

**ARKANSAS LEGISLATIVE AUDIT  
REPORT ON:  
ARKANSAS INSURANCE DEPARTMENT  
(DEPARTMENT OF COMMERCE)  
FOR THE YEAR ENDED JUNE 30, 2018**

**Finding:**

The Agency failed to retire timely four assets totaling \$2,987. Additionally, two assets totaling \$1,581 could not be located for observation.

**Recommendation:**

We recommend the Agency perform an annual inventory of capital assets and update the capital asset master list in AASIS.

**Agency Response:**

The Arkansas Insurance Department (AID) has divided asset responsibility between two divisions; IT for IT-related equipment and Accounting for all other items. The Accounting division recently conducted a comprehensive inventory of all non-IT assets throughout the Department, reconciled to AASIS, and submitted a request in June to retire a number of assets that could not be located. AID does not believe that any theft occurred, but instead old, low value assets had been discarded due to no longer functioning. The IT division was in the process of conducting this same exercise and has reviewed their procedures and added additional steps to ensure better inventory controls. Additions include performing annual physical inventory of all computer equipment, reconciling asset information with AASIS, and ensuring the removal of equipment from AASIS is performed by designated staff who has knowledge of asset removal.

**Finding:**

Review of receipting procedures revealed the Public Employee Claims Division (PECD) failed to receipt six checks totaling \$58,742 when received. Additionally, the Liquidation Division failed to deposit timely three checks totaling \$6,612.

**Recommendation:**

We recommend the Agency establish controls to ensure all monies are receipted and deposited timely.

**Agency Response:**

The payments received into the Public Employee Claims Division were not listed on an internally kept Excel spreadsheet, but were listed in AASIS as they were deposited. This issue was remedied on July 1, 2019, by moving PECD onto the Cash Receipting System (CRS) tool that the rest of the Insurance Department uses. This requires verifying that the amounts entered in the detail tie out to the amount deposited, eliminating the chance that deposits do not tie to the checks received detail. Regarding the Liquidation Division, two situations led to the finding. One deposit of \$105 was received on July 14, 2017, but not deposited until July 24, 2017, due to the Director being on vacation and a backup was not assigned for that time. Subsequently in May of 2018, a similar situation occurred; however, the checks were deposited into the Life and Health account instead of the Property and Casualty account. These were discovered during the bank reconciliation in early June and then corrected on June 13, 2018. In order to correct and prevent future issues, the Liquidation Division is also going to move all receipts to the CRS system, which requires that any receipts entered for deposit are verified by a second person. In addition, the Division Director will assign a backup for making deposits in the case of extended absences.

**ARKANSAS LEGISLATIVE AUDIT  
REPORT ON:  
DEPARTMENT OF WORKFORCE SERVICES  
(DEPARTMENT OF COMMERCE)  
FOR THE YEAR ENDED JUNE 30, 2019**

**Finding:**

During our testing of capital project disbursements, it was determined that the Agency had paid \$11,701 in FY2019 and \$8,529 in FY2018 to a company, which was owned by an individual who was also a lobbyist for an information technology (IT) service management company, to perform an "independent" assessment of the software produced by that IT company. As of June 30, 2019, the Agency had spent a total of \$9,423,212 since fiscal year 2015 on the development of a case management software program for Temporary Assistance for Needy Families (TANF). The majority of the costs for the software program were paid to the IT company, and the continuance of the project was based, in part, upon the "independent" assessments.

**Recommendation:**

We recommend the Agency, in conjunction with the Department of Information Services, consider the need to re-evaluate the software program with a truly independent evaluator, train key personnel on the concepts of independence, and discontinue the practice of contracting with vendors when there is a conflict of interest.

**Agency Response:**

ADWS followed the Arkansas Office of State Procurement guidelines in the onboarding of this IT project management resource. The current procurement process, and the systems used to procure a vendor does not provide any method to ascertain chained vendor relationships such as in this case, i.e. S3 Enterprises DBA S&S Personnel Management and Change Agents, Inc. ADWS followed the existing process and systems that were available and was therefore unaware of the lobbyist link as the current procurement process provided no way of determining such relationships.

In addition, ADWS has used the terms Project Manager, Project Liaison, and similar verbiage to describe the role that the new resource would play. The term "Independent Evaluator" was used essentially interchangeably with "Program Manager" and "Liaison." Per the Statement of Work (SOW) procedures, the selected Contractor was engaged to be the Project Liaison between ADWS-TANF program and the DIS Director and conduct project management reviews. The position was to ensure continuity of ARWINS IT development (in contrast and with respect to the existing hands-on day-to-day project operations' and support teams) and report on the status of the project. This position would also advise the project team as needed to meet the stated goal of ensuring a statewide rollout of the ARWINS system. To work on this assignment, the Contractor would and did speak with the current project team, review status reports, release notes, and any other related artifacts to arrive at conclusions that would appropriately be communicated to ADWS-TANF leadership and DIS on potential risks and / or health of the project.

It is important to recognize here that the Contractor was not engaged to conduct an independent evaluation and assessment in the traditional sense of an IVV (Independent Verification and Validation). The TANF Systems Support Unit, TANF Policy and Technical Assistance Unit, and designated staff from Financial Management (FMAS) provided the validation and verification that the system produced the features that were expected and were of the quality that was ready to be moved into production. ADWS IT made sure that the process of code versioning and promulgation was followed through by being the gatekeeper to approve or reject the promotion of the right code base and setting up the infrastructure requirements by DIS. The ADWS / TANF field staff uses the system in production and is a living real-time day-to-day validator that system is working and fulfilling the needs of the TANF program operations, and where defects were / are reported they are transparently addressed by going through a submit, reject/approval for fix, and execute the fix. This happens in co-ordination with the TANF systems support staff.

It is also necessary to acknowledge that during project execution, ADWS program leadership, ADWS IT leadership, representatives from ADWS-FMAS, and the project coordinator from DIS regularly met to get an update on the status of the progress of the work items, ask questions, and provide feedback on the same.

The new DIS Director wanted to make sure that in addition to all the checks and balances that ADWS and DIS currently had going, to also engage the services of an experienced Project Management professional with a proven track record, a high level of integrity, and independence to confirm or alert, and communicate transparently on the project status. And should there be any missteps be accordingly advised. We are pleased to note here that the ARWINS system was successfully rolled out on schedule and has been successfully operating in production with a 100% availability rate till date.



To help prevent reoccurrences, ADWS has added to its processes for all contracts the review of the Secretary of State's web site to search for common ownership and potential conflicts of interests. We have updated our Standard Operating Procedures (SOP) accordingly.

**Finding:**

In October 2018, the Agency executed a \$1.8 million contract with a nonprofit organization to provide fatherhood programs, called "Arkansas Better Dads," within the State using federal Temporary Assistance for Needy Families (TANF) grant funds. Our review of the Agency's documentation supporting the reimbursement payments to the organization, totaling \$176,892 from October 2018 through July 2019, revealed the following issues:

- The Agency paid \$15,061 in duplicate reimbursements for building depreciation and other general administrative expenses because the organization charged these items as both direct and indirect costs of the program, which is contrary to 2 CFR § 200.414(f).
- The organization received \$14,771 for 10 transactions involving related parties of the organization without appropriate disclosure of potential conflicts of interest, as required by 2 CFR § 200.112.
- The organization was reimbursed \$4,739 for speaker fees and other costs associated with an annual men's ministry retreat hosted by a different entity. There was no clear evidence or recognition within the retreat brochure or the other entity's materials that the retreat was sponsored or supported by Arkansas Better Dads, the Agency, or TANF.

The Agency's lack of appropriate supervisory review and monitoring of the subrecipient contributed to the questionable transactions. Failure to comply with federal regulations could jeopardize future grant awards.

**Recommendation:**

We recommend the Agency recoup any duplicated or otherwise improper costs, as well as strengthen its controls regarding supervision, subrecipient monitoring, and training to ensure that funds are spent in accordance with federal regulations.

**Agency Response:**

- The sub recipient charged the federally allowed 10% indirect cost rate, which includes depreciation. The approved budget allows for 6% plus depreciation. Thus, by the end of the grant, the overall 10% limit would not have been exceeded. ADWS will work the sub recipient to amend the budget to provide for the 10% allowed indirect cost rate, to include depreciation.
- ADWS will provide technical assistance to the sub recipient to develop the required processes and/or procedures that will disclose any potential conflicts of interest as required by 2 CFR § 200.112.
- ADWS will work with the sub recipient to enhance the required documentation that will insure proper recognition of the TANF program, the Agency, and Arkansas Better Dads.

The Arkansas Division of Workforce Services, Temporary Assistance for Needy Families program appreciates the opportunity to review and provide comments on the Legislative Audit draft report. ADWS-TANF ensures that its stewardship over U.S. taxpayer's money is a high priority. A major responsibility is TANF oversight of its awardee organizations, including their responsibility to oversee their subrecipients. ADWS-TANF welcomes the Legislative Audit suggestions to further strengthen protocols currently in place. ADWS-TANF agrees with the recommendations included in the report. We have already worked to strengthen our sub recipient training, technical assistance, and monitoring processes by working with organizations such as Management Concepts. ADWS-TANF is confident that the actions already taken, and its anticipated actions will result in further improvement of our oversight protocols.