocate CAP/AlloCAP™ invoices related to the system. PCG is currently reviewing outcomes of both a head count allocation and an amount per benefitting program allocation and will provide the Agency additional information. The Agency will then implement the updated, recommended method of allocation across the Agency.

Anticipated Completion Date: 06/30/19

Contact Person: Misty Eubanks
Chief of Business Operations
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6327
Misty.eubanks@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-018
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP;
05-1705ARINCT; 05-1805ARINCT
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Material Weakness

Repeat Finding:

A similar issue was reported in prior-year findings 2017-019, 2016-027, and 2015-024.

Criteria:

In accordance with 45 CFR § 75.303, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award.

In addition, 42 CFR § 455.436(c)(2) requires the state Medicaid agency to check the List of Excluded Individuals and Entities (LEIE) maintained by the U.S. Office of Inspector General and Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) no less frequently than monthly because, as stated in 2 CFR § 180.415(a), if a participant in the Medicaid Program is excluded by a federal agency after entering into covered transactions, the Agency should decide whether to terminate and the type of termination action, if any, only after a thorough review to ensure that the action is proper.

Condition and Context:

According to DMS staff, DXC is contracted to ensure that enrolled providers in the Medicaid Program are not suspended, debarred, or otherwise excluded from participating in the Medicaid Program. The contractor accomplishes this verification process by working with LexisNexis to perform monthly checks against various federal databases, such as EPLS and the LEIE. DXC is contracted to provide an electronic copy of the reports, generated by LexisNexis, to the Agency on the third Friday of every month. These reports identify providers who have been flagged by one of the exclusion databases. DMS staff are then responsible for determining whether an identified provider remains eligible to participate in the Medicaid Program.

ALA staff requested LexisNexis reports and documentation of the Agency's review of these reports for the months of July 2017, October 2017, January 2018, and May 2018 to ensure reports were received and reviewed timely. ALA review revealed that the Agency failed to perform the reviews each month as indicated in its control policies and procedures as follows:

- DMS review of the July 2017 match report was performed in September 2017, two months late.
- DMS review of the October 2017 match report was performed in January 2018, three months late.
- The January 2018 and May 2018 match reports were not reviewed by DMS until August 2018, seven and three months late, respectively.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-018 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP;
05-1705ARINCT; 05-1805ARINCT
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Material Weakness

Cause:

As in previous years, DXC failed to complete the review of the LexisNexis reports and gather relevant documentation for DMS. This failure by DXC to fulfill contract deliverables should be considered a breach of contract and has caused the Agency's review process to be slow and incomplete.

In February 2018, DMS staff began requesting the reports directly from LexisNexis, which is a deviation from the Agency's established and documented controls. This is a failure by DMS to follow the established internal control and a failure by DXC to fulfill contract deliverables on suspension and debarment reviews.

Effect:

Failure to review the monthly reports could result in continued enrollment of providers who have been excluded from participation in the Medicaid Program.

Recommendation:

ALA staff recommend the Agency adhere to its established internal control procedures regarding suspension and debarment to ensure that enrolled providers in the Arkansas Medicaid Program are not excluded from participation.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The Agency will develop a process for performing and expediting provider eligibility reviews and will manage the review process through a Sharepoint site or another product of comparable functionality.

Anticipated Completion Date: 06/30/19

Contact Person: Janet Mann
Director, Division of Medical Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6270
Janet.mann@dhs.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-019
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 42 CFR § 433.40(c), checks that are uncashed beyond a 180-day period are no longer considered an allowable expenditure. At the end of each quarter, the State is required to identify these checks and must refund the federal portion of the original expenditure by adjusting the Quarterly Statement of Expenditures (CMS-64 report) for that quarter.

Condition and Context:

While performing testing of reported expenditures, ALA noted that no checks considered “stale dated” (uncashed after 180 days) had been reported since the new MMIS Interchange system was implemented. Further review revealed 376 stale dated checks totaling \$295,127 had not been reported during state fiscal year 2018. The federal portion of this total is \$209,046.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$209,046

Cause:

During testing of the new MMIS Interchange system, the Agency’s vendor noted an issue in processing check status for checks issued under the old MMIS. Once the new MMIS was implemented, the vendor did not initially run the stale date process due to concerns regarding the process’ effect on checks issued in the old system. The vendor then failed to research and correct issues regarding this process and failed to identify checks that remained uncashed more than 180 days past the issue date.

Effect:

The Agency failed to report \$295,127 in stale dated checks and failed to refund the federal portion of those checks.

Recommendation:

ALA staff recommend the Agency establish appropriate procedures to ensure that checks that are not cashed more than 180 days after the issue date are identified and properly reported on the quarterly CMS-64 report.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. With the implementation of the DXC Interchange, DHS, through its Division of Medical Services (DMS), instituted a requirement for electronic transfers of Medicaid monies to providers. This requirement has been implemented over the year following the implementation of Interchange. As such, the process of stale checks will not be an issue in coming fiscal years.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-019 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action (Continued):

Because of the implementation of the requirement for electronic transfer of funds (EFT), the report that DMS had used to determine stale dated checks was not continued from Legacy to Interchange. The Agency requested DXC to research the outstanding checks that were in the Interchange system. The following were determined:

- Active providers with an EFT Agreement	112
- Active providers with no EFT Agreement	357
- Inactive providers	71
- Checks Returned by Providers	81

The Agency and DXC will take the following actions:

- EFT with the February 22, 2019, payment cycle to active providers with an EFT agreement.
- Re-issued check with the February 22, 2019, payment cycle to active providers with no EFT agreement.
- Inactive providers and checks returned by providers will be considered stale dated and federal funds returned on the March 31, 2019, CMS-64.

Additionally, at the end of each quarter, the Agency will request a report from DXC to verify that no checks are in the stale date range.

Anticipated Completion Date: 4/30/19

Contact Person: David McMahon
CFO for Medicaid Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 396-6421
David.mcmahon@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-020
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Special Tests and Provisions – Provider Eligibility
Type of Finding: Material Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding 2017- 012.

Criteria:

According to section 140.000, Provider Participation, any provider of health services must be enrolled in the Arkansas Medicaid Program prior to reimbursement for any services provided to Arkansas Medicaid beneficiaries. Enrollment is considered complete when a provider has signed and submitted the following forms:

- Application.
- W-9 tax form.
- Medicaid provider contract.
- PCP agreement, if applicable.
- EPSDT agreement, if applicable.
- Change in ownership control or conviction of crime form.
- Disclosure of significant business transactions form.
- Specific license or certification based on provider type and specialty, if applicable.
- Participation in the Medicare program, if applicable.

42 CFR § 455.414 (effective March 25, 2011, with an extended deadline of September 25, 2016, for full compliance) states that the State Medicaid Agency must revalidate the enrollment of all providers at least every five years. Revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. Screening activities vary depending on the risk category of the provider as follows:

- The limited-risk category includes database checks.
- The moderate-risk category includes those required for limited plus site visits.
- The high-risk category includes those required for limited and moderate plus fingerprint background checks.

Condition and Context:

ALA staff reviewed 60 paid providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. ALA review revealed deficiencies with 40 of the provider files as follows:

- Five high-risk and 10 moderate-risk providers did not comply with the additional screening requirements.
- One moderate-risk provider did not submit a license that covered the complete time of enrollment during fiscal year 2018.
- Two moderate-risk and 17 limited-risk providers did not have a new application on file.
- One moderate-risk and nine limited-risk providers did not have disclosure forms on file.
- Eight limited-risk providers did not submit a new application by the September 25, 2016, extended deadline. As result, payments made to those providers for dates of service between September 26, 2016, and their actual application date will be considered questioned costs.
- One limited-risk provider did not have a W-9 form.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-020 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2017 and 2018
Compliance Requirement(s) Affected: Special Tests and Provisions – Provider Eligibility
Type of Finding: Material Noncompliance and Material Weakness

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$3,572,108

Cause:

Although the Agency has designed internal control procedures to review recipient files to ensure sufficient, appropriate evidence is provided to support the Agency's determination of eligibility, certain areas still require continued communication to and training of the appropriate Agency personnel.

Specifically, the Agency should ensure that adequate procedures are in place to ensure compliance with the federal requirement related to the revalidation of providers. Based on testing results, most deficiencies were related to either the revalidation itself or the additional screening requirements, which are due upon revalidation. There was no documentation provided of any site visits or fingerprint background checks performed.

Effect:

Claims payments to ineligible providers were processed and paid.

Recommendation:

ALA staff recommend the Agency strengthen controls to ensure required enrollment documentation is maintained to support provider eligibility.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency has submitted a corrective action plan to CMS detailing the corrective action taken to address timely filing issues. The plan, which was accepted by CMS, provides that the Agency will establish the following:

- Procedures for the provider enrollment unit's use of MAC information, when applicable.
- Procedures for provider revalidation.
- Procedures for completion of provider site visit requirements associated with enrollment and re-validation.
- Procedures to ensure compliance with fingerprint and background check requirements.

The Agency will also maintain all provider enrollment files electronically. An anticipated completion date for this specific corrective action will be established upon the determination of available contractor resources.

Anticipated Completion Date: 6/30/19

Contact Person: Janet Mann
Director, Division of Medical Services
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6270
Janet.mann@dhs.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Finding Number: 2018-021
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Special Tests and Provisions –
Claims Paid Subsequent to Recipient Death
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:

A similar issue was reported in prior-year finding 2017-022.

Criteria:

It is the State's responsibility to ensure that claims are only paid for eligible Medicaid recipients and that any changes to a recipient's eligibility be updated timely. According to Section I-600 of the Medical Service Policy Manual, the Arkansas Department of Human Services (DHS) is required to act on any change that may alter eligibility within 10 days of receiving the change. One of the changes listed that could affect eligibility is death of the recipient. Additionally, Section I-610 of the manual indicates that a recipient loses eligibility upon death.

Condition and Context:

The Arkansas Department of Health provided ALA with a list of deceased individuals, which ALA used to identify individuals who had claims or capitation payments paid or adjusted in state fiscal year 2018 with dates of service after their date of death. The resulting population was split into those related to claims payments and those related to capitation payments.

ALA staff review of 60 recipients with claims paid for dates of service subsequent to the date of death revealed the following:

- Twenty-one recipients had claims paid for dates of service after their date of death. These claims had not been recouped as of fieldwork date October 26, 2018. Questioned costs totaled \$1,408.
- For twenty-two recipients, the Medicaid Management Information System (MMIS) did not have a date of death recorded, or the date of death was not correct as of fieldwork date December 6, 2018.

ALA staff review of 60 recipients with capitation payments for dates of service subsequent to the date of death revealed the following:

- Forty-three recipients had capitation payments paid for dates of service after their date of death. These claims had not been recouped as of fieldwork date November 15, 2018. Questioned costs totaled \$1,328, \$2, \$106, and \$38 for state fiscal years 2018, 2017, 2016, and 2015, respectively.
- For 16 recipients, MMIS did not have a date of death recorded, or the date of death was not correct as of fieldwork date December 6, 2018.
- For seven recipients, capitation payments were paid more than six months past the date of death and ranged from 7 to 27 months.

Statistically Valid Sample:

Not a statistically valid sample

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Finding Number: 2018-021 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP
Federal Award Year(s): 2015, 2016, 2017, and 2018
Compliance Requirement(s) Affected: Special Tests and Provisions –
Claims Paid Subsequent to Recipient Death
Type of Finding: Noncompliance and Significant Deficiency

Questioned Costs:

State Fiscal Year 2015 – \$ 38
State Fiscal Year 2016 – \$ 106
State Fiscal Year 2017 – \$ 2
State Fiscal Year 2018 – \$2,736

(Known questioned costs greater than \$25,000 are required to be reported. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000.)

Cause:

Although the Agency has designed internal control procedures to ensure recipient files are updated upon the death of a recipient, certain areas still require continued communication to and training of the appropriate Agency personnel.

Effect:

Claims and capitation payments were made on behalf of deceased recipients.

Recommendation:

ALA staff recommend the Agency strengthen controls to ensure recipient files are updated timely when a recipient dies so that claims for dates of service subsequent to the date of death are not paid.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. The Agency will update its MMIS to populate the date of death received from its eligibility system in a date of death data field as opposed to an eligibility data field. A daily automatic process is currently in place through which paid claims with a date of service proceeding a date of death are recouped. The Agency will also update its internal reconciliation process to automatically recoup pharmacy and legacy system processed claims that were paid subsequent to recipient date of death.

Anticipated Completion Date: 6/30/19

Contact Person:

Matt Rocconi
Arkansas Medicaid Enterprise IT Director
Department of Human Services
700 Main Street
Little Rock, AR 72201
(501) 320-6175
Matt.rocconi@dhs.arkansas.gov

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF HUMAN SERVICES
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

According to 19-4-1502 of the State Financial Management Guide, it is the responsibility of the executive head of each state agency to keep and maintain a record of all property of the agency belonging to the State of Arkansas, and regulation R1-19-4-1503 states that all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets. While performing an observation of capital assets, we noted the following:

Out of a sample of 60 equipment items:

- Two equipment items could not be located for observation.
- Five equipment items had a different serial number than the serial number recorded in AASIS.
- Three equipment items did not have a serial number recorded in AASIS.

Recommendation:

We recommend the Agency perform a 100% inventory observation, make any corrections needed for inaccurate or incomplete information in AASIS, and strengthen controls over capital assets by ensuring that management periodically reviews asset information for accuracy and completeness.

Agency Response:

DHS concurs with this finding. The Office of Payment Integrity and Internal Audit and Office of Finance have developed a process to review the accuracy of our capital asset data. All incorrect data will be updated within AASIS and other databases used by the Agency to track assets. The Agency will also explore the use of a mobile asset inventory solution to assist in tracking of assets. Expected Completion Date: 12/31/19.

Finding:

Regulation R1-19-4-1503 of the State Financial Management Guide states that the executive head of each state agency is not in any way relieved of the duty to account for all state property under his/her control regardless of the dollar value, and the Capital Asset Guidelines issued by DFA state that agencies are required to record their asset inventory in the AASIS system based on the established tracking and capitalization thresholds. During a review of checks written from the Gifts and Bequest account, we noted one check written for the purchase of a green house, totaling \$3,395, that meets the Capital Asset Guidelines definition of equipment-low value that is not being accounted for in AASIS.

Recommendation:

We recommend the Agency strengthen controls over capital assets by ensuring that all equipment-low value assets are added to the AASIS asset listing for proper tracking and accountability.

Agency Response:

DDS concurs with the finding. The Agency first implemented a policy regarding Gift and Bequest Accounts in the Spring of 2018. Since that time the policy has been revised as necessary and was last updated on July 1, 2019. The CFO of DDS holds a monthly meeting with the business managers of the Human Development Centers (HOC) and any updates in policies are provided at that time. Per DHS policy, each HOC and DDS Central Office has its own Gifts and Bequests Bank Account for the deposit and tracking of gifts and bequests of cash (or donations converted to cash). Any purchase intended to be paid for with Gift and Bequest Account funds must follow the process outlined in the DDS Gifts and Bequests Account Guidance policy. The policy outlines the process for approval and purchase of items using Gift and Bequest Account funds and the recording of such assets into the AASIS system.

Finding:

Regulation R1-19-4-805 of the State Financial Management Guide states that bank accounts must be reconciled to the bank account statement monthly. During a review of the Arkansas Medicaid Program Refund Account II, we noted two instances where a check had been posted twice in AASIS. Although the checks had cleared the bank during the fiscal year, due to the duplicate recordings the Agency continued to list them as outstanding checks on the bank reconciliation at year end, resulting in an understatement of the Agency's book balance of \$61,035. Lack of internal controls over the recording and reconciliation of the Medicaid Refund account could lead to the misappropriation of state funds and to misstatements of the Agency's financial statements.

Recommendation:

We recommend the Agency review and follow the cash management procedures established in Regulation R1-19-4-805 of the State Financial Management Guide. We further recommend the Agency strengthen controls over the recording and reconciliation of bank statement activity by ensuring that responsible personnel are properly trained.

Agency Response:

The Office of Finance concurs with this finding. Internal controls have been updated to require all checks to be entered on a "Manual Check Log." Each entry on the log must include the check number along with a corresponding document entry number to reflect that the check has been recorded. This process will prevent duplicate postings of checks.

Finding:

Sound internal controls over the monitoring and review of account transfers and AASIS journal entries must be sufficient in order to prevent mistakes of account balances. During our review of the Medicaid Drug Rebates bank account, we found that the Agency did not adequately monitor the accuracy of Medicaid drug rebate monies being transferred from the account to the state treasury fund. We noted one instance in which the Agency failed to transfer \$127,979 in rebate monies received and three instances, totaling \$3,103, in which the Agency transferred more rebate monies than had been received. In addition, the Agency incorrectly recorded \$12,786,595 in Medicaid drug rebate funds held for transfer at fiscal year-end. The AASIS journal entry reported this as revenue in a cash fund when it should have been reported as revenue in a treasury fund. Lack of proper monitoring over transfers and journal entries could lead to the misappropriation of state funds and to misstatements of the Agency's financial statements.

Recommendation:

We recommend the Agency strengthen controls over monitoring by implementing procedures to detect and/or prevent incorrect transfers and journal entries.

Agency Response:

The Office of Finance concurs with this finding. A new process has been developed in which Accounts Receivable Unit (AR) provides Managerial Accounting (MA) with a 1018 form identifying principal and interest for each drug rebate deposit. MA creates a deposit form to deposit the funds into the AASIS Drug Rebate Fund (MRPOIOO) and verifies the amount of rebates recorded in AASIS matches the rebate amount identified by AR. Transfers to the state treasury fund are prepared by reviewing the sum of all drug rebates and are transferred to the treasury fund (7007127). The Agency's Managerial Accounting Unit has developed a process to review batch amount of drug rebate funds to the deposits recorded in AASIS. Transfers to the AASIS Drug Rebate Fund are also verified by Managerial Accounting to ensure the amount transferred matches the batch report.

Finding:

During a review of purchasing card transactions, we noted that the Agency purchased 10 amusement park season passes, totaling \$1,245, for 10 foster children under Title IV-E of the Foster Care Program. According to the Regional Program Manager of the U.S. Department of Health and Human Services Administration for Children and Families, the cost of the amusement park season passes would be considered already covered under the child's Title IV-E maintenance cost or per diem rate provided to the caregiver under Section 475(4)(A)(ii) of the Social Security Act. Therefore, the Agency's purchase of the season passes is considered unallowable. Additionally, the Agency did not maintain outside source documentation of the children for whom the passes were actually purchased or documentation of the applicable caregiver's receipt of the passes.

Recommendation:

We recommend the Agency review and follow the foster care federal program guidelines concerning allowable expenses. We also recommend the Agency maintain proper supporting documentation for purchases made that could potentially be misdirected for personal use.

Agency Response:

DCFS concurs with this finding. The Agency has created an internal control procedure to ensure that unallowable expenses are not paid using Title IV-E funds. Under the new agency control, amusement park tickets and similar types of unallowable expenses will be evaluated on a case-by-case basis and, if approved, payment will be made from State revenue or other appropriate funding. In this instance, a coding error caused the unallowable expenses to be paid from Title IV-E funds. Currently, a caseworker checks the CHRIS system for allowable expenses and coding when submitting a request for payment from funds. A financial coordinator reviews the request. The request is then sent to the supervisor and area director for approval. Once approved, the request is sent back to the financial coordinator. The financial coordinator sends the approved request to the budget specialist, who checks to ensure the coding is correct. If the request involves an unallowable expense under Title IV-E, the request is sent to a procurement manager who checks that the correct code has been entered. After verification of coding is made, the procurement manager returns the request to the budget specialist. If a request is to be paid out of State revenue, the division director and assistant director of community services must approve. The Agency has also created a chain of custody form to track who tickets are purchased for and to document the receipt of any purchased tickets.

Finding:

Ark. Code Ann. § 19-4-1005(a) states that agencies are responsible for ensuring that state credit cards are used only for authorized expenditures. During our review of 105 WEX fuel card transactions, totaling \$7,578, we noted seven questionable charges totaling \$773. Agency personnel said they were unaware of these charges until we inquired about them. Subsequently, the Agency disputed the charges with WEX, although 17 months has passed since they were incurred, and is seeking reimbursement. Lack of adequate review over fuel card transactions could lead to the misappropriation of assets. In addition, the Agency was unable to provide supporting documentation and the applicable vehicle logs for 37 fuel card purchases totaling \$2,511, in violation of Ark. Code Ann. § 19-4-1103(c)(5).

Recommendation:

We recommend the Agency establish adequate internal controls over the review and payment of authorized fuel card transactions. We also recommend the Agency maintain proper supporting documentation and vehicle activity logs for all fuel card purchases.

Agency Response:

The Office of Procurement (OP) concurs with this finding. OP is responsible for pool vehicles. Each division is responsible for entering usage data into the DHS Fleet Database on a monthly basis. Vehicle logs and receipts must be maintained for 3 years. The usage data is also entered in the Department of Finance and Administration's SAVA system by the fleet manager. OP has access to the WEX database, which contains financial details for all vehicles. OP maintains a spreadsheet that has an office contact for each division for purposes of vehicle management. OP will begin sending out the WEX reports to each division contact on a monthly basis. The WEX report will contain the vehicle information along with daily charges incurred on that vehicle's assigned WEX card. OP will require each division to check the report to identify any discrepancies. In the event of any fraudulent charges, OP will assist the divisions in the dispute process. All of the listed findings involved internal clients within the Agency. There were established processes that were not followed which resulted in the audit findings listed. It is the Agency's responsibility to educate internal clients and provide the most streamlined processes to ensure issues like these are resolved moving forward. There are seven key actions the Agency will implement to train divisional clients and continue to improve the vehicle data tracking, WEX card review, and records retention process. Those actions are as follows:

- 1) The Agency will continue to request that our divisional/office clients provide us with any changes to our current vehicle contact list. These are the staff tasked with client data input into our Fleet Database, WEX card transaction reviews, and records retention.
- 2) Between the 16th and 20th of each month, we will provide our client contacts a detailed WEX card transaction/billing report. They will be able to view every transaction for each vehicle's assigned card. They will be able to reference this data against their hard copy monthly log document each month and verify receipts received.
- 3) We will provide detailed instructions from DFNWEX that illustrates the process of transaction disputes. We will provide best practice information on card skimming.
- 4) We will reiterate the importance of entering timely, complete, and accurate data each month into the DHS Fleet Database.
- 5) We will reiterate the existing practice for vehicle monthly logs, including original WEX card receipts to be retained by each client's vehicle contact for a period of three years.
- 6) We will encourage our vehicle contacts to ensure their vehicle assets are listed correctly in AASIS's inventory listings.
- 7) We will offer training regarding any function or process of vehicle fleet management.

Finding:

During our review of the Arkansas State Hospital Patients' Money Fund, we noted the patient ledger contained 17 accounts with negative balances, totaling \$2,105. The majority of this total was due to one patient's negative account balance. According to the patient ledger, the patient had a balance of \$70 in his account. However, when the patient was discharged, the Agency issued a check in the amount of \$1,421, resulting in an overpayment of \$1,351. Lack of due diligence in the verification of patients' balances could lead to the misappropriation of patients' funds. We also noted an account labeled "Miscellaneous" with a negative balance of \$444. Improper accounting could also lead to the misappropriation of patients' funds.

Recommendation:

We recommend the Agency properly monitor and account for patients' funds that have been entrusted to its care by implementing sound internal control procedures in the documenting, recording, and reconciliation of patients' funds. We further recommend Agency management review all patient ledger balances to ensure they are correct and implement procedures to ensure that no account balance is allowed to become negative.

Agency Response:

The Arkansas State Hospital concurs with this finding. Patient ledger accounts are currently maintained using QuickBooks. By summer 2019, those accounts will be maintained using EHR. The contract was signed in fall 2018, and the vendor is currently on site. Patient accounts are currently reviewed three times a day by staff by running a QuickBooks report for each unit.

Patients are allowed a weekly stipend not to exceed \$20, and any money remaining in the account upon discharge is distributed to the client. The Agency uses a bluebook system to manage withdrawals from a patient's account. Using the Personal Property Office Patient Withdrawal Form, the social worker submits a request for funds from the patient's account. The following information is contained in the form: date, patient name, unit, amount requested, and check number. The patient must sign authorizing release of the funds, and a supervisor must approve the release. When a request for funds is received from the social worker, staff reviews the patient account to ensure that funds are available. If funds are available, staff will issue a check to the patient from the ASH account. Any time a disbursement is made from the patient's account, staff will provide a printed statement to the client, which will show all transactions within the prior month. The information in the blue sheet is reconciled monthly by staff. When a patient is ready to discharge, the social worker sends an email to staff requesting the patient's account balance. Staff then reviews the patient account in QuickBooks and provides the social worker with the account balance. Once provided the balance, the social worker will submit a blue sheet to request the funds be paid to the patient. Staff then issues the patient a check from the ASH account in the amount due.

Finding:

Ark. Code Ann. § 19-4-1108(a) states that the original evidence of indebtedness, including documents prepared in connection with receipts and other original supporting papers, shall be retained. During our review of the General Account Cash Fund, we noted that the Agency maintained an account balance in excess of \$2 million for fiscal years 2012 through 2018. Agency personnel indicated the purpose of the General Account is to provide a temporary holding place for deposit transactions that need to be researched prior to transferring the monies into their appropriate fund. Such deposits include, but are not limited to, refunds from residential provider facilities, state tax intercepts, and refunds of recipient entitlement overpayments. We requested documentation from the Agency as to what constituted the balance in the account; however, the Agency was unable to provide supporting documentation of the \$2.32 million balance, in violation of Ark. Code Ann. § 19-4-1108(a).

Recommendation:

We recommend the Agency implement policies and procedures concerning the retention of deposit records and the timeliness of researching and final proper disposition of transactions of the General Account Cash Fund.

Agency Response:

The Office of Finance agrees with the finding. A review was conducted of the business practices which utilizes what is known as the "General Fund.". It is utilized by several offices and at least one division. The General Fund is operated by the Office of Finance as an intermediate step in which certain funds that come into the agency are initially deposited until they can be identified and moved to the correct fund. The fund receives deposit primarily from:

- Accounts Receivables - TOP, OAS and STI refunds; Closeout Overpayments; TEA Collections; and Medicaid Settlements
- Payroll - Garnishment Refunds; Manual payroll checks
- DCFS - Refunds to Expenditures
- AP/Check Room - Revolving travel fund recoupment.

The review identified approximately 500 check request/reconciliation actions during a six-month period. Of these, approximately 90% of the actions originate from the TOP, OAS and STI refunds. These are tied to state/federal tax intercept payments and are, therefore, seasonal (i.e., many "payments" resulting in considerable amount of monies being deposited in February, March, April and early May). Because of the volume and workload, it takes approximately 3-4 months for these deposits to be worked and reconciled out of the system.

- The seasonal influx of state and federal intercept deposits is currently being reconciled and is anticipated to be current no later than October 1, 2019.
- The account reconciliation will be ongoing and is anticipated to be completed as soon as possible behind the closing month given the seasonal influxes.

During the review of current business practices, it was determined that critical identifying coding for payroll actions was not being provided when the deposits were made. This occurred when there was a staff change in 2011. That issue was researched, and a reconciliation of these past deposits is occurring. The reconciliation is occurring and will be completed no later than September 1, 2019. This action will affect 197 entries identified with an estimated total value of \$231,000. Ongoing, from August 2019 forward, all payroll and benefit deposits will contain division/office specific payment codes (e.g., fund, cost center and internal order, etc.) Not later than October 31, 2019, a follow-up review of the General Fund balance will occur. This review will involve General Operations and Managerial Accounting. The end of the September 2019, account balance will be reviewed to determine what business area(s) account for the aggregate balance(s) of the account. If any of the business areas have balances in excess of 45 days out from reconciliation, additional corrective action steps will be developed to specifically address these issues.