AUDIT FINDINGS

ALC/JBC BUDGET HEARINGS

FALL 2022

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS GAME AND FISH COMMISSION
FOR THE YEAR ENDED JUNE 30, 2020

Finding:
R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that “the bonded disbursing officer for each state agency, board, commission or institution is responsible for…reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Division of Legislative Audit. Losses include… the apparent theft or misappropriation of state funds or property theft.” The Arkansas Game and Fish Commission (AGFC) notified us of the following thefts of state property:

- Between May 18, 2020 and July 22, 2020, a 20 horsepower Yamaha outboard motor with a tiller handle and an electric jack plate with a cost of $3,218 was stolen from an AGFC trout boat while located at Shawnee Supreme Boats in Midway, Arkansas (Baxter County), for repairs. Incident and police reports were filed.

- On January 11, 2021, AGFC staff were made aware of a theft that occurred at a storage unit in DeWitt, Arkansas, that contained materials for the Nongame Bird Program. Contents stolen included research materials, office furniture, safety equipment, and small electronic devices valued at $5,020. A police report was filed.

Recommendation:
We recommend the Agency continue to monitor and strengthen controls related to the safeguarding of assets to prevent future occurrences of theft.

Agency Response:
Management concurs with the finding and recommendation to strengthen controls related to the safeguarding of inventory. We have established and provided employees with additional information and guidance to support the prevention of future occurrences of theft and strengthen internal controls to safeguard our inventory.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2021

Finding:
Arkansas Teacher Retirement System (ATRS) notified Arkansas Legislative Audit of an overpayment of member benefits. The death of a member that occurred in May 2017 was not reported to the Agency until October 2021, resulting in an overpayment totaling $51,523.

Additionally, ATRS has a benefit verification form, requiring a notarized response from the member, that is used to help identify members that may have died. The member's benefits can be suspended if the member fails to respond after a number of attempts to contact them. Starting in July 2020, ATRS made multiple attempts to obtain the form for this member and received no response; however, benefits were not suspended until October 2021.

Recommendation:
We recommend the Agency develop procedures to enforce suspension of benefits when required forms are not returned and ensure these procedures are consistently implemented for all members.

Agency Response:
The primary process used by ATRS to identify when a retiree dies (in the absence of notification by a family member) is a monthly search of national and state death databases through a professional death audit company. A list of retirees who reside in Arkansas are also sent to the Arkansas Department of Health for comparison against the Arkansas death database. This process is probably about 99.99% actuate, but with a retiree count of over 50,000, this could result in about 5 retiree deaths not being reported to ATRS. The death audit process is continually being improved. Special focus is placed upon members with out-of-state addresses since past overpayments to deceased retirees lived outside Arkansas.

The discovery of the overpayments made to the retiree that died in 2017 is a direct result of additional procedures implemented by ATRS in 2019. The process is to mail out-of-state retirees a Benefit and Address Verification Affidavit (BAVA). The BAVA process currently consists of mailing a BAVA to every out-of-state retiree on July 1. The BAVA should be completed, signed, notarized, and mailed back to ATRS. Multiple mailings are made in an attempt to allow the member to respond and avoid a needless suspension of benefit payments. Once the member has not responded to the second letter, the staff tries to locate the retiree or a family member in order to verify the well-being of the retiree. Once all location attempts have failed, the member's retirement benefit is suspended.

In the event an overpayment to a deceased retiree is discovered, the Arkansas Department of Legislative Audit is notified. ATRS then attempts to recover any funds that are immediately available. In this case, ATRS was able to recover $5,049.98 through ACH debit, taxes, and insurance premiums. An additional $10,000 was recovered from an offset to the lump sum death benefit. In the end, ATRS engaged outside legal counsel to seek a civil judgment in the amount of $36,472.73 from the retiree's beneficiaries.

ATRS acknowledges that the over payment in this case could have been about seven thousand dollars ($7,000) less had the Agency implemented a more aggressive schedule for the BAVA process. Future BAVA efforts should be much more efficient due to the out-of-state retirees being familiar with the process and the up-to-date contact information collected from prior BAVAs.

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.

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

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 Totaling $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.

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

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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 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 Totaling $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.

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 Economic Development Commission: (Continued)

(Joint Response from All Agencies):
As for corrective action, ADPHT contacted the four (4) businesses that did not supply appropriate documentation and requested further detailed documentation to support the award received. One business replied to our request. ADPHT has been unable to communicate with the other three (3) businesses. These businesses may have been closed due to the pandemic. For future grant programs, with more time allowed for development and distribution, the state could possibly create a program that includes an online validation process of qualified expenses for eligible businesses.

(A) 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.

As for corrective action, no further action has been taken with the ineligible business as the business did not receive a grant award. For future grant programs, with more time allowed for development and distribution, the state could possibly create a program that includes an online validation process of eligible businesses.

1. ADPHT will continue to reach out to the three (3) businesses that have not responded to our request for additional information.
2. No further action is required.

It should be noted that the Business Interruption Grant Program was a temporary grant program during the COVID pandemic and is no longer in effect mitigating any future control issues.

Anticipated Completion Date: August 31, 2022

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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.

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.
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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

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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.

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:
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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.

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

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Financial Statement Findings

REPORT FINDING: 2021-002

Arkansas Department of Transportation

Arkansas Code Ann. § 19-4-1502 requires an agency to keep and maintain a record of property owned by the agency.

Arkansas Department of Transportation (ArDOT) failed to maintain a record of right of way property owned.

Failure to maintain a complete record could lead to the misuse or misappropriation of assets.

We recommend the Agency develop and maintain a record of all right of way property owned, with costs that support the balance reported in AASIS.

Views of Responsible Officials and Planned Corrective Action:
The Arkansas Department of Transportation (ARDOT) Fiscal Services and Right of Way Divisions are currently working together to update, reconcile and maintain a complete ongoing record of right of way property owned, that the Right of Way Division and Fiscal Services will maintain. This record will be reconciled to the balance reported in AASIS each Fiscal Year.

Anticipated Completion Date: December 31, 2022

Contact Person:
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Finding:
In accordance with Ark. Code Ann. § 25-1-124, Arkansas State Highway Employees Retirement System (the System) reported to Arkansas Legislative Audit an overpayment of retiree benefits. The death of a member that occurred in January 2021 was not reported to the System and was not discovered until April 2022, resulting in an overpayment totaling $61,561.

Recommendation:
We recommend the System continue to explore what methods might be available to collect the overpayment and to review internal control procedures surrounding methods of identifying deceased retirees to prevent overpayments.

Agency Response:
ASHERS has been able to reduce the overpayment by $13,991.47, through the request and receipt of a refund for insurance withholdings for the period overpayment. Also, the $7,500 ASHERS retiree death benefit has been applied to the overpayment.

ASHERS continues to work toward a resolution of this situation and is taking the following steps:

- Filing a court action for a subpoena of the bank records in order to identify the responsible party who closed the annuitant's bank account and withdrew the deposited funds. Upon identification of that party, ASHERS will pursue a repayment of the remaining balance.
- Developing an additional monthly process to compare ASHERS payroll records with the Arkansas Department of Health's death database.
- Contracting with PBI Research Services for monthly death record monitoring utilizing over 26,000 sources for validation.

Finding:
In accordance with the Department of Finance and Administration (DFA) Financial Management Guide, R4-19-4-501, all checks received should be numbered, marked, or endorsed as soon as possible, and a log must be prepared in duplicate. The regulation also states that good internal controls dictate daily deposits, but weekly deposits are allowable if an agency receives only minimal amounts of cash and/or checks. The following deficiencies were noted during our review:

- We reviewed the check log maintained by the Arkansas Fair Housing Commission to determine if checks received were deposited timely.

  For the year ended June 30, 2019, 9 of the 30 checks reviewed, totaling $3,800, were not deposited timely. The time period held until deposit averaged 21 days.

  For the year ended June 30, 2020, 26 of the 52 checks reviewed, totaling $10,717, were not deposited timely. The time period held until deposit averaged 42 days. However, it should be noted that 2 of the 26 checks were held from March 17, 2020 to April 30, 2021.

  In addition, we reviewed the AASIS cash journal deposits to ensure the Commission's check log was complete and discovered four deposits totaling $1,600 that had not been included in the check log for the year ended June 30, 2020.

  Finally, our review revealed that the check log did not contain any entries from April 2, 2020 through June 30, 2020. As a result, we were unable to determine if additional checks were received during this time period.

- The Office of Internal Audit submitted four invoices, totaling $24,276, to the Arkansas Development Finance Authority (ADFA) and one invoice, totaling $4,746, to the DFA - Office of Arkansas Lottery representing its quarterly project hours.

  The Department was only able to provide documentation for one payment representing the invoices to ADFA, totaling $3,272, confirming that it was not deposited timely.

  Because a check log was not being maintained, we were unable to confirm if the remaining payments received from ADFA and the Office of Arkansas Lottery, totaling $25,750, were deposited timely.

- The Office of Medicaid Inspector General (OMIG) receives Medicaid reimbursement checks resulting from overpayments identified in audits. OMIG is responsible for ensuring the checks are transferred to the Department of Human Services (DHS), the Agency responsible for depositing the checks into the appropriate Medicaid bank account.

  Our review of 60 checks revealed that OMIG failed to transfer 9 checks, totaling $14,747, to DHS timely. The time period from receipt to transfer for these checks averaged 10 days. One of the nine checks came from the June 30, 2019, sampling, and the remaining eight checks were discovered in the sampling representing the year ending June 30, 2020.

Recommendation:
We recommend the Agency develop and implement controls to provide assurance of compliance with DFA regulations in regard to timely deposits and receipting/check logging procedures.

Agency Response:
We have reviewed the finding and developed and implemented controls to provide assurance of compliance with DFA regulations regarding timely deposits and receipting/check logging procedures. Check logs are maintained, and checks are deposited on a daily basis, unless only a minimal amount of checks are received in a day. In the case of minimal checks, the Department controls will ensure that the checks are deposited weekly. In addition, the Department has brought on new staff and specifically trained on this procedure. Finally, the Arkansas Fair Housing Commission has also developed an online registration and payment portal to provide for receipt of electronic payment, which will create a more efficient receipting and depositing system.

Finding:
Ark. Const. art. 19, § 31, requires that the Independent Citizens Commission set the salaries of elected constitutional officers of the executive department, members of the General Assembly, justices, judges, and prosecuting attorneys. The Agency is responsible for making these salary disbursements.

The Agency did not record salary changes for two elected officials that occurred on January 14, 2019, resulting in an overpayment to one official and a corresponding underpayment to the other official for 18 months, totaling $9,189. The overpayment was discovered by the Agency, and a bimonthly 58-payment plan was implemented, beginning August 15, 2020, to recoup $6,447 of the overpayment. The overpayment was not reported to Arkansas Legislative Audit (ALA) as required by Ark. Code Ann. § 25-1-124.

Recommendation:
We recommend the Agency strengthen internal controls to prevent unauthorized salary disbursements and report any loss of state funds within five business days that the Agency learns of the loss as required by Arkansas Code.

Agency Response:
The Arkansas Auditor of State Office (AOS) staffs the Independent Citizens Commission (ICC) and attends all meetings. Therefore, AOS is aware of salaries and subsequent salary changes for the groups for which AOS is the payroll officer: Arkansas Constitutional Officers, Legislators, Judges, Prosecuting Attorneys, and Prosecuting Attorney's Deputies.

Legislator salaries are set by the ICC; however, salaries for two positions differ, the Senate's President Pro Tempore and House of Representative's Speaker. Both the President Pro Tempore and Speaker are voted on internally by their respective bodies. Historically, our office has relied on information from internal elections to be provided by the Secretary of the Senate and House of Representative's Chief of Staff.

This information was not provided to our office for the January 2019 internal election. When AOS became aware in August 2020, the impacted officials were notified of the over and underpayments. Both officials agreed to waive the salary discrepancy of $2,742, from FY19, and a repayment plan to recoup the remaining $6,447 was established. There was no loss of state funds from our appropriation; therefore, AOS did not believe Arkansas Code § 25-1-124 applied to the situation.

Finding 1:
The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework of internal controls, adopted by the State of Arkansas in the Department of Finance and Administration (DFA) Financial Management Guide, states that communications related to both operational and financial data are needed at all levels of an agency in a relevant, reliable, and timely fashion. The State did not have the policies and procedures in place to appropriately record the financial effects of the new unemployment insurance pandemic programs authorized under the CARES Act of 2020. As a result, we noted the following:

- Operating revenues were overstated by $52,930,508 when a portion of federal grant receipts was erroneously coded to a general ledger account related to Operating revenues, as opposed to the more appropriate general ledger account related to Non-operating revenues. The State attempted to correct the misstatement, but the modification was not made for the correct amount or to the correct general ledger account. As a result, the correcting entry caused a $19,299,223 overstatement of Non-operating revenues and a $72,229,731 overstatement of Operating expenses.

- A federal receivable of $170,564,947 related to the new pandemic programs [Federal Pandemic Unemployment Assistance (FPUC), Pandemic Extended Unemployment Compensation (PEUC), and Pandemic Unemployment Assistance (PUA)] was not recorded.

- Unemployment benefits payable of $293,784,718 for the new pandemic programs (FPUC, PEUC, and PUA) were not recorded until auditors inquired about the lack of such an entry. Additionally, auditors recalculated this payable to be $303,090,396, a difference of $9,305,678.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated.

We notified DFA of the potential misstatements, and an entry was made in AASIS to correct the amounts listed above.

Recommendation:
We recommend the State work to improve its controls over financial reporting, creating policies and procedures that encourage more accurate reporting of its programs.

Agency Response:
The department response to Finding #1 in the SFY 2020 Commerce Audit is the same response as was made for Finding #2020-001 in the SFY 2020 Statewide Single Audit.

Corrective action was taken and ADWS management concurs with the finding.

Views of Responsible Officials and Planned Corrective Action:

- The State made an attempt to correct the misstatement, but the modification was not made for the correct amount, or to the correct general ledger account. As a result, the correcting entry also caused a $19,299,223 overstatement of non-operating revenues and a $72,229,731 overstatement of operating expenses. Accounting staff unintentionally copied the posting templates from employer contributions, instead of other program revenues. To eliminate the risk, the Assistant Controller will review all new templates before posting.

- The root cause was breakdowns in communications and the lateness in calculating and posting the payable that caused this receivable. The Controller Unit will develop SOP's to ensure all appropriate entries are posted.

- Under normal circumstances, the UI Program Unit uses a prescribed formula to calculate the payable for UI Regular Benefits. That formula is: Average Duration divided by two (2), times compensable claims, times Average Weekly Benefit.

At the seven (7) day period ending June 30, 2020, ADWS paid 83,088 compensable UI claims. The average weekly benefit amount for the quarter ending June 30, 2020, was $223.00 and the average claim duration was 8.8 weeks. Using these numbers, the UI Benefits payable at June 30, 2020, equals: $81,525,946.

There are differences in the regular benefits and new programs, such as duration, timing, and the very nature of the program. ADWS reviewed each of the programs for these issues, as well as for trends in the total payouts, and calculated our estimate.

Adjusted procedure: Financial management will discuss all programs existing at year end, internally and with the program unit, and develop best estimates, as appropriate that must be approved by both program and fiscal leadership.

Finding 2:
Using data analytics, we identified $986,007 in warrants written from the Department of Commerce to an entity registered with the Secretary of State as a nonprofit corporation that listed the Secretary of Commerce as one of its Directors. Ark. Code Ann. § 21-8-701 requires the Secretary of Commerce, as a public servant, to file a written statement of financial interest that discloses every office or directorship held in any business, corporation, firm, or enterprise subject to jurisdiction of a regulatory agency of the State. Transactions between the Department of Commerce and this nonprofit corporation, under the direction of the Secretary of Commerce, are considered related party transactions under Government Accounting Standards Board (GASB) Cod. Section 2250. While transactions between related parties can occur in the normal course of operations, they must be disclosed in the Notes to the Financial Statements. Our audit revealed the following:

- The statements of financial interest filed by the Secretary of Commerce for calendar years 2019 and 2020 did not disclose his Director position held with the nonprofit corporation.

- The year-end closing book submitted by the Department of Commerce to DFA – Office of Accounting did not disclose any related party transactions, as required by GASB Cod. Section 2205.

Failure to appropriately disclose entity relationships on the statement of financial interest could result in noncompliance with state law, and failure to disclose related party transactions on the year-end closing book could result in misstatement of financial statements.

Recommendation:
We recommend the Secretary of Commerce and the Department of Commerce strengthen controls over the appropriate disclosures of entity relationships and related party transactions.

Agency Response:
The Secretary of Commerce has amended his recent written statement of financial interest for calendar year 2020 to include his director position with the nonprofit corporation Arkansas Center for Data Sciences. For future state fiscal years, the Department will implement a process to identify any financial transactions that involve the Cabinet Secretary to allow appropriate disclosures of entity relationships and related party transactions.

Finding 3:
Section R1-19-4-2004 of the DFA – Office of Accounting Financial Management Guide states that "the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters for each state agency, board, commission or institution is responsible for…reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit. Losses include…the apparent theft or misappropriation of state funds or property theft." Arkansas Rehabilitation Services – Division of Workforce Services (ARS-DWS) notified us of six warrants, totaling $23,500, that were paid to a vendor in June and July 2020 for services that were not provided. A review performed by ARS-DWS management revealed a relationship between the vendor and an Agency employee who potentially falsified documentation on behalf of the vendor. Subsequent to being contacted by the Agency on July 31, 2020, the vendor returned one warrant totaling $2,000 that had not been cashed. The Agency is actively seeking repayment of the remaining $21,500.

The employee was terminated, the vendor was deactivated from ARS-DWS's case-management system, and the Agency has initiated a criminal investigation with the Department of Public Safety – Division of Arkansas State Police.

Recommendation:
We recommend the Agency continue to monitor and strengthen controls related to the safeguarding of assets to prevent future occurrences of theft.

Agency Response:
As stated in Legislative Audit's finding, ARS self-reported potentially unallowable expenses related to the federal Vocational-Rehabilitation grant administered by ARS, as well as efforts toward recovery of the funds in question and corrective actions.

ARS continues to actively seek repayment of the remaining $21,500, through cooperation with the ongoing State Police criminal investigation.

Corrective measures to prevent similar occurrences have been instituted, such as manager approval (including a conflict of interest review) before any vendor can be added to the case management system. In addition, managers must approve any expenditures to a Vocational Rehabilitation vendor where three or more payments are requested in a given time period.

Manager approval was required under existing policy for any expenditures of $5,000 or more, and that safeguard will remain in place.

Financial Statement Finding (ACFR)

REPORT FINDING: 2021-001

Division of Workforce Services

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework of internal controls, adopted by the State of Arkansas in DFA's Financial Management Guide, states that communications related to both operational and financial data are needed at all levels of an agency in a relevant, reliable and timely fashion. The State did not have the policies and procedures in place to appropriately record the financial effects of the new unemployment insurance pandemic programs. As a result, we noted the following:

- Operating revenues were overstated by $151,317,347 when a portion of federal grant receipts was erroneously coded to a general ledger account related to Operating revenues, as opposed to the more appropriate general ledger account related to Non-operating revenues.
- Expenditures were overstated by $8,710,073 when revenue-correcting entries were made to a general ledger account related to expenditures, as opposed to the more appropriate general ledger account related to Non-operating revenues.
- The net effect of the first two misstatements was an understatement of Non-operating revenues of $142,607,274.
- Federal payables of claimant benefit overpayments due to the federal government were understated by $19,887,434 when the State neglected to consider overpayments made out of the legacy Unemployment Insurance payment system.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated.

Upon notification of the potential misstatements, DFA Office of Accounting made an entry in AASIS to correct the first three amounts listed above. The remaining misstatement was noted subsequent to the first three and did not meet the threshold requiring adjustment.

We recommend the State work to improve its controls over financial reporting, creating policies and procedures that would encourage more accurate reporting of its programs.

Views of Responsible Officials and Planned Corrective Action:
Bullet Points #1-#3: This posting error was related to the Lost Wages Assistance Program from FEMA. The Lost Wages Assistance program is now complete and we will not be posting any transactions from this program again. A contributing factor was staff turnover, including the unit manager resigning.

The following enhanced controls and procedures will be, or have been, implemented:

1. The Assistant Controller will review all new templates for appropriate coding before posting, including the distinction of operating vs. non-operating revenues.
2. Additionally, ADWS has worked with DFA to update NBR account mapping. Revenue correcting entries were made to the NBR account that was mapped to the revenue general ledger account that otherwise would have been used, but the NBR mapping for that NBR account was to an expenditure line rather than a revenue line on the financial statements. While a different (non-operating revenue) general ledger account should have been used for the transactions, this updated NBR mapping will drive any future entries made through this NBR mapping to a revenue line rather than an expenditure line.
3. The UI Assistant Controller will periodically perform an analytical review of general ledger account balances to help detect significant changes in the use of accounts between years for new programs or which may have been caused by errors. Significant changes noted will be further reviewed for appropriate coding.

Bullet Point #4: It is uncommon for ADWS to post a federal payable for overpayments, since the majority of the overpayments were paid with ADWS funds through regular UI benefits. The following enhanced controls and procedures will be, or have been, implemented to help identify when this uncommon situation has occurred that requires posting of a federal payable:

REPORT FINDING: 2021-001 (Continued)

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

- To enhance communications between units related to identifying, calculating, and posting the year-end payable, the Controller Unit has updated its Standard Operating Procedure (SOP) titled "UI Year-End Federal Payables Calculation" to ensure all appropriate entries are posted. A key element in this SOP is that the Controller Unit will receive a breakdown of the receivables by program, which the Assistant Controller will review to ensure the appropriate amount of federal payable is posted.
- Additionally, the agency has a project called UI Modernization underway to modernize UI system software. It is anticipated that more information will be available through the updated system when completed that will provide detailed reports related to overpayments balances.

Anticipated Completion Date: June 20, 2022 items #1 to 3; August 15, 2022 item #4

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Single Audit Findings

Finding Number:	**2021-003**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
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.

In addition, 2 CFR § 200.516(a)(6) requires the auditor to report as an audit finding any known or likely fraud affecting a federal award.

Condition and Context:
In state fiscal year 2021, the Division of Workforce Services (DWS) identified 6,642 claims, totaling $19,903,597, as likely fraud. This amount is comprised of $16,306,917 in federal funds and $3,596,680 in state funds.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$19,903,597

NOTE: As disclosed in **Note 7 on page 150** in the Notes to Schedule of Expenditures of Federal Awards of the report, State Unemployment Insurance (UI) funds as well as federal funds are reported on the Schedule.

Cause:
In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the program during fiscal year 2021.

Effect:
Lack of appropriate internal controls resulted in overpayments of state and federal funds.

Recommendation:
ALA staff recommend the Agency continue to strengthen controls over benefit payments to ensure that payments are made in the correct amount and to eligible claimants. ALA staff also recommend the Agency seek recoupment of the identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
Due to the pandemic and health concerns as well as unprecedented volume, claimants were not required to come into a local office and provide ID, the waiting week was waived for 2020, and the requirement for work search were all adjusted due to the pandemic to protect employees and claimants. Before the pandemic, all claimants were required to come to the local office. Removing these controls had several implications:

Finding Number:	**2021-003 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

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

1. By waiving the waiting week, the claimant could get paid the following week. For example, a fraudster could file a claim on Friday, then receive payment on Sunday, removing the typical week that an employer had to respond.
2. The information mailed to the employer and claimant were not received by them before payments were being made.
3. Businesses were also closed at this time, and they did not respond to the unemployment paperwork timely to let the agency know that it was a fraudulent claim.
4. Identity thieves would change the address of the claimants for which they had files claims and because of this many of the claimants that had identity theft did not know a claim had even been filed in their name.

In 2020 the work search requirement was reinstated. In 2021, all claimants had to bring into the local office their ID before the claim would be opened for a regular unemployment claim. UIdentify was used on the PUA claims after January 1, 2021. And the waiting week was reinstated January of 2021, which reinstated the number of days for the employer to respond and for staff to be able to work the notices before payment was issued.

Internal Audit transitioned to the Fraud Unit and have added staff to focus investigating fraudulent claims. When the bad actor is identified, the overpayment is set up in their name and removed from the identity theft victim's SSN.

Anticipated Completion Date: July 2024, due to the statute of limitations on collections.

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Finding Number:	**2021-004**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed;** **Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2020-002**.

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.

In addition, 2 CFR § 200.516(a)(6) requires the auditor to report as an audit finding any known or likely fraud affecting a federal award.

Condition and Context:
Our review of claimant data revealed overpayments as follows:

- Using data analytics, ALA staff identified 17 mailing addresses that were heavily used to receive debit cards containing Unemployment Compensation (UC) benefits for 64 claimants, totaling $80,187. A review of the related case files revealed that the claims were all initiated at a time when identity (ID) verification controls had been relaxed. When the Agency reinstated ID verification controls and requested the claimants provide ID, none of the claimants provided ID to validate the claims. As of June 30, 2021, benefits totaling $3,268 for 3 claimants had been identified as likely fraud by the Agency and are included in the total identified fraud and questioned costs discussed in finding **2021-003**.
- Using data analytics, ALA staff identified 41 mailing addresses that were heavily used to receive debit cards containing Pandemic Unemployment Assistance (PUA) benefits for 231 claimants. Benefits totaling $2,075,651 for 126 of these claimants were questioned due to the lack of identification documentation in the case file.
- During our review of Unemployment Insurance (UI) claims, we noted 7,302,064 weekly UI benefits that were paid during the fiscal year, totaling $1,963,329,057. In a random sample of 60 weekly UI benefits to 60 different claimants, totaling $15,091, ALA staff noted 5 claimants, with benefits totaling $660, who were deemed ineligible at a later date by caseworkers.

  To determine the severity of the noncompliance, likely questioned costs must be calculated. As a result of this calculation, the $660 identified as known questioned costs was projected to the population, resulting in likely questioned costs totaling $85,865,561.
- Claimant benefit data was compared to death data provided by the Arkansas Department of Health, resulting in identified unemployment benefits, totaling $272,949, that were paid for claims on behalf of 72 deceased individuals.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$2,426,179

Finding Number:	**2021-004 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed;** **Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Cause:
In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the program during fiscal year 2021.

Effect:
Lack of appropriate internal controls resulted in overpayments of both state and federal funds.

Recommendation:
ALA staff recommend the Agency maintain and strengthen internal controls over benefit programs to ensure that payments are made in the correct amount and to eligible claimants. ALA staff also recommend the Agency seek recoupment of the identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
The Agency started using the NASWA Integrity Data Hub on the PUA program and the IT program started running analytic reports to query multiple claims at the same address, bank account, email address, etc. All of those considered to be fraud have been sent to the Internal Audit/Fraud Unit.

Prior to January of 2021, there was not a requirement for ID verification for the PUA program. ID verification on all unemployment claims filed was restarted January 2021 and the PUA claims started using UIdentify at that time.

The waiting week was reinstated January of 2021, which reinstated the number of days for the employer to respond and for staff to be able to work the notices before payment was issued. This reinstated the control for employers to have the opportunity to report the possible fraud.

A special request was made for the Department of Health Death Crossmatch from the start of the pandemic until the date of the request. The list has been reviewed and all claims paid after the date of death have been turned in to Benefit Payment Control to have overpayments created. ADWS has been working this crossmatch weekly since that time and has identified no additional issues.

Anticipated Completion Date: Completed

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Finding Number:	**2021-005**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed;** **Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 20 CFR § 604.3 and Ark. Code Ann. § 11-10-507(3)(A)(i), individuals must be unemployed, physically and mentally able to perform suitable work, and available for the work to be eligible for Unemployment Insurance (UI) benefits. Incarcerated individuals are generally not available for work, making them ineligible for benefits.

In addition, 2 CFR §200.516(a)(6) requires the auditor to report as an audit finding any known or likely fraud affecting a federal award.

Condition and Context:
Using data analytics, ALA identified $4,823,110 in UI benefits paid to 528 incarcerated individuals who did not appear to be eligible for benefits. As of June 30, 2021, benefits totaling $96,952 for 11 claimants had been identified as likely fraud by the Agency and are included in the total identified fraud and questioned costs discussed in finding **2021-003**.

Statistically Valid Sample:
Not applicable

Questioned Costs:
$4,726,158

Cause:
Due to increased demand for services/benefits during the Coronavirus pandemic and turnover of key personnel, the control that cross-matched the Division of Workforce Services UI claimant data with the Arkansas Department of Corrections inmate data was not properly performed.

Effect:
Lack of appropriate internal controls resulted in overpayments of state and federal funds.

Recommendation:
ALA staff recommend the Agency implement appropriate controls over benefit payments to ensure that payments are not made to incarcerated individuals. ALA staff also recommend the Agency seek recoupment of identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
The regular UI system gets a DOC crossmatch weekly and is worked by staff. The PUA system was set up to get the crossmatch and has been checked and are up to date. The list provided by the DOC also contains incorrect SSN numbers, and some of the instances identified by the audit staff were in fact incorrect as the individual with the claim was not incarcerated.

Finding Number:	**2021-005 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed;** **Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

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

There were also individuals that were incarcerated on the list that were paid weeks of PUA outside of the time they were incarcerated and no change was needed. The fraudulently filed claims have been turned over to the Internal Audit/Fraud Unit. Some claims were found to be legitimate claims and the others have been turned in for overpayment.

Anticipated Completion Date: Completed

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Finding Number:	**2021-006**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2020-003**.

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 award in compliance with federal statutes, regulations, and the terms and conditions of the award.

In addition, Unemployment Insurance Program Letter No. 14-20 established Pandemic Unemployment Assistance (PUA) for individuals who are self-employed, who are seeking part-time employment, or who otherwise would not qualify for regular Unemployment Compensation (UC) under state or federal law. As such, these programs are mutually exclusive, and it is unallowable for claims to be paid for the same week of unemployment out of both programs.

Condition and Context:
Using data analytics, ALA staff identified 891 claimants who received a total of 9,561 payments for the same week in the regular UC system and the new PUA system. Duplicate payments paid from the UC system totaled $2,703,968, and duplicate payments paid from the PUA system totaled $2,580,543.

ALA staff reviewed the case files of 30 of the 891 claimants. This review revealed that all 30 claimants were ineligible for the PUA benefits they received, totaling $87,424.

Because 100% of the sampled PUA claims failed, likely questioned costs would include the entire population and total $2,580,543.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$87,424

Cause:
Appropriate communication between the two systems administering the regular UC benefits and the PUA benefits was lacking.

Effect:
A lack of adequate controls allowed benefit payments from two separate systems to be issued for the same week of unemployment for the same claimant, resulting in overpayments of federal funds.

Recommendation:
ALA staff recommend the Agency work to strengthen internal controls over the establishment of eligibility for regular UC and PUA, as well as the payment of benefits, in a way that considers information in both systems. In addition, ALA staff recommend the Agency continue to pursue the recovery of overpayments of funds, returning them to the appropriate source.

Finding Number:	**2021-006 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

The Unemployment System and the Pandemic Unemployment Assistance system were different systems and did not communicate at the beginning of the pandemic period. There are instances of claimants being paid on both systems. Enhancements were made to the systems to allow them to start communicating beginning in November 2020. The overpayments have been identified and are being investigated. Overpayments or waivers will be issued to these claimants.

Anticipated Completion Date: July 2022

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Finding Number:	**2021-007**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed;** **Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
2 CFR § 200.302 requires that the state's financial management systems, including records documenting compliance with federal statues, regulations, and the terms and conditions of the federal award, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award.

In accordance with 2 CFR § 200.303, 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 award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition and Context:
The Agency was unable to reconcile claimant benefit payments from the regular Unemployment Compensation (UC) and Pandemic Unemployment Assistance (PUA) systems to the underlying disbursements from the related bank account. As of November 10, 2021, the Agency provided ALA staff with claimant benefit payment data, totaling $1,810,324,233, to support the disbursements from the bank account totaling $1,811,623,574, resulting in disbursements exceeding claimant data by $1,299,341.

Statistically Valid Sample:
Not applicable

Questioned Costs:
$1,299,341

Cause:
While the Agency was able to demonstrate daily reconciliation procedures performed between the UC and PUA claimant benefit systems and bank activity, controls were not in place to report or reconcile claimant benefits paid per UC and PUA systems with bank activity on a monthly or yearly basis.

Effect:
Lack of appropriate reconciliations between claimant benefit data and bank activity could allow misappropriation of assets to go undetected.

Recommendation:
ALA staff recommend the Agency strengthen controls and procedures to ensure that monthly and yearly reconciliations between claimant benefit data and bank activity are performed.

Finding Number:	**2021-007 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:
There are 3 points of data required and related to the finding:

1) A "claimant file" contains the claims paid data out of the UI system, which is managed by UI IT.
2) A "payment file" contains the claims and is also produced automatically by the UI IT systems. This file is sent by UI IT to the bank to generate the payments. UI Accounting is copied and reconciles to the actual bank payments. (This is not part of the audit finding issue since it was reconciled by UI Accounting against actual payments made by the bank).
3) The bank statement reflects the actual payments made by the bank, based upon the payment file. UI Accounting reconciled this.

The finding notes that the claimant benefit payments from regular UI and PUA did not reconcile to the bank payments (therefore #1 did not reconcile to #2).

UI Program will get data pulls from their system to identify whether regular UI, PUA, or both systems had an issue and did not balance to the UI system payment files that went to the bank. The problem seems to reside between the two files produced by UI IT. Once the offending data is identified within the UI systems, this will need to be an on-going process to monitor and reconcile the output from the UI systems in addition to what UI Accounting reconciles.

Anticipated Completion Date: Mid-June 2022

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Finding Number:	**2021-008**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
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.

Condition and Context:
Using data analytics, ALA staff discovered duplicate unemployment payments made out of the Pandemic Unemployment Assistance (PUA) system for the same week. Further inquiry revealed that the Agency had discovered 1,846 duplicated claims paid in error for PUA, totaling $293,970, but had not yet submitted them to Benefit Payment Control (BPC) for collection.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$293,970

Cause:
The Agency performed redeterminations of claimants' weekly-benefit amounts (WBA). When the claimants' WBAs were re-determined, the PUA system issued payments for the full WBAs in error, which caused duplicate payments of benefits for the same week-ending dates.

Effect:
Lack of appropriate system controls resulted in overpayments of federal funds.

Recommendation:
ALA staff recommend the Agency continue to strengthen system controls over benefit payments to ensure that the system does not issue duplicate payments for the same week-ending date. ALA staff also recommend the Agency seek recoupment of the identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
Due to a vendor issue, weeks were paid in duplicate. Once the issue was found, all monetary redeterminations were stopped until the issue was fixed. Overpayments or waivers will be issued to these claimants.

Anticipated Completion Date: December 2022

Finding Number:	**2021-008 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

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

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Finding Number:	**2021-009**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.302, the state's financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of the reports required by general and program-specific terms and conditions.

In accordance with the U.S. Department of Labor Employment and Training Administration (ETA) Handbook 401, Section II-4(B), all funds deposited into, transferred, or paid from the state unemployment fund (the state clearing account, the state account in the Unemployment Trust Fund (UTF), and the state benefit payment account) should be reflected on the monthly ETA 2112 report.

Condition and Context:
The Agency did not have appropriate controls in place to support the maintenance of documentation supporting the ETA 2112 reports. Our review of 2 of the 12 monthly ETA 2112 reports submitted for fiscal year 2021 revealed the following deficiencies:

The Agency did not provide support for amounts reported on the ETA 2112 for November 2020 as follows:

- Deposits totaling $3,941,920 (line E15 Title IX/Spec Legislation).
- Deposits totaling $53,884,587 (line F16 Intra-Acct. Tran).
- Deposits totaling $9,318,993 (line E23 Fed Emergency Comp).
- Disbursements totaling $11,336,047 (line F31 Net UI Benefits).
- Disbursements totaling $53,884,587 (line E47 Intra-Acct. Trans).

The Agency did not provide support for amounts reported on the ETA 2112 for June 2021 as follows:

- Disbursements totaling $8,436,929 (line F31 Net UI Benefits).
- Disbursements totaling $614,856 (line F33 Reimb LocGov/IndTr).
- Disbursements totaling $468,992 (line F34 Reimb State Gov).
- Disbursements totaling $345,655 (line F35 Reimb Non-profit).

ALA also discovered a discrepancy between the balances reflected on the UTF statement and the June 2021 ETA 2112 report. The UTF statement balance was $823,906,769, while the balance reported on the ETA 2112 was $812,466,324, an understatement totaling $11,440,445. The Agency was unable to provide a reconciliation between the statement and the report.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Finding Number:	**2021-009 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Cause:
The failure of Agency controls was caused by employee turnover in key positions, increased reporting workloads, and reduced oversight of reports.

Effect:
Lack of appropriate internal controls resulted in noncompliance with federal laws and regulations over reporting and could allow misappropriation of assets to go undetected.

Recommendation:
ALA staff recommend the Agency strengthen controls over reporting to ensure that amounts reported are properly supported by the appropriate records and documentation, in accordance with federal laws and regulations.

Views of Responsible Officials and Planned Corrective Action:
Agency controls have been improved as UI Accounting has returned to a normal level of staffing. Also, the workload is returning closer to a normal level after it increased due to new pandemic unemployment programs, which had to be implemented quickly. Additionally, the UI Assistant Controller was on medical leave and was not available to help the other staff provide the information. Additionally, new daily reconciliation processes have been added that will help ensure the accuracy of the numbers on the report. The new UI Program Operations Manager has been trained on the daily reconciliations so that she will be able to provide the support in the future.

Anticipated Completion Date: Completed

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Finding Number:	**2021-010**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – UI Benefit Payments – Benefits Accuracy Measurement (BAM) Program**
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 control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with the federal statutes, regulations, and the terms and conditions of the award.

The U.S. Department of Labor Employment and Training Administration (ETA) Handbook No. 395, 5th edition, and the Arkansas – Benefit Accuracy Measurement (BAM) Methods and Procedures Guide establish requirements for the State to follow in its administration of the Unemployment Insurance (UI) BAM program.

Condition and Context:
ALA staff reviewed 40 of the 482 case files for paid claims reviewed by the BAM unit and noted 11 case files with the following exceptions:

- Three case files did not contain any documentation of the BAM investigation, as required by Chapter VII (2) of ETA Handbook No. 395.
- Eight case files did not contain a summary of investigation, as required by Chapter VI (10) of ETA Handbook No. 395 and Chapter II (A)(23) of Arkansas – BAM Methods and Procedures Guide.
- In one case file, the Agency did not make the three required attempts to contact the claimant, as required by Chapter II (A)(11) of Arkansas – BAM Methods and Procedures Guide.
- In one case file, the Agency failed to document or take appropriate corrective action for misreported wages that should have been detected by the review, as required by Chapter II (A)(4) of Arkansas – BAM Methods and Procedures Guide.
- In one case file, the Agency failed to notify Benefit Payment Control (BPC) of an overpayment that was documented by the review, as required by Chapter II (A)(21)(b) of Arkansas – BAM Methods and Procedures Guide.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The failure of Agency controls was caused by employee turnover in key positions, which increased worker caseloads and reduced oversight of case reviews.

Finding Number:	**2021-010 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**17.225 – Unemployment Insurance** **17.225 – COVID-19: Unemployment Insurance**
Federal Awarding Agency:	**U.S. Department of Labor**
Federal Award Number(s):	**Not Applicable**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – UI Benefit Payments – Benefits Accuracy Measurement (BAM) Program**
Type of Finding:	**Noncompliance and Material Weakness**

Effect:
Lack of appropriate internal controls resulted in noncompliance with both federal and state laws governing the BAM program.

Recommendation:
ALA staff recommend the Agency strengthen controls over the BAM program to ensure that investigations are completed and documented in accordance with federal and state laws.

Views of Responsible Officials and Planned Corrective Action:
Employee turnover in key positions (Workforce Specialists and the Program Operation Manager) increased worker caseloads and reduced the review of the case documents in the case files. A Program Operations Manager and Workforce Specialists have now been hired and are completing DOL BAM training. We are also instituting a new imaging system for BAM that will stop the need for paper records, which are easily misplaced.

Anticipated Completion Date: Completed

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Finding Number:	**2021-014**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – Arkansas Economic Development Commission
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:	**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 subrecipients of small business assistance to satisfy compliance with this law.

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 established various programs intended to reimburse beneficiaries or subrecipients for additional expenses incurred as a result of COVID-19. The State of Arkansas established a state-level committee that approved the programs and disbursements. The programs were established and administered at a departmental level. Each department was responsible for establishing controls and acquiring sufficient, appropriate evidence (supporting documentation) for expenditures. As such, ALA identified a risk of potential duplication of benefits for programs at more than one department level.

ALA performed select procedures to determine if duplication of benefits had occurred. Our review revealed the following exceptions:

- ALA staff reviewed 43 recipients that received payments under both the Arkansas Department of Human Services projects and the Arkansas Economic Development Commission (AEDC) Ready for Business Grant Program (RBGP). We identified six recipients that submitted duplicate expenditure documentation to both Agencies, totaling $47,488.
- ALA staff reviewed 40 recipients receiving funding from the Business Interruption Grant Program (BIG) and RBGP, both disbursed by AEDC. Three recipients provided inaccurate information regarding the amount of funding previously received under RBGP, a required disclosure on the application for BIG. The disclosure is key because the amount of RBGP received is used in calculating the award for BIG.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$47,488

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services** **Arkansas Department of Commerce –** **Arkansas Economic Development Commission**
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:	**Activities Allowed or Unallowed;** **Allowable Costs/Costs Principles;** **Period of Performance**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
The Agencies failed to implement sufficient internal controls to identify and detect duplication of benefits between funded programs.

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

Recommendation:
ALA staff recommend the Agencies strengthen internal controls over the awarding of funds to recipients, receipt of documentation from recipients, and reconciliation of submitted expense documentation to funds awarded to recipients to ensure that duplication of benefits between funded programs is prevented, detected, and corrected.

Views of Responsible Officials and Planned Corrective Action:
Arkansas Department of Human Services:
DHS concurs with this finding. DHS and AEDC will collaboratively investigate the six instances in which duplicate expenditure documentation was submitted to each agency. Both agencies will collaborate on appropriate action, including recoupment, for any payments confirmed as duplicates.

Anticipated Completion Date: August 31, 2022

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Arkansas Economic Development Commission:
(Joint Response from All Agencies):
Benefits under the Ready for Business Grant Program were provided to the eligible businesses as an advance, with the requirement that the business submit receipts at a later date to confirm that the grant amount was expensed for a permissible purpose as outlined in the grant program terms.

The potential for duplication of benefits with a program administered by DHS was not foreseen at the time the Ready for Business Grant Program was operational. AEDC will coordinate with DHS to recover the duplicate payments so that they are returned to the State.

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – Arkansas Economic Development Commission
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:	**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: (Continued)
(Joint Response from All Agencies) (Continued):
The Ready for Business Grant Program and the Business Interruption Grant Program (BIG) were both temporary programs that are no longer operational. This should fully mitigate future control issues.

Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only)
The auto-calculation of a qualified applicant's BIG program award was based on the amount of other financial assistance received by the applicant, as reported in the program's online portal. The program's intent in using third-party records, as evidenced by the AEDC data, was to minimize fraud potential by gathering available and useable electronic data from other government sources to cross-check and auto-validate the information that the program's over 5,000 applicants submitted. Most of the program's auto-validation effort was employed during the initial application stage of the process to help ensure only qualified Arkansas businesses would be considered for possible awards. For example, during the application stage, the program extensively cross-checked identification data submitted by applicants with records received from the Arkansas Secretary of State's office. Tax identification numbers submitted by applicants were also verified by DF&A.

Due to the time constraints imposed by the then federal payment deadline of December 30, 2020, neither auto-validation nor a manual case-by-case review and resolution could be effectively employed in the latter stage of the program for the small percentage of cases where data inconsistency occurred. As for any data that could not be timely cross-checked or validated, the BIG program, like many other CARES Act assistance programs, had to necessarily rely upon self-certification by the applicant. In the BIG program, the applicant submitted its data under penalty of perjury and contractually agreed to a claw back provision whereby the state could recover any amounts erroneously awarded. In the three cases referenced, which represent 7.5% of the sample size, ADPHT does not have reason to believe fraud was committed. The award recipients in this finding misrepresented in total $6,000 in other financial assistance, a very low percentage in comparison to the $48 million to be awarded. The applicants were eligible, had qualified expenses and had a demonstrable need for this financial assistance. Due to the large amount of qualified expenses submitted by all qualified applicants, the average grant award was paid out at a rate of approximately $.12 on the dollar. Accordingly, we are confident that the awards paid to these three (3) recipients did cover qualified expenses and did not result in an unfair advantage or create a material disadvantage to all other awardees.

For planned corrective action, ADPHT will develop a plan to conduct further review of more grant recipients beyond the businesses reviewed in the audit sample. ADPHT will work with the Arkansas Department of Commerce to cross reference data collected from businesses including grant award amounts. This further review will allow ADPHT to ensure that the incorrect Ready for Business Grant award amounts reported was not a pervasive problem with the grant program. For future grant programs, with more time allowed for development and distribution, ADPHT will:

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – Arkansas Economic Development Commission
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:	**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):
Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only) (Continued)

1) Increase staff participation to assist in the review and assurance that applicants are in compliance with program requirements; and
2) Design a program with more controls in place that allows for more time with the application process and support of applicants to ensure accurate information and proper documentation is submitted with the grant application.

Anticipated Completion Date: August 31, 2022

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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

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 Totaling $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.

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

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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 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 Totaling $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.

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 Economic Development Commission: (Continued)

(Joint Response from All Agencies):
As for corrective action, ADPHT contacted the four (4) businesses that did not supply appropriate documentation and requested further detailed documentation to support the award received. One business replied to our request. ADPHT has been unable to communicate with the other three (3) businesses. These businesses may have been closed due to the pandemic. For future grant programs, with more time allowed for development and distribution, the state could possibly create a program that includes an online validation process of qualified expenses for eligible businesses.

(A) 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.

As for corrective action, no further action has been taken with the ineligible business as the business did not receive a grant award. For future grant programs, with more time allowed for development and distribution, the state could possibly create a program that includes an online validation process of eligible businesses.

1. ADPHT will continue to reach out to the three (3) businesses that have not responded to our request for additional information.
2. No further action is required.

It should be noted that the Business Interruption Grant Program was a temporary grant program during the COVID pandemic and is no longer in effect mitigating any future control issues.

Anticipated Completion Date: August 31, 2022

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Finding Number:	**2021-021**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Ready for Business Grant 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 subrecipients of small business assistance to satisfy compliance with this law. Subrecipients were required to submit receipts prior to October 31, 2021, for expenses incurred between March 1, 2020, and September 30, 2021.

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 $129 million to eligible sub-recipients (e.g., small businesses or nonprofits) to assist in covering expenses associated with ensuring the health and safety of employees and patrons. Funds for approved grants were disbursed by the Arkansas Economic Development Commission (AEDC), in full and in advance of the subrecipients incurring allowable costs.

AEDC developed a review process for the expense documentation submitted by the subrecipients. All submitted documentation was reviewed by its staff, and the grant was determined to be “complete” when sufficient documentation had been reviewed and approved.

As of September 20, 2021, 3,216 grants, totaling approximately $49 million, were considered complete by AEDC. ALA staff reviewed the supporting documentation for 60 completed grants, totaling $918,532, to determine if sufficient, appropriate evidence (supporting documentation) was maintained.

ALA review revealed the following exceptions for 15 grants:

- Although one grant subrecipient review was identified as complete, only $38,216 in receipts were submitted. The subrecipient had received $38,500 in grant funds. Questioned costs totaled $284.
- Documentation supporting 14 subrecipients was deemed insufficient because the support submitted was (1) for unallowable items, (2) lacked details to determine what was purchased, (3) lacked dates to determine whether the items were purchased within the required time period, or (4) included an invoice previously submitted and, therefore, duplicated. Questioned costs totaled $59,646.

Finding Number:	**2021-021 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Ready for Business Grant 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**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$59,930

Cause:
The Agency failed to properly review the submitted expense documentation as required.

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:
Benefits under the Ready for Business Grant Program were provided to the eligible businesses as an advance, with the requirement that the business submit receipts at a later date to confirm that the grant amount was expensed for a permissible purpose as outlined in the grant program terms.

AEDC will contact the identified businesses and request replacement documentation or repayment of benefits if documentation is not available.

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

Anticipated Completion Date: August 31, 2022

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Finding Number:	**2021-022**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Arkansas Rural Connect 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/Cost Principles; Period of Performance**
Type of Finding:	**Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
Coronavirus Relief Funds (CRF) were 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. As per 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 subrecipients of small business assistance to satisfy compliance with this law. Grant agreements signed by the subrecipient required submission of monthly reports of expenses in a form prescribed by the Arkansas Economic Development Commission (AEDC).

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 $114 million to internet service providers (ISPs) to expand rural broadband capacity. Funds for approved projects were disbursed by AEDC, in full and in advance of the ISPs incurring allowable costs.

ALA staff requested a copy of the monthly expense report and was informed by AEDC that it had required all project invoices be electronically submitted to the University of Arkansas for Medical Services (UAMS). AEDC had contracted with UAMS to review, approve, and monitor reimbursable expenses for each project.

As of September 7, 2021, 44 funded projects were considered technically complete, with financial reviews pending. ALA staff selected five projects to review to determine if sufficient, appropriate evidence (supporting documentation) was maintained. This review revealed an exception with one ISP project that received $714,495.

On April 7, 2021, UAMS notified AEDC that the ISP had completed the project, but the reconciliation of receipts was on-going. In October 2021, approximately six months after the project was complete, ALA staff requested a copy of the expenditure information submitted to UAMS for this particular project. The original support provided by AEDC and UAMS indicated that the ISP owed the State of Arkansas $314,889, and AEDC indicated that it would be requesting reimbursement from the ISP within the next few weeks. In November 2021, the ISP was notified that it would either need to provide all remaining support for expenses incurred or refund that balance. The ISP elected to provide the remaining support for expenses incurred.

Statistically Valid Sample:
Not a statistically valid sample

Finding Number:	**2021-022 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Arkansas Rural Connect 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/Cost Principles; Period of Performance**
Type of Finding:	**Significant Deficiency**

Questioned Costs:
Unknown

Cause:
The Agency failed to establish and implement sufficient internal controls over monitoring.

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

In addition, future federal funding allocated to this project and other similar projects could be at risk if controls are not developed and implemented immediately.

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:
As indicated by ALA, receipts were ultimately provided by the Internet Service Provider. AEDC has modified the grant payment methodology to a reimbursement model beginning with ARC grant appropriations approved by ALC on and after November 19, 2021. The ISP must first upload invoices/receipts into the UAMS portal. UAMS staff will then review the invoices/receipts and, if approved, forward approved expenses to AEDC for reimbursement.

Anticipated Completion Date	This reimbursement method is currently in effect.
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Finding Number:	**2021-035**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Material 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.

Unemployment Insurance Program Letter (UIPL) No. 27-20 established Lost Wages Assistance (LWA), which provided a $300 supplemental benefit for six weeks beginning with the weeks ending August 1, 2020 through September 5, 2020. Claimants from both the regular Unemployment Compensation (UC) system and the Pandemic Unemployment Assistance (PUA) system were eligible for LWA, if eligible for weekly benefits of at least $100 from their respective programs.

Condition and Context:
456,575 weekly LWA benefits payments, totaling $129,580,530, were made during the year ended June 30, 2021. In a random sample of 60 weekly LWA benefits payments to 60 different claimants totaling $18,000, ALA noted 8 claimants, with payments totaling $2,100, who were deemed ineligible at a later date by caseworkers.

In order to determine the severity of the noncompliance, likely questioned costs must be calculated. As a result of this calculation, the $2,100 identified as known questioned costs were projected to the population, resulting in likely questioned costs totaling $15,117,729.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$2,100

Cause:
In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the Unemployment Insurance program during fiscal year 2021.

Effect:
Lack of appropriate internal controls resulted in overpayments of federal funds.

Recommendation:
ALA staff recommend the Agency maintain and implement internal controls over benefit payments to ensure that payments are made in the correct amount and to eligible claimants. In addition, ALA staff recommend the Agency continue to pursue recovery of the overpayments of funds, returning them to the appropriate source.

Finding Number:	**2021-035 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

During the Pandemic, many businesses did not respond to information being sent to them by the agency. Later, they would respond, and the issues discovered were adjudicated and many created overpayments.

During 2020, the waiting week was waived, and claims filed were paid the following week. The waiting week allows the employer to respond before the claimant is paid. This allows issues that are undetected to be set prior to claimants receiving payment. The waiting week was reinstated in January of 2021.

Overpayments have been identified and sent to Benefit Payment Control to have the overpayment created or, if qualified, a waiver of the amount due.

Anticipated Completion Date: Completed

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Finding Number:	**2021-036**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
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 a 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.

Unemployment Insurance Program Letter (UIPL) No. 14-20 established Pandemic Unemployment Assistance (PUA) for the self-employed, those seeking part-time employment, or those who otherwise would not qualify for regular Unemployment Compensation (UC) under state or federal law. As such, the UC and PUA programs are mutually exclusive, and it is not allowable for claims to be paid for the same week of unemployment out of both systems.

In addition, UIPL No. 27-20 established Lost Wages Assistance (LWA), which provided a $300 supplemental benefit for 6 weeks starting with weeks ending August 1, 2020 through September 5, 2020, and required claimants to self-certify that they were unemployed or partially unemployed due to disruptions caused by the COVID-19 pandemic. LWA supplemental benefits were payable for either regular UC and PUA claims, out of each respective system, but not both.

Condition and Context:
Using data analytics, ALA staff identified 81 claimants who received a total of 294 duplicate payments for the same week of LWA in both the regular UC system and the new PUA system. Payments from the regular UC system and the PUA system totaled $88,200, respectively.

ALA staff reviewed the case files of 30 claimants to determine which of the two mutually exclusive benefits they may have been eligible to receive. Our review revealed the following:

- 29 claimants, or 96.7%, were not eligible for the PUA-LWA benefits received totaling $42,600.
- 1 claimant, or 3.3%, was not eligible for the Regular UC-LWA benefits received totaling $1,500.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$44,100

Cause:
Appropriate communication between the two systems administering the regular UC LWA benefits and the PUA LWA benefits was lacking.

Finding Number:	**2021-036 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Effect:
Benefit payments from two separate systems issued for the same week of unemployment for the same claimant, resulting in overpayments of federal funds.

Recommendation:
ALA staff recommend the Agency work to strengthen internal controls over the establishment of eligibility in both systems for regular UC and PUA, as well as the payment of benefits. In addition, ALA staff recommend the Agency continue to pursue the recovery of overpayments of funds, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
The Unemployment System and the Pandemic Unemployment Assistance system were different systems and did not communicate at the beginning of the pandemic period. There are instances of claimants being paid on both systems. Enhancements were made to the systems to allow them to start communicating beginning in November 2020. The overpayments have been identified and are being investigated. Overpayments or waivers will be issued to these claimants.

Anticipated Completion Date: July 2022

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Finding Number:	**2021-037**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
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.

In addition, 2 CFR § 200.516(a)(6) requires the auditor to report known or likely fraud affecting a federal award.

Condition and Context:
In state fiscal year 2021, the Division of Workforce Services (DWS) identified 464 claims paid for Lost Wages Assistance (LWA) totaling $524,400 as likely fraud.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$524,400

Cause:
In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the program during fiscal year 2021.

Effect:
Lack of appropriate internal controls resulted in overpayments of federal funds.

Recommendation:
ALA staff recommend the Agency continue to strengthen controls over benefit payments to ensure that payments are made in the correct amount and to eligible claimants. ALA staff also recommend the Agency seek recoupment of the identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
These claims were sent to the Internal Audit/Fraud Unit for investigation for fraud. The amounts will be sent to Benefit Payment Control for overpayment if the perpetrator is found. ID verification on all unemployment claims filed was restarted January 2021 and the PUA claims started using UIdentify at that time.

Anticipated Completion Date: July 2024

Finding Number:	**2021-037 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

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

Contact Person:

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Finding Number:	**2021-038**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
20 CFR § 604.3 and Ark. Code Ann. § 11-10-507(3)(A)(i), individuals must be unemployed, physically and mentally able to perform suitable work, and available for the work to be eligible for Unemployment Insurance (UI) benefits. Lost Wages Assistance payments are supplemental payments to individuals eligible for at least $100 per week in UI benefits. Incarcerated individuals are generally not available for work, making them ineligible for both UI and Lost Wages Assistance (LWA) benefits.

Condition and Context:
Using data analytics, ALA staff identified $117,000 in LWA awards paid to 188 incarcerated individuals who do not appear to be eligible for benefits. As of June 30, 2021, $3,000 of these benefits to 4 of these claimants had been identified by the Agency as likely fraud.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$114,000

Cause:
Due to increased demand for services/benefits during the Coronavirus pandemic and turnover of key personnel, the control that cross-matched DWS's claimant data with Department of Corrections' inmate data was not properly performed.

Effect:
Lack of appropriate internal controls resulted in overpayments of federal funds.

Recommendation:
ALA staff also recommend the Agency seek recoupment of identified overpayments, returning them to the appropriate source.

Views of Responsible Officials and Planned Corrective Action:
The regular UI system gets a DOC crossmatch weekly and is worked by staff. The PUA system was set up to get the crossmatch and has been checked and are up to date. The list provided by the DOC also contains incorrect SSN numbers, and some of the instances identified by the audit staff were in fact incorrect as the individual with the claim was not incarcerated. There were also individuals that were incarcerated on the list that were paid weeks of PUA outside of the time they were incarcerated and no change was needed. The fraudulently filed claims have been turned over to the Internal Audit/Fraud Unit. Some claims were found to be legitimate claims and the others have been turned in for overpayment.

Finding Number:	**2021-038 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

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

Anticipated Completion Date: Completed

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Finding Number:	**2021-039**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
Unemployment Insurance Program Letter (UIPL) No. 27-20 provides guidance on administering the Presidential Memorandum, *Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019*, issued on August 8, 2020. UIPL No. 27-20 requires a 25% state match for the Lost Wages Assistance (LWA) program. According to the FEMA Supplemental Lost Wages Payments under Other Needs Assistance Frequently Asked Questions, the state match could be funded by both Department of Treasury Coronavirus Relief Funds and total benefits paid with state unemployment funds to eligible LWA claimants.

Condition and Context:
The State did not meet the 25% match required for the LWA program. Based on reported federal expenditures totaling \$136,888,251, the state expenditures required to achieve the 25% match would be \$45,629,417. State match expenditures totaled \$34,204,967, resulting in a deficit of \$11,424,450.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The methodologies used to calculate the required state match contained an error, and the State's share was calculated as 25% of the federal expenditures, instead of 25% of the total expenditures. In addition, the Agency did not have controls in place to properly review the methodologies behind the calculations.

Effect:
Lack of appropriate internal controls resulted in a liability due back to the federal awarding agency.

Recommendation:
ALA staff recommend the Agency strengthen internal controls over compliance with state matching provisions of grant agreements. In addition, ALA staff recommend the Agency contact FEMA for guidance on resolving the liability.

Views of Responsible Officials and Planned Corrective Action:
ADWS discussed this issue with former agency management involved with the initial planning and implementation of this program, extensively reviewed agency workpapers and reviewed documentation published by FEMA for the Lost Wages Assistance Program. The calculations were reviewed daily by several layers of management and approved, based on their understanding. Several other states have acknowledged the same issues with their calculations. If there are similar programs in the future, ADWS will seek additional guidance on these matters before deciding the appropriate course of action.

Finding Number:	**2021-039 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action (Continued):
Subsequent legislation, H.R. 2471, "Consolidated Appropriations Act of 2022", which was signed into law March 15, 2022, has retroactively changed the state match from 25% to 10%, so there is no shortfall, by either calculation.

Anticipated Completion Date: Completed

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Finding Number:	**2021-040**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
Unemployment Insurance Program Letter (UIPL) No. 27-20 requires a 25% state match (i.e., recipient share of expenditures) for the LWA program. According to the *FEMA Lost Wages Supplemental Payment Assistance Guidelines*, the Agency is required to report the amount it is required to spend for match (i.e., total recipient share required) on Line 10i of the SF-425 federal financial report and the amount it actually spent toward match (i.e., recipient share of expenditures) on Line 10j of the SF-425 report.

Condition and Context:
ALA review of the June 30, 2021, SF-425 report revealed that the Agency failed to accurately report the amount it was required to spend for match and the amount it actually spent toward match. The Agency reported "zero" in both fields of the report resulting in an understatement totaling $45,629,417 and $34,204,967, respectively.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not have adequate controls in place to properly report state match amounts required and expended for the award.

Effect:
Lack of appropriate controls resulted in noncompliance with the reporting requirements of the federal award.

Recommendation:
ALA staff recommend the Agency strengthen internal controls over its compliance with federal reporting requirements.

Views of Responsible Officials and Planned Corrective Action:
ADWS has had other discussions with FEMA to obtain more and better information on this new pandemic unemployment program which was through a federal funding agency that ADWS does not normally receive funding through. In the course of those discussions, ADWS was told to re-submit the final report. ADWS will be submitting the adjusted report soon. The new ADWS CFO will provide an additional layer of review for the report.

Anticipated Completion Date: May 13, 2022

Finding Number:	**2021-040 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Commerce – Division of Workforce Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.050 – COVID-19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)**
Federal Awarding Agency:	**Federal Emergency Management Agency**
Federal Award Number(s):	**4518DRARSPLW**
Federal Award Year(s):	**Not Applicable**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

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

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Finding:
The Department of Agriculture did not adequately monitor all subrecipients for the Arkansas Meat and Poultry Processing Grant Program, funded by the federal CARES Act and approved for a 90/10 cost-share by the Arkansas CARES Act Steering Committee. We reviewed expenditures totaling $7.8 million for 16 of 31 subrecipients who received funding under the grant; of these 16 subrecipients, 11 did not submit adequate documentation to the Department to prove the cost-share had been achieved. According to the Department, this cost-share was intended to be used to determine the maximum distribution of funds to each applicant. However, the written rules state, “A grant award can be used to reimburse up to 90% of eligible expenses.” As a result of this rule and in combination with other questionable expenditures noted below, subrecipients were overpaid $1.0 million.

- Two subrecipients made payments totaling $343,548 with grant funding to related parties. These payments from one subrecipient included $60,000 for a two-year lease of land and $30,000 for consulting services. Additionally, one year of the land lease ($30,000) was for dates outside the period of performance of the federal CARES Act and, therefore, was not an allowable cost. For the other subrecipient, a $253,548 payment was made to a related-party construction company without an associated itemized invoice.

- Two subrecipients purchased real estate totaling $376,044 with grant funds, although real estate was not listed as an eligible expense category in the grant guidelines issued by the Department. Additionally, based on federal guidance, the acquisition of real estate must be “necessary” in that the need cannot be met “in a cost-effective manner by leasing property…or by improving property already owned….” As both subrecipients already owned land and stated on their grant applications that they intended to use that land to build facilities, the real estate purchase does not meet the definition of “necessary.”

- One subrecipient submitted a $10,000 invoice for “equipment” that did not contain sufficient detail to verify the eligibility of the expense.

Recommendation:
We recommend the Department strengthen its monitoring of subrecipient expenses to ensure compliance with all grant criteria.

Agency Response:
The Department agrees to strengthen the monitoring of subrecipient expenses to ensure compliance with all grant criteria. The Department will revise its control self-assessment on subrecipient monitoring. The Department made extensive efforts to correctly implement and monitor the Arkansas Meat and Poultry Processing Grant Program despite the short timeframe between the selection of awardees and the CARES Act deadline for expenditures. In addition to numerous calls, emails, and meetings with all awardees, the Department has more than 200 emails between the Department and the three plants referenced in the audit finding. Department staff also made a site inspection of each of the three facilities.

Finding:
Ark. Code Ann. § 19-4-1502 states that it is the responsibility of the executive head of each state Agency to keep and maintain a record of all agency property belonging to the State of Arkansas. Regulation R1-19-4-1503 of the Department of Finance and Administration (DFA) Financial Management Guide states that all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets.

Our review of capital assets at the Arkansas School for the Deaf identified two items with a total recorded value of $33,075 that could not be located and one item with a recorded value of $35,065 that was removed from the capital asset records but is still in the Agency's possession.

Failure to adhere to Ark. Code Ann. §19-4-1502 could lead to misappropriation of assets.

Recommendation:
We recommend the Agency strengthen controls and adhere to Arkansas Code and DFA regulations.

Agency Response:
The Agency agrees with the finding. ADE finance staff has worked with staff at ASD and developed a plan for the Inventory Manager at ASD to follow this summer and throughout the year. It will ensure a 100% inventory is completed annually. The finance staff at both ASD and ADE will work together to update the inventory list. The assets that could not be located are over thirty years older, so the staff will focus on assets with older origination dates first in the physical inventory check.

Finding 1:
During our review of expenditures, we noted two duplicate payments in the amounts of $7,500 and $6,000 issued to United Family Services, Inc., a vendor providing services within the Division of Youth Services (DYS). The original payments were issued during May 2021, and the duplicate payments were issued during June 2021. The Agency was unaware of the duplicate payments, until notified by Arkansas Legislative Audit (ALA) during April 2022. The Agency received and deposited recoupment of the duplicate payments in May 2022.

Recommendation:
We recommend the Agency strengthen controls over disbursements by implementing procedures designed to detect and prevent duplicate payments of the same invoice and/or for same services provided.

Agency Response:
The Department of Human Services (DHS) concurs with this finding. DYS contract and finance teams have implemented a contract and invoice tracking system to prevent future duplicate payments to vendors. Upon receipt of an invoice, DYS enters the vendor name, invoice number, invoice amount, and service dates, plus additional information, into a tracking spreadsheet. This information must be reviewed prior to approving invoices for payment. The duplicate payments have been recouped from the vendor.

Finding 2:
Regulation R4-19-4-501 of the State Financial Management Guide states that strict control needs to be maintained during the processing of cash receipts to ensure that they are properly accounted for. The Agency's Administrative Procedures Manual Ch. 201, Section III, states that receipt books and/or cash logs are to be maintained for purposes of audit and internal control and that funds received must be receipted and deposited timely. Our review of the Agency's receipt and deposit of funds received in the various program areas revealed the following:

- Receipts not traced to deposit:
    - **Arkansas State Hospital (ASH)-Finance Office:** Two checks in the amounts of $794 and $72, out of 25 sampled items totaling $38,015, could not be traced to deposit. The Agency stated the checks were either returned to the payor or forwarded to the client's last known address; however, no documentation of return was maintained.
    - **Division of Aging, Adult, and Behavioral Health Services (DAABHS)**: One check in the amount of $29, out of three checks receipted for the year totaling $35,423, could not be traced to deposit.
    - **Office of Finance – Accounts Payable Returned Checks**: Two checks in the amounts of $2 and $1,076 picked up by Central Office Accounts Receivable for processing and one check in the amount of $677 picked up by the Payroll Division for processing, out of 25 sampled items totaling $31,687, could not be traced to deposit. Subsequent to ALA testing, two of the payors have agreed to re-issue a check to the Agency.
- Untimely deposit:
    - **Division of Youth Services (DYS):** Six checks totaling $69,619, out of 11 checks receipted for the year totaling $140,493, were held from 18 up to 83 days before being deposited.
    - **Division of Aging, Adult, and Behavioral Health Services**: Two checks totaling $35,394, out of three checks receipted for the year totaling $35,423, were held from 77 up to 201 days before being deposited.
- Failure to maintain receipt books and/or check log:
    - **Central Office Receipting** failed to maintain one book of 200 receipts for funds received from September 2020 through November 2020.
    - **Division of Provider Services and Quality Assurance (DPSQA)** failed to maintain a check log for August 2020 through November 2020.

Recommendation:
We recommend the Agency review and follow Regulation R4-19-4-501 of the State Financial Management Guide and the Agency's Administrative Procedures Manual Ch. 201, Section III, regarding the processing of cash receipts.

Agency Response:
DHS concurs with this finding. ASH, DAABHS, and DYS have implemented new procedures for tracking and reconciling cash receipts and deposits. DYS and DAABHS have updated their procedures for tracking and reconciling cash receipts and deposits. Both have updated their documented controls to require documentation of the reason for a delay in depositing checks. Office of Finance staff has been trained in the record retention and safekeeping of receipt books. The DPSQA check log was previously combined with the Division of Medical Services (DMS) check log. DPSQA's check log is now separate from the check log of DMS.

Finding 3:
Regulation R1-19-4-501 of the State Financial Management Guide states that agencies must have an established system of internal control and that strict control should be maintained during the processing of cash receipts. Our review of the Arkadelphia Human Development Center (HDC) Individual Personal Fund bank account and corresponding receipt and expenditure transactions revealed the following issues:

- Review of Receipt Books:
  - The receipt book was not maintained for July's manual deposits totaling $13,648.
  - Manual receipts were not issued for two bank deposits, totaling $300 and $1,600, respectively, during October and March.
  - Four receipts issued during May, totaling $223, were not deposited intact.
  - One June receipt was not used; however, it was not voided to prevent the practice of issuing receipts out of sequence.
  - One June receipt was missing due to being torn out of the receipt book; the Agency was unable to explain why it had been removed.
  - Five instances occurred throughout the year in which the applicable receipts did not match a bank deposit, resulting in a net total of $3 in funds receipted that could not be traced to an actual bank deposit.
- Testing of Receipts:
  - Two receipt items totaling $168, out of 30 items tested totaling $7,405, were applied to incorrect client accounts, resulting in two client ledger accounts being overstated and two client ledger accounts being understated.
- Testing of Expenditures:
  Review of 20 expenditure items totaling $10,500 revealed the following issues:
  - One instance, totaling $324, was noted in which client funds were drawn to purchase an in-store Walmart gift card used to place an online order. The online invoice maintained by the Agency documented that the order had been placed but did not provide detail as to whether the actual gift card was used as payment for the order.
  - In two instances, totaling $68, where multiple draws of petty cash funds for use by clients were replenished, the Agency failed to document management authorization and approval of the withdrawals. The Agency also did not maintain store receipts for $29 of the replenishments and, therefore, failed to document how the petty cash was spent. Additionally, upon the Agency's posting of the replenishment transactions in the general ledger, one client account was overcharged by $14, while another client account was under-charged by $10. Because of such errors in replenishment, the Agency has maintained a current overage in the petty cash drawer of $4.
  - In four instances totaling $2,450, client funds were drawn for personal expenditures, and store receipts documented a total of $2,505 spent, resulting in an excess of $55 in funds spent compared to funds withdrawn. No documentation was available as to who paid the extra $55, and no entries were posted in the general ledger documenting if the client account was ever charged for reimbursing the applicable party.

Inadequate documentation inhibits maintenance of an audit trail for review. Additionally, lack of due diligence in posting client account activity could lead to misappropriation of client funds entrusted to the Agency.

Recommendation:
We recommend the Agency implement policies and procedures regarding the receipt and use of client funds and for the adequate recording and monitoring of financial activity for the Arkadelphia Human Development Center Individual Personal Funds.

Agency Response:
DHS concurs with this finding. Division of Developmental Disabilities Services (DDS) conducted a comprehensive training for all HDC Business Office staff on the cash receipt, deposit, and withdrawal process in accordance with State Financial Management guidelines. All HDC Business Office staff will be required to complete this training course on an annual basis. New hires will be required to complete this training course as part of their orientation.

Finding 4:
Regulation R1-19-4-505 of the State Financial Management Guide states that government agencies must have an established system of internal control in relation to the safeguarding of assets. During our review of the Agency's Arkansas ABLE investments of Foster Care Trust funds, we noted a total of $906,437 in contributions, as of the 2021 fiscal year-end, were sent to a third-party administrator for investment against multiple foster care client investment accounts. The contributions were made over a three-year period in the amounts of $559,450, $212,065, and $134,922 for fiscal years 2021, 2020, and 2019, respectively.

We reviewed 25 of 269 client investment accounts, along with corresponding third-party administrator system reports, and noted the following discrepancies:

- One check contribution of $1,150, issued during November 2020, was applied against the wrong client investment account. The Agency was unaware of the error until notified by ALA during April 2022.
- One check contribution in the amount of $1,500, issued during December 2019, was sent back by the third-party administrator in January 2020 due to lack of identifying information. The Agency has allowed this check to remain outstanding, rather than re-issuing the funds for the intended client's account.
- One client investment account's prior-year activity of both funding and closure transactions was not listed on any of the system reports received by the auditor from the third-party administrator. Such omissions require the Agency to perform current/timely monitoring of client account balances.

Additionally, we determined the total Arkansas ABLE investment amount at June 30, 2021, posted in the Arkansas Administrative Statewide Information System (AASIS), was under reported by $8,772 due to the third-party administrator's year-end report erroneously omitting three active client account balances.

Finally, upon auditor inquiry, it was discovered that the third-party administrator notifies the Agency routinely of the availability of monthly reports and quarterly statements; however, the Agency has failed to incorporate a process of reviewing the reports and/or statements to verify that all contributions sent have been applied against the intended client account.

Lack of due diligence in monitoring foster care client investment account contributions and corresponding balances could lead to misappropriation of funds entrusted to the Agency.

Recommendation:
We recommend the Agency implement policies and procedures regarding the monitoring of foster care client investment account assets as required by R1-19-4-505 of the State Financial Management Guide.

Agency Response:
DHS concurs with this finding. The Division of Children and Family Services (DCFS) Eligibility Unit has assigned staff to complete a monthly reconciliation of Arkansas ABLE investment accounts that will ensure funds are credited to the proper account, outstanding check items are addressed timely, and all client account balances are monitored. Monthly reports made available through the third-party administrator responsible for managing investments have been combined with existing agency reports to complete the monthly reconciliations.

Finding 5:
Ark. Code Ann. § 19-4-1502 states that 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. Regulation R1-19-4-1503 of the State Financial Management Guide 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 assets from a current capital asset listing dated March 2, 2022, we noted 7 of 60 equipment items sampled, with a total purchase cost of $43,229, could not be located for observation. These items had inventory dates listed in AASIS as follows:

- 5 items were noted as last inventoried in May 2021 and/or June 2021.
- 1 item was noted as last inventoried in December 2020.
- 1 item had no inventory date listed.

None of these items were documented as lost, stolen, or obsolete prior to our sample testing.

Recommendation:
We recommend the Agency strengthen controls over capital assets by ensuring management periodically reviews asset information for accuracy and completeness.

Agency Response:
DHS concurs with this finding. The Agency continues to analyze and update its asset management procedures to ensure compliance with the State Financial Management Guide. Over the course of the last two fiscal years, the Agency has steadily increased the number of assets located and updated during inventory. In fiscal year 2022, the Agency located and updated 95% of its assets in AASIS. An internal investigation is being conducted to identify the 7 assets that could not be located for observation.

Finding 6:
DHS disbursed $4.7 million in Coronavirus Relief Funds for the Community Outreach Program within the Division of County Operations (DCO). During the approval process for granting the awards and in the corresponding issuance of the grant funds, DHS utilized a third-party administrator for vetting potential sub-grantees. In turn, the sub-grantees agreed to provide DHS-Office of Payment Integrity and Audit with supporting invoice/receipt documentation upon spending the funds received, as required per DHS' Proposal for Arkansas Coronavirus Relief Fund.

The third-party administrator awarded and disbursed 262 grants to approved sub-grantees in amounts ranging from $1,000 up to $450,000 per grant award. For our review, we selected the highest distributed grant award amount of $450,000 to the sub-grantee The Urban League of the State of Arkansas (ULSA).

ULSA's proposal/application for funding documented that it would serve 45 counties in need at $10,000 per county. ULSA subsequently contracted with Performance Tax Group (PTG) to distribute the funds to various organizations in the anticipated 45 counties. ULSA provided a summary listing of 17 organizations to whom PTG issued grant funds as well as the total amount paid to ULSA and PTG for administrative costs. Alongside bank statement documentation, we determined that $404,300 in grant funds was portrayed as distributed to the 17 organizations, with the remaining $45,700 retained by ULSA and PTG as allowable operating costs. Our review of the summary listing and detailed support provided for the 17 organizations' expending of the $404,300 grant funds revealed the following concerns:

- ULSA's summary listing of how the grant funds were disbursed did not match PTG's bank statement detail of disbursement. Although the summary listing totals the original $450,000 award, six of the payee amounts listed on the summary differed from the bank activity detail. It should be noted that two of the six payees with differing amounts were ULSA and PTG.
- The signed acknowledgement forms between ULSA and PTG with the applicable organizations to whom PTG disbursed the funds did not list the official amount of funding received by the organizations. Therefore, we do not consider the amounts documented as disbursed to be verified against the total amount received by each individual organization.
- PTG made nine cash withdrawals, totaling $165,750, in order to issue 36 cashier's checks among the 17 organizations. Supporting documentation provided by PTG for 26 of the cashier's checks, totaling $85,000, listed no identifying bank information; therefore, we question the validity of the cashier check.
- As required by the DHS Proposal for Arkansas Coronavirus Relief Fund, funding received by sub-grantees was to be used for its intended purpose and be adequately tracked and appropriately supported. The majority of the supporting documentation provided by the various organizations for expending the funding was considered inadequate and was un-readable and/or could not be deciphered by auditors and could not be reconciled with the amount noted as disbursed. We noted the following for three of the organizations:
    - A total of $21,250 was issued by electronic transfer to two separate organizations, owned by the same individual, that are not considered a food/meal service type vendor; therefore, we question why the organizations were granted the funds. Supporting documentation suggests the organizations further sub-granted the funds to various charitable groups to provide meals; however, the documentation was considered incomplete in detailing how all the funding was spent.
    - PTG distributed a total of $192,550 in grant funds to one organization to serve 21 counties. Information submitted as support for providing meals consisted of email correspondence among various county organizations and lists of people who were provided meals; however, not all 21 counties were represented in the information. Furthermore, we could not calculate/verify total amount spent for each county due to poor presentation of the information provided.

Due to these concerns, we question whether all the funds were distributed to the intended 17 organizations as well as whether the funds were spent to provide meals for all 45 counties, as required by the grant award.

During our testing for this grant award, the DHS-Office of Payment Integrity and Audit also performed an initial review of this grant award, resulting in various concerns.

Recommendation:
We recommend DHS continue monitoring this grant award, as required by the DHS Proposal for Arkansas Coronavirus Relief Fund, to determine whether the funds were used for their intended purpose.

Agency Response:
DHS concurs with this finding and continues to monitor the grant of this award. On June 20, 2022, the Agency referred the concerns noted by Legislative Audit and DHS-Office of Payment Integrity and Audit to the United States Attorney's Office for the Eastern District of Arkansas.

Finding Number:	**2021-014**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – Arkansas Economic Development Commission
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:	**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 subrecipients of small business assistance to satisfy compliance with this law.

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 established various programs intended to reimburse beneficiaries or subrecipients for additional expenses incurred as a result of COVID-19. The State of Arkansas established a state-level committee that approved the programs and disbursements. The programs were established and administered at a departmental level. Each department was responsible for establishing controls and acquiring sufficient, appropriate evidence (supporting documentation) for expenditures. As such, ALA identified a risk of potential duplication of benefits for programs at more than one department level.

ALA performed select procedures to determine if duplication of benefits had occurred. Our review revealed the following exceptions:

- ALA staff reviewed 43 recipients that received payments under both the Arkansas Department of Human Services projects and the Arkansas Economic Development Commission (AEDC) Ready for Business Grant Program (RBGP). We identified six recipients that submitted duplicate expenditure documentation to both Agencies, totaling $47,488.
- ALA staff reviewed 40 recipients receiving funding from the Business Interruption Grant Program (BIG) and RBGP, both disbursed by AEDC. Three recipients provided inaccurate information regarding the amount of funding previously received under RBGP, a required disclosure on the application for BIG. The disclosure is key because the amount of RBGP received is used in calculating the award for BIG.

Statistically Valid Sample:
Not a statistically valid sample

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – Arkansas Economic Development Commission
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:	**Activities Allowed or Unallowed; Allowable Costs/Costs Principles; Period of Performance**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
$47,488

Cause:
The Agencies failed to implement sufficient internal controls to identify and detect duplication of benefits between funded programs.

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

Recommendation:
ALA staff recommend the Agencies strengthen internal controls over the awarding of funds to recipients, receipt of documentation from recipients, and reconciliation of submitted expense documentation to funds awarded to recipients to ensure that duplication of benefits between funded programs is prevented, detected, and corrected.

Views of Responsible Officials and Planned Corrective Action:
Arkansas Department of Human Services:
DHS concurs with this finding. DHS and AEDC will collaboratively investigate the six instances in which duplicate expenditure documentation was submitted to each agency. Both agencies will collaborate on appropriate action, including recoupment, for any payments confirmed as duplicates.

Anticipated Completion Date: August 31, 2022

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Arkansas Economic Development Commission:
(Joint Response from All Agencies):
Benefits under the Ready for Business Grant Program were provided to the eligible businesses as an advance, with the requirement that the business submit receipts at a later date to confirm that the grant amount was expensed for a permissible purpose as outlined in the grant program terms.

The potential for duplication of benefits with a program administered by DHS was not foreseen at the time the Ready for Business Grant Program was operational. AEDC will coordinate with DHS to recover the duplicate payments so that they are returned to the State.

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
	Arkansas Department of Commerce – **Arkansas Economic Development Commission**
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:	**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: (Continued)
(Joint Response from All Agencies) (Continued):
The Ready for Business Grant Program and the Business Interruption Grant Program (BIG) were both temporary programs that are no longer operational. This should fully mitigate future control issues.

Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only)
The auto-calculation of a qualified applicant's BIG program award was based on the amount of other financial assistance received by the applicant, as reported in the program's online portal. The program's intent in using third-party records, as evidenced by the AEDC data, was to minimize fraud potential by gathering available and useable electronic data from other government sources to cross-check and auto-validate the information that the program's over 5,000 applicants submitted. Most of the program's auto-validation effort was employed during the initial application stage of the process to help ensure only qualified Arkansas businesses would be considered for possible awards. For example, during the application stage, the program extensively cross-checked identification data submitted by applicants with records received from the Arkansas Secretary of State's office. Tax identification numbers submitted by applicants were also verified by DF&A.

Due to the time constraints imposed by the then federal payment deadline of December 30, 2020, neither auto-validation nor a manual case-by-case review and resolution could be effectively employed in the latter stage of the program for the small percentage of cases where data inconsistency occurred. As for any data that could not be timely cross-checked or validated, the BIG program, like many other CARES Act assistance programs, had to necessarily rely upon self-certification by the applicant. In the BIG program, the applicant submitted its data under penalty of perjury and contractually agreed to a claw back provision whereby the state could recover any amounts erroneously awarded. In the three cases referenced, which represent 7.5% of the sample size, ADPHT does not have reason to believe fraud was committed. The award recipients in this finding misrepresented in total $6,000 in other financial assistance, a very low percentage in comparison to the $48 million to be awarded. The applicants were eligible, had qualified expenses and had a demonstrable need for this financial assistance. Due to the large amount of qualified expenses submitted by all qualified applicants, the average grant award was paid out at a rate of approximately $.12 on the dollar. Accordingly, we are confident that the awards paid to these three (3) recipients did cover qualified expenses and did not result in an unfair advantage or create a material disadvantage to all other awardees.

For planned corrective action, ADPHT will develop a plan to conduct further review of more grant recipients beyond the businesses reviewed in the audit sample. ADPHT will work with the Arkansas Department of Commerce to cross reference data collected from businesses including grant award amounts. This further review will allow ADPHT to ensure that the incorrect Ready for Business Grant award amounts reported was not a pervasive problem with the grant program. For future grant programs, with more time allowed for development and distribution, ADPHT will:

Finding Number:	**2021-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services** **Arkansas Department of Commerce – Arkansas Economic Development Commission**
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:	**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):
Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only) (Continued)

1) Increase staff participation to assist in the review and assurance that applicants are in compliance with program requirements; and
2) Design a program with more controls in place that allows for more time with the application process and support of applicants to ensure accurate information and proper documentation is submitted with the grant application.

Anticipated Completion Date: August 31, 2022

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Finding Number:	**2021-015**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost Principles**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
The Coronavirus Relief Fund (CRF) 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.

Additionally, ineligible expenses from the CRF included workforce bonuses other than hazard pay or overtime, and corresponding guidance interpreting this prohibition included employees substantially dedicated to mitigating or responding to the COVID-19 public health emergency. Also, question #38, as published in the Federal Register in January 2021, specifically provided that across-the-board hazard pay for employees working during a state of emergency was not allowed.

Finally, an attestation form signed by the provider required the provider to submit records of expenses to the Arkansas Department of Human Services (DHS) by January 31, 2021. This documentation requirement (records of expenses by the providers) demonstrates that the expenses were for necessary expenditures during the allowable period. Furthermore, while the attestation form specifically prohibited workforce bonuses other than hazard pay or overtime, it allowed for “other workforce payments necessary to ensure continuity,” which provided discretion to the providers/recipients that does not seem afforded by the guidance from the federal government.

Condition and Context:
Arkansas awarded approximately $50 million to hospitals and long-term care facilities to assist with additional expenses related to the COVID-19 surge in Arkansas in the fall of 2020. Funds for approved provider locations were disbursed by DHS, in full and in advance of the providers incurring allowable costs and submitting detailed support for the payment received.

Of 308 payments to providers, ALA staff reviewed a sample of 60 payments and requested the supporting documentation on hand with DHS to determine if sufficient, appropriate evidence (supporting documentation) was maintained to provide assurance that the payroll expenses were eligible. Our review revealed 16 provider payments contained ineligible expenses as follows:

- <u>Sample item 35:</u> $2 per hour extra for “COVID Pay,” even though “COVID Hazard Payroll” was separately listed and reimbursed.
- <u>Sample items 5, 7, 9, 20, 28, 30, 33, 39, 41, and 43:</u> Payroll incentives for “essential admin incentives” and “management incentives.”
- <u>Sample items 19 and 32:</u> “COVID-19 incentive” and no additional explanation.
- <u>Sample items 31 and 56:</u> “Hero pay” associated with positions including administrators, dietary supervisors, housekeeping supervisors, bookkeepers, and billing coordinators.
- <u>Sample item 37:</u> Described the additional payments as “employee payroll – appreciation and retention.”

Finding Number:	**2021-015 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost Principles**
Type of Finding:	**Noncompliance**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency failed to ensure that the types of wage payments made to providers aligned with the corresponding federal guidance.

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

Recommendation:
ALA staff recommend the Agency review the corresponding guidance regarding allowable wage payments, review the supporting documentation provided by the recipients for additional wage payments, and acquire additional support from the providers, where needed, to determine whether funds were appropriately utilized for allowable wage payments.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will request documentation from providers that support payments were made for eligible expenses. Any improperly expended funds will be recouped.

Anticipated Completion Date: August 31, 2022

Contact Person:
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Finding Number:	**2021-016**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost 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 subrecipients of small business assistance to satisfy compliance with this law. An attestation form signed by the provider required the provider to submit records of expenses to the Arkansas Department of Human Services (DHS) by January 31, 2021. This documentation requirement (records of expenses by the providers) demonstrates that the expenses were for necessary expenditures during the allowable period.

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 $50 million to hospitals and long-term care facilities to assist with additional expenses related to the COVID-19 surge in Arkansas in the fall of 2020. Funds for approved provider locations were disbursed by DHS, in full and in advance. As reported in finding **2021-019**, DHS failed to implement sufficient controls to review supporting documentation under this Program.

Of 308 payments made to providers, ALA selected a sample of 60 payments and requested the supporting documentation on hand with DHS to determine if sufficient, appropriate evidence was maintained. Our review revealed 8 instances in which the documentation provided failed to demonstrate that the provider expended the entire payment during the allowed period as follows:

- Sample items 1, 21, 35, 48, and 54: Vendor account statements did not include supporting invoices or purchase detail on the accounting software expense summaries. In addition, quotes were provided rather than actual invoices for services rendered. Questioned costs totaled $206,416.
- Sample item 4: Supporting documentation had not been submitted for any expenses at the time of audit. DHS requested supporting documentation from the provider, who stated the intent to repay the funds received instead of providing documentation. Questioned costs totaled $50,992.
- Sample items 20, 21, 23, and 35: Documentation provided indicated that expenses incurred were less than the total funds received. One provider (sample item 23) specifically requested to return funds to DHS in January 2021, but the Agency failed to review the provider's submission; therefore, the request went unnoticed. As a result, the repayment had not been made as of the end of fieldwork. Questioned costs totaled $121,715.

Finding Number:	**2021-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost Principles; Period of Performance**
Type of Finding:	**Noncompliance and Significant Deficiency**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$379,123

Cause:
The Agency failed to implement sufficient internal controls to monitor the timely submission, reconciliation, and review of provider expenses.

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 regarding the awards to recipients, including the review of supporting expense documentation, to ensure compliance.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will request documentation from providers that support expenditures claimed. Any improperly expended funds will be recouped.

Anticipated Completion Date: **August 31, 2022**

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Finding Number:	**2021-017**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (DHS Hospital Proposal – Protect, Treat, and Transform During the COVID-19 Emergency 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/Cost 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 subrecipients of small business assistance to satisfy compliance with this law.

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 $100 million to hospitals to recover unreimbursed costs associated with treating COVID-19 patients and other expenses necessary to ensure continued care during the Coronavirus pandemic. Funds for approved hospitals were disbursed by the Arkansas Department of Human Services (DHS). Payments were based on an initial attestation form where the provider chose either a formulaic maximum payment or a lesser amount. An additional cluster payment was provided if positive cases of COVID were known at the particular facility.

Subsequent to payment, each provider was required to submit a cost form designed to assist in identifying and quantifying qualifying expenses related to the formulaic payment. No additional documentation for expenses incurred was required.

Of 149 payments, ALA selected a sample of 16 payments made to hospitals to determine if sufficient, appropriate evidence (supporting documentation) was maintained. ALA review revealed that one provider received a $1,802,214 formula payment, but its cost form only identified expenses, totaling $1,568,812, indicating the provider was overpaid.

The cost form was certified by the Chief Executive Officer of the hospital as being correct, complete, and prepared from the books and records of the provider.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$233,402

Finding Number:	**2021-017 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (DHS Hospital Proposal – Protect, Treat, and Transform During the COVID-19 Emergency 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/Cost Principles; Period of Performance**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
The Agency failed to establish and implement sufficient internal controls to ensure that providers incurred sufficient eligible costs and that overpayments were recouped.

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

Recommendation:
ALA staff recommend the Agency establish and implement internal controls to ensure overpayments are recognized and appropriate measures are taken to initiate the refund process.

Additional Information:
ALA staff reviewed a report prepared by the Arkansas Department of Inspector General – Office of Internal Audit (DIG - OIA) regarding this Program. Of the 91 hospitals that received funds, DIG - OIA reviewed a sample of 23 hospitals and requested hospital supporting documentation in addition to the cost forms (e.g., receipts or payroll journals).

Of the 23 hospitals reviewed, 3 elected to return excess funds, totaling $2,545,000, instead of supplying the requested documentation.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will request documentation from providers that support expenditures claimed. Any improperly expended funds will be recouped.

Anticipated Completion Date: August 31, 2022

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Finding Number:	**2021-018**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Skilled Nursing Facility Payments Due to COVID-19 Emergency 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/Cost 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 subrecipients of small business assistance to satisfy compliance with this law. An example of ineligible expenditures in the Federal Register was workforce bonuses, other than hazard pay or overtime.

Funds for approved provider locations were disbursed by the Arkansas Department of Human Services (DHS) in two separate rounds. Round 1 was for expenses incurred from March 1, 2020 through June 30, 2020, and Round 2 was for expenses incurred from July 1, 2020 through October 31, 2020.

An attestation form signed by the provider required the provider to submit records of expenses to DHS by August 31, 2020, supporting Round 1 disbursements and by November 15, 2020, supporting Round 2 disbursements. Disbursements that were not reasonably supported were to be returned to DHS.

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 $40.7 million to qualified skilled nursing facilities to maintain capacity and recover some of the costs associated with treating COVID-19 residents.

During the fall of 2021, DHS was performing the review of supporting expense documentation for Round 1 and had completed the initial review of Round 2. In addition, DHS planned to perform follow-up procedures with Round 2 recipients, during the first quarter of calendar year 2022, to confirm expenses were incurred by the provider because DHS had relied on quotes, proposals, and estimates during its initial review.

Of 373 payments made to providers, ALA selected a sample of 60 payments to determine if sufficient, appropriate evidence (supporting documentation) was maintained. ALA staff requested the attestation forms and provider receipts on hand with DHS. ALA's review revealed 21 instances in which the documentation failed to demonstrate that the provider had appropriate expenses incurred during the period allowed as follows:

- <u>Sample items 1, 3, 7, 11, 25, 42, 43, 58, and 59 (Round 1):</u> Documentation submitted included bonus payments or taxes on bonus payments. Questioned costs totaled $84,230.
- <u>Sample items 11, 23, 39, 42, 43, and 56 (Round 1):</u> Expense receipts were less than the total payment received by the provider. Questioned costs totaled $366,644.

Finding Number:	**2021-018 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (Skilled Nursing Facility Payments Due to COVID-19 Emergency 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/Cost Principles; Period of Performance**
Type of Finding:	**Noncompliance and Significant Deficiency**

Condition and Context (Continued):

- Sample item 47 (Round 1): Receipts had not been submitted at the time of the audit. Questioned costs totaled $125,000.
- Sample item 24 (Round 1): Documentation submitted only included general ledger summaries, not detailed invoices. Questioned costs totaled $111,560.
- Sample items 14, 19, 26, 34, 35, 55, and 57 (Round 2): Expense receipts were less than the total payment received by the provider. For example, the Agency had received quotes, not expense receipts, from some providers. Quotes are not considered sufficient, appropriate evidence (supporting documentation) for the actual expenses incurred. Questioned costs totaled $495,145.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$1,182,579

Cause:
The Agency failed to establish and implement sufficient internal controls to monitor the review of expense documentation submitted by the provider.

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

Recommendation:
ALA staff recommend the Agency establish and implement internal controls for monitoring over the awards to ensure providers submit appropriate documentation for expenses incurred to demonstrate compliance.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will request documentation from providers that support expenditures claimed. Any improperly expended funds will be recouped.

Anticipated Completion Date: August 31, 2022

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Finding Number:	**2021-019**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost Principles; Period of Performance**
Type of Finding:	**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. An attestation form signed by the provider required the provider to submit records of expenses to the Arkansas Department of Human Services (DHS) by January 31, 2021. This documentation requirement (records of expenses by the providers) demonstrates that the expenses were for necessary expenditures during the allowable period.

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 $50 million to hospitals and long-term care facilities to assist with additional expenses related to the COVID-19 surge in Arkansas in the fall of 2020. Funds for approved provider locations were disbursed by DHS, in full and in advance of the providers incurring allowable costs and submitting detailed expense support.

ALA review revealed that, of the 308 providers that received funding, 64 providers failed to submit any of the documentation required by the attestation form prior to ALA's inquiry in September 2021.

In addition, 10 of 60 providers sampled did not properly complete the attestation form, which would document acknowledgment of the Program requirements (e.g., checkboxes regarding Program restrictions were not completed).

As of the end of fieldwork, the Agency had not reviewed any supporting documentation for provider expenses.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Finding Number:	**2021-019 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.019 – COVID-19: Coronavirus Relief Fund (COVID-19 Surge Capacity Enhancement Payment 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/Cost Principles; Period of Performance**
Type of Finding:	**Significant Deficiency**

Cause:
DHS failed to establish and implement sufficient internal controls for monitoring provider expenses.

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

Recommendation:
ALA staff recommend the Agency establish and implement internal controls for monitoring the awards to ensure providers submit appropriate documentation for expenses incurred to demonstrate compliance.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has developed a multi-level control procedure for reviewing future attestations.

Anticipated Completion Date: Complete

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Finding Number:	**2021-023**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2020-016**.

Criteria:
In a final rule, published in the Federal Register on May 6, 2016 (81 FR 27498), the Centers for Medicare and Medicaid Services (CMS) adopted Medical Loss Ratio (MLR) requirements for Medicaid and Children's Health Insurance Program (CHIP) managed care programs. One of the requirements is that a state must require each Medicaid managed care plan to calculate and report an MLR for rating periods starting on or after July 1, 2017. Each CHIP managed care plan is required to calculate and report an MLR for rating periods for state fiscal years beginning on or after July 1, 2018.

Also, per 42 CFR § 438.5(c)(1) states must provide audited financial reports to the actuary, who determines capitation rates, for the three most recent and complete years for the managed care entities. These reports must be specific to the Medicaid contract and in accordance with generally accepted accounting principles and generally accepted auditing standards.

Finally, with regard to capitation rate setting for certain Managed Care Organization (MCO) plans, **prior** approval must be obtained as required, in accordance with the regulations below:

- 42 CFR § 438.4(b) - Capitation rates for MCOs must be reviewed and approved by CMS as actuarially sound and must be provided to CMS in an approved format and within a timeframe that meets the requirements defined by 42 CFR § 438.7.
- 42 CFR § 438.7(a) - States must submit all MCO rate certifications concurrent with the review and approval process for contracts as specified in 42 CFR § 438.3(a).
- 42 CFR § 438.3(a) - CMS must review and approve all contracts, including those contracts that are not subject to the prior approval requirements in 42 CFR § 438.806. For states seeking approval of contracts prior to a specific effective date, proposed final contracts must be submitted to CMS for review no later than 90 days prior to the effective date of the contract.
- 42 CFR § 438.3(c) - The capitation rate and the receipt of capitation payments under the contract must be specifically identified in the applicable contract submitted for CMS review and approval.
- 42 CFR § 438.806(b) - For MCO contracts, **prior approval by CMS** is a condition of Federal Financial Participation (FFP) under any MCO contract that has a value equal to or greater than the following threshold amounts: $1,000,000 for 1998 (the value for all subsequent years is increased by the percentage increase in the consumer price index). FFP is not available in an MCO contract that does not have prior approval from CMS.

Condition and Context:
ALA reviewed the Dental Managed Care program and the Provider-Led Arkansas Shared Savings Entity (PASSE) managed care program for compliance with the various managed care MLR requirements. As a result of procedures performed, the following deficiencies were noted:

Finding Number:	**2021-023 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

Dental Managed Care:

- Audited financial reports were not provided to the actuary for the three most recent and complete years prior to the reporting period. As the Dental Managed Care program was effective beginning on January 1, 2018, audited financial reports from calendar years 2018 and 2019 should have been provided.

PASSE:

- Audited financial reports were not provided to the actuary for the three most recent and complete years prior to the reporting period. As the PASSE managed care program was effective beginning on March 1, 2019, an audited financial report from calendar year 2019 should have been provided.
- No documentation was provided to substantiate that the Agency received **prior** approval from CMS for the calendar year 2021 rates prior to implementing the rates in January 2021. (Approval was subsequently received on August 17, 2021.)
- No documentation was provided to substantiate that the Agency received **prior** approval from CMS for the updated PASSE contracts that were effective January 1, 2021. (Approval was subsequently received on August 17, 2021.)

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency did not adequately develop or implement procedures to ensure that the various managed care MLR requirements were met.

Effect:
Failure to adequately develop and implement appropriate internal control procedures limits the Agency's ability to adequately monitor the program to ensure compliance.

Recommendation:
ALA staff recommend the Agency immediately develop and implement control procedures for managed care MLR requirements for both the Dental and PASSE managed care programs to ensure the required audited financial reports are provided and that current capitation rates paid received prior approval from CMS as required.

Finding Number:	**2021-023 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will update its documented controls to ensure appropriate review of audited financial reports for PASSE and Dental Managed Care, and timely submission of PASSE rates and contracts to CMS.

Anticipated Completion Date: Complete

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Finding Number:	**2021-024**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-017** and **2019-017**.

Criteria:
In accordance with 45 CFR § 95.507(4), the Agency's established Cost Allocation Plan is required to contain sufficient information in such detail to permit the Director - Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the Agency.

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).

In addition, 45 CFR § 75.303 states that a non-federal entity must "*take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings*."

Condition and Context:
Procedures implemented by the Agency to monitor state general revenues and other non-federal revenues used to "match" the federal grant award monies are not sufficiently detailed to determine the state match requirements were met for the MAP and the Children's Health Insurance Program (CHIP).

As a result, the Agency was again unable to provide sufficient documentation for ALA to complete testing to determine if the State met the required match in accordance with federal regulations.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency does not maintain documentation identifying the original source of revenues for the category "*other non-federal.*" Additionally, the Agency utilizes an outside accounting system, Lotus 1-2-3, to maintain and trace *state general revenue* and *other non-federal* funds available. Agency staff manually key information into this system daily; however, no reviews or other controls are in place to ensure the accuracy of the funding category balances. Agency procedures implemented to monitor the use of *state general revenue* and *other non-federal* funding sources are completed at the Division level and are not broken out to the federal program level.

Effect:
The Agency's inadequate controls result in a failure to document the required State match and could limit the Agency's resources to ensure the State can continue to provide benefits.

Finding Number:	**2021-024 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency immediately implement appropriate controls to allow the Agency to track funding sources used to meet state match requirements for federal programs.

Views of Responsible Officials and Planned Corrective Action:
DHS disputes, in part, and concurs, in part, with this finding. While the agency maintains documentation identifying funds classified as "other non-federal" in its fund control ledgers, the funds could be documented with greater specificity. The agency is in the process of operationalizing its new general ledger system, which will provide greater specificity in tracking general revenue and "other non-federal" funds.

Anticipated Completion Date: June 15, 2022

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Finding Number:	**2021-025**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medicaid Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year finding **2020-024**.

Criteria:
42 CFR 430.30(c) requires submission of a quarterly statement of expenditures report (CMS-64) for the Medical Assistance Program (MAP). Amounts reported on the CMS-64 must be an accurate and complete accounting of actual expenditures.

Condition and Context:
ALA staff performed testing of expenditures reported on the CMS-64 for the quarters ending September 30, 2020, and December 31, 2020, to confirm accuracy and completeness with the expenditures recorded in the Agency's financial management system. ALA review revealed the following errors:

- From the September 30, 2020, CMS-64 report, 24 line items totaling $1,521,563,513 and representing 89.09% of MAP expenditures were selected. ALA identified an uncorrected error on one item, resulting in an **overstatement** of the federal portion of expenditures totaling $853,817.
- From the December 31, 2020, CMS-64 report, 26 line items totaling $1,726,378,270 and representing 90.89% of MAP expenditures were selected. ALA identified an uncorrected error on one item, resulting in an **overstatement** of the federal portion of expenditures totaling $1,067,478.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$1,921,295

Cause:
The State portion for some Medicaid and CHIP expenditures is paid from tobacco settlement funds. At the time these funds are used, all expenditures are recorded in the Agency's financial systems as Medicaid expenditures. During the reporting process, the Agency identifies the CHIP portion of these expenditures and manually adjusts the amount reported on the CMS-21 report. When making this adjustment, the Agency erroneously adjusted MCHIP expenditures reported on the CMS-64.21U form instead of adjusting the MAP expenditures reported on the CMS-64.9 base form.

Effect:
Expenditure amounts reported on the quarterly statement of expenditures report (CMS-64) were overstated for the Medical Assistance Program and understated for the MCHIP program; therefore, federal funding for the expenditures was received from the incorrect grant award and at the incorrect rate.

Finding Number:	**2021-025 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medicaid Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Recommendation:
ALA staff recommend the Agency perform a thorough review of the supporting documentation for all manual adjustments and verify the accuracy of these adjustments. ALA further recommends the Agency correct identified errors by entering prior period adjustments on subsequent CMS-64 reports.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency corrected the error made for the Tobacco Funded Adjustment in its CMS-64 workbook and will make a prior period adjustment on the CMS-64 to correct the overstatement of expenditures.

Anticipated Completion Date: July 31, 2022

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Finding Number:	**2021-026**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In a final rule, published in the Federal Register on May 6, 2016 (81 FR 27498), CMS adopted Medical Loss Ratio (MLR) requirements for Medicaid and Children's Health Insurance Program (CHIP) managed care programs. One of the requirements is that a state must require each Medicaid managed care plan to calculate and report an MLR for rating periods starting on or after July 1, 2017. Each CHIP managed care plan is required to calculate and report an MLR for rating periods for state fiscal years beginning on or after July 1, 2018.

42 CFR § 438.8 contains various requirements related to the MLR report, including that that managed care entities attest to the accuracy of the MLR reports. In addition, MLR reports must contain the 13 required data elements noted below:

(i) Total incurred claims.
(ii) Expenditures on quality improving activities.
(iii) Fraud prevention activities as defined at 42 CFR § 438.8 (e) (4).
(iv) Non-claims costs.
(v) Premium revenue.
(vi) Taxes, licensing, and regulatory fees.
(vii) Methodology for allocation of expenditures.
(viii) Any credibility adjustment applied.
(ix) The calculated MLR.
(x) Any remittance owed to the State, if applicable.
(xi) A comparison of the information reported in this paragraph with the audited financial report required under 42 CFR § 438.3 (m).
(xii) A description of the aggregation method used under 42 CFR § 438.8 (i).
(xiii) The number of member months.

Condition and Context:
ALA reviewed the Dental Managed Care program and the Provider-Led Arkansas Shared Savings Entity (PASSE) managed care program for compliance with the various managed care MLR requirements. As result of procedures performed, the following deficiencies were noted:

Finding Number:	**2021-026 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
Dental Managed Care:

- The MLR report submission, for both entities that participate in the Dental Managed Care program, did not contain 4 of the 13 data elements required. Items (iii), (vii), (xi), and (xii) were missing.
- One of the Dental Managed Care entities submitted a revised MLR calculation, but the new MLR did not include a new attestation of accuracy.

PASSE:

- The MLR report submission, for the 3 entities that participate in the PASSE managed care program, did not contain 4 of the 13 data elements required. Items (iii), (vii), (xi), and (xii) were missing.

Statistically Valid Sample:
Not applicable

Questioned Costs:
Unknown

Cause:
The Agency did not adequately develop or implement procedures to ensure that the various managed care MLR requirements were met.

Effect:
Failure to develop and implement appropriate internal control procedures limits the Agency's ability to adequately monitor the programs to ensure compliance.

Recommendation:
ALA staff recommend the Agency develop and implement control procedures for managed care MLR requirements for both the Dental and PASSE managed care programs to ensure compliance.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency will update the MLR report used by PASSE and Dental Managed Care entities to include all required data elements and an attestation of accuracy.

Finding Number:	**2021-026 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

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

Anticipated Completion Date: Complete

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Finding Number:	**2021-027**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
42 CFR § 438.3 (m) states that managed care contracts must require Managed Care Organizations (MCOs), Prepaid Inpatient Health Plans (PIHPs), and Prepaid Ambulatory Health Plans (PAHPs) to submit audited financial reports conducted in accordance with generally accepted accounting principles and generally accepted auditing standards specific to the Medicaid contract on an annual basis.

In addition, 42 CFR § 438.602 (e) states that an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, any MCO, PIHP, or PAHP must be conducted at least every three years.

Condition and Context:
ALA performed testing to ensure that both the annual audited financial reports as well as the periodic reviews were performed for the applicable managed care program entities and that the reports and reviews were in compliance with federal regulations.

Three managed care organizations participated in the Provider-Led Arkansas Shared Savings Entity (PASSE) managed care program, and two dental managed care entities that participated in the Dental Managed Care program.

The results of our testing revealed that although audited financial reports were provided by all of the PASSE and Dental Managed Care entities, they were not in accordance with generally accepted accounting principles. In addition, the audits for the two dental managed care entities were not specific to the Medicaid contract.

Finally, the periodic reviews for the two dental managed care entities completed by the external quality review organization did not include the required financial data.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not adequately monitor the submission of reports to ensure they complied with federal regulations.

Effect:
Failure to monitor the adequacy of the reports submitted led to the Agency not identifying that the reports received did not comply with federal regulations.

Finding Number:	**2021-027 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency strengthen monitoring controls to ensure that all reports received are in compliance with requirements included in the federal regulations.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has updated the Dental Managed Care (DMC) contract to require DMC entities to perform and provide financial audit reports that have been audited in accordance with GAAP. The agency will update financial reporting templates used by PASSE and DMC entities to include an attestation that the financial reports were audited in accordance with GAAP. The agency will also provide the EQRO and its contracted actuary with the audited financial statements for both PASSE and DMC entities.

Anticipated Completion Date: July 1, 2022

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Finding Number:	**2021-028**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)**
	05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 75.302(b)(7), a non-federal entity must establish written procedures to implement and determine the allowability of costs in accordance with Uniform Administrative Requirements, Cost Principles, and Audit Requirements, as well as the terms and conditions of the federal award.

In addition, 45 CFR § 75.303 states that 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. These controls should comply with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Finally, 42 CFR § 438.3 (m) states that managed care contracts must require Managed Care Organizations (MCOs), Prepaid Inpatient Health Plans (PIHPs), and Prepaid Ambulatory Health Plans (PAHPs) to submit audited financial reports conducted in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS) specific to the Medicaid contract on an annual basis.

Condition and Context:
The Agency failed to establish documented internal controls for this compliance area.

In addition, ALA performed testing to determine if there was sufficient, adequate language in the managed care contracts and agreements for PASSE and Dental Managed Care regarding audited financial reports. Our review revealed that adequate language was not included in the Dental Managed Care contract requiring that the annual financial audit be performed.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not adequately develop or document internal control procedures for its staff or ensure that adequate language was contained in the Dental Managed Care contract regarding audited financial reports.

Finding Number:	**2021-028 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021 (Children's Health Insurance Program)** **05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Material Weakness**

Effect:
Failure to adequately document and implement appropriate procedures for internal control limits the Agency's ability to adequately monitor the programs for possible noncompliance.

Recommendation:
ALA staff recommend the Agency develop and document internal controls for Managed Care Financial Audits for both PASSE and Dental Managed Care to aid in ensuring compliance. In addition, the Agency should update the language in the Dental Managed Care contract to require audited financial reports, in accordance with 42 CFR § 438.3 (m).

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has updated the dental managed care (DMC) contract to require DMC entities to perform and provide financial audit reports that have been audited in accordance with GAAP. The agency will update financial reporting templates used by PASSE and DMC entities to include an attestation that the financial reports were audited in accordance with GAAP.

Anticipated Completion Date: July 1, 2022

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Finding Number:	**2021-029**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-019** and **2019-006**.

Criteria:
According to Provider Manual 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 moderate plus fingerprint background checks.

Condition and Context:
From a population of 5,853 providers, ALA staff reviewed files of 40 providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. Our review revealed deficiencies with 7 of the provider files as follows:

Moderate-risk category:

- Sample item 23: The Agency failed to perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the provider's licensure that covered the entire enrollment period. Questioned costs totaled $264.
- Sample item 35: The provider's revalidation was due by September 25, 2016, but was not performed until December 10, 2020. The Agency also failed to perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the provider's contract, application, W-9, licensure, disclosure forms, or background check that covered the entire enrollment period. Questioned costs totaled $1,346.

Finding Number:	**2021-029 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

- Sample item 40: The Agency failed to perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the provider's certification that covered the entire enrollment period. Questioned costs totaled $7,422.

Limited-risk category:

- Sample item 7: The provider's revalidation was due by September 25, 2016, but was not performed until April 12, 2021. In addition, the Agency did not provide documentation of the provider's W-9 form, disclosure forms, or background check that covered the entire enrollment period. Questioned costs totaled $254.
- Sample item 13: The provider's revalidation was due by September 25, 2016, but was not performed until April 18, 2019. Questioned costs totaled $1,631.
- Sample item 14: The provider's revalidation was due by September 25, 2016, but was not performed until January 13, 2020. Questioned costs totaled $713.
- Sample item 15: The provider's revalidation was due by September 25, 2016, but was not performed until April 15, 2021. In addition, the Agency did not provide documentation of the provider's disclosure forms or a background check that covered the entire enrollment period. Questioned costs totaled $194.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$11,824

Due to the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, **approved Arkansas's request to temporarily cease revalidation**, including screening requirements, of providers who are located in Arkansas or are otherwise directly impacted by the emergency. This was effective beginning March 1, 2020, and continues until the termination of the public health emergency, including any extensions. **As a result, questioned costs were not calculated for the errors regarding late or overdue revalidations for those payments made to providers on or after March 1, 2020.**

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. However, due to the timing of implementation of the new procedures, deficiencies continued to exist during fiscal year 2021.

Effect:
Claims were processed and paid to providers that did not meet all the required elements and, therefore, were ineligible.

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

Finding Number:	**2021-029 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:
DHS concurs, in part, and disputes, in part, this finding.

Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider application documents, provider revalidation, site visits and fingerprint background requirements. Three of the seven deficient provider files relate to non-compliance with revalidation requirements pre-dating May 31, 2019. The deficiencies noted that occurred prior to May 31, 2019, will be corrected upon revalidation of the provider. The DHS Office of Payment Integrity and Internal Audit also conducts regular provider eligibility compliance reviews and reports its findings to DMS.

Two of the seven deficient providers did not submit an application for revalidation or updated proof of certification. The agency sent multiple notifications to the provider concerning the requirement to revalidate and provide proof of certification. DHS has not terminated the providers due to the suspension of terminations during the COVID-19 federal public health emergency.

The agency disputes two deficiencies in which it was noted that the agency failed to provide disclosure forms and proof of background checks for providers. In these two instances, the agency relied upon screening of the providers performed by Medicare as permitted by 42 CFR §455.410(c)(1).

Anticipated Completion Date: Complete

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Finding Number:	**2021-030**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-020** and **2019-007**.

Criteria:
According to Provider Manual 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. Managed Care Network providers must also be enrolled in the Arkansas Medicaid Program. 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 moderate plus fingerprint background checks.

Condition and Context:
To determine if Managed Care Network providers met all necessary criteria to participate in the Medicaid program, ALA staff selected 40 provider files from a population of 2,843 for review. The providers selected participated in the Dental Managed Care program, commonly referred to as Healthy Smiles, and the Provider-Led Arkansas Shares Savings Entity, or PASSE, managed care program. ALA review revealed deficiencies with 7 of the provider files as follows:

Moderate-risk category:

- ➢ Sample item 21: The Agency did not perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the required disclosure forms that covered the entire enrollment period. Ineligible costs totaled $1,503.
- ➢ Sample item 24: The Agency did not perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the application that covered the entire enrollment period. Ineligible costs totaled $93.

Finding Number:	**2021-030 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

- Sample item 31: The Agency did not perform the additional screening requirement (site visit). In addition, the Agency did not provide documentation of the provider's certification that covered the entire enrollment period. Ineligible costs totaled $2,075.

Limited-risk category:

- Sample item 4: The provider's revalidation was due by September 25, 2016, but was not performed until April 12, 2021. In addition, the Agency did not provide documentation of the required W-9 form, disclosure forms, or the background check that covered the entire enrollment period. Ineligible costs totaled $100.
- Sample item 12: The provider's revalidation was due by September 25, 2016, but was never performed. In addition, the Agency did not provide documentation of the disclosure forms or the background check that covered the entire enrollment period. Ineligible costs totaled $97.
- Sample item 25: The provider's revalidation was due by September 25, 2016, but was never performed. In addition, the Agency did not provide documentation of the disclosure forms or the background check that covered the entire enrollment period. Ineligible costs totaled $119.
- Sample item 28: The provider's revalidation was due by December 7, 2016, but was not completed until September 5, 2019. In addition, the Agency did not provide documentation of the provider's licensure covering the entire enrollment period. Ineligible costs totaled $781.

All ineligible costs identified above were PASSE payments totaling $4,768.

NOTE: Because these providers are participating in the managed care portion of CHIP, providers are reimbursed by the managed care organizations, not the Agency. The managed care organizations receive a predetermined monthly payment from the Agency in exchange for assuming the risk for the covered recipients.

These monthly payments are actuarially determined based, in part, upon historical costs data. Accordingly, the failure to remove unallowable cost data from the amounts utilized by the actuary would lead to overinflated future rates, which will be directly paid by the Agency.

In addition, due to the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, approved Arkansas's request to temporarily cease revalidation, including screening requirements, of providers who are located in Arkansas or are otherwise directly impacted by the emergency. This was effective as of March 1, 2020, and will continue until the termination of the public health emergency, including any extensions.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Finding Number:	**2021-030 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5021; 05-2105AR5021**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions –** **Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. However, due to the timing of the implementation of the new procedures, deficiencies continued to exist during fiscal year 2021.

Effect:
Claims were processed and paid to providers that did not meet all the required criteria.

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, in part, and disputes, in part, this finding.

Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider application documents, provider revalidation, site visits and fingerprint background requirements. Three of the seven deficient provider files relate to non-compliance with revalidation requirements pre-dating May 31, 2019. The deficiencies noted that occurred prior to May 31, 2019, will be corrected upon revalidation of the provider. The DHS Office of Payment Integrity and Internal Audit also conducts regular provider eligibility compliance reviews and reports its findings to DMS.

Three of the seven deficient providers did not submit an application for revalidation or updated proof of certification. The agency sent multiple notifications to the provider concerning the requirement to revalidate and provide proof of certification. DHS has not terminated the providers due to the suspension of terminations during the COVID-19 federal public health emergency.

The agency disputes one deficiency in which it was noted that the agency failed to provide disclosure forms and a proof of background check for the provider. In this instance, the agency relied upon screening of the provider performed by Medicare as permitted by 42 CFR §455.410(c)(1).

Anticipated Completion Date: Complete

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Finding Number:	**2021-031**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Home and Community-Based Services (ARChoices Waiver)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-021** and **2019-011**.

Criteria:
On January 1, 2019, the Arkansas Independent Assessment (ARIA) tool was used to determine the ARChoices level of care and aided in developing the beneficiary Patient-Centered Service Plan (PCSP). Attendant Care hours are determined utilizing the Task and Hour Standards (THS), which is the written methodology used by the Arkansas Department of Human Services (DHS) Registered Nurses (RNs) as the basis for calculating the number of attendant care hours that are reasonably and medically necessary. In addition, an Individual Service Budget (ISB) sets the maximum dollar amount for all waiver services received by an individual. Services must be provided according to the beneficiary's PCSP, with reimbursement limited to the monthly provision reflected on the PCSP.

Condition and Context:
ALA staff reviewed data for 40 beneficiaries to determine if a valid PCSP was in effect for all dates of service for which claims were paid and if attendant care services were provided in accordance with the beneficiary's PCSP and did not exceed the frequency or the maximum amount allowed. Our review revealed the following deficiencies regarding 14 beneficiaries:

- Sample item 3: Claims totaling $13,096 were paid without a valid PCSP for dates of service beginning June 1, 2020 through January 27, 2021.
- Sample item 4: Claims totaling $685 were paid without a valid PCSP for dates of service beginning June 8, 2020 through July 31, 2020.
- Sample item 9: Claims totaling $16,879 were paid without a valid PCSP for dates of service beginning June 15, 2020 through June 4, 2021.
- Sample item 12: Claims totaling $10,655 were paid without a valid PCSP for dates of service beginning June 15, 2020 through June 11, 2021.
- Sample item 14: Claims totaling $918 were paid without a valid PCSP for dates of service beginning January 1, 2021 through May 7, 2021.
- Sample item 17: Claims totaling $3,928 were paid without a valid PCSP for dates of service beginning June 25, 2020 through September 11, 2020.
- Sample item 20: Claims totaling $1,314 were paid without a valid PCSP for dates of service beginning June 1, 2020 through June 29, 2020.
- Sample item 21: Claims totaling $31,375 were paid without a valid PCSP for dates of service beginning June 14, 2020 through February 28, 2021.
- Sample item 22: Claims totaling $16,159 were paid without a valid PCSP for dates of service beginning May 31, 2020 through June 10, 2021.
- Sample item 26: Claims totaling $ 4,766 were paid without a valid PCSP for dates of service beginning June 16, 2020 through August 11, 2020.
- Sample item 28: Claims totaling $3,418 were paid without a valid PCSP for dates of service beginning June 22, 2020 through March 15, 2021.

Finding Number:	**2021-031 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Home and Community-Based Services (ARChoices Waiver)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

- Sample item 29: Claims totaling $1,653 were paid without a valid PCSP for dates of service beginning June 15, 2020 through March 15, 2021.
- Sample item 36: Claims totaling $6,573 were paid without a valid PCSP for dates of service beginning June 15, 2020 through October 24, 2020.
- Sample item 39: Claims totaling $15,524 were paid without a valid PCSP for dates of service beginning April 1, 2020 through November 27, 2020.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
In accordance with the Families First Coronavirus Response Act (FFCRA), states must provide continuous coverage, through the end of the month in which the emergency period ends, to all Medicaid beneficiaries who were enrolled in Medicaid on or after March 18, 2020, regardless of any changes in circumstances or redeterminations at scheduled renewals that otherwise would result in termination. As a result, questioned costs were not calculated for the claims paid without a valid PCSP.

Cause:
Prior to January 1, 2021, the Division of Aging, Adult, and Behavioral Health Services (DAABHS) provided OPTUM, the Agency contractor responsible for performing the independent assessments for the ARChoices program, with the referrals for the ARIAs based upon the month of expiration. Once the ARIAs were completed by OPTUM, they were forwarded to the Office of Long Term Care (OLTC) under Provider Services & Quality Assurance so that a DHS RN could review the assessment results to determine if the individual's assessed needs were consistent with services available through the ARChoices program. This determination was documented on a DHS Form 704. This form was then forwarded onto the Division of County Operations (DCO) to aid in determining recipient eligibility (medical necessity). Once this was done, the DHS Form 704 was then sent to DAABHS so that the process for completing a new PCSP could be started.

Effective January 1, 2021, unless identified as needed, ARIAs are not required to be performed for existing ARChoices recipients in order to develop a new PCSP. Reevaluations will continue to be performed on at least an annual basis, with the functional eligibility reaffirmed or revised and a written determination issued by the Office of Long Term Care, and an updated PCSP will be generated.

Delays in requesting, performing, and utilizing the information necessary to complete the PCSP as described above contributed to deficiencies noted with the beneficiaries' PCSP.

Effect:
Amounts paid were in excess of amounts authorized.

Finding Number:	**2021-031 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Home and Community-Based Services (ARChoices Waiver)**
Type of Finding:	**Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency review and strengthen its policies and procedures to ensure that all amounts paid are in accordance with amounts authorized and that amounts authorized are supported by both a current and valid PCSP and the CMS approved assessment tools, which are currently the ARIA assessment and THS.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has implemented a workflow management system and strategy to track and report re-evaluation activities that will ensure timely completion of Person-Centered Service Plan for ARChoices beneficiaries. Assessments are also being documented electronically, which allows for more effective tracking and planning.

Anticipated Completion Date: Complete

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Finding Number:	**2021-032**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-026** and **2019-006**.

Criteria:
According to Provider Manual 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 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 moderate, plus fingerprint background checks.

Condition and Context:
From a population of 10,664, ALA staff reviewed files of 40 providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. Our review revealed deficiencies with 10 of the provider files as follows:

High-risk category:

- ➢ Sample item 38: The Agency failed to perform the additional screening requirements (site visit or fingerprint background check). In addition, the Agency did not provide documentation of the provider's professional certification that covered the entire engagement period. ***Questioned costs totaled $105***.
- ➢ Sample item 40: The Agency failed to perform the additional screening requirements (site visit or fingerprint background check). In addition, the Agency did not provide documentation of the provider's professional certification that covered the entire engagement period. ***Questioned costs totaled $45,640***.

Finding Number:	**2021-032 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
Moderate-risk category:

- Sample item 16: The Agency failed to perform the additional screening requirement (site visit) that coincided with the revalidation performed on September 18, 2015. *Questioned costs totaled $8,529*.
- Sample item 21: The Agency failed to perform the additional screening requirement (site visit) that was due by September 25, 2016, until the revalidation was performed on November 5, 2019. *Questioned costs totaled $371*.
- Sample item 24: The Agency failed to perform the additional screening requirement (site visit) that was due by September 25, 2016, until the revalidation was performed on May 14, 2019. *Questioned costs totaled $56*.
- Sample item 30: The Agency failed to perform the additional screening requirement (site visit) that coincided with its 2017 enrollment. *Questioned costs totaled $53*.
- Sample item 32: The provider's revalidation was due by September 25, 2016, but was not performed until January 3, 2020. *Questioned costs totaled $24*.
- Sample item 35: The provider's revalidation was due by September 25, 2016, but was not performed until March 20, 2020. *Questioned costs totaled $11,336*.

Limited-risk category:

- Sample item 8: The provider's revalidation was due by September 25, 2016, but was not performed until May 2, 2019. *Questioned costs totaled $65*.
- Sample item 31: The provider's revalidation was due by September 25, 2016, but was not performed until September 10, 2020. In addition, disclosure forms and standard background checks that covered the entire engagement period were not provided. *Questioned costs totaled $5,435*.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$71,614

Due to the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, **approved Arkansas's request to temporarily cease revalidation**, including screening requirements, of providers who are located in Arkansas or are otherwise directly impacted by the emergency. This was effective beginning March 1, 2020, and continues until the termination of the public health emergency, including any extensions. **As a result, questioned costs were not calculated for the errors regarding late or overdue revalidations for those payments made to providers on or after March 1, 2020.**

Finding Number:	**2021-032 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. However, due to the timing of the implementation of the new procedures, deficiencies continued to exist during fiscal year 2021.

Effect:
Claims were processed and paid to providers that did not meet all the required elements and, therefore, were ineligible.

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. Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider application documents, provider revalidation, site visits and fingerprint background requirements. Eight of the ten deficient provider files relate to non-compliance with revalidation requirements pre-dating May 31, 2019. The deficiencies noted that occurred prior to May 31, 2019, will be corrected upon revalidation of the provider. The DHS Office of Payment Integrity and Internal Audit also conducts regular provider eligibility compliance reviews and reports its findings to DMS.

One of the ten deficient providers revalidated after the established revalidation deadline in SFY20. This provider submitted an application for revalidation which was not able to be processed by the revalidation deadline, due to incomplete information on the application. The provider was not terminated as the missing documentation was submitted to the agency.

One of the ten deficient providers did not submit an application for revalidation or proof of licensure and certification. The agency sent multiple notifications to this provider concerning the requirement to revalidate and produce proof of licensure and certification. DHS has not terminated the provider due to the suspension of terminations during the COVID-19 federal public health emergency.

Anticipated Completion Date: May 31, 2019

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Finding Number:	**2021-033**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-1905AR5MAP; 05-2005AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-027** and **2019-007**.

Criteria:
According to Provider Manual 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. Managed Care Network providers must also be enrolled in the Arkansas Medicaid Program. Enrollment is considered complete when a provider has 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 moderate, plus fingerprint background checks.

Condition and Context:
To determine if Managed Care Network providers met all necessary criteria to participate in the Medicaid program, ALA staff selected 40 provider files from a population of 5,912 for review. The providers selected participated in the Dental Managed Care program, commonly referred to as Healthy Smiles, and the Provider-Led Arkansas Shared Savings Entity (PASSE) managed care program. ALA review revealed deficiencies with 6 of the provider files as follows:

Moderate-risk category:

- ➢ Sample item 21: The provider's revalidation was due by September 25, 2016, but was not performed until March 3, 2020. In addition, the Agency failed to perform the additional screening requirement (site visit) until the revalidation was performed on March 3, 2020, and did not provide documentation of the provider's certification that covered the entire engagement period. Ineligible costs totaled $4,377.

Finding Number:	**2021-033 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-1905AR5MAP; 05-2005AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

Limited-risk category:

- Sample item 1: The provider's revalidation was due by September 25, 2016, but was not performed until April 5, 2019. In addition, the Agency could not provide the required W-9 that covered the entire enrollment period. Ineligible costs totaled $2,015.
- Sample item 8: The provider's revalidation was due by September 25, 2016, but was never performed. In addition, the Agency could not provide the required W-9, disclosure forms, or documentation of a standard background check for review. Ineligible costs totaled $23.
- Sample item 14: The provider's revalidation was due by September 25, 2016, but was not performed until May 23, 2019. In addition, the Agency could not provide the required W-9 that covered the entire enrollment period. Ineligible costs totaled $9,669,741.
- Sample item 23: The provider's revalidation was due by September 25, 2016, but was not performed until September 5, 2019. In addition, The Agency could not provide documentation of provider licensure that covered the entire enrollment period. Ineligible costs totaled $2,766.
- Sample item 38: The provider's revalidation was due by September 25, 2016, but was never performed. In addition, the Agency could not provide the required disclosure forms or documentation of a standard background check that covered the entire enrollment period. Ineligible costs totaled $292.

All ineligible costs identified above were PASSE payments totaling $9,679,214.

NOTE: Because these providers are participating in the managed care portion of Medicaid, providers are reimbursed by the managed care organizations, not the Agency. The managed care organizations receive a predetermined monthly payment from the Agency in exchange for assuming the risk for the covered recipients.

These monthly payments are actuarially determined based, in part, upon historical costs data. Accordingly, the failure to remove unallowable cost data from the amounts utilized by the actuary would lead to overinflated future rates, which will be directly paid by the Agency.

In addition, due to the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, approved Arkansas's request to temporarily cease revalidation, including screening requirements, of providers who are located in Arkansas or are otherwise directly impacted by the emergency. This was effective as of March 1, 2020, and will continue until the termination of the public health emergency, including any extensions.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Finding Number:	**2021-033 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-1905AR5MAP; 05-2005AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. However, due to the timing of the implementation of the new procedures, deficiencies continued to exist during fiscal year 2021.

Effect:
Claims were processed and paid to providers that did not meet all the required elements.

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, in part, and disputes, in part, this finding.

Three of the six deficient providers did not submit an application for revalidation or updated proof of certification. The agency sent multiple notifications to the provider concerning the requirement to revalidate and provide proof of certification. DHS has not terminated the providers due to the suspension of terminations during the COVID-19 federal public health emergency.

The agency disputes three deficiencies in which it was noted that the agency failed to provide disclosure forms and proof of licensure for providers. In these three instances, the agency relied upon screening of the providers performed by Medicare as permitted by 42 CFR §455.410(c)(1).

Anticipated Completion Date: Complete

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Finding Number:	**2021-034**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Medicaid Fraud Control Unit**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year findings **2020-014** and **2019-014**.

Criteria:
42 CFR § 433, Subpart F, establishes requirements for identifying overpayments to Medicaid providers and for refunding the federal portion of identified overpayments to the federal awarding agency. The provisions apply to overpayments discovered by a state, by a provider and made known to the state, or through federal review.

Also, in accordance with 42 CFR § 433.320, an agency must refund the federal share of overpayments that are subject to recovery by recording a credit on its Quarterly Statement of Expenditures (Form CMS-64). An agency must credit the federal share of overpayments on the earlier of (1) the CMS-64 submission due for the quarter in which the overpayment is recovered from the provider or (2) the quarter in which the one-year period following discovery, established in accordance with 42 CFR § 433.316, ends. A credit on the CMS-64 must be made whether or not the state has recovered the overpayment from the provider.

Additionally, as stated in a CMS letter to the State Health Official, SHO #08-004, in accordance with Sections 1903(d)(2)(A) and (d)(3)(A) of the Social Security Act, states are required to return "the federal share of Medicaid overpayments, damages, fines, penalties, and any other component of a legal judgment or settlement when a State recovers pursuant to legal action under its State False Claims Act (SFCA)."

Condition and Context:
ALA performed procedures to verify overpayments identified by the Medicaid Fraud Control Unit (MFCU) were properly reported on the quarterly CMS-64 report. The following errors were discovered:

- Payment for one settlement was made directly to the U.S. Department of Justice (DOJ). DOJ subsequently transferred the State's portion of the settlement, totaling $680,847, to the Agency. In error, the Agency applied the FMAP and reported $527,180 in overpayments on its CMS-64 report. As a result, the federal portion of MFCU related overpayments reported was overstated.
- Payment for one settlement, totaling $1,544,368, was not included on the CMS-64 report. The federal share that should have been reported for MFCU related overpayments was $1,195,804, resulting in an understatement.
- Payment representing a fine for a criminal conviction, totaling $250, was not reported on the CMS-64 report. The federal share that should have been reported for MFCU related overpayments was $194, resulting in an understatement.
- Unpaid restitution balances from previous fiscal years, totaling $270,201, were not included on the CMS-64. The federal share that should have been reported was $209,217, resulting in an understatement.

The net effect of the errors is an understatement totaling $878,035.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$878,035

Finding Number:	**2021-034 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL 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):	**05-2005AR5MAP; 05-2105AR5MAP**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Medicaid Fraud Control Unit**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
The Agency's Accounts Receivable staff, who are responsible for monitoring balances and payments received representing Medicaid overpayments, do not have a full understanding of the reporting requirements. As a result, supporting documents compiled for the MFCU overpayments were not properly prepared.

Effect:
The Agency failed to report all required restitution and other judgments on its CMS-64 reports.

Recommendation:
ALA staff recommend the Agency review and strengthen its accounts receivable procedures and provide adequate training to all individuals involved in the collecting, recording, and reporting of provider overpayments identified by MFCU.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency is updating its process for tracking Medicaid provider overpayments and will begin tracking all overpayments and corresponding collections in the Medicaid Management Information System, which will provide greater continuity in overpayment tracking, collection, and reporting.

Anticipated Completion Date: June 30, 2022

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