AUDIT FINDINGS

Provided by the Division of Legislative Audit

FY2019 – FY2021 ALC/JBC Budget Hearings

ARKANSAS LEGISLATIVE AUDIT

REPORTS

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS ABSTRACTERS' BOARD
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
DFA Financial Management Guide regulation R4-19-4-501 requires that collecting, recording, depositing, and reconciling of cash receipts be segregated among different individuals. The Agency had insufficient segregation of duties due to a limited number of staff. We noted the following additional issues related to inadequate controls over cash receipts:

- Receipts were not deposited timely and were not reconciled to Treasury Deposits.
- Licenses issued could not be reconciled to receipts, resulting in an underpayment of $1,720.

Recommendation:
We recommend the Agency segregate duties to the extent possible, which may entail involving the Board in the daily activities of the Agency. Also, the Agency should strengthen controls over the cash receipting process to safeguard assets and ensure that accounting records are complete and accurate.

Agency Response:
During the fiscal year of 2016, there was not an employee of the Arkansas Abstractors' Board; at that point the record keeping was completed properly. Since that time, we do have a part-time employee and the records are up to date since her employment in July 2016. Unfortunately, money was received during the 2017 fiscal year that should have been posted to the 2016 fiscal year and that amount was $935. We have requested cancelled checks on the $785 and those have slowly been coming in. We do not feel like there is an underpayment of $1720, just a lack of documentation.

Finding:
Our review of expenditures revealed the following:

- Ark. Code Ann. § 19-4-1206 requires services to be rendered or goods received prior to payment. In February 2016, the Agency paid $1,625 up front for website design and maintenance, with an additional $1,625 due upon completion. The website is not functioning because the Board has not submitted the information needed by the vendor to complete the project.

- Ark. Code Ann. § 19-4-902 requires an agency to retain all supporting documents in connection with travel reimbursements. The Agency did not maintain supporting documentation for a travel reimbursement form (TR-1) submitted by the Board Chair for office supplies totaling $848.

Recommendation:
We recommend the Agency ensure services are rendered or goods received prior to payment. The Agency should also maintain supporting documentation for all expenditures.

Agency Response:
In February 2016, we did contract with Pleth to design a web page for the Arkansas Abstractors' Board; at that time ½ of the cost was paid to them. It is under the assumption that when the request was sent and paid that we were not in compliance. We are finalizing everything with Pleth to get the website up and running.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF PUBLIC ACCOUNTANCY
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF ACUPUNCTURE AND RELATED TECHNIQUES
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ADMINISTRATIVE OFFICE OF THE COURTS
FOR THE YEAR ENDED JUNE 30, 2017

Finding:
Generally accepted accounting principles require that amounts prepaid for certain expenses extending beyond the current fiscal year be accurately determined and recorded as assets until used. Review of the Agency's prepaid balance revealed an overstatement of prepaid items and an associated understatement of expenses totaling $452,760. Of this amount, $396,570 was recorded as a prepaid expense for the Justice Information System, although a prepaid expense did not exist at year-end. The remaining $56,190 resulted from using the incorrect coverage period for one item included in the prepaid listing.

Recommendation:
We recommend the Agency review and strengthen year-end procedures to ensure activity regarding prepaid balances is accurately reflected on the Agency's financial statements.

Agency Response:
In response to the first audit findings noted in the Management Letter, while we understand that the overstatement did not cause the financial statements to be materially misstated, they do point out the need for us to strengthen our year-end procedures to ensure that activity regarding prepaid balances are accurately reflected on the Agency's financial statements. We have expanded the information we include in our purchase orders to include the start and end dates on all purchase orders to make it easier for us to identify prepaid expenses at year-end and make certain these omissions do not occur again in the future.

Finding:
Ark. Code Ann. § 19-11-234(a)(3), (b)(1) requires that agencies receive, or attempt to receive, three competitive bids for all purchases exceeding a certain threshold or provide reasons why three bids were not obtained; a signed contract must also be executed. Additionally, Ark. Code Ann. § 19-11-234(d) prohibits agencies from splitting procurements to circumvent the competitive bid limit, which was $10,000 for SFY17.

Our review of expenditures for two professional service contractors revealed the following areas of noncompliance with Ark. Code Ann. § 19-11-234(a)(3), (b)(1), (d):

- A signed contract or documentation of bids was not obtained for fiscal year 2017 expenditures totaling $41,190 for Contractor A.
- Six purchase orders for Contractor B covered expenditures from December 2015 until November 2017. Based upon the timing of the purchase orders and the total projected cost of $57,070 for work performed in the Juvenile Justice Division, it appears five of the six purchase orders were split to avoid reaching the monetary threshold requiring a signed contract and competitive bids. Additionally, the Agency was unable to provide a signed contract or documentation of other bids obtained. The total amount paid to this vendor was $56,984.
- Agency management disclosed that Contractor B was related to the Finance Officer. Beginning in March 2017, the Finance Officer was granted authority to set up and subsequently alter the total dollar amount allowed on two purchase orders for Contractor B. When management became aware of this situation, the Finance Officer's employment was terminated.

In addition, based on review of timesheets for fiscal year 2017 expenditures for both Contractor A and Contractor B, the following deficiencies were noted:

- Timesheets were not always provided, were not always approved for payment by an authorized manager, did not always include a time in or time out, and did not reflect lunch breaks that may have been taken by the contractors.
- Four timesheets contained errors, resulting in a net underpayment of four hours.
- In 100 instances, payments were approved in AASIS before the time was actually worked.

Recommendation:
We recommend Agency management and staff comply with applicable state law and receive appropriate training on ethics and procurement law.

Agency Response:
Both contractors in question were hired by AOC (one as far back as 2015) long before current management (new executive director in March of 2016 and new finance and administrative director in May of 2016) assumed responsibility for AOC management. Shortly after new management assumed responsibilities and discovered the contract, bidding, and timesheet noncompliance, swift action was taken to remedy the situations. Both contractors, as well as the supervisor who hired and supervised them, were terminated immediately. Shortly thereafter, upon discovery that a purchase order for Contractor B was changed *and* posted in AASIS without the knowledge or approval of her manager, the Finance Officer was also terminated. Important note: Current management did, in fact, disclose fully all details (of which it was aware) relative to the contract issues to the Legislative Audit staff prior to the beginning of the audit work.

All new AOC staff members in both the Administrative and Juvenile Justice Divisions have subsequently received appropriate training on ethics and procurement law from the Office of State Procurement to ensure that procurement laws are followed in the future.

There were no findings.

Finding:
Documented application recovery plans were not tested to verify their effectiveness. A plan that is not periodically tested and updated with current conditions could prove unreliable in a disaster situation.

Recommendation:
We recommend that Agency management conduct formal testing of the disaster recovery plan on a regular basis.

Agency Response:
We agree with the finding and have taken several steps to correct the situation. Through the Arkansas Agriculture Department's reorganizational efforts, we were able to place one employee in charge of directing and coordinating all emergency management functions for the entire Arkansas Agriculture Department in October 2017. This is the first time since the Agriculture Department was created in 2005 that this responsibility has not been shared by multiple employees across the three agencies within the department, a situation that led to poor communication and coordination of the recovery plans.

Our new emergency management director has combined the Continuation of Operation Plans for all agencies within the department into one document and has submitted the plan to the Department of Information Systems for review. Once the new combined plan is approved, a table top exercise will be scheduled to test the plan on a regular basis.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF EXAMINERS OF ALCOHOLISM AND DRUG ABUSE COUNSELORS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF ARCHITECTS, LANDSCAPE ARCHITECTS, AND INTERIOR DESIGNERS
FOR THE YEAR ENDED JUNE 30, 2016

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

Recommendation:
We recommend the Agency segregate cash transaction duties to the extent possible, which may entail involving the Board in the daily activities of the Agency.

Agency Response:
Due to the limited personnel in the ASBALAID office, no immediate solution to this audit finding could be determined by the board. Board leadership has directed senior staff members to utilize all available resources to mitigate any increased risk in the area of cash receipting.

Finding:
There was no formally documented and approved Disaster Recovery or Business Continuity Plan. This situation could cause the entity to be without computer processing for an extended period of time in the event of a disaster or major interruption and could place undue financial and personnel burdens on the resources of the entity.

Recommendation:
We recommend the Agency develop and implement a Disaster Recovery Plan to address recovery efforts necessary to cope with the unavailability of the computer application in use during an unexpected outage. This plan should be written, approved by management, and tested on a regular basis. The plan should address how the entity would recover from short- or long-term outages, as well as how operations would continue during the recovery effort.

Agency Response:
Board leadership directed the executive director to initiate communication with the Department of Information Systems (DIS) to determine the program filing requirements. On April 2, 2018, the executive director made contact with Ms. Carol Skill within the DIS to begin the process of completing the required Arkansas Continuity of Operations Program (ACOOP). It is anticipated that the board will approve the completed plan at its June 2018 meeting.

Finding:
A control for the reliable recording of receipts involves a monthly revenue reconciliation report comparing total deposits per Treasury, total deposits per database, and total deposits per AASIS. This report should be reviewed and approved by the Agency Director and Board President.

Four revenue reconciliation reports were not signed/approved by the Director, Board President, or Board Secretary/Treasurer. Additionally, revenue from the database did not match the monthly revenue reconciliations.

Recommendation:
We recommend that revenue reconciliations be regularly completed and approved by all appropriate personnel.

Agency Response:
The board reviewed the noted revenue reconciliations and noted the disparity in accounting reconciliations. Board and staff reviews determined that the variances were the direct result of a database functionality and reconciliation error. It was confirmed that all received funds were on deposit with the Treasury and had been collected in accordance with state law. The board continues to monitor monthly revenue reconciliations and has experienced no further issues. To mitigate possible future occurrences of accounting variances, the board is reviewing new database vendors.

Finding:
During our review of Agency expenditures, we noted the following instances of noncompliance with DFA regulations.

- Excess reimbursement totaling $385 was paid to two travelers. DFA regulations restrict reimbursement for out-of-state travel to the lesser of coach class airfare or the established rate of private car mileage based on map mileage when driven. Additionally, tip reimbursement is only an allowable expense for "up to 15% of the meal amount."

- Two capital assets were not recorded at their historical costs, resulting in undervaluation of the assets by $233.

- Two required travel reimbursement forms (TR-1s) were either not properly completed to include the traveler's home address and official station or were not signed by the traveler or the travel supervisor before travel reimbursements were disbursed by the Agency.

Recommendation:
We recommend the Agency review DFA travel regulations to ensure only allowable expenses are reimbursed and seek reimbursement from travelers for excess reimbursement. In addition, we recommend all TR-1s be completed in compliance with DFA regulations and all asset purchases be recorded in compliance with the DFA Capital Asset Guide.

Agency Response:
On April 26, 2018, the board reviewed the findings related to agency travel and asset management. The board determined that each member should be provided a copy of the state travel regulations manual and review the current standards with the executive director. The board members will be provided with copies of the state travel regulations manual and additional training during the June 2018 scheduled meeting.

Agency staff has obtained a current copy of the Capitol Asset Guide. The board has directed staff to consult the guide and available support staff to obtain further clarification in the future, as needed.

There were no findings.

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
AUCTIONEERS LICENSING BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
AUDITOR OF STATE
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
Inadequate management oversight and lack of review over reporting resulted in the following discrepancies.

- The unclaimed property liability was understated by $7,874,150.
- $5,529 in unclaimed property was not posted to owners' accounts timely.
- Counties were over reimbursed $8,780 for Juvenile Probation and Intake Officers' salaries.
- $1,792 in deposits had insufficient collateral and were at risk at year-end.

Recommendation:
We recommend the Agency establish procedures to adequately monitor and strengthen internal controls over financial reporting.

Agency Response:
Management personnel responded that the Agency has implemented internal controls and reorganized personnel to address these discrepancies. Department managers have now tasked employees under their supervision with these job duties. The department manager will provide oversight and ensure accuracy. Further, the Agency now has a chief of staff that will also provide an additional layer of quality control.

Finding:
Sound information systems controls require that access security be reviewed and promote proper segregation of duties. Several deficiencies were noted in the following areas:

- Two individuals who are involved with the unclaimed property business process have the ability to delete a scanned image in the Intellivue application after acceptance into the system. Individuals involved with the business process should not have the direct ability to delete an image after acceptance.
- Vendor employees have the ability to create transactions and have direct access to some databases within the application Wagers. This access is not adequately monitored or controlled.
- The Agency recently reviewed user access abilities but does not have a formal process for assigning access abilities.

These situations increase the risk of fraud and misappropriation of assets.

Recommendation:
We recommend Agency management design and implement a process to review and approve application user security and review all user access to ensure proper segregation of duties. We further recommend that vendor access be adequately controlled and monitored.

Agency Response:
Management personnel responded that the office has implemented an Agency-wide access permissions form that each employee, department manager, and administration will sign off on that instructs the network administrator to grant certain permissions for software/hardware access that potentially provides access to sensitive information.

Finding:
Prosecuting Attorneys did not provide the Auditor of State's office with accurate leave records of their Deputy Prosecuting Attorneys (DPAs). Leave records for 28 of 244 DPAs did not agree with ending balances for the prior year, causing the compensated absence liability to be misstated and creating an unknown liability for the State.

Recommendation:
We recommend Prosecuting Attorneys throughout the State review the leave records of their employees to ensure balances provided to the Auditor of State's office are accurate and properly supported. We also recommend the Agency only record liabilities and pay out leave from complete and accurate records.

Agency Response:
Management personnel responded that the office serves as the dispersing officer and can only operate based off of the information that the prosecuting attorneys provide. The Agency will continue to provide education and support; however, the responsibility still remains with the prosecuting attorneys.

There were no findings.

There were no findings.

There were no findings.

Finding:
The Agency receives summary and detailed information from Arkansas's Department of Finance and Administration (DFA) related to the collection of beef tax assessments. From these reports, the Agency can determine how much of the assessments should be retained by the State and how much should be passed on to the National Board and other states. During our review of collections and subsequent payments, we noted that the Council did not adequately compare or reconcile the detailed tax assessment remittance reports with DFA's gross tax collection report. As a result, the Council did not distribute $4,952 to the National Board and other states. A similar issue was identified during the fiscal year 2014 audit report.

Recommendation:
We recommend that the Council and DFA establish internal controls to assure that the detailed remittances and gross collections provided by DFA are reconciled with each other so that subsequent distributions to affected parties are accurate.

Agency Response:
The finding resulted from a discrepancy between the amount of funds collected each month by Miscellaneous Tax Division versus the amount reflected in the monthly Revenue report generated by DFA. In other words, there is a variance between the revenue reported to us by Miscellaneous Tax and the amount deposited into our Treasury account each month.

I have been in contact with appropriate parties at Miscellaneous Tax and we are in process of establishing the proper protocols to reconcile the current differences in these reported monthly amounts. As we know, now, a designated amount of revenue collected each month by Miscellaneous Tax represents payments toward a negotiated settlement with a party required to remit funds to them. This negotiated amount was not known by us nor was it reflected in the monthly totals Miscellaneous Tax reported to us.

Again, we are in the process of taking the necessary steps to reconcile this variance to avoid further discrepancies in the future.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BUILDING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2015

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BURIAL ASSOCIATION BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF CAREER EDUCATION – ARKANSAS REHABILITATION SERVICES
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
According to state travel regulations, Ark. Code Ann. § 19-4-902 places the authority and responsibility of authorizing and approving travel expenses with the administrative head of the agency. However, in large governmental units, the administrative head may designate other officials to act as travel administrator on his or her behalf. Additionally, state travel regulations allow privately-owned vehicles to be used for official business travel, and state employees may claim reimbursement at the rate per mile established by the Chief Fiscal Officer of the State in effect during the time travel occurred.

For the period July 1, 2015 through May 31, 2017, we noted mileage reimbursement overpayments of $13,519 and additional questionable mileage reimbursements of $5,891 to an Administrative Specialist who did not appear to be traveling on official state business. The Administrative Specialist acknowledged to Agency personnel that the trips for which she was reimbursed may not have always occurred. Additionally, she was reimbursed for mileage to locations she would not have visited in the course of her job duties or on days she was out of the office on leave. The Administrative Specialist's travel administrator was the Transition Services Director, who authorized other personnel to sign documents authorizing leave and travel for the Administrative Specialist when the Transition Services Director was not in the office. It appears that these documents were approved without proper review for accuracy or legitimacy.

Additionally, Office of Personnel Management (OPM) policy 50.01 states that "the establishment of leave records and internal procedures, such as requesting leave, approving leave, and leave use, are the responsibility of each agency and institution." Our review of the Administrative Specialist's calendar and emails for this same period revealed that 104 leave hours taken had not been recorded in AASIS. Only a portion of the unrecorded leave could be clearly identified by type (i.e., annual leave or sick leave) based on the supporting documentation available.

Subsequent to our review and an Agency review of the Administrative Specialist's travel reimbursements, management terminated her employment on June 20, 2017. On July 7, 2017, she received a lump-sum payment of $1,739 for unused annual and holiday leave of 155 hours. Because all leave taken was not recorded in AASIS, we were unable to determine if she was entitled to this payout amount.

Recommendation:
We recommend management strengthen internal control to ensure that appropriate personnel are approving travel reimbursement forms and monitoring employee leave. We also recommend the Agency review and ensure compliance with state travel regulations and consult with the Department of Finance and Administration (DFA) regarding reimbursement for overpayments.

Agency Response:
The Agency's concurrent travel reimbursement investigation revealed similar questioned costs. As a result, the employee was terminated on June 20, 2017, and the investigation report results were sent to DF&A and the State Police in accordance with state law and state government procedures. The State Police investigation in ongoing. Our Agency will be pursuing financial restitution for the state as part of any criminal proceedings or through a separate civil action if the criminal path does not bring relief to the State. The manager involved in this program has been disciplined.

Additional controls include adding a summary report to the Chief Fiscal Officer's monthly budget report showing total travel reimbursements to date by employee for the agency. This tool will be used by management to verify total amounts of travel reimbursement to date and identify those employees that could be potentially receiving fraudulent or excessive travel reimbursements. Updated travel regulations and travel reimbursement form training sessions will be provided for ARS employees.

Finding:
A review of travel reimbursements and leave for the Transition Services Director revealed overpayments and questionable costs of $109 and $511, respectively. The overpayments resulted from duplicate reimbursement for meals and mileage reimbursement and for a day the Transition Services Director was out of the office on leave. The questionable expenses resulted from mileage claims that were not supported by the travel log or that occurred on days the Transition Services Director was out of the office on leave. Although available documentation did not support the travel, the Transition Services Director stated that she recalled being asked to attend meetings requiring travel on days she was out of the office.

Our review of the Transition Services Director's calendar and emails revealed she had taken 197 hours of leave not recorded in AASIS, in violation of OPM policy 50.01. Leave request forms for 80 of the unrecorded leave hours had been signed by the Transition Services Director and submitted to administrative staff.

Recommendation:
We recommend the Agency review these disbursements to determine if amounts are due back to the Agency. We further recommend the Agency establish procedures to ensure leave usage is in compliance with OPM policy and is recorded accurately and timely.

Agency Response:
The Agency is conducting a review of all travel and leave requests for the Transition Services Director. A full reconciliation for both travel and leave will be completed, and any corrections to leave balances, or collections of travel reimbursement overpayments, will be conducted. The Transition Services Director has been disciplined, as well as reminded of the requirements for state employees to properly document all leave actions and travel-related reimbursement requests.

Additional controls include adding a summary report to the Human Resource Director's monthly report, showing total leave balances and leave taken on a monthly basis for all employees. This tool will be used by management to reconcile leave requests with leave taken. Along with the additional travel reimbursement items added to the CFO's monthly report, these reports will help identify those employees with leave/reimbursement errors or fraudulent activity.

Finding:
In accordance with the Arkansas Financial Management Guide, the executive head of each state agency is responsible for maintaining a record of all agency property belonging to the State. Of a sample of 66 fixed asset items, the Agency was unable to locate 8 items totaling $14,281. The Agency was also unable to identify a laptop computer totaling $2,092 on its inventory listing since the item did not have an asset tag identification number or a serial number.

Recommendation:
We recommend management strengthen internal controls over fixed assets, perform an annual inventory of all equipment items, and ensure items are tagged appropriately.

Agency Response:
The Finance Fixed Asset Control section will work with IT staff in getting a full computer inventory completed and ensure inventory lists are accurate. Asset Inventory personnel located at the Hot Springs agency facility (Arkansas Career Training Institute) will be realigned to the Finance Fixed Asset Control section, and a full inventory will be conducted.

Finding:
According to the State of Arkansas Vehicle Use and Management Handbook, every state-owned vehicle must carry a log that drivers must update with each use of the vehicle with the following information, at minimum: date and time of use; starting location and destination; beginning and ending mileage; cost and amount of fuel purchased, if any; and any problems encountered with the vehicle. Agencies are also required to file an MV-2 Individual State Vehicle Report, which contains basic information on vehicle status, for every month that a vehicle is owned by a reporting agency.

Our review of 25 vehicle logs revealed the following deficiencies:

- Starting location and destination were not consistently included in the vehicle logs.
- Mileage was not accurately recorded in vehicle logs and MV-2 reports.
- Fuel purchased was not consistently included in the vehicle logs, nor was it reported accurately on the MV-2 reports.
- Some vehicle logs contained inaccurate or incomplete information or were inadequately formatted to collect the required information.
- Agency records for vehicles assigned to two District Managers did not specify the vehicle, license plate, or driver assigned and only covered select dates.

Recommendation:
We recommend management strengthen internal controls over vehicle log recording and ensure all log forms used are adequate and uniform.

Agency Response:
Submission of monthly logs to the ARS Fleet Manager will be required, and the ARS Fleet Manager will reconcile these to the MV-2A Reports. Any errors in log entries will be forwarded to the appropriate senior manager. The fleet manager will submit a monthly report to the CFO summarizing log errors and status of corrections. The modified Vehicle Log now included Time In and Time Out and Reason for Use.

Finding Number:	**2017-007**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services** **Department of Human Services – Division of Services for the Blind**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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 finding **2016-006**.

Criteria:
Sections 110(d)(1) and 113(a) of the Rehabilitation Act of 1973, effective July 22, 2014, require a state to reserve and expend, at a minimum, 15% of its allotment under the grant for the provision of pre-employment transition services.

Condition and Context:
The minimum allotment for pre-employment transition services (pre-ETS) for the final 2016 grant awards was calculated to be $7,049,757 for the State. The 2016 grant award period is October 1, 2015 to September 30, 2016, and allowable costs for the grant must be obligated during the grant period. In addition, the agency must draw the federal funds representing the allowable costs within 15 months from the end of the grant award period (December 31, 2017).

As reported on the final SF-425 reports for the 2016 grant awards, pre-ETS expenses were $3,438,349 for Arkansas Rehabilitation Services (ARS) and $510,718 for the Department of Human Services – Division of Services for the Blind (DHS-DSB), totaling $3,949,067.

As a result of the projected deficit of $3,100,690, ($7,049,757 - $3,949,067), the Agencies stopped spending from these grants as they determined they could not meet the minimum requirement. However, the 15% earmarking requirement calculated on total *expensed* grant funds would be $6,590,318, which resulted in a deficit for pre-ETS totaling **$2,641,251** ($6,590,318 - $3,949,067).

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$2,641,251

Cause:
The Agencies did not have adequate procedures in place to ensure that the earmarking requirements were properly met and reported.

Effect:
Failure to meet earmarking requirements could jeopardize future awards.

Recommendation:
ALA staff recommend the Agencies strengthen procedures to ensure that earmarking requirements are properly met and reported.

Finding Number:	**2017-007 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services** **Department of Human Services – Division of Services for the Blind**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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:

ARS/DHS-DSB Discussion
The subject grant award covered expenditures from October 1, 2015 to September 30, 2016. However, related federal regulations were not issued as final until August 19, 2016, after an extensive nationwide appeal process seeking definition as to what was an allowable cost for pre-ETS and what was not. Federal administrative interpretation of the pre-ETS rules under WIOA is still on-going in light of the President's charge to federal agencies to eliminate regulations that create a barrier to employment and increase administrative burdens.

ARS/DHS-DSB Action Taken
ARS and DHS-DSB began full implementation of this requirement in August 2016 when the regulation requiring the Designated State Unit (DSU) to provide these services in collaboration with the local educational agencies was issued. At the federal level, Rehabilitation Services Administration (RSA) continues to working closely with both Arkansas Vocational Rehabilitation agencies (ARS and DHS-DSB) to ensure the state as a whole develops a mechanism to reserve and expend a minimum of 15% of the VR allotment for Pre-ETS. Both agencies have established expenditure coding mechanisms to track Pre-ETS costs, as well as a Pre-ETS forecasting tool that lists activities and tracks monthly expenditures to stay on target in meeting the 15% requirement.

To date the current initiatives include:

External vendor programs: 17 contracts were established throughout the State to provide the 5 core areas of Pre-Employment Transition Services. The Pre-ETS external vendors include, but are not limited to, community rehabilitation providers.

Pre-ETS school contracts: ARS is currently partnering with 18 school districts across the state (including Arkansas School for the Deaf) to implement work based learning programs (OWL) and paid work experiences.

Inclusion Film Camp: The Inclusion Film Camp is collaboration between Arkansas Rehabilitation Services, Arkansas Transition Services, and local school districts in an effort to provide high school juniors and seniors on an IEP or 504 plan with the opportunity to develop skills in the art of film making.

Youth Leadership Forum:
YLF is a unique career leadership training program for high school juniors and seniors with disabilities. Youth serve as delegates from their local communities in a curriculum that cultivates leadership, citizenship, and social skills on the campus of the University of Central Arkansas.

Transitional Employment Program:
TEP is summer program administered at the Arkansas Career Training Institute focused on career readiness and other key components of Pre-Employment Transition Services. The number of students served has increased yearly.

Finding Number:	**2017-007 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services**
	Department of Human Services – Division of Services for the Blind
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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):

Restore Hope Juvenile Facilities:
PREP-Pre-readiness Employment Program at Department of Youth Services State Facilities.

To enhance the capacity of the State of Arkansas to promote the long-term employment of individuals with disabilities who are in Department of Youth Services facilities, ARS has entered into an agreement with Goodwill Industries of Arkansas, the Arkansas Department of Youth Services and the facility operator, Rite of Passage for Pre-Employment Transition Services to be provided on the campus of the Arkansas Assessment and Treatment Center in the areas of workplace readiness training and work-based learning experiences. The program provides work readiness soft skills training in conflict management, communication skills in various situations, and how to handle authority, as well as engaging youth in teamwork activities and actual work situations on campus where they earn wages at $8.50 an hour. The wages are received once the youth exits the facility. The Dermott Facility is under development, with plans to start in the fall of 2018.

Partnering with Technical Assistance Teams:
ARS and DHS-DSB are also partnering with federally sponsored Technical Assistance Teams to enhance training for providers and ARS/DHS-DSB staff.

ARS and DHS-DSB staff meet monthly to discuss Pre-ETS scheduled events and explore new avenues in implementing Pre-Employment Transition Services to the Pre-ETS eligible consumers of Arkansas. Pre-ETS expenditures as of March 1, 2018, on the FFY17 VR grant were $2,457,777 as compared to $1,630,465 for the same time period a year ago. This reflects a 51% increase, and ARS/DHS-DSB's combined efforts are on track to meet the 15% requirement for the FFY17 VR grant. It is anticipated that the level of expenditures will continue to increase significantly for the FFY17 VR grant, as well as the FFY18 VR grant.

Anticipated Completion Date: September 30, 2018

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS CATFISH PROMOTION BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
CENTRAL ARKANSAS PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF CHIROPRACTIC EXAMINERS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE CLAIMS COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF COLLECTION AGENCIES
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

Department of Community Correction (DCC) fundraising activities and use of state personnel and resources to fund nonprofit organizations and employee associations appear to violate the public purpose doctrine, a constitutional principle whereby the State cannot, within the limits of due process, appropriate public funds or resources for a private purpose.

The Arkansas Association of Correctional Employees Trust (AACET), a nonprofit affiliated with DCC, failed to adhere to standards of conduct and potentially violated state insurance laws by not obtaining proper licensure to offer insurance products to members, not ensuring collateralization of its assets, and not obtaining reinsurance coverage for catastrophic events.

Additionally, DCC vendors were granted preferential access to DCC management through sponsorships of AACET golf tournaments.

In conjunction with Mulligan Road, another DCC-affiliated nonprofit organization, DCC administered grant proceeds without a formal agreement and violated grant requirements pertaining to training and compensation.

Formation of nonprofit organizations to accomplish routine DCC activities circumvents legislative oversight.

There were no findings.

Finding:
In accordance with Ark. Code Ann. § 19-11-223, “Except as authorized in this section, all state agencies which require commodities, technical and general services, and professional and consultant services that are under state contract shall procure these commodities, technical and general services, and professional and consultant services exclusively under such contract.”

The State has entered into mandatory state contracts with two vendors for the purchase of office supplies. Our review of expenditures revealed that the Agency purchased office supplies, totaling $7,104, from a vendor not included on the state contract for office supplies.

In addition, the Board entered into a $10,000 contract with a registered lobbyist. Op. Att’y Gen. no. 2004-190 states that an Agency cannot enter into a contract for lobbying services unless that power is conferred by statute or necessarily implied from statutes. We were unable to identify any statutes that expressly grant or necessarily imply authorization for the Board to enter into a contract for lobbying services.

Recommendation:
We recommend the Board review the state contract listing located on the Department of Finance and Administration (DFA) website and establish appropriate controls to ensure purchases are made in compliance with State purchasing laws and regulations.

In addition, the Board should review Op. Att’y Gen. no. 2004-190 and avoid contracting with lobbyists in the future.

Agency Response:
The Board is committed to following all laws, regulations, and policies of the State. It has required all employees involved in purchasing to again extensively review and study all purchasing statutes, rules, regulations, and guidance issued by DFA. All office supplies are being purchased under the state contract. In addition, all employees involved in purchasing will undergo annual training, or more often as necessary, on all purchasing statutes, rules, regulations, and guidance issued by the DFA.

The Board will modify any contract with any legislative liaison to clarify and require that the duties and actions of any liaison are not in violation of Attorney General Opinion 2004-190.

Finding:
Review of travel expenditures revealed that, in three instances totaling $893, travel reimbursement (TR-1) forms were not submitted for reimbursement; rather, Farm Bureau was reimbursed for meals paid for by the Administrator using a Farm Bureau credit card. The meals occurred within the time frame of Board meetings; however, there is no documentation stating who attended the meals and no justification for non-state employees who may have attended.

In addition, the review revealed the following areas of noncompliance with state travel regulations for one Board member:

- In four instances totaling $3,279, supporting documentation for airline costs consisted of documents from an airline showing a trip was “On Hold” status; however, the Board was unable to provide the final invoices. Of the $3,279, approximately $477 was for additional fees, including main cabin and choice seating, that were above and beyond allowable coach accommodations.
- During attendance at a 2014 conference, the Board member had the winning bid of $950 on a marketing package that included the $550 conference registration fee for 2015 and a $400 concierge upgrade. Although approved by the Board, the $400 should not have been included as reimbursable expenses.
- In two instances, the Board member extended a trip outside of the conference dates with no justification, resulting in a $646 overpayment for lodging, meals, and airport parking fees.

Recommendation:
We recommend the Board review and ensure compliance with state travel regulations. We also recommend the Board consult with DFA regarding reimbursement for overpayments.

Agency Response:
The completion of the regular audit of the Corn & Grain Sorghum Promotion Board has instituted multiple control and documentation measures to be carefully monitored for the board. The findings in the report from the audit have been made aware that a lack of documentation and knowledge from a previous administrator on DFA travel guidelines as it pertains to reimbursements from the board to travel participants representing the agency is inexcusable. Corrective measures have been addressed with the new administrator as well as the assistant to the administrator to ensure the lack of oversight will not continue. In a recent board meeting held on March 8, 2017, the administrator of the board went over travel regulations as well as some DFA guidelines the board adheres to for compliance according to the code in which the board is governed. Also, the next board meeting the administrator will provide each board member with a copy of the DFA regulations as well as discussion upon corrective measures. The corrective measures are currently being monitored to ensure proper controls are in place, so the reported findings will be corrected in a manner that will not hinder operations to the board.

Finding:
Section R1-19-4-2004 of the State Financial Management Guide requires the bonded disbursing officer of an agency to report any losses of state funds to the Chief Fiscal Officer of the State and Arkansas Legislative Audit (ALA). Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or property. As required, Arkansas Department of Correction (ADC) notified ALA of the following state property that was unaccounted for:

- On October 3, 2016, ALA was notified by ADC that the Ouachita River Unit could not locate a pistol with a value of $386.
- On November 4, 2016, ALA was notified that a ballistic vest with a value of $818 was stolen from an employee's personal vehicle.

Recommendation:
We recommend Agency management continue to monitor and strengthen controls related to the safeguarding of assets.

Agency Response:
Immediately, ADC reported the missing weapon and ballistic vest to the Arkansas Department of Finance and Administration, ALA, and Arkansas State of Police. The ensuing investigation produced insufficient evidence to identify and prosecute a suspect.

The Units are using a check-in/check-out process on the weapons, specifically making staff come to the unit and not just swapping weapons on the post; i.e., Officers at the hospital just going to the hospital and relieving the current Officer there and taking their weapon. An Officer checks out the weapon and must return it to the Unit.

Regarding the vest, staff will be instructed to secure such property and not leave in vehicles or out where it may be stolen.

Finding:
The Agency did not comply with Ark. Code Ann. § 19-4-802, which requires the General Assembly to budget, approve, and appropriate expenditures of cash funds through the enactment of appropriation bills. The Agency's contract that provides comprehensive medical services to inmates, which is paid from an appropriated State Treasury fund, allows ADC to assess monetary sanctions against the vendor if the contracted levels of service are not provided. ADC used these fines to establish a cash fund, as defined by Ark. Code Ann. § 19-4-801, but was never provided an appropriation by the General Assembly. In fiscal year 2016, $235,844 was disbursed from this account, and $972,915 remained on deposit at June 30. These payments and the remaining balance circumvented budget constraints that are part of the appropriation process and may have avoided any year-end general revenue reclaim.

Recommendation:
We recommend Agency management strengthen internal controls to ensure that they comply with all laws and regulations related to budgeting. We also recommend Agency management seek assistance from the Department of Finance and Administration regarding this account.

Agency Response:
With the conversion to a new medical contract in 2014, ADC established a self-insured risk pool fund in the State's accounting system to mitigate the cost of potential extraordinary, catastrophic inmate health care claims. The risk pool is funded by fee adjustments levied against the contracted medical provider for service levels below those conservatively estimated in the terms of the contract. The activities of this fund were fully detailed in an Unappropriated Cash Fund in the State's financial system.

While this accounting treatment was consistent with that of prior years and provided full disclosure in the audited financial statements, ALA recommended that ADC convert this fund to a Non-Revenue Receipt Treasury Fund. This type of fund would allow legislative review and discussion, culminating in formal appropriation and oversight of fund activity consistent with Ark. Code Ann. § 19-4-801. In response to this audit recommendation, ADC immediately established a Non-Revenue Receipt Treasury Fund to ensure full compliance with state statutes.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF CORRECTION –
REPORT ON CERTIFICATION OF CONSUMPTION OF FARM PRODUCE
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
COUNSELING ASSOCIATES, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA01017
Audited by: BKD, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF EXAMINERS IN COUNSELING
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS COURT OF APPEALS
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS CRIME INFORMATION CENTER
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
STATE CRIME LABORATORY
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEAF AND HEARING IMPAIRED TELECOMMUNICATIONS SERVICES CORPORATION
FOR THE YEAR ENDED DECEMBER 31, 2017

There were no findings.

SAOA04717
Audited By: Lovett & Co., Ltd., CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DELTA COUNSELING ASSOCIATES, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF DENTAL EXAMINERS
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
Good internal controls dictate daily deposits, as stated in Financial Management Guide R4-19-4-501. Weekly deposits are allowable if an agency receives only minimal amounts of cash or checks. A review of deposits from April 1, 2017 to June 30, 2017, revealed four deposits were made from 15 to 19 days after collection. It appears the Agency has not taken corrective action to address prior-year findings. The lack of expediency in depositing funds could allow for misappropriation.

Recommendation:
We recommend the Agency adhere to the Financial Management Guide and expedite deposits

Agency Response:
This is not a true statement. The timeframe listed is not within the fiscal year audited. The agency has taken action to shorten the time between deposits.

Auditor Response:
To verify that recommendations in the prior report, dated September 22, 2016, have been implemented, deposits after September 22, 2016, were reviewed.

Eleven deposits were made between April 1, 2017 and June 30, 2017. Five of the deposits were transfers from outside banks, and six of the deposits were receipts. Of the six receipt deposits, four were made from 15 to 19 days after collection.

Finding:
A properly designed system of internal controls requires that duties related to receipting be segregated. A review of internal controls surrounding the reconciliation of receipts to deposits after the report date revealed the Agency is not reconciling license renewal receipts to deposits. It appears the Agency has not taken corrective action to address prior-year findings. The omission of a reconciliation could lead to misappropriation of receipts.

Recommendation:
We recommend the Agency reconcile license renewal receipts to deposits and attach a detailed receipt listing to the reconciliation.

Agency Response:
This is incorrect. The receipts are visually reconciled each day. INA sends emails informing the agency of on-line renewals. These are visually reconciled daily. Going forward, we will attach the INA documentation and additional documentation (similar to the Revenue Report used for payments made directly to the agency) to the renewal deposit forms submitted to Service Bureau.

Auditor Response:
Because issuing licenses is a significant part of the Agency's financial activity, we reviewed internal controls surrounding the reconciliation of receipts for licenses issued to deposits. Without a documented reconciliation, we are unable to verify that each license issued was receipted and deposited.

Finding:
Our review of travel expenditures revealed the Agency failed to follow state travel regulations:

- In three instances, the Agency did not maintain support for travel expenses totaling $539.
- In three instances, the Agency overpaid travel expenses by a total of $349. In one instance, a Board member was reimbursed $299 in airfare for a non-Board member. In the other two instances, a state employee was reimbursed for two separate baggage fees totaling $50 that were paid for using the Agency's state travel card.
- A review of a travel reimbursement form (TR-1), after the report date, for a traveler with expenses split between the travel card and TR-1 revealed no travel expense reconciliation form had been completed or attached. It again appears the Agency has not taken corrective action to address prior-year findings.

Recommendation:
We recommend the Agency seek training from the Department of Finance and Administration and develop procedures that ensure compliance with state travel regulations.

Agency Response:
$349 was overlooked and has been reimbursed, thus should be omitted from this document. The documentation for $539 consisted of $430 Board member registration fee for attendance to the American Association of Dental Boards (AADB) which must have gotten detached during filing. I have since acquired a copy from AADB; thus, this should be omitted from this report. The remaining $109 was for cab fare to and from the airport to the hotel during an American Association of Dental Boards/Administrators meeting that was charged to the travel card and receipts were lost or misplaced. The Executive Director was the only staff traveler during the audit period and never travels more than 2 times a year. A travel expense reconciliation was not completed, but will be done going forward.

Auditor Response:
Our procedures disclosed the Agency did not follow state travel regulations. During field work, we discussed the items of noncompliance with Agency management, and corrections were made subsequent to these discussions.

Finding:
The Purchasing (P-Card) Policies and Guidelines Manual requires that supporting documentation such as receipts or transaction slips be retained. A review of P-Card and travel card payments for fiscal year 2016 revealed payments were supported only by monthly statements. During field work, the Agency contacted vendors to obtain documentation for multiple transactions. An additional review of P-Card and travel card payments for fiscal year 2017 revealed payments were again supported only by monthly bank statements. It appears the Agency has not taken corrective action to address prior-year findings.

Recommendation:
We recommend the Agency review state travel card and P-Card policies and develop procedures to ensure that appropriate source documentation is retained with monthly statements.

Agency Response:
All P-Card payments are put into a file at the time of payment and verified by logging into the US Bank Transaction Management to view, review, allocate/reallocate and add comments to transaction information. Service Bureau also sends out a statement to view, review, allocate/reallocate and add comments to prior to P-card payment authorization. Going forward, all P-card payments will be copied and attached to the statement and payment authorization.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SA1039517
Audited by: BKD, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DIETETICS LICENSING BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
STATE OF ARKANSAS DISABILITY DETERMINATION FOR SOCIAL SECURITY ADMINISTRATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

There were no findings.

SA0931116
Audited by: Stan Parks, CPA

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DISABLED VETERANS SERVICE OFFICE
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF DISPENSING OPTICIANS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
EAST ARKANSAS PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS ECONOMIC DEVELOPMENT COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

There were no findings.

Finding Number:	**2017-006**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.010 – Title I Grants to Local Education Agencies**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S010A140004, S010A150004, and S010A160004**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
2 CFR § 200.302(b)(7) requires "written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the federal award." Subrecipient monitoring is a mechanism used to ensure the costs are allowable with the terms and conditions of the federal award.

In addition, 2 CFR § 200.331(b) requires that all pass-through entities "evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring."

Condition and Context:
Title I staff conducted desk audits of Title I budgets and year-to-date expenditures to review for allowable expenses, required set asides, correct rank order of buildings, and various provisions to ensure compliance with federal regulations. However, there was no written subrecipient monitoring plan in place consistent with the new Uniform Grant Guidance during fiscal year 2017.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency is in the process of developing new policies and procedures for subrecipient monitoring consistent with the new Uniform Grant Guidance.

Effect:
The absence of a written subrecipient monitoring plan in accordance with the new Uniform Guidance could cause the Agency to not fulfill all of its pass-through entity's responsibilities.

Recommendation:
ALA staff recommend that the Agency finalize policies and procedures for monitoring subrecipients who receive Title I funds.

Views of Responsible Officials and Planned Corrective Action:
The Arkansas Department of Education (ADE) has reviewed the finding related to the 84.010 – Title I grants, which will be included in the Federal Portion of the Statewide Single Audit. As a result of this finding, ADE Federal programs staff are developing a risk-based multi-tiered monitoring protocol that will be implemented for all subrecipients by July 1, 2018. The new monitoring protocol will require ADE to monitor programs using a risk-based approach, in accordance with 2 CFR 200.331(b). Subrecipient monitoring tools used by ADE will include on-site monitoring, desk audits, budget and expenditure reviews, and training for subrecipients.

Anticipated Completion Date: July 1, 2018

Finding Number:	**2017-006 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.010 – Title I Grants to Local Education Agencies**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S010A140004, S010A150004, and S010A160004**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance and Significant Deficiency**

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

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF EDUCATION – ARKANSAS SCHOOL FOR THE BLIND
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
Executive Order 10-14 allows for state vehicles to be used for commuting only if a waiver is granted by the Director of the Department of Finance and Administration (DFA). In addition, the State of Arkansas Vehicle Use and Management Handbook requires every vehicle owned by the State to contain a log, and drivers of the vehicle must update the log with each use. The Internal Revenue Service (IRS) Fringe Benefit Guide (Publication 5137) provides for certain instances whereby commuting is a taxable event, and the individual should record $1.50 per trip per day as taxable income. A state vehicle was used for commuting by the Campus Maintenance Supervisor for which no waiver was granted, no log was maintained, and a taxable benefit was not recorded, as required by IRS fringe benefit regulations.

Recommendation:
We recommend the Agency obtain a formal ruling from the IRS regarding the Campus Maintenance Supervisor's exclusion of taxable use of a state vehicle from his IRS Form W-2. Additionally, the Agency should review vehicle usage and reporting requirements to ensure compliance with all state and federal laws and regulations.

Agency Response:
The Arkansas School for the Deaf (ASD) has required that every state vehicle will have a log. ASD did start the process for requesting a waiver for the Maintenance Supervisor. The ASD Human Resource Manager seemed to have a misunderstanding of the information received from DFA and did not understand that a formal request was required for the commuting purpose. ASD has now submitted a waiver request from DFA, and we are requesting that this waiver be retroactive starting January 2016, which was the time of our original email request to DFA.

Finding:
A properly designed system of internal controls requires approval of expenditures before payment is made. In addition, Ark. Code Ann. § 19-4-815 requires an agency to retain all documents in conjunction with disbursement of funds. A review of expenditures noted two expenditures totaling $72,915 for which no approval was evident. In addition, no receipt or invoice was maintained for two expenditures totaling $4,410. The lack of approval or supporting documentation could allow for misappropriation of limited state resources.

Recommendation:
We recommend the Agency comply with state policies and procedures and Arkansas Code, as applicable.

Agency Response:
The ASD uses an internal purchase request system called Rubberstamp for ASD's purchases. This approval process was followed for the two expenditures listed - totaling $72,914.95. This system is set up where management can approve the request before it is entered into AASIS. When the invoice comes in and it matches the request that was already approved by management, it is then paid. ASD requires all requests go through this process before receiving an invoice. ASD has implemented that no payments are made unless we have an invoice and receipts. If no original receipt provided, it will not be paid.

Finding:
Ark. Code Ann. § 19-11-234 requires agencies to competitively bid procurements that exceed $10,000 up to $50,000. Additionally, Ark. Code Ann. § 19-4-815 requires an agency to retain all documents in conjunction with disbursement of funds. Three bids were not obtained for equipment purchase of $37,050. An agreement for networking and electrical work totaling $18,000 was made verbally without written terms or conditions. The lack of competitive bids or written documents could allow for waste of state resources.

Recommendation:
We recommend the Agency comply with state policies and procedures and Arkansas Code, as applicable.

Agency Response:
ASD management has gone through training and works closely with DFA concerning purchase request over certain dollar thresholds. The equipment purchased of $37,050 was purchased using Contract 4600035864 but not properly documented on the Purchase Order and backup documents. Now, ASD requires that all purchases on contracts have the supporting documents at all times.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF ELECTION COMMISSIONERS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF EMBALMERS AND FUNERAL DIRECTORS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF EMERGENCY MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF LICENSURE FOR PROFESSIONAL ENGINEERS AND PROFESSIONAL SURVEYORS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
The Agency did not have proper internal controls in place to safeguard disbursements, such as requiring dual signatures on checks or reviewing and reconciling monthly bank statements. The payee name on a check for $450, issued from the Permit Over-Payment checking account, was altered after issuance of the check to the name of the Chief Financial Officer (CFO). In addition, the Chief Operating Officer, who had check-signing authority, stated that his signature was forged on the check. Subsequently, the Agency filed an incident report with the North Little Rock Police Department.

Recommendation:
We recommend the Agency review its internal controls over cash in bank disbursements.

Agency Response:
ADEQ Fiscal has instituted a dual signature process on all written checks. The checks are kept in a locked room inside a locked cabinet. Criminal charges have been sought against the former CFO through the North Little Rock Police Department.

Finding:
The Financial Management Guide requires that a pre-numbered receipt be issued for each payment received in person. The Agency was unable to locate pre-numbered receipts issued from July through December 2016. As a result, we were unable to test pre-numbered receipts issued by the Agency in fiscal year 2017. It appears the Agency's internal control over cash receipts was lacking.

Recommendation:
We recommend the Agency comply with state policies and procedures and strengthen internal controls over cash receipts.

Agency Response:
ADEQ Fiscal has ordered pre-numbered receipts. These receipts are kept in a secure, locked area. When a receipt is issued, a log is kept along with a digital copy.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS ETHICS COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

Finding:
In January 2014, the Agency held training for Arkansas Fair Housing Commission (AFHC) Commission members in Hot Springs. During this training, five different meals were purchased using a state travel card, with charges totaling $585. According to Rule 7 of the Department of Finance and Administration (DFA) travel regulations, these charges should not have been paid with an agency travel card. Proper allocation of meals could not be made, potentially resulting in unallowable expenses.

Recommendation:
We recommend that, in the future, the Agency ensure that meals are not purchased using agency travel cards.

Agency Response:
Rule 7 of the DFA travel regulations allows for payment of meals with an agency travel card upon DFA approval and provides for direct billing of such expenses. On December 31, 2013, the Agency provided DFA written notice of the upcoming training and requested authorization (which included opening the merchant (MCC) code and increasing the credit line) to pay associated training expenses. The Agency was notified of approval of its request on January 2, 2014.

Finding:
The Agency paid $5,221 to Carey International, Inc., for three days of ground transportation and two days of airport shuttle services for eight individuals attending the AFHC Fair Housing Ambassador Program Tour (Tour) in Washington, D.C. These services included a driver who was at the group's disposal for over 39 hours, airport shuttle services, and other items, as shown below:

- $3,180 for driver services ($80 per hour).
- $925 for fuel, airport fee, and surcharges.
- $716 in gratuities.
- $400 for airport shuttle services.

DFA travel regulations state that travel may be achieved by whatever method serves the requirements of the State most economically and advantageously; however, for this trip, the driving services referenced above accounted for over 40% of the total trip cost. A review of the agenda showed that there were extended periods of time when the driver was not needed, but the charges still accrued at $80 per hour. Washington Metrorail serves the destinations on the Tour agenda as well as the airport used by the attendees, and costs for eight SmarTrip® cards allowing the attendees unlimited Metrorail trips for seven days would have totaled $490, a difference of $4,731.Therefore it appears that the Agency did not use the most economical method of travel available.

Recommendation:
We recommend that, in the future, the Agency seek the most economical travel method available that meets their needs.

Agency Response:
The Agency utilized Carey International, Inc., for five days of ground transportation, not three as noted in the finding. The Agency hosted students from state colleges/universities to tour Washington, D.C., as part of its Fair Housing Ambassador Program designed to expand students' knowledge of fair housing and civil rights enforcement in fulfillment of its education/outreach mandate. The entire Ambassador tour cost $309.28 per day (at no cost to students) and covered all meals, transportation, lodging, and educational activities. The Ambassador Tour was financed with set-aside funds not part of General Revenue.

Rule 7 provides that when common carriers are necessary to transport persons on state business the Agency should direct bill the service. The Agency utilized a common carrier which could be direct billed in compliance with this provision.

In additional to its inability to be direct billed as per Rule 7, the Agency also determined the Washington, D.C., underground metro system to be an unviable transportation option because the aggressive agenda created logistical difficulties for timeliness, i.e., the number of metro transfers necessary to make each agenda stop, the time associated with required metro transfers, and the difficulty in adequately supervising students in that type of setting.

To serve the State most economically and advantageously, the Agency deemed that a common carrier rental van constituted the best mode of transport to ensure adherence to the tour schedule; to avoid any potential tort liability; and to greater ensure the safety of the students in State care. The Agency subsequently identified the referenced carrier as the most economical one available for the tour dates.

Finding:
Four nights lodging totaling $453 was paid for the Executive Director to stay at a hotel within five miles of her residence during a 2014 Commission training event. The agenda shows that training began at 8 each morning and ended at 5:30 each afternoon. An evening meal was also listed on the agenda each day from 6 to 8 p.m.

Rule 3 of DFA travel regulations requires that a written justification, showing the benefit to the State and approved by the agency director or travel administrator, must be completed for these types of expenditures to be paid by the State. Because the training was held within a short distance of the Director’s residence during reasonable, normal working hours, no clear benefit to the State for the lodging expenses incurred could be determined.

Recommendation:
We recommend that the Agency refrain from paying lodging expenses for an employee attending an event held during normal working hours at a venue within a short distance from the employee's residence.

Agency Response:
As per Rule 3 of the DFA travel regulations, the Auditor was provided a copy of the written justification for payment of lodging for this expense. In similar instances, the DFA Office of Accounting has routinely held that such expenditures are justified where employees are working outside normal work hours to complete employment duties, and this holding is consistent with ACA 19-4-904, which allows for the payment of meals, lodging, mileage, and incidental expenses regardless of the location of such functions.

The Agency has a limited staff which in all instances participates in sponsored training activities. In the present case, the Executive Director was responsible for providing training and was required to be on site at 6:00 a.m. each morning to prepare the training site; organize training details; be on-call for all issues which may have arisen during the course of the training; and remain on site until 9:00 p.m. following the evening meal during which Agency business also was conducted.

Finding:
On October 14, 2016, a revenue office employee in Earle misappropriated $3,609 by circumventing the Department of Finance and Administration (DFA) bank deposit process. On October 24, 2016, the revenue office employee met with the DFA District Manager at the Earle Police Department, returned the $3,609, and resigned from employment. A police report was not completed, and DFA did not properly notify Arkansas Legislative Audit (ALA) of the misappropriation of funds, as required by Ark. Code Ann. § 25-1-124.

Recommendation:
We recommend DFA implement a review process to ensure bank deposits are made by revenue office employees and report all misappropriated funds to ALA.

Agency Response:
The business process for depositing funds for the satellite offices of DFA – Revenue Division includes a process where the deposit is keyed into the system and approved for deposit by the office manager. The "keyed" deposit becomes the dollar amount of a daily sweep from that bank account. If the bank sweep doesn't process, DFA auditors perform a review of the transaction to determine the cause of the failed sweep. In this case the process worked as designed.

DFA management believed they were dealing with a personnel matter not a misappropriation of funds by the employee. The employee lost a family member to violence during this time period. In retrospect, the notification of the missing deposit should have been reported.

Finding:
DFA self-reported to ALA that a revenue office employee in Little Rock was $1,000 short when performing her mid-day reconciliation on June 16, 2017.

Recommendation:
We recommend the Agency ensure the employee is aware of the proper cash processing procedures.

Agency Response:
We now require that at noon or as soon as practical, the employee reconcile their cash drawer and present it to the revenue agent for review and approval. If the cash drawer doesn't reconcile the difference is investigated as soon as possible that day.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF FINANCE AND ADMINISTRATION –
OFFICE OF THE ARKANSAS LOTTERY – LUCKY FOR LIFE
YEAR ENDED MARCH 31, 2018

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION – OFFICE OF THE ARKANSAS LOTTERY
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD
FOR THE YEAR ENDED DECEMBER 31, 2017

There were no findings.

SAOA05417
Audited by: BKD, CPAs

Finding:
Financial Management Guide regulation R4-19-4-501 requires that strict control be maintained during the processing of cash receipts to ensure that they are properly accounted for. Due to a limited number of staff, the Agency had inadequate control over receipting and disbursement transactions because of insufficient segregation of duties, increasing the risk of fraud and misappropriation of funds.

Recommendation:
We recommend the Agency segregate duties to the extent possible, using Board members as needed.

Agency Response:
Two employees must be present to open mail. The employee responsible for issuing licenses can't open the mail or log it in. A listing of checks received is made as the checks are opened and signed by both employees when all the mail is opened. The check is copied, the copy is given to the employee that issues licenses, and the original is locked in a cabinet in a locked office until the deposit is made. Only the Executive Director has access to this cabinet. Deposits are made daily during peak licensing periods.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
STATE BOARD OF REGISTRATION FOR FORESTERS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

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 Arkansas Legislative Audit (ALA) of the following thefts of state property:

- On August 6, 2016, a 2013 Honda Rancher ATV with a cost of $6,093 was stolen from the Arkansas Game and Fish West Central Regional Office in Russellville. Incident and police reports were filed.
- On September 5, 2016, a Bush Master AR15 Rifle with an estimated value of $1,500 was stolen from an AGFC enforcement truck parked at a Wildlife Officer’s home in Stuttgart. Incident and police reports were filed.
- On January 31, 2017, a Dell Laptop with a cost of $1,089 was stolen from an AGFC Regional Manager’s state-issued vehicle, which was parked at his home in Morrilton. Incident and police reports were 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 safe guarding of inventory. We have established and provided employees with additional information and guidance to support the prevention of future occurrences of theft.

Finding:
Internal control requirements for cash receipts are outlined in R4-19-4-501 of the Department of Finance and Administration (DFA) Financial Management Guide. Our review of the Agency's receipt process revealed the following deficiencies:

- A cash log was not being maintained. As a result, we were unable to determine if deposits were accurate, complete, and timely.
- Checks received were not restrictively endorsed upon receipt.
- Receipt books did not meet the minimum standard to include a printer's certificate, which states the print date, numerical sequence for receipt books, and the name of the printer.
- Receipts were missing from the book.
- Receipts did not include all required information.

Recommendation:
We recommend the Agency establish adequate control procedures to ensure compliance with DFA cash receipts requirements.

Agency Response:
Management has taken immediate steps to revise internal control procedures for cash receipts. The Department of Finance and Administration Office of Internal Audit conducted a review and has approved new revenue procedures. In addition, appropriate staff has received training.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS GEOLOGICAL SURVEY
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
GOVERNOR'S MANSION AND MANSION COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

Finding:
A review of expenditures revealed the Agency authorized $107,658 in payments throughout the year to one vendor using 34 purchase orders without requesting competitive bids, as required by state procurement law. The Agency must follow the competitive bidding requirements defined in state procurement law to ensure it obtains the best products and services for the best price.

Recommendation:
We recommend the Agency continue to provide procurement training to employees and hold them accountable for compliance with state procurement law.

Agency Response:
The Agency agrees with the finding and has conducted additional training and will provide ongoing oversight of the procurement process. This vendor provides installation of computer network drops for work stations. In previous years, the amount paid to the vendor was considerably less – FY2015: $14,855 and FY2016: $30,163. However, in FY2017 there was a marked increase in renovations and work station additions for new programs. Different procurement staff from various sections used this vendor for small order purchases, which created the violation. The Department has implemented a centralized monitoring process within the Agency's procurement office to prevent a reoccurrence.

Finding:
In March 2018, the Agency informed ALA of an incident in which an employee in the Vital Records office inappropriately transferred $826 from a customer's bank account to pay for the employee's personal expenses. It appears that the employee gained the customer's financial information while performing cashier duties for the Agency. As a result of this abuse of trust, the Agency terminated the individual's employment. A police report was filed with local law enforcement, and the case is still being investigated.

Recommendation:
We recommend the Agency continue to cooperate with local law enforcement and hold its employees accountable for their actions.

Agency Response:
The Agency will continue to cooperate with local law enforcement and the prosecuting attorney. The Agency also agrees with Legislative Audit's finding regarding the importance of system controls. After receiving a customer complaint, the Agency determined that an employee working in the cashier's office had taken a photograph with a personal cell phone while working in that area. The cashier's office is staffed with two individuals, and there are cameras in the work area. The Agency will continue to train staff and enforce the directive of limiting the use of personal cell phones in work areas.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS OFFICE OF HEALTH INFORMATION TECHNOLOGY
JULY 1, 2016 THROUGH JULY 31, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS HEALTH INSURANCE MARKETPLACE
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA05517
Audited by: BKD, CPAs

Finding:
As described on page 2 of the report, the Health Services Permit Agency (HSPA) has specific duties with which it is charged. Act 137 of the Fiscal Session of 2016 provides for the total salary and number of positions authorized by the Legislature for HSPA.

Beginning in April 2016 and continuing until the present, an employee of the Department of Human Services – Division of Disabilities Services (DHS – DDS) was assigned to perform duties at HSPA. The employee follows the policies of HSPA and, in all daily activity, is managed by the HSPA Director.

Ark. Const. art. 16, § 4, states, in part, that "the number and salaries of the clerks and employees of the different departments of the State shall be fixed by law." The assignment of an employee from DHS – DDS to HSPA, without Legislative approval, is contrary to Ark. Const. art. 16, § 4, as explained in Op. Att'y Gen. no. 2004-209.

Ark. Const. art. 5, § 29, states, in part, that "[n]o money shall be drawn from the treasury except in pursuance of specific appropriation made by law, the purpose of which shall be distinctly stated in the bill...." Act 91 of the Fiscal Session of 2016 establishes a set number of positions for DHS – DDS (in § 1) and appropriates funds to pay their salaries (in § 3). This employee is paid from funds appropriated to and is occupying a position established for DHS – DDS, in noncompliance with Ark. Const. art. 5, § 29.

Recommendation:
We recommend the Agency review the appropriate legislation, constitutional articles, and Attorney General opinion and obtain guidance from the Department of Finance and Administration (DFA) and/or the Attorney General, where applicable, to resolve this issue.

Agency Response:
The Agency has reviewed the appropriate legislation, constitutional articles, and Attorney General opinion in regards to this matter. The Agency has been given guidance by DFA. The Agency is in the process of officially transferring the employee to the appropriate agency and making restitution to the agency (for the two months of fiscal year 2016 and fiscal year 2017) that paid the employee's salary. There will be no future recurrence.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF HEARING INSTRUMENT DISPENSERS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
In accordance with R4-19-4-501 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide, strict controls should be maintained during the processing of cash receipts. These controls include, but are not limited to, making deposits at least weekly.

Our review of the 14 receipting areas within the Agency again revealed that deposits were not made at least weekly as required. We reviewed 333 receipts issued in May 2017 and found that 101 receipts totaling $120,865 were not deposited timely as illustrated in the chart below.

Agency Area	No. of Receipts Not Deposited Timely	Total No. of Receipts Tested	Percentage of Deposits Delayed	No. of Days Deposits Delayed	Value of Receipts Not Deposited Timely	Total Value of Receipts Tested
Arkansas Arts Council	18	33	55%	22-32	$ 101,155	$ 101,625
Arkansas State Archives (ASA)	28	33	85%	12-41	621	804
ASA Northeast Arkansas Regional Archives	5	12	42%	8-20	42	99
Historic Arkansas Museum - Admissions	8	37	22%	8-13	627	3,740
Historic Preservation Program	15	22	68%	9-26	2,981	5,290
Mosaic Templar Cultural Center	13	48	27%	8-27	805	3,182
Natural Heritage Commission	3	11	27%	8-15	12,034	28,062
Old State House	3	39	8%	11	400	22,220
Trapnall Hall	8	14	57%	8-17	2,200	3,350

Recommendation:
We recommend the Agency establish appropriate controls over cash receipts to ensure all cash receipts are deposited timely.

Agency Response:
Since May 2017, senior Agency management has brought in new management staff in the finance and accounting department to address this and other deficiencies. A complete review of existing processes and procedures was undertaken in late 2017, as well as the implementation of better oversight and control of key financial transaction areas within the Agency. This process is ongoing and will continue to be a focused area of attention.

Finding:
Accession logs are maintained in separate databases for the museums located at the Delta Cultural Center, Mosaic Templar Cultural Center, Old State House Museum, and Historic Arkansas Museum. The databases are used to track and account for assets in museum collections and are considered the system of record.

We compared the asset values recorded in the accession logs to the values recorded in AASIS to determine accuracy and completeness. Our review revealed total asset values in AASIS exceed the values recorded in the accession logs totaling $1,073,170 (13.66%). The variances by museum are as follows:

- Delta Cultural Center assets were overstated by a total of $128,384 (31.63%).
- Mosaic Templar Cultural Center assets were overstated by a total of $413,581 (50.06%).
- Old State House assets were overstated by a total of $686,951 (32.14%).
- Historic Arkansas Museum assets were understated by a total of $155,746(3.47%).

This discrepancy is a repeat finding from the June 30, 2016, report.

Recommendation:
We recommend the Agency perform reconciliations of art and historical treasures assets per AASIS to the museum accession logs maintained in the databases and establish appropriate procedures to safeguard assets.

Management Response:
The Agency initiated an internal procedure to require all museums to reassess their current assets and reconcile any internal ledgers with data existing in AASIS in 2017, specifically the method in which assets were entered (e.g., purchases, donations, etc.). This process continues and will be completed within the next six to nine months. The size and complexity of the reconciliation process is significantly more than originally estimated.

Documentation will be maintained for audit review, and processes will be enacted to ensure that asset records are reconciled on a yearly basis. Agency staff will conduct periodic physical inventory reviews to ensure that assets can be located, are properly tagged, and are correctly classified.

In response to the note regarding appropriate procedures to safeguard assets, all museums follow recognized processes and procedures as outlined by museum accrediting entities and organizations, including the use of internal asset tracking databases to protect and safeguard all Agency art, artifacts, and historic treasures from loss, theft, damage, or destruction.

Finding:
In accordance with DFA Capital Asset Guidelines, capital assets should be recorded at historical cost. Our review of selected asset additions revealed that land was understated by $1,013,241 because the Agency failed to record the portion paid using federal funds from the Department of Agriculture.

Recommendation:
We recommend the Agency establish appropriate controls to ensure assets are properly classified and accurately valued.

Agency Response:
Due to internal communications issues within the Agency, the portion of the land acquisition purchase paid with federal funds from the Arkansas Agriculture Department's Forestry Commission was not properly recorded in AASIS. This has been addressed through a correcting entry coordinated through DFA's Comprehensive Annual Financial Report (CAFR) section. Internal procurement practices have been reviewed and staff re-acquainted with proper processes and procedures to ensure compliance with both Agency and State asset recording policies and guidelines.

Arkansas Department of Higher Education (0700)

Federal Award Program: Temporary Assistance for Needy Families (TANF) (CFDA 93.558)

Review of the Temporary Assistance for Needy Families (Career Pathways Initiative) program revealed noncompliance with federal regulations regarding monitoring of the two-year colleges.

In accordance with 45 C.F.R. § 75.342(a), the non-federal entity must monitor its activities under the awards to ensure that compliance with applicable federal requirements and performance expectations are being achieved.

In addition, 45 C.F.R. § 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 terms and conditions of the federal award.

Discussions with Agency staff revealed that during state fiscal year 2016, monitoring site visits were performed for the colleges participating in the CPI Program to ensure compliance with federal requirements, as outlined in the Memorandum of Agreement between ADHE and DWS. The purpose of the site visits also included training for Program Directors at the participating colleges.

ALA staff selected 13 participating colleges and requested documentation supporting the monitoring site visits performed. Documentation for one site visit was inadequate.

ALA staff also selected 13 reimbursement requests submitted by the participating colleges, representing $416,832 in costs, to determine if sufficient, appropriate evidence was maintained to support the reimbursement requests. The review revealed that ADHE/CPI staff did not require participating colleges to submit supporting documentation with each reimbursement request. Requests were merely submitted to CPI staff but not reviewed prior to approval.

Because the federal funds received for the CPI Program were transferred from DWS, ALA staff confirmed that DWS had documentation supporting its monitoring efforts of the CPI Program. DWS provided a report, dated May 8, 2017, that included findings regarding the lack of supporting documentation for several compliance areas of the Program.

Recommendation
ALA staff recommend the Agency develop and document consistent procedures for monitoring the participating colleges to ensure that any monitoring activities performed are adequately documented. ADHE should also consider coordinating monitoring efforts with DWS.

Management response: *The Department agrees with the finding. The following procedures have been or will be modified:*

1. *ADHE/CPI will continue to examine reimbursement requests each month.*
2. *ADHE/CPI will conduct additional program training regarding allowable expenditures for reimbursement.*
3. *Each program's reimbursement requests and supporting documentation are currently examined by the college's business office prior to request for ADHE/CPI reimbursement. Supporting documents will be examined as part of the ADHE/CPI program compliance visit.*
4. *A risk analysis formula will be developed and used to determine the priority list for compliance visits. Each program will be evaluated for risk potential. Factors that will be considered for the risk formula include:*
    a. *Recent audit finding (previous year, with a plan to expand to past three years by 2020)*
    b. *New institutional CPI program staff (with a focus on director and finance chief).*
    c. *Size of annual award.*
    d. *Unawarded funds.*
    e. *Results from previous compliance visits.*

    Each program will be scored with points assigned to each. The overall program score using the risk analysis formula will be used to determine which programs will receive compliance visits.

Arkansas Department of Higher Education (0700) (Continued)

Federal Award Program: Temporary Assistance for Needy Families (TANF) (CFDA 93.558) (Continued)

5. *Each year additional schools will be chosen for compliance visits, regardless of the risk score.*
6. *Compliance visits will be documented and signed by both the campus CPI program and ADHE/CPI visiting representative. Compliance visits will not be announced more than three weeks prior to the date.*
7. *ADHE/CPI will develop an updated compliance visit checklist and will share this checklist with all CPI programs prior to any review of a program.*

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF HIGHER EDUCATION
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
During fieldwork, Arkansas Department of Higher Education (ADHE) management notified us that cash funds were currently being held at a local bank on behalf of employees of the Career Pathways Initiative (CPI), an agency program. Ark. Code Ann. § 19-4-801 defines *cash funds* as all monies, negotiable instruments, certificates of indebtedness, stocks, and bonds held by or owned by any state agency that are not on deposit with or in the trust of the Treasurer of State. These CPI cash funds were not appropriated or included in the budgeting process, the account was not authorized by the Department of Finance and Administration (DFA), and transactions were not recorded in AASIS, in noncompliance with Ark. Code Ann. § 19-4-802. As a result, financial information recorded in AASIS, such as ending balances, revenues, and expenditures, was understated for several years.

The account was opened in January 2013 under the CPI Director's name "DBA Career Pathways Initiative," using the mailing address for ADHE. Between January 2013 and September 2016, five payments issued to either Career Pathways Initiative ADHE or CPI totaling $26,173 were deposited into the account. The CPI Director suggested these funds were hers because of a project she completed in hopes of sustaining a CPI grant and work she or the Program Specialist did outside of ADHE working hours. However, based on the type of monies received, these funds should have been shown as revenue to the State.

Between February 2013 and March 2017, the following disbursements totaling $26,173 were made from the account:

- $12,746 for electronic equipment, including six iPads, three iMacs, and related accessories that were not purchased, tracked, or disposed of in accordance with capital asset guidelines. During fieldwork, three of the six iPads and the three iMacs were turned over to ADHE for inclusion in low value assets.
- $5,223 for miscellaneous items, with "reimbursement" written in the memo line on the check in several instances.
- $2,459 reimbursed to the CPI Director or Program Specialist for working lunches ($1,339), including a tip at one meal that exceeded 50%, and reimbursed to employees for travel ($1,120) without TR-1s or other supporting documentation, in violation of state travel regulations.
- $1,996 reimbursed to employees for phone-related expenses.
- $738 reimbursed to the CPI Director for what appears to be TANF-related expenditures.
- $640 for supplies.
- $355 reimbursed for purchase of gift cards and/or gifts.
- $90 for bank fees.

Additionally, $1,926 was withdrawn for cash, including $1,886 to close out the account on March 20, 2017, after auditors began review of the account.

Due to a lack of segregation of duties, of the 75 payments from the account, 47 checks were payable to and signed by the same payee, either the CPI Director or Program Specialist. These checks indicated payments were reimbursements totaling $17,621 for various purchases made on behalf of CPI.

Ark. Code Ann. § 19-4-814 requires agencies to retain original evidence of indebtedness, including documents prepared in accordance with purchasing procedures, such as invoices and receipts. No supporting documentation was available prior to May 2016 for payments totaling $13,183, in addition to the cash withdrawal to close the account.

The CPI Director's employment was terminated, and the Program Specialist resigned effective May 18, 2017.

Recommendation:
We recommend the Agency strengthen internal controls to ensure all funds are maintained in AASIS and comply with all laws and regulations related to budgeting, travel, capital assets, and purchasing regulations.

Agency Response:
The Department agrees with the finding. As a result of the occurrence described in the finding, the employees involved are no longer employed at the ADHE. Internal controls in place at ADHE helped staff in discovering the use of an unauthorized bank account by employees of the Agency. ADHE will continue to strengthen those internal controls through training related to DFA's Financial Management Guide for all managers and budget officers at the Agency.

Finding:
Ark. Code Ann. §19-4-814 requires agencies to retain original evidence of indebtedness, including documents prepared in connection with purchasing procedures such as invoices. In addition, Arkansas Code Ann. § 19-11-234 states that three competitive bids must be obtained when the purchase price exceeds $10,000 and is less than or equal to $50,000.

The Agency received a proposal from a vendor to provide services totaling $36,000 between fiscal years 2016 and 2017. The Agency did not maintain a signed copy of the proposal, copies of three separate bids, and invoices totaling $23,962 paid to the vendor during fiscal years 2016 and 2017. Due to this failure to maintain documentation, the Agency is unable to substantiate that expenditures were valid, that proper approval was obtained prior to payment, and that the Agency accurately coded expenditures.

Recommendation:
We recommend the Agency adhere to state rules and regulations as prescribed by DFA's Financial Management Guide.

Agency Response:
The Department agrees with the finding. ADHE was unable to locate the documents prepared in connection with the procurement of this contract. ADHE has reviewed the pertinent procurement laws related to such contracts and has procedures in place to ensure compliance. Two employees, who have been assigned the responsibility of managing ADHE contracts, have completed procurement training to ensure compliance with all state procurement laws and policies required by the Department of Finance and Administration.

Finding:
Agencies are required to record amounts due for student loans in accordance with Ark. Code Ann. § 19-2-304. The Agency oversees two active student loan programs. Students who receive the loans may be eligible to have the loans forgiven if they meet certain criteria; students not meeting the criteria are placed in repayment status. The Agency is required to maintain student loan subsidiary ledgers to track changes to total loan balances throughout the year. These subsidiary ledgers are then used to adjust loans receivables in AASIS during the fiscal year-end closing process.

Review of 60 student loan files revealed the following deficiencies in active loans receivable accounts:

- Four instances totaling $83,761 of student loan balances that should have been placed into repayment status and collection pursued as a result of not meeting the loan requirements.
- Three instances totaling $15,979 in which the auditor was unable to recalculate the student loan balances due to insufficient documentation.
- Two instances totaling $24,292 in which student loan balances did not match the subsidiary ledgers, resulting in an understated receivables balance.

Recommendation:
We recommend the Agency continue to review the subsidiary ledgers to ensure receivables are properly reported and actively pursued for collection. In addition, we recommend the Agency maintain procedures to ensure student loan files are regularly monitored and updated.

Agency Response:
The Department agrees with the finding. ADHE has assigned additional staff to correct the deficiency in the student loan programs. Staff will ensure that AASIS and the subsidiary ledgers are balanced on a monthly basis and that the subsidiary ledgers are also balanced monthly with our servicing agent, Campus Partners. ADHE has also partnered with the Arkansas Department of Education to verify if a loan recipient for a teacher student loan program has completed the teaching requirements. This has allowed ADHE to update the loan recipients' account in a timelier manner. ADHE staff will also be auditing files for all student loan files with a remaining balance to verify all necessary documentation has been included in the file that the proper loan status has been assigned.

Finding:
According to the DFA Capital Asset Guide, assets that are easily susceptible to pilferage, including laptop computers and tablets, should be included in low value equipment in AASIS. Review of low value assets revealed two items, a MacBook Air and an iPad, totaling $3,446 were missing. Additionally, three items, two electronic tablets and a MacBook Pro, totaling $3,225 were not recorded in AASIS as low value equipment.

Recommendation:
We recommend the Agency follow DFA Capital Asset Guidelines and conduct an annual inventory of equipment items.

Agency Response:
The Department agrees with the finding. ADHE has reviewed the DFA Capital Asset Guidelines and has developed procedures to ensure that all laptops, computers, and tablets are properly recorded in AASIS and physically accounted for through and inventory audit on a quarterly basis.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

Finding:
Financial Management Guide regulation R4-19-4-501 requires strict control be maintained during the processing of cash receipts to ensure that they are properly accounted for. Due to a limited number of staff, the Agency had inadequate control over receipting and disbursement transactions because of insufficient segregation of duties. Issues noted include the following:

- The Board did not reconcile treasury receipts to its listing of licenses issued; therefore, errors, if any, could not be identified.
- The Board did not issued pre-numbered receipts for payment of licenses.
- Testing of revenue revealed 4 of 10 dates selected at random did not have check logs; therefore, timeliness of deposits could not be determined.

Recommendation:
We recommend the Board segregate duties, to the extent possible, through the use of Board members.

Agency Response:
Our agency will take the necessary steps to rectify the findings from the audit of Fiscal Year 2016.

- We will keep detailed records of all licensees and any payments received to expedite reconciliation with treasury receipts.
- Pre-numbered receipts will be issued for any cash or check payments.
- Check logs will be kept on all payments received with the date received and the date deposited recorded to ensure the timeliness between those dates.
- Correct general ledger account codes will be used on all expenditures to ensure the accuracy of the support documentation.
- Lodging reimbursement rates will not exceed the per diem rates without being pre-approved and documented.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF HUMAN SERVICES
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
Ark. Code Ann. § 19-4-815 requires each state agency to maintain adequate supporting documentation for audit purposes. Our review of the Baxter County Family Services Trust bank account revealed that invoice documentation was either not maintained or the information provided was inadequate for the check expenditures written. The Agency issued six checks totaling $927 during the fiscal year. Of the six checks, one check, totaling $510, had inadequate supporting documentation, and three checks, totaling $203, had no supporting documentation. In addition, two of these checks were documented as having been received by someone other than the payee listed on the check. The ability to properly safeguard and account for these funds has been jeopardized, which could lead to the misappropriation of funds.

Recommendation:
We recommend the Agency obtain and maintain adequate invoice documentation for expenditures, as required by Ark. Code Ann. § 19-4-815.

Agency Response:
The agency agrees with the need for adequate documentation for all expenditures. The Division of Children and Family Services (DCFS) is developing internal controls to ensure proper accountability for these funds. Part of these internal controls will include review of policies and procedures concerning documentation of expenditures with continued emphasis placed on communication of these policies and procedures to agency personnel. With the changes in the structure of the Agency and Office of Finance, and with new personnel in key positions within DCFS, procedural updates and changes will be an essential administrative activity.

Finding:
The Department of Human Services (DHS) has specific duties with which it is charged. Various acts of the Fiscal Session of 2016 provided for the total salary and number of positions authorized by the Legislature for DHS.

On September 1, 2016, DHS entered into a Memorandum of Understanding (MOU) with the University of Arkansas for Medical Sciences (UAMS) to address services to be provided by Dennis Smith to DHS and UAMS. The MOU states:

> UAMS agrees to employ Dennis Smith in the role of non-tenured, visiting faculty member from September 15, 2016 until June 30, 2017. DHS shall reimburse UAMS for ninety percent (90%) of Smith's salary and fringe benefits based upon salary and fringe benefit totaling $294,000 per annum. Said reimbursement will be based on Smith's working a standard forty-hour work week and providing DHS with the equivalent of thirty-six hours of work per week. UAMS shall invoice DHS on a monthly basis for the salary and fringe benefit support set forth in this MOU. UAMS will expect Smith to teach or co-teach at UAMS or provide and report for courses for administration in the [UAMS College of Public Health] COPH for ten percent (10%) of his employment. Smith's work for the COPH will be based on a standard forty-hour work week and providing COPH with the equivalent of four hours of work per week….

According to Smith, he is subject to and follows the policies and procedures of both DHS and UAMS. Smith went on to say that he is generally at DHS on a daily basis and at UAMS on an ad hoc basis. Since Smith spends 90% of his time working at and for DHS, we question whether the MOU is circumventing the intent of legislation that appropriated the position Smith is holding at UAMS. We feel the legislative intent of the appropriated position at UAMS would be for that individual to work full-time at UAMS and fulfill the job duties associated with that position for UAMS.

Furthermore, Ark. Const. art. 16, § 4, states, in part, that "the number and salaries of the clerks and employees of the different departments of the State shall be fixed by law." In essence, the MOU is an assignment of an employee from UAMS to DHS, without Legislative approval, which is contrary to Ark. Const. art. 16, § 4, as explained in Op. Att'y Gen. no. 2004-209.

Recommendation:
We recommend the Agency review the appropriate legislation, constitutional articles, and Attorney General opinion and obtain guidance from the Department of Finance and Administration (DFA) and/or the Attorney General, where applicable, to resolve this issue.

Agency Response:
We do not agree with this audit finding for Fiscal Year 2016 as this involves a subsequent event of fiscal year 2016 concerning a Memorandum of Understanding (MOU) that was entered into on September 1, 2016 (Fiscal Year 2017). We understand that positions within departments of the State are appropriated by the Legislature, but this MOU was not intended to circumvent that process. After internal review and to ensure transparency pertaining to this issue, the MOU was converted to a contract for Fiscal Year 2018. This contract was presented before Arkansas Legislative Council (ALC) on June 16, 2017 and approved. With the approval of the contract by ALC we considered this issue to be resolved.

Finding:
Our review of payroll transactions revealed the Arkansas Health Center (AHC) was not following DHS Policy 1016 for inclement weather. Policy 1016 states that residential facilities will develop their own procedures to provide 24-hour staffing during inclement weather conditions, with the stipulation that the policy must be approved by the DHS Director prior to implementation. AHC awarded exempt and non-exempt employees, who worked during a declared inclement weather period, holiday time for every hour worked, in addition to paying these employees for their time worked. This practice was never reviewed or approved by the DHS Director, in violation of DHS policy, and is considerably different than the practices at DHS' other residential facility. AHC awarded holiday time for every inclement weather period that occurred during fiscal years 2015-2017. The total number of hours awarded during the three-year period amounted to 13,514 hours, with an estimated cost of $193,039. The accrued holiday time was added to the employees' leave balances to be used at a later date. Upon leaving employment with DHS, any remaining holiday hours not used are to be paid in a lump sum.

Recommendation:
We recommend DHS develop inclement weather policies and procedures for the Arkansas Health Center that are consistent with DHS' other residential facility and are approved by the DHS Director.

Agency Response:
AHC (Arkansas Health Center) is in the process of developing a policy that shall maintain adequate personnel to provide and insure the security, safety and welfare of individuals at the AHC and during inclement weather conditions. This new policy will be developed to be consistent with DHS's other residential facilities and will be communicated to all levels of personnel at AHC. This policy should correct this issue. Policy was implemented on 7/21/17.

Finding:
During a search for unrecorded assets, we noted the following deficiencies:

- In accordance with Office of State Procurement regulation 19-11-234(b)(1), contracts exceeding $10,000 but less than $50,000 are awarded by competitive bidding procedures. Also, R19-11-234(d) states that using repeated small-quantity procurements to circumvent the competitive bidding process is a violation of procurement procedures. During our review of expenditures, we identified 187 invoices from one vendor totaling $209,542, where identical or similar items were purchased through small-quantity procurements, circumventing competitive bidding procedures. All 187 invoices were for the purchase of furniture that was purchased for and delivered to the Conway Human Development Center (CHDC). The vendor wrote multiple invoices per week for CHDC purchases, sometimes multiple invoices in one day. In one instance, we noted 11 invoices issued on the same day.

  Further analysis revealed that of the items purchased from the vendor during the fiscal year, 49 items totaling $30,915, were salvaged between 43 and 606 days from the date of purchase. Of the 49 items salvaged, 36 were less than one year old.

  We question the need for $209,542 in furniture purchases for one Human Development Center, during one fiscal year, and from one vendor. We also question the salvaging of $30,915 in assets, of which 73.5% were less than one year old. Lack of proper oversight over capital asset expenditures could lead to the misappropriation of state funds.

- According to State Financial Management Guide 19-4-1502, 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. Also, according to DHS Capital Asset System Policy 1043.1.2, equipment items purchased for less than $2,500 and more than $500 are to be carried on the Agency's equipment records in accordance with the State's criteria for low-value equipment. These items are to be tracked as property in the assets management system of AASIS but not capitalized. Further, an identification tag with the AASIS asset tracking number and serial number must be attached to these items. Of the items purchased from the vendor, 87 items totaling $65,745 were not properly recorded in AASIS and did not have an asset number affixed to them, in violation of Agency policy and state rules and regulations. In addition, the Agency could not provide supporting documentation for one payment of $1,915 made to the vendor.

Recommendation:
We recommend the Agency review procurement regulations with staff to ensure all purchases are in accordance with applicable procurement regulations.

Agency Response:
We concur. The Division of Developmental Disabilities Services (DDS) was notified on March 27, 2017, that multiple invoices were invoiced to a local Conway furniture store, Bates Furniture. At that time, the Conway Human Development Center (CHDC) sent DDS Central Office a 1998 letter from the Department of Finance and Administration (DF&A) authorizing "frequent small purchases, not to exceed $1,000, from consideration as split purchases." CHDC was operating under the premise that this letter was accurate and applicable. CHDC was also acting under incorrect guidance that certain items did not require asset numbers if they were under $2,500.00 rather than the current OHS policy of $500.00.

DDS Central Office referred the matter for an internal investigation to the Department of Human Services Program Integrity Unit on April 17, 2017. The investigation found that CHDC employees were acting under the incorrect guidance noted above and that no staff deliberately intended to circumvent procurement regulations.

In response, across all Human Development Centers, a stricter purchasing policy was implemented in May of 2017 that decreased purchase card holders and usage. The policy details how and when a purchase card is appropriate. The May directive on purchasing included not only stricter policy but new reporting procedures, new forms, new check out procedures, and weekly purchase logs sent to the DDS Director's office for review. Over 75 purchase cards were decommissioned and removed from use over SFY 17. In addition to tightening the utilization of purchase cards, all discretionary spending is now reviewed at the DDS Director's office prior to spending.

In addition to these changes, the business office at CHDC will be retrained on all applicable procurement law.

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

Of a sample of 409 equipment items:

- 25 equipment items, valued at $197,076, could not be located for observation.
- 5 equipment items, valued at $60,582, did not have all the necessary data fields completed in AASIS to help verify those assets against their attached AASIS tag number.
- 2 equipment items, valued at $13,317, were incorrectly tagged.
- 1 equipment item, valued at $12,319, was disposed of improperly.

In addition, the Agency provided a missing asset list of 1,423 equipment items, valued at $3,106,857, that Agency staff could not locate during their last inventory. Improper maintenance of asset records and lack of adequate oversight could lead to misappropriation of assets or misstatements of the Agency's financial statements.

Recommendation:
We recommend the Agency perform a 100% inventory observation and make any corrections needed for inaccurate or incomplete information in AASIS, affix inventory control tag numbers on all assets that require them, and strengthen controls over capital assets by ensuring that management periodically reviews asset information for accuracy and completeness.

Agency Response:
A new procedure was begun in FY 2017 for asset master records to be reviewed by each division for missing serial numbers and license plate numbers. Divisions have been instructed to complete any missing identifying information in AASIS and update locations.

In an attempt to locate all assets, OHS has developed an Inventory Capture Share Site for all employees to enter assets which are assigned to them or the position they occupy. Using this site along with the Network Capture Inventory Listing to identify assets will greatly enhance efforts on asset location.

Reports and requests for additional information can then be provided to each division to ensure assets are sighted and asset records updated timely. As each division is completed, a list will be compiled of any assets not located and presented to management for review and approval. Once approved by management, a request will be made to DFA for deactivation of the missing assets.

Moving forward, training will be provided with regard to AASIS transactions and entry, along with asset policy and procedures guidelines. The OHS Asset Policy and procedures will be reviewed and updated to mirror DFA asset guidelines when possible. A review of procedures relevant to asset documentation, focusing on consistency and accuracy, for the agency and the divisions will be addressed. Assets which need to be turned in to M&R will need to be processed timely and will include coordinating with the warehouse staff for scheduled asset pickup on a timely basis.

Finding Number:	**2017-001**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**Various**
Federal Awarding Agency:	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Internal Control - Preparation of the Schedule of Expenditures of Federal Awards**
Type of Finding:	**Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.302, a state's financial management system must be sufficient to permit the preparation of reports required by general and program specific terms and conditions. The financial management system must provide for the identification of all federal awards received and expended; accurate, current, and complete disclosure of financial results; and records that identify adequately the source and application of funds for federally-funded activities.

In addition, 2 CFR § 200.303 states 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 federal award.

2 CFR § 200.62 defines internal control over compliance requirements to federal awards as a process implemented by a non-federal entity designed to provide reasonable assurance that specific objectives are met, including preparation of reliable financial statements and federal reports.

Additionally, in accordance with 2 CFR § 200.510, the auditee must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements.

Condition/Context:
The Department of Finance and Administration (DFA) is responsible for preparation of the SEFA. To ensure timely and accurate reporting of the Statewide Single Audit, each state/educational agency is required to prepare and submit a Federal Award Data Collection Workbook (workbook) to DFA in accordance with a schedule established by DFA. DFA obtains workbooks from approximately 90 state entities. All but six of these workbooks are required to be submitted to DFA by July 31. The remaining six (i.e., University of Arkansas for Medical Sciences, Arkansas Department of Transportation, Department of Health, Arkansas Game and Fish Commission, Department of Workforce Services, and Department of Human Services) are due in August because of greater federal award activity. Upon receipt of the workbooks, DFA reviews the information to ensure accuracy and completeness. The workbooks are then forwarded to ALA for audit purposes, which includes planning the audit, determining major programs, performing required compliance procedures for major programs, and determining if the SEFA is presented fairly.

ALA review of the DFA process revealed adequate controls have been developed and implemented over the preparation of the SEFA.

The Department of Human Services (DHS) 2017 workbook was required to be submitted to DFA by August 28, 2017. However, the workbook was not submitted until October 18, 2017, 51 days late, and was not complete, as it excluded the Medicaid program and the Children's Health Insurance Program (CHIP), two of the largest programs administered by the State. In addition, the workbook contained multiple errors and was not in the format required by DFA. The errors were not addressed timely by DHS, causing further delay in audit procedures for the major programs being reviewed at DHS. This portion of the workbook was not finalized until November 21, 2017.

The Medicaid and CHIP portion of the workbook was finally submitted on October 31, 2017, 64 days late; however, like the first portion of the workbook, it contained multiple errors and was not finalized until November 14, 2017.

Additionally, DHS provided no documentation to DFA supporting the amounts reported in the workbook. DHS federal expenditures represent approximately 65% of total federal expenditures for the State.

Finding Number:	**2017-001 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**Various**
Federal Awarding Agency:	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Internal Control - Preparation of the Schedule of Expenditures of Federal Awards**
Type of Finding:	**Material Weakness**

Condition/Context (Continued):
Failure by DHS to submit the workbook timely led to delays for DFA in the preparation of the statewide SEFA, and as a result, DFA was unable to submit the SEFA to ALA by the agreed-upon dates as outlined in the engagement letter between the State and ALA. The engagement letter identifies due dates for certain information to ensure audit procedures can be performed and the reporting package submitted to the federal audit clearinghouse by the timeline established in federal regulations. Also affected was ALA's ability to finalize major program determination and perform some compliance procedures, including reconciling major programs expenditures reported on SEFA to accounting records necessary to ensure accuracy of reported expenditures.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Cause:
DHS does not prioritize the timely preparation of the SEFA and does not have adequate processes or procedures in place to ensure accurate and complete reporting.

Effect:
Preparation of the Statewide SEFA was delayed, which affected audit planning and timely completion of the direct and material compliance requirements of the major programs selected at DHS (i.e., SNAP Cluster, Child and Adult Care Food Program, Vocational Rehabilitation_Grants to States, Foster Care, CHIP, and Medicaid.)

The delay also jeopardized completion of the Statewide Single Audit by the established deadline outlined in 2 CFR § 200.512.

Recommendation:
ALA staff recommend DHS develop, document, and implement internal control procedures over the compilation and submission of federal award information, using the required workbook, to DFA to ensure timely, accurate, and complete reporting as required.

Views of Responsible Officials and Planned Corrective Action:
The Agency concurs with the recommendations made in this finding. The Agency will examine the controls in place and ensure written procedures are followed to ensure timely, accurate, reporting. Written procedures state a single coordinator is needed for this report; the Agency will ensure a responsible coordinator will be assigned to oversee the correct submission of the SEFA.

Anticipated Completion Date: June 30, 2018

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Finding Number:	**2017-002**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-001**.

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.

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

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

Finally, according to 7 CFR § 226.14, state agencies shall disallow any portion of a claim for reimbursement and recover any payment to an institution not properly payable under this part. State agencies must maintain searchable records of funds recovery activities. In addition, state agencies shall notify the institution of the reasons for any disallowance or demand for repayment and allow the institution full opportunity to submit evidence on appeal, as provided for in 7 CFR § 226.6(k). At minimum, state agency collection procedures for unearned payments shall include the following:

1) Written demand to the institution for the return of improper payments.
2) A second written demand for the return of improper payments sent by certified mail, return receipt requested, if, after 30 calendar days, the institution fails to remit full payment or agree to a satisfactory repayment schedule.
3) Referral of the claim against the institution by the state agency to appropriate state or federal authorities for pursuit of legal remedies, if, after 60 calendar days, the institution fails to remit full payment or agree to a satisfactory repayment schedule.

Condition and Context:
ALA staff examined 25 provider compliance reviews performed by Division of Child Care and Early Childhood Education (DCCECE) staff and the contracted vendor to determine if the reimbursed claims were allowable in accordance with program payment requirements. If money is owed back to the program, the provider is declared seriously deficient and repayment is requested. Recoupment begins after the provider’s Corrective Action Plan (CAP) is received and approved and an appeal of the amount owed is not requested. ALA examination revealed the following:

- Adequate records were not maintained by DCCECE.
- The request for repayment from a provider to the program was understated by $645.
- Proper procedures were not followed to ensure timely recoupment of funds from the providers.

Finding Number:	**2017-002 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Material Weakness**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$645

Cause:
The Agency has not maintained adequate documentation or developed adequate communication policies to providers, resulting in lack of notification for refunds due back to the program.

Effect:
Failure to develop, document, and implement procedures for internal control over compliance increases risk for the Agency and limits its ability to manage federal awards effectively. Additionally, failure of communication between providers and divisions could cause proper recoupment of federal funds to be delayed or not collected at all.

Recommendation:
ALA staff recommend the Agency promptly develop and implement policies to specifically address the calculation of monies owed and the process of refund notification and collection for its providers.

Views of Responsible Officials and Planned Corrective Action:
DCCECE Health and Nutrition has completed a recoupment procedure and has trained on this procedure with the appropriate staff.

Anticipated Completion Date: Completed. Procedure was implemented December 18, 2017. Training was provided February 2, 2018.

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Finding Number:	**2017-003**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; 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 award in compliance with federal statutes, regulations, and the terms and conditions of the award.

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

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

7 CFR § 226.6(b)(1) states that for new private nonprofit and proprietary child care institutions, such procedures must also include a pre-approval visit by the state agency to confirm the information in the institution's application and to further assess its ability to manage the program.

In addition, 7 CFR § 226.11(a) indicates that a state agency may develop a policy under which centers are reimbursed for meals served in accordance with provisions of the program in the calendar month preceding the calendar month in which the agreement is executed, or the state agency may develop a policy under which centers receive reimbursement only for meals served in approved centers on and after the effective date of the program agreement. If the state agency's policy permits centers to earn reimbursement for meals served prior to the execution of a program agreement, program reimbursement must not be received by the center until the agreement is executed.

Finally, 7 CFR § 226.19(b)(6) requires outside-school-hours care centers' key operational staff, as defined by the Agency, to attend program training prior to the center's participation in the program, and at least annually thereafter, on content areas established by the state agency.

Condition and Context:
ALA discussion with Division of Child Care and Early Childhood Education (DCCECE) staff indicated that applications for new and renewing applicants are completed online through the Special Nutrition Program (SNP) database. Supporting documentation is uploaded by the providers and reviewed by staff. The Agency does not allow retroactive reimbursements for new applicants.

Finding Number:	**2017-003 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
ALA review of 26 new applicants to determine compliance with eligibility requirements revealed the following:

- One provider did not attend training prior to application approval.
- Preapproval visits for four providers were not completed prior to application approval.
- Three providers were reimbursed a combined total of $13,977 in retroactive claims.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$13,977

Cause:
The Agency approved new providers' applications prior to ensuring that all eligibility requirements were met. Additionally, unallowed claims were reimbursed to new providers.

Effect:
Federal funds were used for unallowable claim reimbursements.

Recommendation:
ALA staff recommend the Agency promptly develop, document, and implement procedures for internal control over compliance to ensure the participation and reimbursement for only eligible program participants.

Views of Responsible Officials and Planned Corrective Action:
DCCECE Health and Nutrition has completed an application procedure, which includes a check list for the Program Coordinators and Program Managers to ensure quality control. Training will be completed with appropriate staff.

Anticipated Completion Date: April 1, 2018

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Finding Number:	**2017-004**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-001**.

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.

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

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

Finally, 2 CFR § 200.302(b)(6) and (b)(7) state a non-federal entity must establish written procedures to implement the requirements of cash management and to 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.

Condition and Context:
ALA discussion with the Agency's Division of Child Care and Early Childhood Education (DCCECE) staff revealed that it failed to develop and document procedures for internal control over compliance during the 2017 fiscal year.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
Although the Agency was notified in July 2015 to develop and document procedures for internal control over compliance, it failed to prioritize this task during the previous audit cycle and, again, during this current audit cycle.

Effect:
Failure to develop, document, and implement procedures for internal control over compliance increases risk for the Agency and limits its ability to manage federal awards effectively.

Finding Number:	**2017-004 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency promptly develop, document, and implement procedures for internal control over compliance to minimize the risk pertaining to the handling and disbursing of federal awards.

Views of Responsible Officials and Planned Corrective Action:
DCCECE Health and Nutrition has completed and implemented several procedures and has trained on these procedures with the appropriate staff. We are in the process of writing new procedures. Training will be conducted on a regular basis.

Anticipated Completion Date: Trained on current procedure February 2, 2018. This will be an on-going task as new issues arise.

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Finding Number:	**2017-005**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-001**.

Criteria:
In accordance with 7 CFR § 226.6(m)(6), the state agency must annually review at least 33.3% of all institutions with at least 15% of the total number reviews being unannounced. A state agency must review institutions according to the following schedule:

- Independent centers and sponsoring organizations with 1 – 100 facilities (10% of total facilities) must be reviewed at least once every three years.
- Sponsoring organizations with more than 100 facilities (5% of first 1,000 facilities and 2.5% of facilities in excess of 1,000) must be reviewed at least once every two years.
- New institutions that are sponsoring organizations with five or more facilities must be reviewed within the first 90 days of program operations.

Condition and Context:
ALA discussion with the Agency's Division of Child Care and Early Childhood Education (DCCECE) revealed that the staff's efforts were placed on the completion of Summer Food Service Program (SFSP) reviews during July – December 2016, resulting in a significantly lower number of program reviews during fiscal year 2017. All reviews are unannounced, with the exception of the reviews of sponsoring organizations of three or more facilities.

During fiscal year 2017, a contractor was hired to assist the Agency with performing compliance reviews.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not adhere to the monitoring schedule set forth in the regulations because the required annual percentage of compliance reviews were not completed and new sponsoring organizations of five or more facilities were not reviewed within the first 90 days of program operations.

Effect:
Failure to complete compliance reviews could cause instances of noncompliance to remain undetected.

Recommendation:
ALA staff recommend the Agency continue to hire additional reviewers and utilize contractors and other staff within other divisions to complete compliance reviews in accordance with the monitoring schedule set forth in the regulations.

Views of Responsible Officials and Planned Corrective Action:
Excel spreadsheets have been created to ensure that the required number and types of reviews are being conducted. Procedures are being written to explain how these spreadsheets are developed and utilized.

Anticipated Completion Date: April 1, 2018

Finding Number:	**2017-005 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300342**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance and Material Weakness**

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

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Finding Number:	**2017-007**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services** **Department of Human Services – Division of Services for the Blind**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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 finding **2016-006**.

Criteria:
Sections 110(d)(1) and 113(a) of the Rehabilitation Act of 1973, effective July 22, 2014, require a state to reserve and expend, at a minimum, 15% of its allotment under the grant for the provision of pre-employment transition services.

Condition and Context:
The minimum allotment for pre-employment transition services (pre-ETS) for the final 2016 grant awards was calculated to be $7,049,757 for the State. The 2016 grant award period is October 1, 2015 to September 30, 2016, and allowable costs for the grant must be obligated during the grant period. In addition, the agency must draw the federal funds representing the allowable costs within 15 months from the end of the grant award period (December 31, 2017).

As reported on the final SF-425 reports for the 2016 grant awards, pre-ETS expenses were $3,438,349 for Arkansas Rehabilitation Services (ARS) and $510,718 for the Department of Human Services – Division of Services for the Blind (DHS-DSB), totaling $3,949,067.

As a result of the projected deficit of $3,100,690, ($7,049,757 - $3,949,067), the Agencies stopped spending from these grants as they determined they could not meet the minimum requirement. However, the 15% earmarking requirement calculated on total *expensed* grant funds would be $6,590,318, which resulted in a deficit for pre-ETS totaling **$2,641,251** ($6,590,318 - $3,949,067).

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$2,641,251

Cause:
The Agencies did not have adequate procedures in place to ensure that the earmarking requirements were properly met and reported.

Effect:
Failure to meet earmarking requirements could jeopardize future awards.

Recommendation:
ALA staff recommend the Agencies strengthen procedures to ensure that earmarking requirements are properly met and reported.

Finding Number:	**2017-007 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services** **Department of Human Services – Division of Services for the Blind**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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:

ARS/DHS-DSB Discussion

The subject grant award covered expenditures from October 1, 2015 to September 30, 2016. However, related federal regulations were not issued as final until August 19, 2016, after an extensive nationwide appeal process seeking definition as to what was an allowable cost for pre-ETS and what was not. Federal administrative interpretation of the pre-ETS rules under WIOA is still on-going in light of the President's charge to federal agencies to eliminate regulations that create a barrier to employment and increase administrative burdens.

ARS/DHS-DSB Action Taken

ARS and DHS-DSB began full implementation of this requirement in August 2016 when the regulation requiring the Designated State Unit (DSU) to provide these services in collaboration with the local educational agencies was issued. At the federal level, Rehabilitation Services Administration (RSA) continues to working closely with both Arkansas Vocational Rehabilitation agencies (ARS and DHS-DSB) to ensure the state as a whole develops a mechanism to reserve and expend a minimum of 15% of the VR allotment for Pre-ETS. Both agencies have established expenditure coding mechanisms to track Pre-ETS costs, as well as a Pre-ETS forecasting tool that lists activities and tracks monthly expenditures to stay on target in meeting the 15% requirement.

To date the current initiatives include:

External vendor programs: 17 contracts were established throughout the State to provide the 5 core areas of Pre-Employment Transition Services. The Pre-ETS external vendors include, but are not limited to, community rehabilitation providers.

Pre-ETS school contracts: ARS is currently partnering with 18 school districts across the state (including Arkansas School for the Deaf) to implement work based learning programs (OWL) and paid work experiences.

Inclusion Film Camp: The Inclusion Film Camp is collaboration between Arkansas Rehabilitation Services, Arkansas Transition Services, and local school districts in an effort to provide high school juniors and seniors on an IEP or 504 plan with the opportunity to develop skills in the art of film making.

Youth Leadership Forum:
YLF is a unique career leadership training program for high school juniors and seniors with disabilities. Youth serve as delegates from their local communities in a curriculum that cultivates leadership, citizenship, and social skills on the campus of the University of Central Arkansas.

Transitional Employment Program:
TEP is summer program administered at the Arkansas Career Training Institute focused on career readiness and other key components of Pre-Employment Transition Services. The number of students served has increased yearly.

Finding Number:	**2017-007 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Career Education – Arkansas Rehabilitation Services** **Department of Human Services – Division of Services for the Blind**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**H126A160003; H126A160004**
Federal Award Year(s):	**2016**
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):

Restore Hope Juvenile Facilities:
PREP-Pre-readiness Employment Program at Department of Youth Services State Facilities.

To enhance the capacity of the State of Arkansas to promote the long-term employment of individuals with disabilities who are in Department of Youth Services facilities, ARS has entered into an agreement with Goodwill Industries of Arkansas, the Arkansas Department of Youth Services and the facility operator, Rite of Passage for Pre-Employment Transition Services to be provided on the campus of the Arkansas Assessment and Treatment Center in the areas of workplace readiness training and work-based learning experiences. The program provides work readiness soft skills training in conflict management, communication skills in various situations, and how to handle authority, as well as engaging youth in teamwork activities and actual work situations on campus where they earn wages at $8.50 an hour. The wages are received once the youth exits the facility. The Dermott Facility is under development, with plans to start in the fall of 2018.

Partnering with Technical Assistance Teams:
ARS and DHS-DSB are also partnering with federally sponsored Technical Assistance Teams to enhance training for providers and ARS/DHS-DSB staff.

ARS and DHS-DSB staff meet monthly to discuss Pre-ETS scheduled events and explore new avenues in implementing Pre-Employment Transition Services to the Pre-ETS eligible consumers of Arkansas. Pre-ETS expenditures as of March 1, 2018, on the FFY17 VR grant were $2,457,777 as compared to $1,630,465 for the same time period a year ago. This reflects a 51% increase, and ARS/DHS-DSB's combined efforts are on track to meet the 15% requirement for the FFY17 VR grant. It is anticipated that the level of expenditures will continue to increase significantly for the FFY17 VR grant, as well as the FFY18 VR grant.

Anticipated Completion Date: September 30, 2018

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Finding Number:	**2017-008**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.658 – Foster Care_Title IV-E**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**1601ARFOST; 1701ARFOST**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting**
Type of Finding:	**Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-009**.

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

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

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

Condition and Context:
ALA staff discussions with Division of Children and Family Services (DCFS) and Office of Finance and Administration (OFA) managerial accounting staff revealed that procedures for internal control over compliance were not developed and documented during fiscal year 2017 for all types of transactions.

Adequately documented internal controls over compliance must address the following five components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
Although the Agency was notified in July 2015 to develop and document procedures for internal control over compliance, it failed to prioritize this task during the previous audit cycle and, again, during the current audit cycle.

Finding Number:	**2017-008 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.658 – Foster Care_Title IV-E**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**1601ARFOST; 1701ARFOST**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting**
Type of Finding:	**Material Weakness**

Effect:
Failure to develop and document procedures for internal control over compliance limits the Agency's ability to manage federal awards effectively.

Recommendation:
ALA staff recommend the Agency promptly develop, document, and implement procedures for internal control over compliance to minimize the risk pertaining to handling and disbursing federal awards.

Views of Responsible Officials and Planned Corrective Action:
The division has developed internal controls to ensure compliance with federal awards. We will continue to monitor the control activities and update the controls as needed.

Anticipated Completion Date: February 2018

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Finding Number:	**2017-009**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.658 – Foster Care_Title IV-E**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**1601ARFOST and 1701ARFOST**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2016-012** and **2015-012**.

Criteria:
In accordance with 45 CFR § 75.303, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes establishing internal controls documenting supervisory reviews and approvals of reports prior to submission to the federal awarding agency and monitoring federal draws and expenditures.

Additionally, 45 CFR § 75.302(b)(2) requires the financial management system of each non-federal entity to provide accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements.

Finally, the terms and conditions of the award state that quarterly reports are to be submitted within 30 days after the end of each fiscal quarter.

Condition and Context
ALA staff reviewed the Agency's internal control procedures regarding the review and submission of the Quarterly CB-496 Foster Care financial reports. This review of all four quarters revealed that sufficient, appropriate evidence of a supervisory review (e.g., signature/email of the reviewer) could not be provided for any of the quarterly reports.

ALA staff also reviewed supporting documentation for each quarterly report. This review revealed that the Agency overstated total program expenditures for the quarter ended June 30, 2017, by $82,324 because it included expenditures associated with other federal programs: Adoption Opportunities (CFDA 93.652) and Promoting Safe and Stable Families (CFDA 93.556).

ALA review also included confirming that the quarterly financial reports were submitted timely. This review revealed the Agency had not submitted two of the four quarterly reports timely as follows:

- The September 30, 2016, report, due for submission on October 30, 2016, was submitted on February 7, 2017.
- The December 31, 2016, report, due for submission on January 31, 2017, was submitted on March 7, 2017.

Additionally, ALA reviewed the Agency's internal control procedures regarding the monitoring of federal draws to federal expenditures. This review revealed the Agency did not reconcile expenditures to draws to ensure draws did not exceed allowable expenditures as reported on the CB-496.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Finding Number:	**2017-009 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.658 – Foster Care_Title IV-E**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**1601ARFOST and 1701ARFOST**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Cause:
The Agency did not establish adequate internal controls to ensure documented evidence was maintained supporting the amounts reported on the quarterly report or the supervisory review of the CB-496 Quarterly Financial Reports. Additionally, the Agency did not establish adequate internal controls to ensure the quarterly reports were submitted timely. Finally, the Agency did not establish adequate internal controls to ensure a process was in place to track federal draws and allowable expenditures.

Effect:
A deficiency in the design of controls regarding inadequate documented reviews of reports could result in inaccurate reporting to the federal awarding agency. In addition, failure to submit reports timely could jeopardize future awards. Finally, failure to properly monitor federal draws with reported expenditures could result in draws in excess of allowable expenditures.

Recommendation:
ALA staff recommend the Agency review and strengthen control procedures to ensure that Agency personnel responsible for reviewing reports adequately document their review and reports are submitted timely.

Views of Responsible Officials and Planned Corrective Action:
The agency has developed internal controls to ensure compliance of federal awards. Controls include timely filing of reports and documentation of the reporting process. A review of supporting documentation and the completed report occurs prior to submission.

Anticipated Completion Date: February 2018

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Finding Number:	**2017-010**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-023**.

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

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

Condition and Context:
The Agency assigns region code 22 to claims which are generated by the Medicaid Management Information System (MMIS) without being initiated by a provider. These claims include monthly capitation payments, non-emergency transportation (NET) payments, and Arkansas Works premiums. Payments are generated monthly based on recipient eligibility information included in MMIS.

ALA selected a sample of 60 NET payments and a sample of 60 Arkansas Works recipients to determine if the Agency had adequate internal controls over compliance ensuring claims were appropriately reviewed and processed in accordance with timely filing requirements. ALA staff identified 34,378 claims totaling $142,846 for NET payments and 17,926 claims totaling $6,248,292 for Arkansas Works premium payments that were generated outside the timely filing deadlines.

According to the Agency, the NET claims payments were made based on reconciliations between monthly NET claims payments and the recipients' beginning eligibility dates. However, the Agency failed to provide documentation supporting the reconciliation process and the actual reconciliations which initiated these payments; therefore, ALA was unable to determine if the NET payments were made in accordance with federal regulations resulting in questioned costs totaling $96,591 for the Medical Assistance Program and $4,246 for the Children's Health Insurance Program (CHIP).

Regarding the Arkansas Works payments, the Agency provided a written explanation of the cause of each selected adjustment, but failed to provide adequate documentation to support these explanations. Therefore, ALA staff were unable to determine if the adjustments made were reasonable and necessary resulting in questioned costs totaling $6,100,035 for the Medical Assistance Program.

Finding Number:	**2017-010 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
93.778 – Medical Assistance Program: $6,196,626
93.767 – Children's Health Insurance Program: $4,246

Cause:
The Agency has not developed or implemented effective internal controls over data modifications in CURAM or MMIS to ensure consistency and accuracy for system generated claims. During state fiscal year 2017, the Agency turned off the timely filing edit check in MMIS to knowingly allow claims more than one year past the last date of service to be processed.

In addition, the Agency failed to maintain documentation supporting reconciliations for NET payments.

Effect:
Failure to develop and implement adequate internal controls limits the Agency's ability to manage grants effectively.

Recommendation:
ALA staff recommend the Agency promptly develop and implement internal controls over data modifications in CURAM and MMIS to ensure consistency and accuracy. The Agency should also establish a process to manually review system generated claim adjustments.

Views of Responsible Officials and Planned Corrective Action:
The timely filing edit was turned off from October 1, 2013 until June 30, 2016, as acknowledged in letter dated April 14, 2016, from CMS. The internal controls were effective. Claims were denied due to timely filing. The new CURAM system had implementation issues, and eligibility was not established timely. Newborns were not determined eligible until two years after the date of birth. As a result, providers were unable to bill timely and receive payment for services rendered.

Anticipated Completion Date: The timely filing edits were turned back on effective July 1, 2016.

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Finding Number:	**2017-010 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Additional Comments from the Auditor:

The Agency's response regarding the time frame for the timely filing edit being turned off is inaccurate. The edit was actually turned off effective October 15, 2016 through June 30, 2017, to allow payments for claims with dates of service from October 1, 2013 through June 30, 2016, that had not been submitted within the one-year deadline. (The edits were reinstated beginning July 1, 2017.)

In addition, the Agency stated that internal controls were effective. However, the Agency actually circumvented controls when the timely filing edits were turned off without CMS approval. The Agency's response also implies that CMS approved the process. The following is an excerpt from the April 14, 2016 letter from CMS to the Agency:

> "The Centers for Medicare and Medicaid Services (CMS) has received and reviewed your State's request to waive the federal 365-day timely filing deadlines as stated in 42 Code of Federal Regulations (CFR) 447.45(d)(1), however, the regulation does not provide authority for a waiver of these deadlines.
>
> We understand that during the time period of October 1, 2013 to present, due to an administrative error, a timely eligibility determination was not rendered for many eligible newborns who received services during this period. The State of Arkansas has presented an action plan for how and when it is resolving those eligibility cases.
>
> In the case of administrative error, the State may permit variances in the processing of claims to effectuate a corrective action; see 42 CFR 431.221 regarding fair hearings, and 42 CFR 431.246, regarding corrective actions. These regulations provide for a decision in favor of the beneficiary before a hearing, and 42 CFR 431.250(c) provides for FFP for such corrective actions. Once the eligibility determination corrective action has been implemented, the State must follow all applicable regulations and policies regarding eligibility determinations and claims processing."

The Agency did not follow the protocol provided by CMS.

Finally, as previously stated in the condition and context, ALA staff were unable to determine if NET payments were made in accordance with federal regulations because the Agency failed to provide documentation to support the reconciliation process that initiated these claims. In addition, ALA staff were unable to determine the necessity and reasonableness of adjustments for the Arkansas Works premium payments because the Agency failed to provide documentation supporting changes to recipient dates of birth.

It should be noted that $6,100,035 of questioned costs affects the Arkansas Works program, for which newborns are not eligible.

Finding Number:	**2017-011**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5MAP; 05-1605AR5MAP; 05-1605AR5021; 05-1705AR0301;**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

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

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

Additionally, 42 CFR §447.45 (d) requires the Medicaid agency to require providers to submit all claims no later than 12 months from the date of service. For claims also paid under Medicare (crossover claims), the provider must submit the Medicaid claim for the same service within 6 months after the agency or the provider receives notice of the disposition of the Medicare claim. The agency may make payments at any time in accordance with a court order, to carry out hearing decisions or agency corrective actions taken to resolve a dispute, or to extend the benefits of a hearing decision, corrective action, or court order to others in the same situation as those directly affected by it.

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

Condition and Context:
During the prior audit, the Agency notified ALA that the Agency was temporarily removing the timely filing edit from the Medicaid Management Information System (MMIS) during state fiscal year 2017. Documentation provided to ALA revealed that CMS had denied the Agency's request for a waiver from the timely filing regulations.

Finding Number:	**2017-011 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5MAP; 05-1605AR5MAP; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
ALA obtained claims data for all claims payments made during state fiscal year 2017 through a direct data download established with the Agency. From the data, ALA identified all claims that failed to meet the timely filing requirement. These claims were separated into three populations for review. To determine if claims were allowable, ALA requested documentation of previously filed claims in accordance with section 302.400 of the provider manual or documentation of a court order, hearing decision, or corrective action, in accordance with 42 CFR § 447.45, for the identified claims for each population.

Medicare Crossover Claims: ALA identified 4,526 Medicare crossover claims totaling $585,254 that did not meet the timely filing requirement. The Agency failed to provide documentation showing compliance with federal regulations or the provider manual. Questioned costs totaled $407,864 for the Medical Assistance Program.

Pharmacy Claims: ALA identified 10 pharmacy claims totaling $4,857 that did not meet the timely filing requirement. Further review revealed the Agency improperly approved a manual override of the timely filing edit in the pharmacy system to allow payment of these claims. Questioned costs totaled $2,615 for the Medical Assistance Program and $1,104 for the Children's Health Insurance Program (CHIP).

ALA also identified 205 pharmacy claims totaling $12,388 with a future claim submittal date embedded into the claim number, causing the claim number to be invalid. The Agency identified an additional 4,563 claims totaling $283,152 with invalid claim numbers due to a future claim submittal date. Questioned costs totaled $183,796 for the Medical Assistance Program and $31,807 for CHIP.

Other Claims: ALA identified 37,418 non-Medicare crossover claims totaling $10,902,877 that did not meet the timely filing requirement. The Agency provided documentation of claims that had been filed as required per section 302.400 for 6,808 claims; however, ALA was unable to trace this additional documentation to any specific claims included in the population. Questioned costs total $7,353,279 for the Medical Assistance Program and $357,244 for CHIP.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
CFDA 93.767 – Children's Health Insurance Program: $390,155
CFDA 93.778 – Medical Assistance Program: $7,947,554

Cause:
Eligibility determinations were delayed due to problems with the CURAM system that occurred from October 1, 2013 through December 31, 2016. As a result, there were instances in which providers failed to file claims for recipients because eligibility had not been determined. To remedy this situation, the Agency removed the timely filing requirement edit check in MMIS **without approval** from CMS and knowingly allowed claims with dates of service on or after October 1, 2013, to be paid.

Effect:
Failure to develop and implement internal controls places limits on the Agency's ability to manage grants and track expenditures effectively.

Finding Number:	**2017-011 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5MAP; 05-1605AR5MAP; 05-1605AR5021; 05-1705AR0301;**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency promptly develop and implement internal controls over claims payments in MMIS to ensure consistency and accuracy. The Agency should allow existing internal controls that are operating effectively to remain in place. The Agency should establish a process to manually review the claims that MMIS rejects due to timely filing requirements.

Views of Responsible Officials and Planned Corrective Action:
The timely filing edit was turned off from October 1, 2013 until June 30, 2016, as acknowledged in a letter dated April 14, 2016, from CMS. The internal controls were effective. Claims were denied due to timely filing. The new CURAM system had implementation issues, and eligibility was not established timely. Newborns were not determined eligible until two years after the date of birth. As a result, providers were unable to bill timely and receive payment for services rendered.

Anticipated Completion Date: The timely filing edits were turned back on effective July 1, 2016.

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Finding Number:	**2017-011 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5MAP; 05-1605AR5MAP; 05-1605AR5021; 05-1705AR0301;**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Period of Performance**
Type of Finding:	**Noncompliance and Material Weakness**

Additional Comments from the Auditor:

The Agency's response regarding the time frame for the timely filing edit being turned off is inaccurate. The edit was actually turned off effective October 15, 2016 through June 30, 2017, to allow payments for claims with dates of service from October 1, 2013 through June 30, 2016, that had not been submitted within the one-year deadline. (The edits were reinstated beginning July 1, 2017.)

In addition, the Agency stated that internal controls were effective. However, the Agency actually circumvented controls when the timely filing edits were turned off without CMS approval. The Agency's response also implies that CMS approved the process. The following is an excerpt from the April 14, 2016, letter from CMS to the Agency:

> "The Centers for Medicare and Medicaid Services (CMS) has received and reviewed your State's request to waive the federal 365-day timely filing deadlines as stated in 42 Code of Federal Regulations (CFR) 447.45(d)(1), however, the regulation does not provide authority for a waiver of these deadlines.
>
> We understand that during the time period of October 1, 2013 to present, <u>due to an administrative error</u>, a timely eligibility determination was not rendered for many eligible newborns who received services during this period. The State of Arkansas has presented an action plan for how and when it is resolving those eligibility cases.
>
> <u>In the case of administrative error</u>, the State may permit variances in the processing of claims to effectuate a corrective action; see 42 CFR 431.221 regarding fair hearings, and 42 CFR 431.246, regarding corrective actions. These regulations provide for a decision in favor of the beneficiary before a hearing, and 42 CFR 431.250(c) provides for FFP for such corrective actions. Once the eligibility determination corrective action has been implemented, the State must follow all applicable regulations and policies regarding eligibility determinations and claims processing."

The Agency did not follow the protocol provided by CMS.

Finally, of the $8,337,709 questioned costs, only $3,162,287 affected newborn claims with dates of service within the time frame established by the Agency, October 1, 2013 through June 30, 2016. The remaining $5,175,422 was for claims for individuals with dates of birth prior to October 1, 2013.

Finding Number:	**2017-012**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5021; 05-1705AR0301 (Children's Health Insurance Program)**
	05-1705AR5MAP (Medicaid Custer)
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
According to section 140.00, 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.

Effective March 25, 2011, with an extended deadline of September 25, 2016, for full compliance, is 42 CFR § 455.414, which 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 risk plus site visits.
- The high risk category includes those required for limited and moderate risk plus fingerprint background checks.

Condition and Context:
The Agency provided ALA with a listing of providers that, according to the Agency, had NOT been revalidated. This listing was utilized by ALA to develop two populations for testing. To test the accuracy of the listing and ensure that all providers who had amounts paid during state fiscal year 2017 were subject to testing, samples from both populations were tested.

The first population represented providers that were not on the listing, which indicated they had been through the revalidation process and were properly enrolled as a provider. ALA review of 60 provider files revealed the following 29 deficiencies affecting both Medicaid and the Children's Health Insurance Program (CHIP):

Finding Number:	**2017-012 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5021; 05-1705AR0301 (Children's Health Insurance Program)**
	05-1705AR5MAP (Medicaid Custer)
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context:

- Seventeen high risk providers had new applications but did not comply with the screening requirements. *Questioned costs totaled $2,606,794 and $2,401 for Medicaid and CHIP, respectively*.
- Seven moderate risk providers had new applications but did not comply with the screening requirements. *Questioned costs totaled $2,396,218 and $66,441 for Medicaid and CHIP, respectively*.
- Three high risk providers did not have new applications on file and did not comply with the screening requirements. *Questioned costs totaled $8,582 for Medicaid*.
- One moderate risk provider did not have a new application on file and did not comply with the screening requirements. *Questioned costs totaled $204,923 for Medicaid*.
- One moderate risk provider did not have a new application on file, did not comply with the screening requirements, and did not have disclosure forms on file. *Questioned costs totaled $1,480,320 and $25,900 for Medicaid and CHIP, respectively*.

The second population represented providers the Agency had identified as NOT having been through the revalidation process. ALA review of the 60 provider files revealed the following 55 deficiencies affecting both Medicaid and CHIP:

- Two high risk providers had new applications but did not comply with the screening requirements. *Questioned costs totaled $658,117 for Medicaid*.
- One moderate risk provider did not have a new application on file and did not comply with the screening requirements. *Questioned costs totaled $22,181 and $3,177 for Medicaid and CHIP, respectively*.
- One moderate risk provider did not have a new application on file, did not comply with the screening requirements, and did not have disclosure forms on file. *Questioned costs totaled $6,882 and $2,990 for Medicaid and CHIP, respectively*.
- Twenty-three limited risk providers did not have a new application on file, did not comply with screening requirements, and did not have disclosure forms on file. *Questioned costs totaled $4,085,902 and $158,876 for Medicaid and CHIP, respectively*.
- Three limited risk providers did not have a new application on file, did not comply with the screening requirements, and did not have a W-9 or disclosure forms on file. *Questioned costs totaled $46,899 and $1,217, for Medicaid and CHIP, respectively*.
- One limited risk provider did not have a new application or a W-9 on file. *Questioned costs totaled $5,530 and $34 for Medicaid and CHIP, respectively*.
- Twenty-four limited risk providers did not have a new application on file. *Questioned costs totaled $787,263 and $214,582 for Medicaid and CHIP, respectively*.

Statistically Valid Sample:
Not a statistically valid sample

Finding Number:	**2017-012 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5021; 05-1705AR0301 (Children's Health Insurance Program)**
	05-1705AR5MAP (Medicaid Custer)
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Questioned Costs:
State Fiscal Year 2017 – $12,309,611 (Medicaid)
State Fiscal Year 2017 – $475,618 (CHIP)

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

Specifically, the Agency should ensure that adequate procedures are in place to ensure compliance with the federal requirement related to the revalidation of providers. Based on testing results, most deficiencies were related to the additional screening requirements, which are due upon revalidation. There was no documentation provided of any site visits or fingerprint background checks performed. According to the Agency, the old Medicaid Management Information System (MMIS) did not have the capability to house the provider fingerprints, but the new MMIS system should have this capability.

Although the Agency had the option to utilize the Medicare Provider Enrollment, Chain, and Ownership System (PECOS) to comply with the revalidation requirement, for any provider that was reviewed by Medicare within the last year, the Agency did not utilize this resource for this purpose.

Effect:
Claims payments to ineligible providers were processed.

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:
Site visit requirements and fingerprint-based background checks were not implemented by the State, which caused the findings listed above. The amount of work required to fully implement these processes into the legacy Medicaid Management Information System (MMIS) was considered too costly and untimely in that both could be incorporated into the new interchange MMIS that was being designed. A panel to capture fingerprint-based information was designed in interchange. DMS is currently working with CMS Program Integrity staff to schedule time with their FBI contact and the Arkansas Crime Information Center to automate this process. Work requirements to implement this process are being addressed with the Project Management Office (PMO) and our MMIS IT vendor as well. Forms to capture site-visit data have been developed, and DMS is identifying staff to conduct the visits.

Response: Approximately 80% of all enrolled providers have re-enrolled/revalidated. The remainder of re-enrollments/ revalidations of providers have been delayed as staff redesigned and implemented the new MMIS. Staff's plan is to go through a stabilization period for the new MMIS and resume sending notices and revalidating providers by the end of March 2018.

Anticipated Completion Date: December 2018

Finding Number:	**2017-012 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5021; 05-1705AR0301 (Children's Health Insurance Program)** **05-1705AR5MAP (Medicaid Custer)**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

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

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Finding Number:	**2017-013**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not Applicable

Criteria:
In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective 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 other terms and conditions of the award.

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

42 CFR § 457.630 states that form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medicaid Program) and form CMS-21 (Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI) must be submitted to CMS no later than 30 days after the end of the quarter.

Condition and Context:
ALA staff reviewed the CMS-64.21U report to determine if the expenditure information was accurate and complete. ALA review revealed that expenditures for the quarter ended March 31, 2017, totaled $24,096,422, but the Agency knowingly reported inaccurate expenditures totaling $13,668,581, resulting in an understatement totaling $10,427,841.

The understatement is the result of a breakdown in communication and flow of information between program staff within the Division of Medical Services (DMS), who are responsible for providing timely reportable expenditure information, and staff in managerial accounting, who are responsible for completing and submitting the report to the federal awarding agency. DMS does not provide information to managerial accounting timely, and managerial accounting does not adequately communicate concerns with the data received or the timeline in which the data are received. Because of this breakdown, managerial accounting purposely reported expenditures from the previous quarter (December 31, 2016) and would knowingly adjust the report at a later date.

Contributing to this breakdown is the Agency's failure to develop documented internal control procedures for this reporting process. This failure was addressed in the 2016 Single Audit and is again addressed in current-year finding **2017-014.**

Finding Number:	**2017-013 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):
In addition, reports are required to be submitted to the federal awarding agency no later than 30 days after the end of each quarter unless an extension has been approved by the federal awarding agency. The Agency did not receive any extensions and failed to submit all four CMS 64.21U and CMS 21 reports for fiscal year 2017 timely as summarized below:

CMS 64.21U

- Quarter ended September 30, 2016 – certified on November 23, 2016, 24 days late.
- Quarter ended December 31, 2016 – certified on February 10, 2017, 11 days late.
- Quarter ended March 31, 2017 – certified on May 19, 2017, 19 days late.
- Quarter ended June 30, 2017 – certified on August 11, 2017, 12 days late.

(Note: The CMS 64.21U is a portion of the CMS 64 Report. Because of numerous errors, CMS rejected the CMS 64 Report for December 31, 2016, and June 30, 2017, reports so that the Agency could make necessary corrections, including prior period adjustments. Final certification of the December 31, 2016, report was on March 3, 2017, 62 days after the end of the quarter, and final certification of the June 30, 2017, report was on September 15, 2017, 77 days after the end of the quarter.)

CMS 21

- Quarter ended September 30, 2016 – certified on November 23, 2016, 24 days late.
- Quarter ended December 31, 2016 – certified on February 16, 2017, 16 days late.
- Quarter ended March 31, 2017 – certified on May 19, 2017, 19 days late.
- Quarter ended June 30, 2017 – certified on August 16, 2017, 17 days late.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$10,427,841

Cause:
The Agency has experienced tremendous staff turnover and, again, has not developed or documented internal control procedures over compliance for reporting, making it extremely difficult for new or re-assigned staff to perform required duties and remain in compliance with grant requirements.

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

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

Finding Number:	**2017-013 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process, the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-014**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-017**.

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

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

Condition and Context:
The Agency has again failed to develop and document internal control procedures over the reporting compliance requirement. As a result, Agency staff continue to struggle maintaining program compliance.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
Although the Agency was notified in July 2015 to develop and document procedures for internal control over compliance, it failed to prioritize this task during the previous audit cycle and, again, during this current audit cycle.

Effect:
The Agency's inability to effectively manage the award and maintain compliance is severely impacted as evidenced by numerous audit findings.

Recommendation:
ALA staff again recommend the Agency immediately develop, document, and implement procedures for internal control over compliance for reporting to ensure compliance with applicable laws and regulations.

Finding Number:	**2017-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process, the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-015**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 75.303, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. This includes a process ensuring federal expenditures recorded in the Agency's financial management system and federal expenditures reported to the federal awarding agency are accurate and complete.

Condition and Context:
ALA discussions with Agency staff revealed an adequate process is not in place to ensure expenditures reported are accurate and complete, as well as reflect expenditures recorded in the Agency's financial management system. The Agency has previously stated that it prepares quarterly reconciliations to ensure expenditures are reported correctly. On June 19, 2017, ALA requested the Children's Health Insurance Program (CHIP) reconciliations for the first three quarters of fiscal year 2017, which should have been readily available. However, Agency staff stated that due to time constraints, the reconciliations had not been completed. As a result, the Agency could not provide documentation to ensure the accuracy or completeness of the reported expenditures.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency has experienced tremendous staff turnover and, again, has not developed or documented internal control procedures over compliance for reporting, making it extremely difficult for new or re-assigned staff to perform required duties and remain in compliance with grant requirements.

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

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

Views of Responsible Officials and Planned Corrective Action:
The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process, the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Finding Number:	**2017-015 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1505AR5021; 05-1505AR1081; 05-1605AR5021; 05-1705AR0301**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Weakness**

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

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-016**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2016-025**, **2015-023** and **2014-020**.

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

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

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

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

- One client file, with 69 claims totaling $32,359, did not contain documentation supporting the resources or income criteria, affecting all 69 claims. *Questioned costs totaled $22,577*.

  In addition, 114 claims paid in 2016 and 2015 were also affected. *Questioned costs totaled $21,102 and $5,878, respectively*.

  The annual reevaluations were also not completed timely. The 2015 reevaluation, due in March 2015, had not been completed at the conclusion of audit fieldwork, and there were no reevaluations for 2016 or 2017 (Aid to the Aged).
- One client file, with 140 claims totaling $5,838, did not contain documentation supporting the resources criteria, affecting 6 claims. *Questioned costs totaled $215.*

  Additionally, the annual reevaluation was not completed timely, as it was due in April 2017 but was not completed until May 16, 2017 (Aid to the Aged).
- One client file, with 94 claims totaling $57,398, did not contain documentation supporting the resources criteria, affecting 15 claims. *Questioned costs totaled $2,731.*

  Additionally, the annual reevaluation was not completed timely, as it was due in July 2016 but was not completed until October 28, 2016 (Aid to the Aged).
- One client file, with 288 claims totaling $38,681, did not contain a DCO-704 signed by a registered nurse verifying medical necessity and did not contain documentation supporting the resources criteria, affecting 48 claims. *Questioned costs totaled $3,751.*

  Additionally, the annual reevaluation was not completed timely, as it was due in September 2016 but was not completed until November 7, 2017, after the recipient's file was selected for review (Aid to the Aged).

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- One client file, with 20 claims totaling $33,903, did not contain documentation supporting the resources or income criteria, affecting all 20 claims. *Questioned costs totaled $23,682*.

  In addition, 29 claims paid in 2016 were also affected. *Questioned costs totaled $19,935*.

  The annual reevaluations were also not completed timely. The 2016 reevaluation, due in January 2016, had not been completed at the conclusion of audit fieldwork, and there was no reevaluation for 2017 (Aid to the Aged).
- One client file, with 202 claims totaling $38,365, did not contain documentation supporting the resources or income criteria, affecting all 202 claims. *Questioned costs totaled $26,766*.

  In addition, 1,100 claims paid in 2016, 2015, 2014, and 2013 were also affected. *Questioned costs totaled $31,791, $33,878, $31,585, and $9,589, respectively*.

  The annual reevaluations were also not completed timely. The 2013 reevaluation, due in March 2013, had not been completed at the conclusion of audit fieldwork, and there were no reevaluations for 2014, 2015, 2016, or 2017 (Aid to the Disabled).
- One client file, with 400 claims totaling $71,769, did not contain documentation supporting the income or resources criteria, affecting 374 claims. *Questioned costs totaled $46,406*.

  The annual reevaluation was also not completed timely. The 2017 reevaluation, due in July 2016, had not been completed at the conclusion of audit fieldwork (Aid to the Disabled).
- One client file, with 160 claims totaling $21,970, did not contain documentation supporting the income or resources criteria, affecting 57 claims. *Questioned costs totaled $6,885.*

  The annual reevaluation was also not completed timely. The 2017 reevaluation, due in November 2016, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 170 claims totaling $52,435, did not contain documentation supporting the resources or income criteria, affecting 86 claims. *Questioned costs totaled $35,813*.

  In addition, 9 claims paid in 2016 were also affected. *Questioned costs totaled $5,738.*

  The annual reevaluations were also not completed timely. The 2016 reevaluation, due in May 2016, had not been completed at the conclusion of audit fieldwork and there was no reevaluation for 2017 (Aid to the Aged).
- One client file, with 26 claims totaling $35,397, did not contain documentation a DCO-662 Third Party Resource form verifying assignment of rights nor did it contain documentation supporting the resources or income criteria, affecting all 26 claims. *Questioned costs totaled $24,709*.

  In addition, 113 claims paid in 2016 and 2015 were also affected. *Questioned costs totaled $32,387 and $14,608, respectively*.

  The annual reevaluations were also not completed timely. The 2015 reevaluation, due in January 2015, had not been completed at the conclusion of audit fieldwork and there were no reevaluations for 2016 or 2017 (Aid to the Aged).

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- One client file, with 104 claims totaling $57,660, did not contain a DCO-704 signed by a registered nurse verifying medical necessity and did not contain documentation supporting the resources or income criteria, affecting all 104 claims. *Questioned costs totaled $40,227*.

  In addition, 36 claims paid in 2016 were also affected. *Questioned costs totaled $15,644*.

  The annual reevaluations were also not completed timely. The 2016 reevaluation, due in February 2016, had not been completed at the conclusion of audit fieldwork and there was no reevaluation for 2017. (Aid to the Aged).
- One client file, with 208 claims totaling $17,762, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 118 claims. *Questioned costs totaled $8,363*.
  The annual reevaluation was also not completed timely. It was due in March 2017 but was not completed until May 26, 2017 (Aid to the Aged).
- One client file, with 3 claims totaling $36, did not contain a DCO-704 signed by a registered nurse verifying medical necessity but *Questioned costs totaled $0*.

  However, two claims paid in 2016 were affected. *Questioned costs totaled $17* (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child).
- One client file, with 86 claims totaling $50,415, did not contain documentation supporting the resources criteria, affecting 8 claims. *Questioned costs totaled $4,940*.

  Additionally, the annual reevaluation was not completed timely, as it was due in May 2017 but was not completed until October 30, 2017, after the recipient's file was selected for review (Aid to the Aged).
- One client file, with 95 claims totaling $19,026, did not contain documentation supporting the resources criteria, affecting 14 claims. *Questioned costs totaled $1,993*.

  The annual reevaluation was also not completed timely. It was due in April 2017 but was not completed until July 13, 2017 (Aid to the Aged).
- One client file, with 86 claims totaling $50,497, did not contain documentation supporting the income or resources criteria, affecting 14 claims. *Questioned costs totaled $4,565*.

  The annual reevaluation was also not completed timely. The 2017 reevaluation, due in March 2017, had not been completed at the conclusion of audit fieldwork (Aid to the Aged).
- One client file, with 17 claims totaling $772, did not contain documentation supporting the resources criteria, affecting all 17 claims. *Questioned costs totaled $538*.

  The initial eligibility determination was also not completed timely. The application was received on January 19, 2017, but was not approved until April 25, 2017, exceeding the 90-day limit for disability determinations (Aid to the Disabled).

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

- One client file did not have a timely initial eligibility determination. The application was received on May 26, 2016, but was not approved until September 7, 2016, exceeding the 90-day limit for disability determinations (Aid to the Disabled).

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- One client file did not have a timely initial eligibility determination. The application was received on July 11, 2016, but was not approved until September 29, 2016, exceeding the 45-day limit (Aid to the Aged)

Deficiencies related to eligible recipients with late redeterminations (no questioned costs) are listed below. Although there are no questioned costs associated with these recipients, the total amount of claims paid (state and federal) as of fieldwork date of December 5, 2017, for dates of services between the time the reevaluation was due and the day before it was performed is noted below in order to show what could have been paid in error if the recipient had ultimately been deemed ineligible:

- One client file did not have a timely reevaluation, as it was due in July 2016 but was not completed until September 23, 2016. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $3,943 in state fiscal year 2017 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in February 2017 but was not completed until March 23, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $6,018 in state fiscal year 2017 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in March 2016 but the 2016 and 2017 reevaluations were not completed until November 2, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $21,707, $70,481, and $25,169 in state fiscal years 2016, 2017, and 2018, respectively (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in October 2014 but the 2015, 2016, and 2017 reevaluations were not completed until November 3, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $10,112, $13,717, $15,169, and $5,784 in state fiscal years 2015, 2016, 2017, and 2018, respectively (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in May 2017 but was not completed until October 23, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $9,002 in state fiscal year 2017 and $21,601 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in December 2016 but was not completed until January 18, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $3,523 in state fiscal year 2017 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in April 2017 but was not completed until November 1, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $11,859 in state fiscal year 2017 and $20,081 in state fiscal year 2018 (Aid to the Aged).

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- One client file did not have a timely reevaluation, as it was due in February 2016 but the 2016 and 2017 reevaluations were not completed until November 1, 2017, after the recipient's file was selected for review. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $24,923, $52,371, and $28,275 in state fiscal years 2016, 2017, and 2018, respectively (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in February 2016 but the 2016 and 2017 reevaluations were not completed until November 2, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $18,519, $43,223, and $15,933 in state fiscal years 2016, 2017, and 2018, respectively (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in April 2017 but was not completed until October 23, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $31,899 in state fiscal year 2017 and $27,154 in state fiscal year 2018 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in November 2016 but was not completed until April 10, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $30,131 in state fiscal year 2017. (Aid to the Aged)
- One client file did not have a timely reevaluation, as it was due in September 2016 but was not completed until November 14, 2016. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $13,417 in state fiscal year 2017 and ($2) in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in December 2016 but was not completed until October 16, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $35,919 in state fiscal year 2017 and $21,281 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in March 2017 but was not completed until November 3, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $13,924 in state fiscal year 2017 and $17,146 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in June 2017 but was not completed until October 19, 2017, *after the recipient's file was selected for review*. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $2,666 in state fiscal year 2017 and $15,761 in state fiscal year 2018 (Aid to the Aged).
- One client file did not have a timely reevaluation, as it was due in August 2016 but was not completed until September 12, 2016. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $2,492 in state fiscal year 2017 (Aid to the Disabled).
- One client file did not have a timely reevaluation, as it was due in October 2016 but was not completed until May 3, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed was $17,008 in state fiscal year 2017 (Aid to the Aged).

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- One client file did not have a timely reevaluation, as it was due in April 2017 but was not completed until June 2, 2017. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled $5,888 in state fiscal year 2017 (Aid to the Aged).

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
State Fiscal Year 2013 – $9,589
State Fiscal Year 2014 – $31,585
State Fiscal Year 2015 – $54,364
State Fiscal Year 2016 – $126,614
State Fiscal Year 2017 – $254,161

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

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

Of the 17 ineligible recipients noted above, nine of them did not have state fiscal year 2017 reevaluations performed by the end of fieldwork. Additionally, some reevaluations, due in prior years and as far back as 2013, had not been performed.

Effect:
Payments to providers were made on behalf of ineligible recipients.

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

Views of Responsible Officials and Planned Corrective Action:
The Division of County Operations concurs with the findings. Effective October 1, 2017, financial eligibility for the Long Term Services and Supports Program was transferred to the Division of County Operations. The Long Term Services and Supports staff are specialized to focus only on this program. Additional resources have been allocated to this unit to reduce and eliminate the backlog of overdue re-evaluations and increase the number of second party reviews completed on these cases to ensure that appropriate documentation is included in the case files. The reallocation of staff is complete as of March 2018. Progress has been made to reduce the backlog of overdue re-evaluations since October 2017.

Finding Number:	**2017-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1305AR5MAP; 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP; 05-1305ARBIPP; 05-1405ARBIPP; 05-1505ARBIPP**
Federal Award Year(s):	**2013, 2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

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

Anticipated Completion Date: March 2018

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Finding Number:	**2017-017**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-016**.

Criteria:
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 (Medicaid).

Also, 42 CFR § 433.32 states that the State Medicaid Agency administering the program must maintain an accounting system and supporting fiscal records to assure that claims for federal funds are in accordance with applicable federal requirements.

Condition and Context:
ALA staff reviewed monthly funding reports maintained by the Agency to determine if state match was adequate for the quarters ended March 31, 2017, and June 30, 2017. ALA review revealed that the match reported to the federal awarding agency (CMS) on the CMS-64 reports did not agree with the match recorded in the Agency's financial management system. The CMS-64 report for March 31, 2017, overstated match totaling $67,753,404, and the CMS-64 report for June 30, 2017, overstated match totaling $20,910,864. ALA staff requested documentation that would support the variances between the match reported to CMS and the actual matching expenditures in the financial records, but the Agency was unable to provide any information to ALA by the end of fieldwork. As a result, it appears the Agency did not meet the match requirement for both quarters.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$88,664,268

Cause:
The Agency did not perform a reconciliation between the monthly federal/state match funding reports and the CMS-64 to ensure source of variances are identified timely.

Effect:
Failure to implement appropriate controls over expenditure reporting could result in an over/under match of Federal and State funds.

Recommendation:
ALA staff recommend the Agency establish and implement procedures to ensure amounts reported on monthly state/federal match funding reports agree to totals computed and reported to the federal awarding agency. This will ensure variances are properly researched and resolved timely.

Finding Number:	**2017-017 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:
The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-018**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2016-015**.

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

45 CFR § 75.2 defines internal control over compliance as a process implemented by a non-federal entity designed to ensure achievement of the objectives of a federal award to include the following:

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

Condition and Context:
ALA staff discussions with Agency personnel revealed that procedures for internal control over compliance were not developed and documented during fiscal year 2017.

According to the Agency, reports were prepared for the quarters ended March 31, 2017, and June 30, 2017, as a monitoring tool to ensure the required state match was met. ALA requested a copy of these reports in order to verify management was providing adequate monitoring of the required match, but the Agency never provided the reports to us. As a result, ALA concluded that the Agency does not have adequate controls in place over this compliance requirement.

In addition, because the Agency did not prioritize developing and documenting internal controls or maintain copies of the reports it claims to have used to monitor match, the Agency failed to comply with match requirements as noted in current-year finding **2017-017**.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Finding Number:	**2017-018 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Weakness**

Cause:
Although the Agency was notified in July 2015 to develop and document procedures for internal control over compliance, it failed to prioritize this task during the previous audit cycle and, again, during this current audit cycle. ALA was informed that due to staff turnover and workloads, program staff did not have time to prepare documented written internal controls.

Also, ALA was informed that comparison reports were created in preparation of its 2017 Schedule of Expenditures of Federal Awards (SEFA). However, Agency staff could not provide copies of these reports to ALA.

Effect:
Failure to develop and document procedures for internal control over compliance limits the Agency's ability to manage federal awards effectively.

Recommendation:
ALA staff recommend the Agency promptly develop, document, and implement procedures for internal control over compliance to minimize the risk pertaining to managing federal awards.

Views of Responsible Officials and Planned Corrective Action:
The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-019**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605ARINCT; 05-1705ARINCT; 05-1505ARBIPP**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Procurement and Suspension and Debarment**
Type of Finding:	**Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2016-027** and **2015-024**.

Criteria:
In accordance with 45 CFR § 75.303, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award. This includes establishing internal controls to document the Agency's reviews to ensure compliance with program regulations.

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

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

ALA staff requested Agency documentation for the monthly suspension and debarment reviews performed by DMS staff to determine if the Agency was reviewing the monthly LexisNexis suspension and debarment reports to ensure the status of enrolled providers flagged by one of the exclusion databases is adequately researched. ALA review revealed that the Agency failed to perform monthly reviews from July 2016 through December 2016, as well as in June 2017, and that DXC failed to provide DMS with four monthly reports during the fiscal year.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
DMS failed to ensure the transition of duties for monitoring monthly LexisNexis reports from the Program Integrity Unit when it was moved from DMS to the Office of Medicaid Inspector General. The Agency then failed to establish and implement proper controls to ensure LexisNexis reviews were completed in accordance with the contract.

Finding Number:	**2017-019 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605ARINCT; 05-1705ARINCT; 05-1505ARBIPP**
Federal Award Year(s):	**2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Procurement and Suspension and Debarment**
Type of Finding:	**Material Weakness**

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

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

Views of Responsible Officials and Planned Corrective Action:
Along with concerns mentioned above, a staff vacancy existed for a period of time during the dates cited. The new staff hired is processing and running these reports as required. An internal control document exists and is being followed to ensure key dates and deliverables are met as outlined in the document.

Anticipated Completion Date: Complete

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Finding Number:	**2017-020**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2016-028**, **2015-025**, and **2014-021**.

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

Additionally, 42 CFR § 430.30(c) requires submission of a quarterly statement of expenditures report (CMS-64) for the Medical Assistance Program (MAP) not later than 30 days after the end of each quarter. The Agency maintains policies and procedures for the preparation of the CMS-64 report. Specifically, the procedures state that the Agency will prepare quarterly reconciliations, as well as review, investigate, and provide explanations for identified variances. Reconciliations, along with the variance explanations, should be included as supporting documentation for the CMS-64.

Condition and Context:
ALA staff performed follow-up procedures from a prior-year finding to determine if the Agency had updated its procedure document for preparing the CMS-64 report and found it still contained outdated information for reporting administrative expenditures and did not appear complete. Documentation provided included only instructions for pulling expenditure reports from the Agency's cost allocation system. The instructions included names of individuals who left the Agency up to three years ago.

ALA staff reviewed the Agency's workbooks to determine if reconciliations between expenditures recorded in its financial management system and expenditures reported to the federal awarding agency were adequately reviewed and approved to ensure accuracy and completeness. Review of the reconciliations for quarter ended March 31, 2017, revealed it was not reviewed prior to certification and submission to the federal awarding agency. The workbook for this quarter also contained an error representing a "hard keyed" expenditure amount that had been carried forward from the previous quarter.

ALA staff also performed testing of expenditures reported on the CMS-64 for the quarters ended March 31, 2017, and June 30, 2017, to confirm accuracy and completeness with the expenditures recorded in Agency's financial management system. ALA review revealed the following errors:

<u>From the March 31, 2017, report:</u>

- Twenty-nine report line items totaling $1,539,392,590 and representing 91% of MAP expenditures were selected. Because of errors in the reallocation of expenditures between the Children's Health Insurance Program (CHIP) and the Medical Assistance Program, ALA staff were unable to perform testing for 13 of the line items with expenditures totaling $416,152,201. The current-year finding regarding the reallocation for CHIP is **2017-013**.
- Twelve report line items totaling $97,924,677 and representing 96% of administrative expenditures were selected. Errors were identified in 4 of the line items, resulting in an understatement totaling $616,945.

Finding Number:	**2017-020 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

From the June 30, 2017, report:

- Thirty report line items totaling $1,434,188,118 and representing 91% of MAP expenditures were selected. Errors were identified in 9 of the line items, resulting in an overstatement totaling $2,039,166.
- Thirteen report line items totaling $117,805,082 and representing 97% of administrative expenditures were selected. Errors were identified in 4 of the line items, resulting in an overstatement totaling $409,036.

It appears that although the Agency has developed and documented internal control policies and procedures over reporting, controls are not operating effectively to ensure accurate and complete reporting.

Finally, ALA staff performed procedures to determine if the CMS-64 reports were submitted within 30 days of the end of each quarter as required. ALA review revealed all CMS-64 reports for state fiscal year 2017 had not been submitted timely as follows:

- The September 30, 2016, report, due for submission on October 30, 2016, was submitted on November 23, 2016, 24 days late.
- The December 31, 2016, report, due for submission on January 30, 2017, was submitted on February 10, 2017, 11 days late.
- The March 31, 2017, report, due for submission on April 30, 2017, was submitted on May 19, 2017, 19 days late.
- The June 30, 2017, report, due for submission on July 30, 2017, was submitted on August 11, 2017, 12 days late.

(Note: Because of numerous errors, CMS rejected the December 31, 2016, and June 30, 2017, reports so that the Agency could make necessary corrections, including prior period adjustments. Final certification of the December 31, 2016, report was on March 3, 2017, 62 days after the end of the quarter, and final certification of the June 30, 2017, report was on September 15, 2017, 77 days after the end of the quarter.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency failed to prioritize timely and accurate completion of the federal expenditure reports. According to the Agency, individuals completing the quarterly expenditure reports are unable to review expenditure calculations, complete reconciliations, and investigate variances prior to submission of the reports due to limited staff and complexity of the reporting process.

In addition, the Agency chose to delay updates to procedures until new systems were implemented.

Finding Number:	**2017-020 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP; 05-1605AR5ADM; 05-1705AR5ADM; 05-1605ARINCT; 05-1705ARINCT; 05-1605ARIMPL; 05-1705ARIMPL**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Effect:
Failure to implement appropriate controls over expenditure reporting could result in an overpayment or underpayment of federal funds.

Recommendation:
ALA staff recommend the Agency review reporting processes and update existing procedures for preparation of the CMS-64 report to ensure timely submission of accurate reports. In addition, the Agency should complete and review reconciliations of reported expenditures to the Agency's fiscal records prior to certification of the quarterly expenditure reports.

Views of Responsible Officials and Planned Corrective Action:
The Department is shifting to an automated Federal reporting system with the completion of the quarter ending March 31, 2018, CMS-64 and CMS-21. As part of this process, the Department is establishing internal controls and manuals for the completion of the Federal reports for Medicaid and CHIP. Additionally, the Department has been in communication with CMS concerning additional training for current staff. Other training sources are being explored to allow the staff to be able to complete the forms by the required deadline. The Department works with CMS on a quarterly basis to ensure that all cost is properly documented.

Anticipated Completion Date: April 30, 2018

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Finding Number:	**2017-021**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Inpatient Hospital & Long-Term Care**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
Attachment 4.19-A of the Arkansas Medicaid State Plan states that each hospital participating in the Arkansas Medicaid Program shall submit an annual cost report. The cost reports are reviewed by outside contractors that must determine acceptability of the report within 30 days of receipt.

In addition, 45 CFR § 75.303(a) requires a non-federal entity to 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.

Furthermore, 45 CFR § 75.303(e) requires the non-federal entity to take reasonable measures to ensure information considered sensitive is safeguarded.

Condition and Context:
ALA reviewed 10 inpatient hospital cost reports to determine if the Agency's submission to the outside contractor was timely and confirm review by the contractor, ensuring per diem rates paid to providers are accurate. This review revealed that a cost report was lost when mailed to the outside contractor. The noncompliance resulting from the Agency's inadequate control procedures was discovered by the contractor after six months had passed. As of the end of field work on November 21, 2017, the original cost report had not been located, and the provider had not submitted a replacement report.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency failed to implement adequate control procedures to ensure that all cost reports submitted to the outside contractor were received and reviewed timely.

Effect:
The per diem rates paid to providers have not been properly reviewed and could result in an inappropriate payment to providers.

Recommendation:
ALA staff recommend the Agency implement adequate control procedures to ensure all provider cost reports are received by the contractor and are reviewed timely.

Views of Responsible Officials and Planned Corrective Action:
The Department will develop a plan for tracking cost report submissions, reviews, and cost settlements with its contractor to ensure proper oversight of the process.

Anticipated Completion Date: June 30, 2018

Finding Number:	**2017-021 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1605AR5MAP; 05-1705AR5MAP**
Federal Award Year(s):	**2016 and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Inpatient Hospital & Long-Term Care**
Type of Finding:	**Noncompliance and Significant Deficiency**

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

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Finding Number:	**2017-022**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP**
Federal Award Year(s):	**2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Claims Paid Subsequent to Recipient Death**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

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

Condition and Context:
The Arkansas Department of Health provided ALA with a listing of deceased individuals, which ALA used to identify individuals who had claims paid or adjusted in state fiscal year 2017 with dates of service after their date of death. The resulting claims population was split into those related to Arkansas Works premiums only and all others.

ALA staff reviewed 60 recipients who had Arkansas Works premiums paid for dates of service subsequent to the date of death. Testing results revealed the following:

- Nine recipients had premiums paid for dates of service after their date of death that were not subsequently recouped as of fieldwork date November 29, 2017. *Questioned costs totaled $31,245, $29,749, and $3,361 for state fiscal years 2017, 2016, and 2015, respectively.*
- Eleven recipients either did not have a date of death or did not have the correct date of death in the Medicaid Management Information System (MMIS).
- Twenty-two recipients had a period greater than six months from the time of death until the latest date of service of all premiums paid through June 30, 2017, for dates of service subsequent to the date of death.

ALA staff reviewed 60 recipients who had non-Arkansas Works claims paid for dates of service subsequent to the date of death. Testing results revealed the following:

- Eighteen recipients had claims paid for dates of service after their date of death that were not subsequently recouped as of fieldwork date November 29, 2017. *Questioned costs totaled $2,752, $473, and $57 for state fiscal years 2017, 2016, and 2015, respectively.*
- Twelve recipients either did not have a date of death or did not have a correct date of death in the MMIS system.
- Ten recipients had a period greater than six months from the time of death until the latest date of service of all claims paid through June 30, 2017, for dates of service subsequent to the date of death.

Statistically Valid Sample:
Not a statistically valid sample

Finding Number:	**2017-022 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
CFDA Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP; 05-1705AR5MAP**
Federal Award Year(s):	**2014, 2015, 2016, and 2017**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Claims Paid Subsequent to Recipient Death**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
State Fiscal Year 2015 – $3,418
State Fiscal Year 2016 – $30,222
State Fiscal Year 2017 – $33,997

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

The Agency should review procedures to ensure that the death information they are utilizing to update both recipient eligibility systems is complete. Additionally, procedures related to the closure of recipients' cases in the eligibility systems due to death should be reviewed as these closures are sometimes manual in nature and would, therefore, be subject to human error.

Effect:
Claims payments were made on behalf of deceased recipients.

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

Views of Responsible Officials and Planned Corrective Action:
The Division of County Operations concurs with the finding. The Division of County Operations will provide refresher guidance to staff on the process of closing cases due to death. Supervisors will complete random second party reviews to ensure that cases have been properly closed due to death.

Anticipated Completion Date: March 5, 2018

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF INFORMATION SYSTEMS
FOR THE YEAR ENDED JUNE 30, 2017

Finding:
Financial Management Guide regulation R3-19-4-1601 states, "In order to prevent the circumvention or violation of the law or its intent, it has been determined that no agency subject to this act may employ contract labor for a period longer than six consecutive weeks or 240 hours per calendar quarter." Review of contract labor expenditures noted three of four contracted individuals worked 181 hours in excess of 240 hour per quarter.

Recommendation:
We recommend the Agency strengthen existing controls to provide assurance that contract labor hours do not exceed the 240 hours allowed per quarter.

Agency Response:
In response to the finding regarding temporary labor, the department acknowledges that it erred in allowing three temporary employees to work over the 240-hour-per-quarter limit. Two of the individuals worked a minimal number of hours over the 240-hour-limit, 14.67 and 20.73 hours, respectively. The third individual was a unique case. This individual worked over the 240-hour limit while transitioning from temporary labor to full-time employment. In an attempt to avoid a gap in performing her work responsibilities, the department allowed her to continue working past the 240-hour limit during her transition to full-time employment.

The department recognizes that this action did not comply with the regulation, understands the Financial Management Guide regulation R3-19-4-1601, and will implement controls on the temporary labor process to ensure compliance with the policy. Going forward, the Human Resources Division will coordinate closely with managers to ensure that temporary employees who are selected to transition to full-time employment make that transition before they exceed 240 hours of temporary labor. The department will also implement an automatic alert system that will notify the Human Resources Division when a temporary employee works 120 hours and again when he or she passes a point closer to the 240-hour limit. This automatic alert system, along with increased oversight by the Human Resources Director, will ensure that the department observes the temporary labor regulations.

Finding:
Ark. Code Ann. § 19-4-1502 requires the Director to maintain a record of all property owned by the Agency. Of 37 equipment items, 3 items with a value of $25,540, representing approximately 10% of the value of the sample, could not be located.

Recommendation:
We recommend the Agency enforce equipment inventory controls to provide additional assurance that equipment can be located and utilized for the operations of the Agency.

Agency Response:
In response to the finding regarding equipment, the department acknowledges that it failed to follow appropriate tagging and tracking protocol in regard to three assets. The department understands that Ark. Code Ann. § 16-4-1502 requires its director to maintain a record of all property owned by the agency.

In the case of one IBM server, a communication breakdown occurred after an IBM team completed assembly, and the department's UNIX group failed to notify the department's Information Technology Asset Management (ITAM) team that the server should be tagged and entered into the ITAM system. However, the server was always within the department's control. Upon notice from the auditors that the server was unaccounted for in the department's documentation, the ITAM team researched the date of the server's purchase, identified it by serial number, and located the server within the department.

Since the auditors' findings, the ITAM team has moved from an offsite warehouse location to the department's main office space and now has quicker and easier access to most of the department's assets. The ITAM team also has control measures built into its tagging and tracking system. When an employee orders any asset, he or she cannot create a purchase order until the ITAM team has created an "asset shell." This asset shell allows the ITAM team to keep track of items through the ordering, tagging, and tracking process. For purchase orders over a certain amount of money, the ITAM team maintains a backup spreadsheet of asset shells, transferring assets to a separate spreadsheet once the team has tagged the assets. This system improves the ability of the ITAM team to locate an asset in accordance with asset management requirements.

In the case of the remaining two assets, the inability to initially locate the assets was due to the failure by the department and two of its customer school districts to maintain proper documentation of asset transfers.

At the Mayflower School District, the district technology coordinator failed to follow the proper return merchandise authorization (RMA) protocol through the department when he returned the asset to the vendor for replacement. Instead of requesting a replacement device through the department's RMA process, the school district requested and received a replacement device directly from a third party vendor. Since the department was unaware of this change in assets, it did not tag or otherwise document the new device that replaced the properly-tagged device at the school. In response to the auditors' findings, the department has investigated this matter with the afore-mentioned results and will appropriately tag the new device and document it in the ITAM system.

At the Hillcrest School District, the department failed to follow its asset documentation process. The department has confirmed that the school district initially received the missing asset. The department also confirmed that at some point the asset was replaced. Under department protocol for asset replacement, a school district calls in a ticket for asset replacement, the department creates tracking forms for the old and new assets, and tags and tracks the equipment as it enters or exits the department's warehouse. In this case, the department has no record that the original asset was returned to the warehouse when it was replaced with a new asset. At this point, neither the Hillcrest School District nor the department have documentation or possession of the identified asset

To prevent this situation from recurring in the future, the department has implemented controls within its Arkansas Public School Computer Network (APSCN) team, the group that coordinates directly with school districts and the district technology coordinators. From this point forward, the APSCN team lead will be the point of contact for all assets received by or disbursed from the APSCN team. As a matter of oversight, the APSCN team lead will review and sign every form in compliance with the asset documentation process to ensure that the department maintains records of all of its APSCN assets.

Finding:
Ark. Code Ann. § 21-4-501 allows for payment of accumulated, unused sick leave, not to exceed $7,500. All employee lump sum payouts were reviewed to ensure correct payment and eligibility. The review revealed that one employee received a sick leave payout of $5,906 but was entitled to $7,500. The Agency was unable to provide documentation to support the $5,906 payment.

Recommendation:
We recommend the Agency review and strengthen internal control procedures to ensure adequate documentation is maintained to support sick leave payouts and provide additional training to personnel responsible for approving all lump sum payouts.

Agency Response:
In response to the finding regarding payment of accumulated unused sick leave, the department acknowledges that an accounting error resulted in its underpayment of a retired employee's lump sum sick leave payout and is coordinating with the retired employee and the Arkansas State Claims Commission in addressing the underpayment. The department understands the process outlined in Ark. Code. Ann. § 21-4-501 and will strictly comply with that statute in the future.

As a control on this process, the Human Resources Division has implemented a two-person cross check process to ensure that payouts are correctly calculated. One human resources analyst will be primarily responsible for calculating payouts, while a second human resources analyst will serve as a backup to check the calculations. The department's recently-appointed Human Resources Director will also review and approve all payouts before their release.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS INSURANCE DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS JUDICIAL DISCIPLINE AND DISABILITY COMMISSION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

Finding:
R4-19-4-501 of the Department of Finance and Administration (DFA) State Financial Management Guide states that good internal controls dictate daily deposits to the State Treasury and/or a commercial bank account. Weekly deposits are allowable if an Agency receives only minimal amounts of cash or checks. To determine if the Agency was in compliance with timely deposit guidelines, we conducted a cash count of the safe located in the Agency's finance division on July 6, 2017, and found cash on hand totaling $46,012 that was not deposited timely. A majority of the cash on hand had been receipted but held in the safe for more than 30 days as noted below:

- 23 checks totaling $1,690 and cash totaling $55 had been on hand for over six months.
- 62 checks totaling $4,597 and cash totaling $95 had been on hand for at least 30 days but less than six months.
- 144 checks totaling $18,954 and cash totaling $205 had been on hand for at least one week but less than 30 days.
- 115 checks totaling $18,370 and cash totaling $62 had been on hand less than one week

In addition, 12 checks totaling $1,210 were being held in the Agency's safe but were not receipted until after our count date, and 17 checks and cash totaling $774 contained incomplete or illegible information; therefore, we were unable to document the receipt date in the Agency's receipting system.

Receipts remaining in the Agency's possession for an extended period are more likely to be misplaced or misappropriated and can cause reconciliation issues in future periods.

Recommendation:
We recommend Agency management review the State Financial Management Guide and strengthen internal controls over cash deposits to ensure that funds collected are deposited timely.

Agency Response:
The Agency agrees with the finding and has taken steps to strengthen internal controls over cash deposits and ensure timely deposits as follows:

- Prior to this finding, the Agency's written internal procedures required weekly deposits. These procedures have been superseded by an executive directive to conform to the State's Financial Management Guide.
- The Agency has a new automated daily report that pre-sorts the daily receipts, as well as additional new exception reports. These new reports have improved efficiency and accuracy.
- On July 10, 2017, the Agency hired, as head of the finance division, a new Accounting Operations Manager with over 30 years of financial experience in state government.
- As of August 24, 2017, all of the 373 receipt items cited in the finding have been cleared.

Additionally, the Director and Deputy Director have reviewed the State's Financial Management Guide. The Accounting Operations Manager is familiar with and utilizes the guide.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE LAND DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
In November and December 2014, the Agency paid four nonprofit corporations a total of $170,000, classified these expenditures as claims and awards, and used appropriated funds provided by Section 5 of Act 93 of the Fiscal Session of 2014, although the Act provides for no such spending authority. Rather, the Act provided appropriation for "repairs and upgrades" to the Agency's facilities.

Other correspondence related to these transactions indicates that funding was from legal settlements provided by the Attorney General's office, which encouraged the Agency to use the funding "to support law enforcement education and efforts to combat human trafficking."

The payments were made to the following organizations:

Arkansas State Police Foundation	$100,000
Arkansas Sheriff's Association	25,000
Arkansas Association of Chiefs of Police	25,000
Morgan Nick Foundation	20,000
Total	$170,000

Encouragement by the Attorney General's office does not provide spending authority. Expenditures should be made only in accordance with appropriations.

Recommendation:
We recommend the Agency adhere to appropriations, seek advice from the Attorney General's office concerning the legality of these expenditures, and take appropriate action based on this determination.

Agency Response:
Our agency was given $395,000 by Attorney General (AG) Dustin McDaniel. We went to PEER to get $225,000 in appropriation of that money for the Use of Force Training Simulator to advance training of our officers. Mr. Jones was sent a letter from Attorney General Dustin McDaniel requesting that the remaining $170,000 be used to support law enforcement education and efforts to combat human trafficking. Per a directive from Mr. Jones, I was instructed to mail checks to Arkansas State Police Association ($100,000), Morgan Nick Foundation ($20,000), Arkansas Sheriff's Association ($25,000), and Arkansas Association of Chiefs of Police ($25,000). Being as though we went to PEER to get $225,000 in appropriation for the Use of Force Training Simulator, in retrospect I could have easily asked for $170,000 for grants had I realized that it should have been a CI-04 expenditure. I felt we had sufficient appropriation in CI-02 to carry out the intent of the AG's letter that we use the funds "to support law enforcement education and efforts to combat human trafficking." I do remember calling DF&A for guidance on this issue since I was still fairly new to this position, and this was not a normal occurrence, and we agreed that I was ok in handling it this way. However, I did request the directive from Director Jones because it was an unusual circumstance that wasn't within the normal scope of business handled in our fiscal office.

Arkansas State Library (0519)

Federal Award Program: Grants to States (CFDA 45.310)

Review of the Grants to States program reviewed at the Arkansas State Library revealed noncompliance with federal regulations regarding cash management.

In accordance with 2 C.F.R. § 200.305, payments (i.e., reimbursements/advances from the federal awarding agency) are governed by 31 C.F.R. § 205.33, which requires that a state minimize the time between drawdown of federal funds and their disbursement for federal program purposes. The transfer to the state is limited to the minimum amount needed by the state and represents immediate cash requirements. The timing and amount of funds transferred must be as close as is administratively feasible to a state's actual cash outlay.

In addition, IMLS grant guidance states that requests for advance payments shall be limited to the recipient's immediate cash needs. Federal funds advanced to the recipient should be fully disbursed within 30 days from the date the funds are received from IMLS.

ALA staff reviewed three advances to determine if the methods and procedures for advance requests minimized the time elapsing between the transfer of funds from the federal awarding agency and the disbursement by the grantee (Agency).

The review revealed that the Request for Advance or Reimbursement form was not supported by documentation representing total program outlays or calculation of estimated costs (advance) requested. ALA staff also noted that the Request for Advance or Reimbursement form was not complete, as it did not contain the estimated balance of federal cash on hand, as required.

Because the Agency did not maintain adequate documentation to support the advance requests, ALA staff performed a reconciliation of federal award advances and actual expenditures, which revealed that funds were held and disbursed over several months; therefore, the Agency did not minimize the time elapsing between transfer of funds and disbursement by the grantee. It appears the advances did not represent the Agency's immediate cash needs.

Recommendation
ALA staff recommend the Agency review and update its documented control procedures to include that advance request estimates be adequately documented. In addition, the Agency should strengthen control procedures to ensure all advance request estimates are based on immediate cash requirements and are as close as administratively feasible to the actual cash outlay to minimize the time elapsing between transfer of funds from the federal awarding agency and disbursement by the Agency, typically 30 days.

Management response: *The Business Office is in the process of creating a spreadsheet that will estimate the number of pay periods, reoccurring monthly bills and a listing of individual invoices that we expect for the requested 30-day period to use as a reference point when requesting funds. It will also take into account the pay period that occurs after the request period since the funds request process can take anywhere from 7-14 days. This is to ensure that we do not hold up any payroll processes due to lack of funds available. Even though this written documentation is not requested by the Institute of Museum and Library Services (IMLS), this will hopefully assist us with our estimate calculations.*

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE LIBRARY
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
OFFICE OF THE LIEUTENANT GOVERNOR
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS LIFELINE INDIVIDUAL VERIFICATION EFFORT CORPORATION
FOR THE YEAR ENDED DECEMBER 31, 2017

There were no findings.

SAOA05117
Audited By: Robert G. Schichtl II, PA

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
LIQUEFIED PETROLEUM GAS BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
LITTLE ROCK COMMUNITY MENTAL HEALTH CENTER, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS LIVESTOCK SHOW ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2015

There were no findings.

SA0934915
Audited by: JPMS Cox, PLLC

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS MANUFACTURED HOME COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
The Agency did not utilize the state contract for rental vehicles in two instances, in noncompliance with DFA financial management guide section R9-19-4-904. Documentation provided by the Agency does not support the Agency's assertion that vehicles under state contract were unavailable or too costly during the Agency's travel period.

Recommendation:
We recommend the Agency seek proper approval from DFA and maintain adequate documentation if deviation from the DFA travel regulations is necessary.

Agency Response:
In rare instances, the Commission seeks other rental companies, outside of the state contract, when a vehicle on the state contract is either available at a higher rate or not available during the duration needed as it pertains to Commission-related activities.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF MASSAGE THERAPY
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

Finding:
Employees are required to complete a leave slip when requesting time away from work. Based on the supervisor's calendar, internal emails, and text messages, the Agency determined one employee had requested and taken 40 hours of leave over a two-month period without submitting the required leave slips. Because the employee's supervisor failed to ensure the appropriate form was completed and approved, the employee continued to receive salary when she should have been on leave without pay status, resulting a salary overpayment of $953.

When the overpayment was discovered, the Agency did not notify Arkansas Legislative Audit (ALA), in accordance with Department of Finance and Administration (DFA) Financial Management Guide R1-19-4-2004. The Agency did send multiple letters to the employee attempting to collect the amount due.

Recommendation:
We recommend the Agency notify ALA when salary overpayments are discovered. Also, the Agency should ensure all leave requested has supporting documentation and is properly recorded and approved.

Agency Response:
Upon discovering the issue, the Agency immediately notified the Office of Personnel Management. The Agency was not aware of the obligation to contact Arkansas Legislative Audit, but will comply moving forward. After several attempts to recover the overpayment, the Agency completed the necessary Setoff forms and submitted to the Office of Personnel Management for collection. Moving forward, all agency supervisors have been educated and instructed on proper management procedures to ensure leave slips are completed and turned in timely.

Finding:
Each state agency is required to maintain a Control Self-Assessment (CSA) of agency risks and corresponding control activities. The DFA Financial Management Guide (R1-19-4-505) requires agencies to submit an updated CSA to the DFA Office of Internal Audit every two years. The Agency was formed in July 2013 and has not completed or submitted a CSA to the DFA Office of Internal Audit.

Recommendation:
We recommend the Agency develop a CSA to ensure compliance with DFA rules and regulations.

Agency Response:
The Agency was not initially notified by the Department of Finance and Administration Office of Internal Audit to complete a Control Self-Assessment, but has since contacted the Department of Finance and Administration Office of Internal Audit to be added to the distribution list for future Control Self-Assessment notices. The Agency will comply with this requirement moving forward.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE MEDICAL BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE MILITARY DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS MINORITY HEALTH COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS MOTOR VEHICLE COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS NATIONAL GUARD MORALE, WELFARE AND RECREATION FUND, INC.
FOR THE YEAR ENDED DECEMBER 31, 2016

There were no findings.

SA1098016
Audited by: Thessing & Associates, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS NATURAL RESOURCES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF NURSING
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
NORTHWEST ARKANSAS ECONOMIC DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding:
The District made a significant change in the accounting department by hiring a new financial director in the prior year. Issues with prior personnel caused significant inefficiencies in the completion of prior year audits. Additional time has been required to correct errors and to complete month-end and year-end close, along with preparation for the audit.

Senior management has been challenged in establishing month-end and year-end procedures in order to provide accurate financial information for management and the Board of Directors' oversight of District operations.

Recommendation:
This additional time could be alleviated with the establishment of formal month-end and year-end schedules of procedures to be followed by District personnel. Such an approach would detail all the critical steps in the month-end and year-end close, as well as the account analysis and schedule preparation required for the District's books and records. Due dates should also be monitored to ensure the process stays on target for the established time deadline. We recommend the District develop formal month-end and year-end closing schedules that indicate specific personnel responsibilities and corresponding time requirements. Strict adherence to these schedules should be required because this will allow for the month-end and year-end work and audit preparation to be a much less time-consuming and arduous process.

Agency Response:
This is a process that management has been working toward with the goal of implementation as soon as practical. However, the magnitude of issues inherited prevented its capacity to not only create the procedure, but have sufficient time and staff to address it properly. Prior to the commencement of this review, the District was able to hire an additional staff person for the finance department to support this and many other much needed controls. Subsequently, a closing schedule has been prepared, finance personnel have been assigned the appropriate tasks and the required functions are being completed going forward.

Finding:
Senior management has been challenged in establishing control and direction regarding the accounting system and overall fiscal management.

The District not having formal month-end and year-end closing procedures has resulted in delays in timely and accurate financial reporting.

Recommendation:
We recommend the Board of Directors and senior management establish expected timelines to facilitate in the production of accurate financial information and related preparation of financial statements on a timely basis. We also recommend the statements be distributed on a regular basis to the Board of Directors for their review and oversight.

Agency Response:
Current management was faced with an enormous task of sorting out decades of bookkeeping and accounting irregularities. These have taken time to address and, in essence, required an almost complete rebuild of the integrity of the accounting system. While it is accurate to state that financial reports have not been generated as often as would otherwise be preferred, it is a direct result of the process that is still underway to clean and restore the errors. Much progress has been made and the finance team is very close to being in position to certify, with confidence, the data in the accounting system. Once this occurs, reports will be prepared and submitted routinely. It is management's position that while this has been a challenging issue to address, it has not affected its ability to control and operate the District's finances in a safe, sound and prudent manner.

Finding:
Management implemented new procedures in which staff misunderstood, causing the revenue not being recognized when earned and the related service or condition had been met.

Potential revenue to be earned from administration of grants for various governmental entities the District serves was improperly recognized as revenue in the current year.

Recommendation:
We recommend the District clarify the new procedures and provide the training required for staff to properly determine when revenue from the grant contracts is deemed earned in accordance with generally accepted accounting principles.

Agency Response:
One of the inadequacies noted by management upon arrival was the insufficient recording of accounts receivable in the accounting system. Along with many other priorities, it was decided that the finance department would initiate the process of correcting this problem with the full understanding that it would be a work in progress. While there were inaccuracies in the accounts receivable schedule, management recognized there were going to be some, and was satisfied with the progress made in implementing an entirely new section to the financial structure of the District. This particular issue has been addressed and should be correct going forward.

Finding:
The District has procedures in which District personnel and the subrecipient provide an estimate of expenditures for drawdown of funds for grant purposes. This information is monitored by the District to ensure excess funds are not being requested. However, the District does not have procedures in place to reconcile the estimated expenditures to actual when disbursed. This ineffective oversight can cause excess funds being held or improper use of grant funds by the subrecipient.

The District has failed to reconcile advance grant drawdowns with actual expenditures and take corrective action within a reasonable time period.

Recommendation:
We recommend the District's management establish procedures that reconcile the estimated expenses to actual expenses on a timely basis in order to ensure funds are being used in accordance with the grant agreement.

Agency Response:
This issue was already being addressed in an informal, but firm manner. As the fiscal agent for WIOA and being co-located with the Title 1-B program provider, District personnel were constantly in close contact with the subrecipient staff regarding this and many other matters. There are very few expenses that can result in an variance of the requested estimate (primarily payroll which is adjusted, if necessary, during the next pay period), therefore, the risk of any material or significant improper use was minimal. However, as of July 1, 2017, the District now serves as the program provider, fiscal agent and One-Stop Operator for WIOA. These reconciliations have been implemented and followed accordingly by District finance department personnel.

Finding:
The District should have appropriate oversight procedures.

The size of the Districts' accounting and administration department precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation:
We recommend the Board of Directors remain involved in the financial affairs of the District to provide oversight and independent revenue function.

Agency Response:
This finding is often seen in smaller organizations, particularly nonprofits challenged with having sufficient staff to alleviate this entirely. However, the District has availed itself of every opportunity to segregate duties among is personnel and, as a result, has greatly minimized the concern in this regard. In addition, prior to the completion of this report, the District added a third staff person to this department which should all but eliminate the minor overlaps of responsibility going forward.

Finding:
The District lacked policies and procedures that would facilitate the reconciliation of funds drawn to the District's and subrecipients' records.

The District should have policies and procedures to establish and maintain effective controls that provide reasonable assurance that the District administers government programs in compliance with the requirements associated with federal and state agencies and monitors monies drawn to ensure funds are being spent within the prescribed guidelines.

Currently, the subrecipient provides an estimate of expenditures with drawdown requests for the District's approval and release of the funds. However, subsequent to the release of funds, a reconciliation of actual expenditures for funds released is not currently being performed and remitted to the District for its review and approval.

Recommendation:
We recommend management, with the oversight of the Board of Directors, establish policies and procedures in which actual expenditures submitted by the District and subrecipient are reconciled to the amounts estimated at the time of the draw as it relates to the major federal program.

Agency Response:
This issue was already being addressed in an informal, but firm manner. As the fiscal agent for WIOA and being co-located with the Title 1-B program provider, District personnel were constantly in close contact with the subrecipient staff regarding this and many other matters. There are very few expenses that can result in an variance of the requested estimate (primarily payroll which is adjusted, if necessary, during the next pay period), therefore, the risk of any material or significant improper use was minimal. However, as of July 1, 2017, the District now serves as the program provider, fiscal agent and One-Stop Operator for WIOA. These reconciliations have been implemented and followed accordingly by District finance department personnel.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS OIL AND GAS COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF OPTOMETRY
FOR THE YEAR ENDED JUNE 30, 2017

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

Recommendation:
We recommend the Agency segregate the duties of handling cash transactions from reviewing the monthly bank statements, even if that segregation requires the involvement of the Board.

Agency Response:
As a result of our audit, it was suggested that we have our bank statements mailed directly to the president of the Board. This will partially control inadequate conditions over cash transactions because of insufficient segregation of duties due to limited number of personnel.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
OUACHITA BEHAVIORAL HEALTH AND WELLNESS
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA01817
Audited by: Jordan, Woosley, Crone, Keaton, CPAs

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PAROLE BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF PHARMACY
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF PHYSICAL THERAPY
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF PODIATRIC MEDICINE
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
R4-19-4-501 of the Department of Finance and Administration (DFA) Financial Management Guide requires that collecting, recording, depositing, and reconciling of cash receipts be segregated among different individuals. The Board's Secretary/Treasurer had sole responsibility for performing these duties. We noted the following issues related to the Board's inadequate control over cash transactions, primarily due to a lack of support staff:

- The Board did not reconcile bank statements to its listing of receipts for license renewals. As a result, Board records contained errors, including an understatement of $250 in receipts for licenses.
- Receipts were not deposited timely. Of the payments received for 105 new or renewed licenses for 2017, 42 payments (40%) were held for deposit more than two weeks, and 23 payments (22%) were held more than one month before being deposited. Deposits not made timely can result in improper cut-off and/or increase potential theft or loss of funds.

Recommendation:
We recommend the Board maintain strict controls during the processing of cash receipts to the extent possible and adhere to DFA Financial Management Guide regulations regarding recordkeeping and timely deposit of revenue.

Agency Response:
The Board will make changes so that each licensee and each license renewal fee will be recorded, thus matching with each deposit on the bank statement. The Board will make deposits within 2-3 days of receiving monies.

Finding:
According to the Department of Finance and Administration (DFA) Financial Management Guide R4-19-4-501, sound internal controls over cash receipts dictate daily deposits to Treasury and/or bank accounts. Weekly deposits are allowable if an agency receives only a minimal amount of cash. The Agency, again, allowed the average time between receipts and deposits to exceed one week. For the period reviewed, the average number of days from receipt to deposit was 12 days for fiscal year 2016 and 16 days for the first three quarters of fiscal year 2017. In addition, eight checks totaling $1,000 were found in the Agency's safe on April 18, 2017, with dates ranging back to February 9, 2017, or 68 days. Lack of expediency in depositing funds could allow for misappropriation.

Recommendation:
We recommend the Agency make deposits weekly.

Agency Response:
The Arkansas Department of Higher Education (ADHE) will ensure timely deposits are made going forward. Deposits are generally made twice a week (Tuesday and Thursday) unless there is a large volume for the week, at which time additional deposits may be made. Checks are not endorsed until deposits are entered into AASIS. One staff member of Agency Finance enters the deposit information into AASIS and prepares the deposit/Treasury receipt form, while another staff member posts the deposits in AASIS, and one of them takes the deposit to the Treasury. Monthly, a reconciliation of the check log and recorded deposits in AASIS is performed by the Staff Accountant. A secondary review of the completed reconciliation is done by the Finance Manager.

Finding:
According to DFA Office of Personnel Management Policy Number 40.05, for the purposes of calculating sick leave incentive pay for retirees, paid sick leave taken under the Family and Medical Leave Act of 1993 (FMLA) will be added to the final sick leave balance. In one instance of sick leave payout for a retiree, the original calculation did not include 80 hours of sick leave taken under FMLA. This oversight by DFA personnel resulted in an underpayment of $599 to the retiree.

Recommendation:
We recommend the Agency actively monitor payout calculations to ensure payouts are made in accordance with policies.

Agency Response:
The underpayment of sick leave for a retiree has been corrected and appropriate payment made. ADHE will actively monitor payout calculations to ensure payouts are made in accordance with DFA Office of Personnel Management Policy Number 40.05. ADHE's payroll staff will work closely with DFA when calculating any payout of annual, sick, and/or holiday leave.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
OFFICE OF THE PROSECUTOR COORDINATOR
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PSYCHOLOGY BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PUBLIC DEFENDER COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM –
SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PUBLIC SERVICE COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS REAL ESTATE COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS RICE RESEARCH AND PROMOTION BOARD
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SOUTHEAST ARKANSAS BEHAVIORAL HEALTHCARE SYSTEM, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA02417
Audited By: BKD, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SOUTHEAST ARKANSAS ECONOMIC DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SECRETARY OF STATE
FOR THE YEAR ENDED JUNE 30, 2016

Finding:
In November 2015, United States Department of Agriculture (USDA) Deputy Secretary led a trade mission to Ghana, to expand export opportunities in sub-Saharan Africa. The Arkansas Secretary of Agriculture, who announced his intent to participate in the mission, was contacted by a Deputy Assistant for the Arkansas Secretary of State, who expressed desire to also participate in the trip, along with the Secretary of State.

The duties of the Arkansas Secretary of State are specified in the Arkansas Constitution and other applicable laws and include overseeing election laws, including candidate filings and ballot initiatives; registering businesses; and keeping up the Capitol grounds. The purpose of the USDA trip, costing $8,380, does not appear to be within the scope of these duties.

In addition, our review of Travel Reimbursement (TR-1) Forms revealed the following deficiencies:

- A Travel Reconciliation Form, which reconciles trip expenses involving advance purchases with multiple forms of payments, was not prepared.
- The TR-1 did not list the traveler's "official station."
- The Deputy Assistant's TR-1 was not properly reviewed and approved by Agency personnel.
- A traveler is not permitted to request reimbursement for the expenses of another employee on a TR-1. Emergency visa fees for the Secretary of State, totaling $150, were claimed on the Deputy Assistant's TR-1.
- Dated, itemized receipts for five meals, each exceeding $25, were not provided as required by Agency policy.
- Supporting documentation for two expenses representing a tour of Ghana and taxi fare, totaling $283, was not provided.
- Alcoholic beverages totaling $52 were purchased using the Agency's travel card.

Recommendation:
We recommend the Agency ensure travel expenditures appear consistent with the duties of the office and are adequately supported and reviewed.

Agency Response:
Management personnel responded that they concur that the record keeping on this particular trip was lacking. They have increased the approval process for required forms, including receipts, and they have emphasized to staff the responsibility to record only their own expenses on their TR-1 form.

However, management personnel stated they respectfully and strongly disagree with the Legislative branch of the State of Arkansas attempting to interfere with how and when a Constitutional officer should travel on behalf of the people of the State. Article 4 of the Arkansas Constitution clearly separates the powers of each branch of government and states that "no person or collection of persons, being of one of these departments, shall exercise any power belonging to either of the others, except in the instances hereinafter expressly directed or permitted." For the Legislature to make the determination that a particular trip by a Constitutional officer, taken on behalf of the State, "does not appear to be within the scope of their duties" is in direct violation of the Separation of Powers clause of the Constitution.

Secretary Martin considered the trip to Ghana, in November 2015, a direct benefit to Arkansas; therefore, he chose to commit his time to the cause. The trip included numerous opportunities to promote Arkansas agriculture, including Arkansas chicken production. In addition, the Secretary spoke directly to government officials in Ghana about the Apostille process, encouraging them to become a member of the Hague Convention so that Arkansas businesses would be able to streamline exporting products directly to the country. Management personnel recognized Legislative Audit's responsibility to safeguard the people's monies and account for them in a professional manner and stated they strive to work within the laws of the State.

In closing, management stated Secretary Martin was unaware the hotel in Ghana did not put his personal incidental expenses on his own personal credit card. Upon discovering his personal expenses were inadvertently paid by the Agency, he immediately reimbursed the $52.

Additional Comments from the Auditor:

In 1915, the Arkansas Supreme Court wrote, "[A]n investigation into the management of the various institutions of the State and the departments of the State Government is at all times a legitimate function of the legislature" (*Dickinson v. Johnson*, 117 Ark. 582, 588, 176 S.W. 116, 117 (1915)). In furtherance of that legislative oversight responsibility, Ark. Code Ann. § 10-3-402(a) notes that "the impartial periodic auditing of entities of the state and political subdivisions of the state will provide information which will facilitate the discharge by the General Assembly of its legislative responsibilities." Our audit finding regarding the Secretary of State's travel is pursuant to, and in aid of, the Arkansas General Assembly's oversight authority noted in *Dickinson v. Johnson*.

In addition, Ark. Const. art. 6, § 22, provides that the Secretary of State "shall perform such duties as may be prescribed by law...." Our audit finding provides the General Assembly with information it needs to determine if the Secretary of State is performing those duties "prescribed by law" – that is, those duties assigned by the General Assembly, since that body "prescribe[s] ... law."

Finally, Ark. Const. art. 5, § 29, provides that "[n]o money shall be drawn from the treasury except in pursuance of specific appropriation made by law, the purpose of which shall be distinctly stated in the bill...." Our audit finding provides the General Assembly with information it needs to determine if the Secretary of State's travel expenditures comply with the appropriation made for that purpose.

Finding:
The Agency conducted an internal investigation and hired an external audit firm to review fuel credit card charges and the Elections Division's mileage logs for the period July 2015 to March 2016. The review revealed an employee used a state vehicle, charged $1,504 in fuel for non-business purposes, and failed to document 4,470 miles valued at $1,475. On April 29, 2016, the former employee reimbursed the Agency $2,979, and on May 4, 2016, the Agency forwarded the results of the review to the Sixth Judicial District Prosecuting Attorney.

Recommendation:
We recommend the Agency review and strengthen procedures to ensure state vehicles are only used for business purposes. In addition, state vehicle usage should be maintained in the vehicle log book and reconciled to fuel charges on a regular basis.

Agency Response:
Management personnel responded that they concur with the finding and have strengthened procedures regarding vehicle usage. A vehicle logbook is assigned to each vehicle, and pool vehicles must be checked out through the State Capitol Police dispatch office. All staff employees using an Agency-owned vehicle are required to complete the log. The business office reconciles fuel charges for each vehicle on a monthly basis to ensure proper usage.

Finding:
Sound information system controls dictate that a Disaster Recovery Plan (DRP) contain sufficient information necessary for the recovery process, be periodically tested to ensure that critical business processes can be restored in the event of an interruption, and be updated with the most current information as management personnel or business processes change. Our review revealed Agency management had not established an adequate policy or procedure for testing and updating the DRP. As a result, documented application recovery plans had not been tested to verify their effectiveness. Inadequate testing and updating of the DRP increases the risk that (a) a plan will not include all vital information that is critical for the recovery process and (b) important business processes will not be successfully restored in the event of an interruption.

Recommendation:
We recommend the Agency conduct formal testing of the disaster recovery plan on a regular basis.

Agency's Response:
Management personnel responded that they concur with the finding and are currently working with an information technology service provider, Mainstream Technologies, to develop specific procedures to address the testing deficiency. The Agency is scheduled to conduct formal testing of its disaster recovery plan by August 2017.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SECURITIES DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

Finding:
Act 548 of the Regular Session of 2015 authorizes the total salary and number of positions for the Sentencing Commission and does not contain an extra-help or part-time position. Ark. Code Ann. § 19-11-1004(e)(1) states that any contract under which a state agency retains day-to-day managerial control over a person as an employee of the agency is not a professional services contract and is prohibited. Without legislative appropriation for an extra-help or part-time position, the Agency executed an ongoing Part-Time Employee or Temporary Employment Agreement (Agreement), with an individual designated as the employee and the Agency designated as the employer. The Agreement was effective July 1, 2015, and the Agency required the individual to submit weekly timesheets for work performed as determined by the Agency Director. Agency personnel lack training in procurement and human resource laws, thus allowing a potential misappropriation of state resources.

Recommendation:
We recommend the Agency seek training in and comply with state laws and regulations, as well as contact DFA-Office of Personnel Management for guidance to resolve this issue.

Agency Response:
Unfortunately, despite the best efforts of the staff, the Arkansas Sentencing Commission executed and remitted payment on a contract which was not in keeping with the letter of state law. Going forward, staff will attend training to better understand the intricacies of limitations on state contracts and how to properly differentiate between the various types of payments.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SOCIAL WORK LICENSING BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF REGISTRATION FOR PROFESSIONAL SOIL CLASSIFIERS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SOYBEAN PROMOTION BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF EXAMINERS IN SPEECH-LANGUAGE PATHOLOGY AND AUDIOLOGY
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SPINAL CORD COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

Finding:
In May 2016, the Agency discovered that two civilian employees had been taking time off without recording leave. Howard T. Meadows, Jr., and Jeremy M. Pruett worked on the night shift at the Governor's mansion and alternated leaving work early on Thursday nights for approximately 1.5 years. Based upon the Agency's investigation, the estimated value of time lost was $26,600. Both men subsequently resigned, and each pled guilty to a Class A misdemeanor theft of property charge under Ark. Code Ann. § 5-36-103(b)(4)(A). They were ordered to make restitution of $2,500 and $2,000, respectively. Those payments were made in full and deposited by the Agency in fiscal year 2017.

Recommendation:
We recommend the Agency continue to supervise employees to ensure that time and leave are properly recorded.

Agency Response:
ASP continues to audit the time and leave of our employees. We remain committed to identifying issues and dealing with issues whey they arise.

Finding:
As required by Section R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide, the Agency notified Arkansas Legislative Audit (ALA) of the following thefts of state property:

a) Between August 26 and August 29, 2016, a Glock 21SF pistol, valued in AASIS at $100, was stolen from a state vehicle parked at an employee's personal residence. Incident and police reports were filed.
b) Between March 24 and March 25, 2017, Agency property was taken from a state vehicle parked at an employee's personal residence. The property included a Dell E6420 Laptop Computer, a Canon P100 Printer, and other ancillary items. The total value of these items was approximately $2,500. Incident and police reports were filed.

Recommendation:
We recommend the Agency continue to strengthen internal controls to safeguard assets and report losses of property when they occur.

Agency Response:
ASP strives to maintain proper control and security over our inventory and to instill accountability to our employees. We will continue to look for ways to improve our internal controls for property management.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STUDENT LOAN AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SA0934717
Audited by: Frost, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
STUDENT LOAN GUARANTEE FOUNDATION OF ARKANSAS, INC.
FOR THE YEAR ENDED SEPTEMBER 30, 2016

There were no findings.

SAOA05216
Audited By: Thomas & Thomas, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SUPREME COURT
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SOUTHWEST ARKANSAS COUNSELING AND MENTAL HEALTH CENTER, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA02517
Audited By: Thomas & Thomas, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SOUTHWEST ARKANSAS PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA04417
Audited by: Emrich & Scroggins, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TEACHER RETIREMENT SYSTEM –
SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TOBACCO CONTROL BOARD
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TOBACCO SETTLEMENT COMMISSION
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TOWING AND RECOVERY BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF TRANSPORTATION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TREASURER OF STATE
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF VETERANS AFFAIRS
FOR THE YEAR ENDED JUNE 30, 2017

Finding:
The Agency entered into a request for qualifications (RFQ) contract for a cloud-based electronic health record platform without the approval of the Department of Finance and Administration – Office of State Procurement (DFA-OSP). OSP regulation R1:19-11-204 states that when price competition is irrelevant or the qualifications or specialized expertise of the vendor is the most important factor, the RFQ procurement method may be used with prior written approval from the OSP Director. Payments made during fiscal year 2017 totaled $16,425 and are expected to increase during fiscal year 2018 since the platform will be used for the entire year and the North Little Rock patient population is expected to increase with the completion of construction of the North Little Rock Veterans Home.

Recommendation:
We recommend the Agency strengthen controls to provide assurance that RFQ contract procedures reflect the regulations created by OSP.

Agency Response:
Agency management agrees with the deficiency noted by Arkansas Legislative Audit (ALA) concerning the PointClickCare procurement. Timely implementation of a new electronic health records system was essential to the successful opening the North Little Rock Veterans Home to residents in January 2017.

The Agency hired its first ever IT staff member in October 2016. The Agency had no IT staff to manage the development of business and functional requirements for this procurement when it began work on this project in May 2016, only six months prior to the originally scheduled opening of the North Little Rock Veterans Home. On September 1, 2016, the Agency requested special procurement approval from OSP, which it did not receive. The decision was made by executive leadership to proceed with the procurement in order to open the home in a timely manner.

The Agency performed substantial due diligence prior to selecting this software product, including engaging the Department of Information Systems to review system specifications against State of Arkansas standards/requirements.

PointClickCare is the leading provider of cloud-based software solutions for the long-term and post-acute care industry. Agency nursing staff (primary users of the software) indicated a distinct preference for PointClickCare over the alternative solution (NTTData/NetSolutions) evaluated during user software review sessions. The price differential between the two software products was $513/month, with PointClickCare being higher. The Agency determined that with this relatively small cost differential, other factors were more significant.

Finding:
State procurement law for temporary nursing and Certified Nursing Assistant (CNA) staffing contracts was not followed. The Agency has an agreement with PRN Medical Services (PRN) to supply nursing and CNA staff for veterans homes and paid PRN $124,722 for 53 temporary contract workers. The Agency did not seek bids or obtain applicable approvals required under OSP regulations prior to execution of the contract. If the procurement was deemed a critical emergency, the Agency would have been required to obtain the approval of OSP and either the Legislative Council or the Joint Budget Committee Co-Chairs.

Recommendation:
We recommend the Agency work with DFA to determine the procurement method most suited to the Agency's situation and follow the regulations for the procurement method chosen per the Financial Management Guide.

Agency Response:

Agency management agrees with the finding noted by ALA. Since the Agency spent a total of only $841 for contract nursing services during the prior fiscal year (FY2016) and a total of only $11,006 in FY2015, the Agency had no expectation that the need for contract nursing during FY2017 would be prolonged and substantial.

The Agency had nursing contracts in place during FY2017 with WG Hall dba @Work Medical and with Advantage On Call. These contracts were awarded via formal IFB (Invitation for Bid) in December 2013. Both providers were contacted on numerous occasions but were never able to provide the State Veterans Homes with contract nursing personnel when requested.

The Agency contacted the Arkansas State Hospital (ASH) and OSP, requested that the Agency be allowed to "piggyback" on the ASH nursing contract, and was granted permission to do so. However, ASH contract rates were being protested by the vendor, requiring renegotiation. In order to meet the immediate nurse staffing requirements at the two State Veterans Homes, the Agency acquired contract nursing services outside of normal procedures in order to meet the immediate needs of veterans home residents.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS VETERANS CHILD WELFARE SERVICE
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
VETERINARY MEDICAL EXAMINING BOARD
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
WESTERN ARKANSAS PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA02717
Audited by: Alan K. Minor, CPA

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
WEST CENTRAL ARKANSAS PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA02617
Audited by: Jordan, Woosley, Crone, Keaton, CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
WAR MEMORIAL STADIUM COMMISSION
FOR THE PERIOD JULY 1, 2015 THROUGH FEBRUARY 22, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS WATERWAYS COMMISSION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS WHEAT PROMOTION BOARD
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
WHITE RIVER PLANNING AND DEVELOPMENT DISTRICT, INC.
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

SAOA02817
Audited By: Welch, Couch & Co., CPAs

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
WORKERS' COMPENSATION COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF WORKFORCE SERVICES
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings.