

AGENDA
ARKANSAS LEGISLATIVE COUNCIL - JOINT BUDGET COMMITTEE BUDGET HEARINGS

Tuesday, October 18, 2022

9:00 AM

Room A, MAC

Little Rock, Arkansas

Sen. Terry Rice, Co-Chair	Rep. Jeff Wardlaw, Co-Chair	Rep. Justin Boyd
Sen. Missy Irvin, Vice-Chair	Rep. Jim Dotson, Vice-Chair	Rep. Lanny Fite
Sen. Joyce Elliott	Rep. Stephen Meeks	Rep. DeAnn Vaught
Sen. Linda Chesterfield	Rep. Fredrick J. Love	Rep. Jack Fortner
Sen. Stephanie Flowers	Rep. Reginald Murdock	Rep. Jimmy Gazaway
Sen. Bill Sample	Rep. Gary Deffenbaugh	Rep. Bruce Coleman
Sen. Jane English	Rep. David Fielding	Rep. Clint Penzo
Sen. Bart Hester	Rep. Bruce Cozart	Rep. Jim Wooten
Sen. Blake Johnson	Rep. Mark Lowery	Rep. Jamie Scott
Sen. Trent Garner	Rep. Stephen Magie	Rep. Denise Garner
Sen. David Wallace	Rep. Josh Miller	Rep. Lee Johnson
Sen. Breanne Davis	Rep. Joe Jett	Rep. Joy Springer
Sen. Ricky Hill	Rep. Ken Bragg	Rep. Lane Jean, ex officio
Sen. Bob Ballinger	Rep. Mike Holcomb	Rep. Matthew J. Shepherd, ex officio
Sen. Mark Johnson	Rep. Charlene Fite	Rep. Jon S. Eubanks, ex officio
Sen. Greg Leding	Rep. David Whitaker	Rep. Richard Womack, ex officio
Sen. Cecile Bledsoe, ex officio	Rep. David Hillman	Rep. Les Eaves, ex officio
Sen. Larry Teague, ex officio	Rep. Deborah Ferguson	Rep. Kenneth B. Ferguson, ex officio
Sen. Jason Rapert, ex officio	Rep. John Payton	Rep. Vivian Flowers, ex officio
Sen. Jonathan Dismang, ex officio	Rep. Monte Hodges	Rep. Nelda Speaks, ex officio
Sen. Ronald Caldwell, ex officio	Rep. Ron McNair	Rep. Marcus E. Richmond, ex officio
Sen. Keith Ingram, ex officio	Rep. Jack Ladyman	Rep. Frances Cavanaugh, ex officio
Sen. Jim Hendren, ex officio	Rep. Michelle Gray	Rep. Brian S. Evans, ex officio
Sen. Gary Stubblefield, ex officio	Rep. Dwight Tosh	Rep. Tippi McCullough, ex officio
Sen. Jimmy Hickey, Jr, ex officio	Rep. Rick Beck	Rep. Jon Milligan, ex officio
Sen. Scott Flippo, ex officio		
Sen. Mathew Pitsch, ex officio		
Sen. Kim Hammer, ex officio		

A. Call to Order

B. Reports and Communications

C. Budget Presentations

	Budget Requests Manual-Tab/Page	Appropriation Page	A-Book Page	Budget Analyst
<u>(Audit Findings Attached – Page 1)</u>				
1. Department of Parks, Heritage, and Tourism (9912) 1/2/213			260	Billy Parrish
Ms. Stacy Hurst, Secretary				
Department of Parks, Heritage, and Tourism		215		

Note: All exhibits for this meeting are available by electronic means and are accessible on the General Assembly's website at www.arkleg.state.ar.us

Notice: Silence your cell phones. Keep your personal conversations to a minimum. Observe restrictions designating areas as 'Members and Staff Only'.

	Budget Requests Manual-Tab/Page	Appropriation Page	A-Book Page	Budget Analyst
2. Division of Heritage (0865)	1/2/222		260	Billy Parrish
Ms. Stacy Hurst, Secretary				
Conservation Tax-Amendment 75		227		
Director's Office-State Operations		229		
AR Major Historic Rehabilitation Trust Fund		231		
AR Cultural Institution Trust		233		
DAH-Delta Cultural Center - Cash in Treasury		235		
DAH-Mosaic Templar - Cash in Treasury		237		
DAH-Old State House - Cash in Treasury		239		
DAH-Historic Preservation - Real Estate Transfer Tax		241		
DAH-Historic Preservation - Federal Program		243		
DAH-Historic Pres-Main Street - Cash in Treasury		245		
DAH-NHC-Nat Area Mgmt - Cash in Treasury		247		
DAH-NHC-Nat Area Research - Treasury Cash		249		
DAH Natural Heritage –Gas Royalty Expenses		251		
DAH-Natural Heritage – Federal Programs		253		
DAH-Historic AR Museum – Cash in Treasury		255		
DAH-AR State Archives – Cash in Treasury		257		
DAH-ASA National Digital Newspaper Program		259		
DAH-MTCC-IMLS Federal Grant		261		
3. Arkansas Arts Council (0870)	1/2/262		255	Billy Parrish
Mr. Patrick Ralston, Director				
Arts Council – Federal Program		265		
Arts Council – Cash in Treasury		267		
4. Natural and Cultural Resources Council (0887)	1/2/269		273	Billy Parrish
Ms. Stacy Hurst, Secretary				
NCRC – Administration		272		
NCRC – State Owned Lands or Historic Sites		274		
NCRC – Main Street Program		276		
5. State Parks and Tourism Division (0900)	1/2/277			Billy Parrish
Ms. Cynthia Dunlap, CFO				
SCORP Progra, - Federa;		282		
Museum Natural Resources – Special Revenue		284		
State Operations		286		
Conservation Tax		288		
Keep Arkansas Beautiful – Conservation Tax		290		
Tourism Promotion – Special Revenue		292		
Wildlife Observation Trails		294		
Outdoor Recreation Grants Program		296		
Operations & Construction – Cash in Treasury		298		
Retirement and Relocation Program		300		
Tourism – Cash in Treasury		302		
War Memorial Stadium – General Revenue		304		
War Memorial Stadium – Cash		306		
WFF DHT Grant Cash Fund		308		
6. Capitol Zoning Commission	1/2/216		258	Billy Parrish
Mr. Boyd Maher, Director				
Capital Zoning District - State Operations		219		
Capital Zoning District – Cash Funds		221		

LUNCH BREAK

	Budget Requests Manual-Tab/Page	Appropriation Page	A-Book Page	Budget Analyst
<u>(Audit Findings Attached – Page 6)</u>				
7. Department of Finance & Administration (9906)	1/2/1		159	Adam Penman
Mr. Larry Walther, Secretary				
26-57-247 Untaxed Tobacco Forfeiture		4		
8. DFA – Disbursing Officer (0620)	1/2/35		166	Adam Penman
Mr. Larry Walther, Director				
Fireman & Police Officers Pension & Relief Fund		41		
Disaster Assistance Grants		43		
Unemployment Compensation Claims		45		
Marketing and Redistribution		47		
Child Abuse/Rape/Domestic Violence Contract (UAMS)		49		
Child Welfare Restructuring (UAMS)		51		
Information Network of Arkansas		53		
Administration of Justice Fund		55		
Arkansas Sheriff's Association		57		
Drug Enforcement and Education		59		
Baby Sharon Act Grants		61		
Organ Donation Education Grants		63		
Agricultural Marketing Grants		65		
Fire Protection Services - Additional Funding		67		
Public Legal Aid		69		
Workforce 2000		71		
Multi-Jurisdictional Drug Crime Task Force		73		
Indigent Patient-Emergency Medical Services Program		75		
Prostate Cancer		77		
Juvenile Detention Facilities		79		
Purchase of Vehicles		81		
DFA Disbursing-Miscellaneous-Cash Transfers		83		
Arkansas Childrens Hospital		85		
Infrastructure Invest and Job Act		89		
Blanket Bond Program		93		
American Rescue Plan Act of 2021		95		
Miscellaneous Federal Programs		97		
Miscellaneous Transfers		99		
State's Contributions		101		
Medical Marijuana Appropriation Holding		107		
Various Grants and Expenses		103		
Various State Agencies – Cash		105		
Temporary Appropriation		109		
CARES		111		
COVID-19 CARES Reimbursement		113		

	Budget Requests Manual-Tab/Page	Appropriation Page	A-Book Page	Budget Analyst
9. Management Services Division (0610)	1/2/125		179	Adam Penman
Mr. Larry Walther, Secretary				
Victims of Crime Justice Assistance – Federal		130		
Department of Justice Non-Victim Assistance Grant-State		132		
Department of Justice Non-Victim Assistance Grant-Federal		134		
DFA Management Services – Operations		137		
Information Technology		139		
Victims of Crime Justice Assistance – State		141		
Statewide Payroll Paying		143		
DFA Management Services – Cash		145		
Child Abuse & Neglect Programs		147		
Children’s Advocacy Centers of Arkansas		149		
Developmental Disabilities Council – State		151		
Developmental Disabilities Council – Federal		153		
Domestic Violence Shelter Grants		155		
Justice Reinvestment Initiative		157		
Project Safe Neighborhoods PSN		159		
Comprehensive Opioid Abuse Program		161		
Family Violence Prevention Services Grant		165		
10. Racing Commission	1/2/167		184	Adam Penman
Mr. J. C. Campbell, Director				
Division of Racing Operations		172		
License Applications		174		
Compulsive Gambling Disorder Programs		176		
Compulsive Gambling Addictions		178		
Racing – Casino Holding		180		
11. Alcoholic Beverage Control (0611)	1/2/181		162	Adam Penman
Administration Division				
Ms. Doralee Chandler, Director				
ABC-Administration – State Operations		184		
Medical Marijuana Commission		186		
12. Revenue Services Division (0630)	1/2/187		185	Adam Penman
Mr. Charlie Collins, Commissioner				
Individual Income Tax & Ad Valorem Property Tax Rebates		196		
Corporate Income Tax		198		
Gasoline Tax Refunds		200		
Interstate Motor Fuel Tax Refunds		202		
Miscellaneous Tax Refunds		204		
Revenue Services Division – Operations		207		
Motor Vehicle Special Plates		209		
Revenue Miscellaneous Cash		211		
13. Assessment Coordination Division (0490)	1/2/19		164	Adam Penman
Ms. Sandra Cawyer, Director				
Real Property Reappraisal Program		23		
County Assessor Continuing Education		25		
Assessment Coordination – State Operations		27		
Cash Operations		29		
14. Child Support Enforcement (0634)	1 / 2 /30		165	Adam Penman
Mr. Alan McVey, Administrator				
Child Support Enforcement – Operations		34		

D. Other Business

E. Adjournment

DPHT Audit Findings

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF PARKS, HERITAGE AND TOURISM
FOR THE YEAR ENDED JUNE 30, 2020**

Finding:

Department of Transformation and Shared Services – Office of Personnel Management (DTSS-OPM) Policy #54, which is based on Ark. Code Ann. § 21-4-501, allows for the payment of accumulated, unused sick leave at retirement. A review of all 15 employee sick leave payouts made in the fiscal year revealed that one employee received a payout of \$3,865 but was entitled to only \$2,311. While Agency source documentation reflected the correct calculation of adjusted sick leave hours to pay, the total hours of sick leave available at retirement were erroneously entered for payment. A failure in the review process allowed the entire balance of sick leave hours to be paid out, resulting in an overpayment of \$1,554 to the retired employee.

Recommendation:

We recommend the Agency work to recoup the overpayment and strengthen internal controls over the processing of sick leave payouts.

Agency Response:

We acknowledge that during the FY2020 audit period, the leave review process that has been in place for several years for DAH was not followed in this situation. Not only were the incorrect number of hours entered for payment, but the error was also not detected when the Payroll Coordinator ran the payroll simulation.

To strengthen internal controls, a meeting of all HR Analysts and the Payroll Coordinator was held to discuss this specific situation and to set some new rules for processing sick leave payouts. When notified of the impending retirement of an employee, the HR staff will do the following:

Step1: The assigned HR Analyst will audit the leave record of the retiring employee and refer to OPM Policy #54 to see if the employee meets the eligibility requirements for a sick leave incentive payout. If so, employee will follow directives in Policy #54 for calculating the sick hours to be paid, complete the internal backup documentation, sign/date, and then submit all information to another assigned HR team member to process the leave payout.

Step2: The next assigned HR Analyst will review the documentation for accuracy by referring to OPM Policy #54 to review payout eligibility requirements and directives for calculating sick hours to be paid. If HR Analyst agrees that eligibility requirements are met and the calculation is accurate, they will make the necessary entry in AASIS. If there are discrepancies between the data in AASIS and the internal documentation, the documentation will be returned to the originator for further review. Backup documentation will be signed/dated by the employee responsible for Step 2 once process has been completed.

Step3: After Step 2 is complete, the HR Analyst will submit all documentation to the Payroll Coordinator who will again refer to OPM Policy #54 to check eligibility requirements as well as calculation directives, re-calculate and run an individual payroll simulation to ensure accuracy of payment once again. If, during this step, an error is discovered, the documentation will be returned for revision to the HR Analyst in Step 2. After review in Step 2, documentation again be submitted to Payroll Coordinator to repeat the process until the payout is accurate on the simulation document, prior to the final processing of payroll.

This process and a copy of OPM Policy #54 will be in a written document and placed at the desk of each HR team member for easy reference.

To recoup the overpayment, a Certified Letter that included a description of the administrative error, amount of overpayment, pay period in which it occurred and pay date along with a copy of the remuneration statement and the auditor's calculation was mailed to the former employee on August 25, 2021. Status updates will be provided to the CFO as they become available.

Management acknowledges its responsibility for oversight in adherence to established policies and procedures and establishment of proper internal controls processes in all areas of operation. We have addressed the causes that created the error, and appropriate control procedures are in place to prevent a recurrence of this issue.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number: 2021-020

State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Arkansas Department of Parks, Heritage and Tourism

Pass-Through Entity: Not Applicable

AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Business Interruption Grants Program)

Federal Awarding Agency: U.S. Department of Treasury

Federal Award Number(s): Not Applicable

Federal Award Year(s): 2020

Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance

Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:
Not applicable

Criteria:

The Coronavirus Relief Fund was required by Sec. 5001, as amended, of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to be used to cover only those costs that were (1) necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19) and (2) incurred during the period that began March 1, 2020, and ended December 31, 2021. In accordance with guidance provided in the Federal Register by the United States Department of Treasury, the State of Arkansas was required to keep records sufficient to demonstrate that the funds were used in accordance with this federal legislation.

Furthermore, the State of Arkansas was responsible for determining the level and detail of documentation needed from sub-recipients of small business assistance to satisfy compliance with this law. Small businesses could use the funding for allowable expenses that were incurred during the time period beginning March 1, 2020 through September 30, 2020. The small businesses were required to submit proof for those expenses.

Finally, 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.

Condition and Context:

Arkansas awarded approximately \$48 million to small businesses in specific industries to assist in covering expenses associated with the negative impact of state orders directly related to COVID-19 mitigation. Funds for approved grants were disbursed by the Arkansas Economic Development Commission, but the Program was managed under the general operation of the Arkansas Department of Parks, Heritage, and Tourism (Parks). Parks did not review 100% of the small businesses that submitted support for expenses. Instead, it developed a review process based on a risk assessment approach.

Of 2,142 grant payments, ALA staff reviewed a sample of 60 payments, totaling \$1,456,172, to determine if sufficient, appropriate evidence (supporting documentation) was received. Our review revealed the following exceptions:

- Four grant recipients failed to submit sufficient, appropriate evidence to support expenses totaling \$6,040.
- The Parks review process failed to identify an ineligible business type (automotive repair) for one of the awards, totaling \$1,310. However, Parks was able to recoup the erroneously paid funds because it was notified by the applicant of an error in the banking information used for the transaction.

Statistically Valid Sample:

Not a statistically valid sample

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number:	2021-020 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission Arkansas Department of Parks, Heritage and Tourism
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.019 – COVID-19: Coronavirus Relief Fund (Business Interruption Grants Program)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	2020
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Allowable Costs/Costs Principles; Period of Performance
Type of Finding:	Noncompliance and Significant Deficiency

Questioned Costs:
\$6,040

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

Cause:

The Agency's limited review of expenditure documentation and reduced award amounts failed to ensure that all applicants submitted sufficient, appropriate expense documentation. In addition, Agency controls failed to identify an ineligible business during its limited review.

Effect:

The State of Arkansas could be subject to repayment of funds to the federal government.

Recommendation:

ALA staff recommend the Agency strengthen its internal controls over monitoring the awards to ensure providers submit appropriate documentation for expenses incurred to demonstrate compliance.

Views of Responsible Officials and Planned Corrective Action:

Arkansas Department of Parks, Heritage and Tourism:

(A) Four (4) Grant Recipients Failed to Submit Sufficient, Appropriate Evidence to Support Expenses Totalling \$6,040

Due to the time constraints imposed by the then federal payment deadline of December 30, 2020, there was not enough time or human resources to perform a 100% manual review of each source document for the claims submitted by over 5,000 applicants. Accordingly, the program's consultants employed review methodologies that included concentrating on manual review on only the higher dollar amount claims. As the review methodology applies to the four businesses that received \$6,040 in awards, these businesses had lower valued claims in which our review methodology did not include manual review by our team.

Additionally, applicants with the BIG program self-verified under penalty of perjury that all information supplied was correct and accurate. A claw back provision was included in the program that can be triggered for material misrepresentations when, and if, discovered. The BIG program rules required documentation to support all expenses claimed. However, due to the wide variety of applicant business types and business sizes, the rules provided examples of acceptable documents but did not provide specific document requirements. The BIG program paid an average of \$.12 on the dollar of total eligible expenses. Accordingly, there is a fair probability that these eligible businesses could produce additional and acceptable documentation for these, or other expenses, in an amount that exceeds that in question.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number:	2021-020 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission Arkansas Department of Parks, Heritage and Tourism
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.019 – COVID-19: Coronavirus Relief Fund (Business Interruption Grants Program)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	2020
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Allowable Costs/Costs Principles; Period of Performance
Type of Finding:	Noncompliance and Significant Deficiency

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

Arkansas Department of Parks, Heritage and Tourism (Continued):

ADPHT has corresponded via email to the four (4) businesses that did not supply appropriate documentation and requested additional detailed information to support the award received. One business has replied to our request; however, three (3) businesses have not. These businesses may be closed due to the pandemic. ADPHT will send another email communication; if no response is received, then further action will be taken, including a certified letter sent via the US Postal Service.

(B) The Parks Review Process Failed to Identify an Ineligible Business Type (Automotive Repair) for One Award Totaling \$1,310

ADPHT became aware of the error in deeming the business eligible for a grant when the applicant contacted ADPHT regarding a payment issue. ADPHT properly notified the applicant of its lack of eligibility and the decision to not disburse funds to the applicant. The business was not awarded any funds.

Planned Corrective Action:

Related to both (A) and (B), ADPHT will develop a plan to conduct further review of more grant recipients beyond the businesses reviewed in the audit sample. This further review will allow ADPHT to ensure that deficient documentation of claims and/or ineligible businesses were not a pervasive problem with the grant program. For future grant programs, with more time allowed for development and distribution, ADPHT will:

- 1) Increase staff participation to assist in the review and assurance that applicants are in compliance with program requirements.
- 2) Design a program with more controls in place that allows for more time with the application process and support of applicants to ensure proper documentation is submitted for claims.
- 3) Provide detailed requirements for submission of claims itemizing the documentation that must be submitted in order to support a grant award.
- 4) Limit the number of qualified expenses that can be reimbursed to include the largest expenses that cause economic injury to businesses while also limiting the different types of claims.

Anticipated Completion Date: August 31, 2022

Contact Person: Leslie Fiskien
Chief of Legislative Affairs
Arkansas Department of Parks, Heritage and Tourism
1100 North Street
Little Rock, Arkansas 72201
501-324-9586
Leslie.fiskien@arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number:	2021-020 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission <u>Arkansas Department of Parks, Heritage and Tourism</u>
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.019 – COVID-19: Coronavirus Relief Fund (Business Interruption Grants Program)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	2020
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Allowable Costs/Costs Principles; Period of Performance
Type of Finding:	Noncompliance and Significant Deficiency

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

Arkansas Economic Development Commission:

(Joint Response from All Agencies):

AEDC served as the paying agent for the Business Interruption Grant Program (BIG). However, payment amounts were determined by the Arkansas Department of Parks, Heritage and Tourism (ADPHT). AEDC will coordinate with ADPHT to review the awards to the four businesses in question and request replacement documentation that meets program requirements or pursue recovery of the applicable grant amounts.

The Business Interruption Grant Program was a temporary program that is no longer operational. This should fully mitigate future control issues.

Response from Arkansas Department of Parks, Heritage and Tourism

(A) Four (4) Grant Recipients Failed to Submit Sufficient, Appropriate Evidence to Support Expenses Totalling \$6,040

Due to the time constraints imposed by the then federal payment deadline of December 30, 2020, there was not enough time or human resources to perform a 100% manual review of each source document for the claims submitted by over 5,000 applicants. Accordingly, the program's consultants employed review methodologies that included concentrating on manual review on only the higher dollar amount claims. As the review methodology applies to the four businesses that received \$6,040 in awards, these businesses had lower valued claims in which our review methodology did not include manual review by our team.

Additionally, applicants with the BIG program self-verified under penalty of perjury that all information supplied was correct and accurate. A claw back provision was included in the program that can be triggered for material misrepresentations when, and if, discovered. The BIG program rules required documentation to support all expenses claimed. However, due to the wide variety of applicant business types and business sizes, the rules provided examples of acceptable documents but did not provide specific document requirements. The BIG program paid an average of \$.12 on the dollar of total eligible expenses. Accordingly, there is a fair probability that these eligible businesses could produce additional and acceptable documentation for these, or other expenses, in an amount that exceeds that in question.

DF&A Audit Findings

ARKANSAS LEGISLATIVE AUDIT REPORT ON: *DEPARTMENT OF FINANCE AND ADMINISTRATION FOR THE YEAR ENDED JUNE 30, 2020*

Finding 1:

In March 2020, the Department of Finance and Administration (DFA) received an anonymous phone call regarding suspicious vehicle registration transactions occurring at revenue offices in central Arkansas. DFA's internal Office of Tax Credits subsequently identified three employees (Employees A, B, and C) who circumvented controls when processing registrations on both new and used vehicles, preventing the State from collecting sales tax due. These employees processed a total of 425 improper transactions, primarily in fiscal year 2020, in which they allowed owners to register vehicles by paying either an amount below the sales tax due or nothing at all, as detailed below:

- Employee A, who performed management duties at multiple central Arkansas revenue offices, processed 180 improper transactions (25 prior to 2015 and 155 in 2020) on behalf of vehicle owners, including 2 transactions for his personal vehicles.
- Employee B, who worked in the Sherwood revenue office, processed 129 improper transactions on behalf of vehicle owners.
- Employee C, who worked in the west Little Rock revenue office, processed 116 improper transactions on behalf of vehicle owners.

While DFA determined, and we verified, the amount assessed to the registered owners for the improper registrations totaled \$893,284, which includes sales tax due, penalties, and interest, the full amount of personal benefit to Employees A, B, and C, if applicable, could not be ascertained. As of June 23, 2021, DFA had collected \$364,316, and all accounts with an outstanding balance continue to accrue interest and are suspended in the vehicle registration system. Additionally, Employees A and B resigned from employment, and the employment of Employee C was terminated by DFA. On June 23, 2020, Cameron Barnett (Employee A) pled not guilty to two counts of felony forgery and two counts of felony attempt to evade or defeat tax. Charges have not been filed against Employees B and C.

Recommendation:

We recommend DFA evaluate and eliminate processes allowing employees to circumvent controls and process improper transactions. We also recommend DFA continue to pursue all avenues necessary to collect the funds due to the State.

Agency Response:

After evaluating the process, DFA removed the Dealer Exemption transaction from the AIRS system. This transaction allowed a vehicle to be marked as a sales tax exempt transaction without an exemption certificate. The system will now only allow a vehicle to be marked as lease exempt and requires an exemption certificate. As an added control, the Office of Excise Tax developed a report to be run monthly to monitor all leased vehicles.

Finding 2:

On five separate occasions, a Springdale Revenue Office employee circumvented controls surrounding deposits of daily collections. The employee entered the daily collections, which were composed of both cash and checks, in the AIRS-DSMV system but did not deposit the funds in their entirety, causing the bank account to be in overdraft status on these five days. The total amounts retained by the employee ranged from \$4,022 to \$11,134. Based on review of monthly bank statements, all funds the employee withheld were deposited the day after collection, resulting in no loss to the State. When interviewed by DFA, the employee acknowledged retaining portions of collections for the days in question and resigned from employment.

Recommendation:

We recommend DFA strengthen controls surrounding the deposit of daily Revenue Office collections. Segregating the duties of the individuals depositing funds and confirming deposits in the AIRS-DSMV system will help ensure daily deposits are made timely and in full.

Agency Response:

Springdale Revenue Office Administration implemented a new business procedure that will not allow the same employee that made the deposit to close the office/banking procedure in AIRS.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number: 2021-011
State/Educational Agency(s): Arkansas Department of Finance and Administration
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Cities, Towns, and Counties Coronavirus Relief Fund Project)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles;
Period of Performance
Type of Finding: Noncompliance
Repeat Finding:
Not applicable

Criteria:

The Coronavirus Relief Fund was required by Sec. 5001, as amended, of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to be used to cover only those costs that were (1) necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19) and (2) incurred during the period that began March 1, 2020, and ended December 31, 2021.

In accordance with guidance provided in the Federal Register by the United States Department of Treasury, the State of Arkansas was required to keep records sufficient to demonstrate that the funds were used in accordance with this federal legislation.

Condition and Context:

Arkansas awarded approximately \$145 million to local entities (cities, towns, and counties) to assist with additional expenses related to COVID-19. Generally, disbursements were made by the Arkansas Department of Finance and Administration (DFA) based on approved applications and after receipt and review of the expense detail provided by the local entity.

Of 585 payments, ALA selected a sample of 62 payments made to local entities to determine if sufficient, appropriate evidence (supporting documentation) was maintained. Our review revealed the following exceptions:

- Five local entities submitted documentation for payroll expenses representing services rendered prior to March 1, 2020, totaling \$54,257.
- One local entity had been reimbursed for payroll expenses, totaling \$487, from another federal program and submitted those same payroll expenses as detail for this program. In addition, a duplicate payroll payment was discovered, totaling \$280.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$55,024

Cause:

The Agency failed to implement sufficient internal controls to identify and detect errors and duplication.

Effect:

The State of Arkansas could be subject to repayment of funds to the federal government.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number: 2021-011 (Continued)
State/Educational Agency(s): Arkansas Department of Finance and Administration
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Cities, Towns, and Counties Coronavirus Relief Fund Project)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles;
Period of Performance
Type of Finding: Noncompliance

Recommendation:

ALA staff recommend the Agency strengthen its review of documentation from local entities to ensure the expense complies with the CARES Act

Views of Responsible Officials and Planned Corrective Action:

DFA will review payroll expenses related to these payments. Entities that submitted payroll costs prior to March 1, 2020 will be allowed the opportunity to submit additional eligible expenses within the allowed period or return funds to DFA. All returned funds will be applied to unreimbursed eligible expenses of the State of Arkansas first and any residual balance returned to the U.S. Treasury.

Anticipated Completion Date: September 30, 2022

Contact Person: Melanie Hazeslip
Administrator
Arkansas Department of Finance and Administration
1515 West 7th Street, Suite 700
Little Rock, Arkansas, 72201
(501) 682-5229
Melanie.hazeslip@dfa.arkansas.gov

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Finding Number:	2021-012
State/Educational Agency(s):	Arkansas Department of Finance and Administration
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	2020
Compliance Requirement(s) Affected:	Allowable Costs/Cost Principles; Period of Performance
Type of Finding:	Noncompliance

Repeat Finding:
Not applicable

Criteria:

In accordance with 2 CFR § 200.516(a), auditors must report as an audit finding any known or likely fraud affecting a federal award.

Condition and Context:

During fiscal year 2020, the Arkansas Department of Finance and Administration and the University of Arkansas for Medical Services jointly paid \$10,940,000 for the purchase of gowns, face shields, and ventilators from a particular vendor. Of this amount, \$8,600,000 was paid using Coronavirus Relief Fund monies. On October 27, 2021, the Arkansas Attorney General, acting on behalf of the State of Arkansas, filed a civil complaint in the Pulaski County Circuit Court of Arkansas alleging actual or constructive fraud. As of the end of December 2021, the vendor had not delivered the goods or returned the funds to the State of Arkansas, and the litigation is still pending.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$8,600,000

Cause:

Due to supply shortages and high demand for these type of products, disbursements were made in advance of the receipt of the product, which is not customary for the purchase of tangible goods.

Effect:

The State of Arkansas could be subject to repayment of funds to the federal government.

Recommendation:

ALA staff recommend the Agency return any funds received from the litigation or allocate different, allowable expenses to the Coronavirus Relief Fund.

Views of Responsible Officials and Planned Corrective Action:

DFA recognizes that the nature of these payments violated internal controls designed to mitigate the instances of fraudulent activity on behalf of vendors for non-performance by pre-paying for goods or services prior to delivery. However, the State of Arkansas acted in good faith with the current market trends because of a surge of activity related to the purchase of personal protective equipment and ventilators at the onset of the pandemic and acted accordingly to the market demands at the time. The State of Arkansas, in trying to mitigate the effect of fraudulent activity in this environment, contracted these prepaid contracts with an escrow agent to ensure that both parties performed as promised. But the State of Arkansas, in these instances, could not have foreseen or prevented collusion between the escrow agent and the vendors mentioned. DFA and UAMS in conjunction with the Attorney General of the State of Arkansas is currently pursuing all legal remedies to ensure that these fraudulent parties are held accountable for their actions during the onset of the pandemic when the market forced all parties to act quickly. Any CRF funds recovered through the legal process will be returned to the U.S. Treasury.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number:	2021-012 (Continued)
State/Educational Agency(s):	Arkansas Department of Finance and Administration
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	2020
Compliance Requirement(s) Affected:	Allowable Costs/Cost Principles; Period of Performance
Type of Finding:	Noncompliance

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

Anticipated Completion Date: September 30, 2022

Contact Person: Melanie Hazeslip
Administrator
Arkansas Department of Finance and Administration
1515 West 7th Street, Suite 700
Little Rock, Arkansas, 72201
(501) 682-5229
Melanie.hazeslip@dfa.arkansas.gov

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

Finding Number: 2021-013
State/Educational Agency(s): Arkansas Department of Finance and Administration
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:
Not applicable

Criteria:

In accordance with 42 USC § 801(f), the United States Department of the Treasury Office of Inspector General (Treasury OIG) is responsible for monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Funds. Treasury OIG requires prime recipients (the State of Arkansas) to report quarterly, detailed information on any loans issued, contracts and grants awarded, transfers made to other government entities, and direct payments made by the recipient (the State of Arkansas) that are greater than \$50,000. Additionally, the Treasury OIG requires a detailed list of all projects or activities for which funds were expended, including the name and a description of the project or activity.

Condition and Context:

Of 1,560 recipients who received funds for individual projects over \$50,000, ALA selected a sample of 40 to determine if the project information had been properly reported. Our review revealed the following exceptions:

- One instance of inaccurate reporting of a recipient/awardee: an internet service provider that received approximately \$2.3 million for broadband expansion under Federal Project Identification Number 0790-02. The amount was reported as being paid to a different provider.
- Fourteen instances of inaccurate reporting of a project assignment, which consisted of the following:
 - Six hospital recipients under Federal Project Identification Number 0710-05 - Department of Human Services - Arkansas Medicaid Program (also known as DHS Hospital Proposal or Hospital Formula & Cluster Program) had payments misclassified into various other projects on the federal report. This Project (0710-05) had approximately \$100 million in expenditures by the State of Arkansas, but no expenses were allocated to this Project on the federal reports.
 - Seven long-term care facilities/nursing home recipients had payments misclassified into the Federal Project Identification Number 0710-13 (DHS - Enhance Nursing Facilities Capacity, also known as Surge Payments). However, these payments should have been reported under the 0710-03 Project (Department of Human Services - Nursing Facility Payments). Approximately \$17 million in payments to subrecipients/awardees were misclassified into the 0710-13 Project, instead of the 0710-03 Project.
 - One hospital recipient of funds under Federal Project Identification Number 0710-01 (Payments to Healthcare and Non-Healthcare Personnel) had payments misclassified and reported into the 0710-03 (Nursing Facility Payments) Project.
- Four instances of inaccurate cumulative expenditure amounts by vendor reported, which consisted of the following:
 - Two payments, totaling \$43,041, to separate recipients were not included in the cumulative total of expenditures on a per-project basis due to the inaccurate project assignment of payments.
 - One recipient of payments had \$6,885 in funds received under a contract not included in the cumulative amount of expenditures reported.
 - One recipient did not report net expenditures, a result of a refund to the State of Arkansas in the amount of \$3,441.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Finding Number: 2021-013 (Continued)
State/Educational Agency(s): Arkansas Department of Finance and Administration
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Significant Deficiency

Condition and Context (Continued):

- Five instances of inaccurate reporting of costs for an expenditure category. These five businesses received funds for Federal Project Identification Number 0900-02 (Business Interruption Grant) that were used to pay small business assistance payments. However, these payments were classified as “administrative expenses” for the expenditure category on the federal report. ALA’s understanding is that all funds expended under Project 0900-02 (approximately \$48 million) were improperly classified on the federal report as administrative expenses instead of small business assistance.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency failed to design internal controls to ensure that payments to subrecipients were reported within the appropriate project on the federal reports. Additionally, it failed to adequately review reports for accuracy prior to submission.

Effect:

Inaccurate information was provided to the federal Pandemic Response Accountability Committee (PRAC), which uses this information to report pandemic-related programs to the public via its website.

Recommendation:

ALA staff recommend the Agency strengthen internal controls over the reporting of subrecipient information of the Coronavirus Relief Fund. In addition, the Agency should correct previously reported inaccurate data.

Views of Responsible Officials and Planned Corrective Action:

DFA recognizes internal controls need to be strengthened as it relates to Federal reporting under special funding sources related to COVID-19, to which DFA has added staff within the Office of Accounting - Financial Reporting Section (OA-FRS). Notwithstanding, OA-FRS must rely on the qualifications and expertise of the various agency staff assigned to the administration of these funds to properly report the expenses. Recognizing that need, OA-FRS will ensure that the developed internal controls are communicated to the assigned staff as well as provide any training necessary to ensure the accuracy of this reporting. Further difficulty arises in the review by OA-FRS of grant data due to the lack of access to the data once uploaded to the US Treasury.

Anticipated Completion Date: September 30, 2022

Contact Person:

Melanie Hazeslip
Administrator
Arkansas Department of Finance and Administration
1515 West 7th Street, Suite 700
Little Rock, Arkansas, 72201
(501) 682-5229
Melanie.hazeslip@dfa.arkansas.gov