

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

Finding 1:

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

- Operating revenues were overstated by \$52,930,508 when a portion of federal grant receipts was erroneously coded to a general ledger account related to Operating revenues, as opposed to the more appropriate general ledger account related to Non-operating revenues. The State attempted to correct the misstatement, but the modification was not made for the correct amount or to the correct general ledger account. As a result, the correcting entry caused a \$19,299,223 overstatement of Non-operating revenues and a \$72,229,731 overstatement of Operating expenses.
- A federal receivable of \$170,564,947 related to the new pandemic programs [Federal Pandemic Unemployment Assistance (FPUC), Pandemic Extended Unemployment Compensation (PEUC), and Pandemic Unemployment Assistance (PUA)] was not recorded.
- Unemployment benefits payable of \$293,784,718 for the new pandemic programs (FPUC, PEUC, and PUA) were not recorded until auditors inquired about the lack of such an entry. Additionally, auditors recalculated this payable to be \$303,090,396, a difference of \$9,305,678.

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

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

Recommendation:

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

Agency Response:

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

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

Views of Responsible Officials and Planned Corrective Action:

- The State made an attempt to correct the misstatement, but the modification was not made for the correct amount, or to the correct general ledger account. As a result, the correcting entry also caused a \$19,299,223 overstatement of non-operating revenues and a \$72,229,731 overstatement of operating expenses. Accounting staff unintentionally copied the posting templates from employer contributions, instead of other program revenues. To eliminate the risk, the Assistant Controller will review all new templates before posting.
- The root cause was breakdowns in communications and the lateness in calculating and posting the payable that caused this receivable. The Controller Unit will develop SOP's to ensure all appropriate entries are posted.
- Under normal circumstances, the UI Program Unit uses a prescribed formula to calculate the payable for UI Regular Benefits. That formula is: Average Duration divided by two (2), times compensable claims, times Average Weekly Benefit.

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

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

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

Finding 2:

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

- The statements of financial interest filed by the Secretary of Commerce for calendar years 2019 and 2020 did not disclose his Director position held with the nonprofit corporation.
- The year-end closing book submitted by the Department of Commerce to DFA – Office of Accounting did not disclose any related party transactions, as required by GASB Cod. Section 2205.

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

Recommendation:

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

Agency Response:

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

Finding 3:

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

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

Recommendation:

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

Agency Response:

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

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

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

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

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

Financial Statement Finding (ACFR)

REPORT FINDING: 2021-001

Division of Workforce Services

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

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

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

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

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

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

REPORT FINDING: 2021-001 (Continued)

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

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

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

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

Single Audit Findings

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$19,903,597

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

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

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

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

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

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

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

Repeat Finding:

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

Criteria:

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

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

Condition and Context:

Our review of claimant data revealed overpayments as follows:

- Using data analytics, ALA staff identified 17 mailing addresses that were heavily used to receive debit cards containing Unemployment Compensation (UC) benefits for 64 claimants, totaling \$80,187. A review of the related case files revealed that the claims were all initiated at a time when identity (ID) verification controls had been relaxed. When the Agency reinstated ID verification controls and requested the claimants provide ID, none of the claimants provided ID to validate the claims. As of June 30, 2021, benefits totaling \$3,268 for 3 claimants had been identified as likely fraud by the Agency and are included in the total identified fraud and questioned costs discussed in finding **2021-003**.
- Using data analytics, ALA staff identified 41 mailing addresses that were heavily used to receive debit cards containing Pandemic Unemployment Assistance (PUA) benefits for 231 claimants. Benefits totaling \$2,075,651 for 126 of these claimants were questioned due to the lack of identification documentation in the case file.
- During our review of Unemployment Insurance (UI) claims, we noted 7,302,064 weekly UI benefits that were paid during the fiscal year, totaling \$1,963,329,057. In a random sample of 60 weekly UI benefits to 60 different claimants, totaling \$15,091, ALA staff noted 5 claimants, with benefits totaling \$660, who were deemed ineligible at a later date by caseworkers.
To determine the severity of the noncompliance, likely questioned costs must be calculated. As a result of this calculation, the \$660 identified as known questioned costs was projected to the population, resulting in likely questioned costs totaling \$85,865,561.
- Claimant benefit data was compared to death data provided by the Arkansas Department of Health, resulting in identified unemployment benefits, totaling \$272,949, that were paid for claims on behalf of 72 deceased individuals.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$2,426,179

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

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

Anticipated Completion Date: Completed

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

Statistically Valid Sample:

Not applicable

Questioned Costs:

\$4,726,158

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

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

Anticipated Completion Date: Completed

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

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

Repeat Finding:

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

Criteria:

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

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

Condition and Context:

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$87,424

Cause:

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

Effect:

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

Recommendation:

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

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

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: July 2022

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

Statistically Valid Sample:

Not applicable

Questioned Costs:

\$1,299,341

Cause:

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

Effect:

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

Recommendation:

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

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

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

Views of Responsible Officials and Planned Corrective Action:

There are 3 points of data required and related to the finding:

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

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

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

Anticipated Completion Date: Mid-June 2022

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

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

Repeat Finding:
Not applicable

Criteria:

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$293,970

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

Due to a vendor issue, weeks were paid in duplicate. Once the issue was found, all monetary redeterminations were stopped until the issue was fixed. Overpayments or waivers will be issued to these claimants.

Anticipated Completion Date: December 2022

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

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

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

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

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

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

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

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

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: Completed

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

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

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

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: Completed

Contact Person:

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

Finding Number: 2021-014
State/Educational Agency(s): Arkansas Department of Human Services
**Arkansas Department of Commerce –
Arkansas Economic Development Commission**
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:
Not applicable

Criteria:

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

Furthermore, the State of Arkansas was responsible for determining the level and detail of documentation needed from subrecipients of small business assistance to satisfy compliance with this law.

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

Condition and Context:

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$47,488

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

Finding Number: 2021-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
**Arkansas Department of Commerce –
Arkansas Economic Development Commission**
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

Arkansas Department of Human Services:

DHS concurs with this finding. DHS and AEDC will collaboratively investigate the six instances in which duplicate expenditure documentation was submitted to each agency. Both agencies will collaborate on appropriate action, including recoupment, for any payments confirmed as duplicates.

Anticipated Completion Date: August 31, 2022

Contact Person:

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Arkansas Economic Development Commission:

(Joint Response from All Agencies):

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

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

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

Finding Number: 2021-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
**Arkansas Department of Commerce –
Arkansas Economic Development Commission**
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency

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

Arkansas Economic Development Commission: (Continued)

(Joint Response from All Agencies) (Continued):

The Ready for Business Grant Program and the Business Interruption Grant Program (BIG) were both temporary programs that are no longer operational. This should fully mitigate future control issues.

Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only)

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

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

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

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

Finding Number: 2021-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
**Arkansas Department of Commerce –
Arkansas Economic Development Commission**
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency

Views of Responsible Officials and Planned Corrective Action (Continued):
Response from Arkansas Department of Parks, Heritage and Tourism (BIG Only) (Continued)

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

Anticipated Completion Date: August 31, 2022

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

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

Condition and Context:

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

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

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

Questioned Costs:
\$6,040

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

Arkansas Department of Parks, Heritage and Tourism:

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

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

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

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

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

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

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

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

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

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

Planned Corrective Action:

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

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

Anticipated Completion Date: August 31, 2022

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

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

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

Arkansas Economic Development Commission:

(Joint Response from All Agencies):

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

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

Response from Arkansas Department of Parks, Heritage and Tourism

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

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

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

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

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

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

Arkansas Economic Development Commission: (Continued)

(Joint Response from All Agencies):

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

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

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

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

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

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

Anticipated Completion Date: August 31, 2022

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

Finding Number: 2021-021
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Ready for Business Grant Program)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency
Repeat Finding:
Not applicable

Criteria:

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

Furthermore, the State of Arkansas was responsible for determining the level and detail of documentation needed from subrecipients of small business assistance to satisfy compliance with this law. Subrecipients were required to submit receipts prior to October 31, 2021, for expenses incurred between March 1, 2020, and September 30, 2021.

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

Condition and Context:

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

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

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

ALA review revealed the following exceptions for 15 grants:

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

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

Finding Number: 2021-021 (Continued)
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Ready for Business Grant Program)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Costs Principles;
Period of Performance
Type of Finding: Noncompliance and Significant Deficiency

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$59,930

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

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

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

Anticipated Completion Date: August 31, 2022

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

Finding Number: 2021-022
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Arkansas Rural Connect Program)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles;
Period of Performance
Type of Finding: Significant Deficiency

Repeat Finding:
Not applicable

Criteria:

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

Furthermore, the State of Arkansas was responsible for determining the level and detail of documentation needed from subrecipients of small business assistance to satisfy compliance with this law. Grant agreements signed by the subrecipient required submission of monthly reports of expenses in a form prescribed by the Arkansas Economic Development Commission (AEDC).

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

Condition and Context:

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

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

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

Finding Number: 2021-022 (Continued)
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.019 – COVID-19: Coronavirus Relief Fund
(Arkansas Rural Connect Program)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): Not Applicable
Federal Award Year(s): 2020
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles;
Period of Performance
Type of Finding: Significant Deficiency

Questioned Costs:
Unknown

Cause:

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

Effect:

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

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date This reimbursement method is currently in effect.

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$2,100

Cause:

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

Effect:

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

Recommendation:

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

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

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

Anticipated Completion Date: Completed

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

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

Condition and Context:

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

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$44,100

Cause:

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

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

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: July 2022

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$524,400

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: July 2024

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

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

[Views of Responsible Officials and Planned Corrective Action \(Continued\):](#)

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

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

Repeat Finding:
Not applicable

Criteria:

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$114,000

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

Anticipated Completion Date: Completed

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

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

Repeat Finding:
Not applicable

Criteria:

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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

Subsequent legislation, H.R. 2471, "Consolidated Appropriations Act of 2022", which was signed into law March 15, 2022, has retroactively changed the state match from 25% to 10%, so there is no shortfall, by either calculation.

Anticipated Completion Date: Completed

Contact Person: Tracii Laettner
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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

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

Repeat Finding:
Not applicable

Criteria:

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

Condition and Context:

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

Anticipated Completion Date: May 13, 2022

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

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

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

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