

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF ARCHITECTS, LANDSCAPE ARCHITECTS, AND INTERIOR DESIGNERS
(DEPARTMENT OF LABOR AND LICENSING)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Finding:

The Office Manager is a cardholder and liaison for both the Agency's purchasing card (P-Card) and travel card (T-Card). Purchasing card program guidelines state that an Agency liaison should not be a cardholder due to security role issues in AASIS, and card revocation could result.

Recommendation:

We recommend the Agency comply with purchasing card policies and procedures established by the Department of Finance and Administration - Office of State Procurement (DFA-OSP).

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

We noted the following areas of noncompliance with Ark. Code Ann. § 19-4-1103, which states that the executive head of an agency is responsible for establishing procedures and controls to ensure accurate payment of obligations, management approval of expenditures, and retention of supporting invoices:

- Thirteen credit card statements totaling over \$31,000 did not include evidence of management approval before payment was made.
- Expenditures totaling \$9,466 had inadequate receipts or were improperly paid from quotes.

The absence of these controls could result in inappropriate disbursements.

Recommendation:

We recommend the Agency establish and implement internal controls to ensure compliance with applicable state law concerning approval and documentation of expenditures.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

Financial Management Guide regulation R3-19-4-1601 states that agencies may not "employ contract labor for a period longer than six consecutive weeks per calendar quarter." The Agency exceeded the number of consecutive weeks for four quarters between July 2016 and March 2018, resulting in total contract labor payments of \$9,002.

Recommendation:

We recommend the Agency comply with state policies and procedures regarding contract labor.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

Ark. Code Ann. § 19-4-1502 requires the executive head of an agency to maintain a record of all agency property. Five equipment items valued at \$15,671 were not added to the Agency's asset listing, resulting in understatement of the financial records.

Recommendation:

We recommend the Agency comply with Arkansas Code regarding agency property.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

The Agency failed to adhere to state travel regulations as follows:

- A traveler exceeded the maximum per diem rate for lodging by a total of \$280 for four nights without a letter of authorization issued by the travel administrator.
- Written authorization was not maintained for vehicle rental costing \$218.
- A traveler did not use coach class air fare and incurred an Economy Plus charge of \$39.

Recommendation:

We recommend the Agency provide employee training to ensure that all travel expenses comply with state laws and regulations.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose and does not necessarily involve a violation of law. The Agency made the following purchases totaling \$5,493 that could be considered wasteful since they have no apparent business purpose or provide no benefit to the State:

- \$2,396 for award trophies for newly-licensed architects.
- \$1,324 for food and supplies for the 2017 Holiday Open House.
- \$650 for two sets of headphones.
- \$475 in shipping, handling, and a "rush" charge for 50 lapel pins.
- \$423 for a universal remote control, an advanced keyboard, and weather apps.
- \$164 for fees and penalties due to late payments.
- \$61 for Halloween candy.

Recommendation:

We recommend the Agency seek advice from DFA-OSP regarding purchases that may lack a business purpose or be extravagant.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

In November 2018, the database ceased functioning, and a full system restore could not be performed, forcing the Agency to manually reenter data. This situation could have been avoided by performing database restore testing and having a disaster recovery plan in place.

Recommendation:

We recommend Agency management ensure periodic computer backup restore testing is performed by the Department of Information Systems and documented.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

Finding:

Ark. Code Ann. § 10-4-416 permits the Legislative Auditor and authorized employees of Arkansas Legislative Audit (ALA) to have access at all times to records of any entity of the State. The Agency did not provide requested minutes of Board meetings held after April 26, 2018, which limited the scope of our assessment because we were not properly informed of recent Board actions.

Recommendation:

We recommend the Agency comply with Arkansas Code regarding documents requested by ALA staff.

Agency Response:

As of October 4, 2019, management had elected not to respond to the findings.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF EXAMINERS IN COUNSELING
(DEPARTMENT OF HEALTH)
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Financial Management Guide Regulation R4-19-4-501 states, in part, "Good internal controls dictate daily deposits to Treasury and/or a commercial bank account. Weekly deposits are allowable if an agency receives only minimal amounts of cash and/or checks. However, in the last week of the month all deposits keyed into the State's accounting system must be delivered to the Treasurer of State or the commercial bank for deposit prior to noon on the last business day of the month." During the last four months of the fiscal year, the Agency did not deposit checks as required on the last day of the month. Additionally, as of June 30, the Agency held in excess of 175 checks totaling over \$46,000 that were not deposited timely. A lack of employee training and management oversight could allow for the misappropriation of assets.

Recommendation:

We recommend the Agency seek training from the Department of Finance and Administration and adhere to all state regulations.

Agency Response:

The Agency will implement the following action in order to correct the cash on hand problem of deposits not deposited in the Treasury by the last day of the FYE 6-30-18. The number of licenses that renew each year by June 30 has placed a burden on the office to process the payments for renewal, as many of the licensees have not sent in the required paperwork in a timely manner. As a result, the Board will begin to implement online renewals and online payments beginning March 1, 2019. This new option of online payment and renewal will enable timely renewals that will meet the regulatory requirements found in R4-19-4-501. The Board will require all renewals of licenses and payments to be due on May 31 of each year. This will give the office time to process all renewal fees by the end of the fiscal year for those licensees who choose to provide paper renewals and payments instead of using the new online process and payment. This will significantly reduce the number of paper renewals and payments and resolve the issue of untimely deposits.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BOARD OF PODIATRIC MEDICINE
(DEPARTMENT OF HEALTH)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

Finding:

This is a repeat finding. R4-19-4-501 of the Department of Finance and Administration (DFA) Financial Management Guide requires that collecting, recording, depositing, and reconciling of cash receipts be segregated among different individuals. However, the Board's Secretary/Treasurer had sole responsibility for performing these duties. We noted the following issues related to the Board's inadequate control over cash transactions, primarily due to a lack of support staff:

- The Board did not keep a complete list of receipts for license renewals and application fees collected and did not reconcile revenues recorded on its books to AASIS. Insufficient recordkeeping may result in funds not being deposited.
- The Board did not make a timely deposit. A bank account was closed, and funds totaling \$210,921 were withdrawn on August 31, 2018; however, those funds were not deposited to the State Treasury until October 1, 2018. Untimely deposits can result in improper reporting of funds and/or increase potential for theft or loss of funds.

Recommendation:

We recommend the Agency maintain strict controls during the processing of cash receipts to the extent possible and adhere to DFA Financial Management Guide regulations regarding recordkeeping and timely deposit of revenue.

Agency Response:

Reports will be sent to the President of the Board who will evaluate, monitor, and sign off on reports. Deposits will be made on a more timely basis.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE BOARD OF NURSING
(DEPARTMENT OF HEALTH)
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Ark. Code Ann. § 21-4-501 allows for payment of accumulated, unused sick leave, not to exceed \$7,500. Review of all employee lump sum payouts revealed that one employee received a sick leave payout of \$7,500 but was entitled to \$3,945. The Agency appears to have submitted proper leave payout documentation; however, a clerical error at the Department of Finance and Administration Office of Personnel Management (OPM) caused an overpayment of \$3,555 for accrued sick leave hours.

Recommendation:

We recommend the Agency develop a process for the review of leave payouts.

Agency Response:

ASBN and OPM are coordinating with the retiree mentioned above to establish a payment plan to correct the overpayment made in error.

As a Service Bureau agency, past experience has been that ASBN relies on OPM as the authority on payroll related issues. Although ASBN will continue to rely on OPM for guidance and payroll support, ASBN will question variances between expected and actual leave payouts. On July 10, 2019, ASBN approved a policy to verify that REM statements received from OPM match the leave payout documents submitted to OPM as recommended by Legislative Audit. This should allow ASBN to discover and correct errors that may occur in the future in a timely manner.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS BEEF COUNCIL
FOR THE YEAR ENDED JUNE 30, 2019**

Finding:

As mentioned in previous audits, the Agency receives summary and detailed information from the Department of Finance and Administration (DFA) related to the collection of beef tax assessments. From these reports, the Agency can determine how much of the assessments should be retained by the State of Arkansas and how much should be passed on to the national board and other states. Our testing again revealed that the Agency did not adequately compare or reconcile the detailed tax assessment remittance reports with summary data from DFA, including the Gross Tax Collection Report and State Treasury deposits. As a result, the Agency may have overpaid the national board \$1,094 and underpaid other states by \$1,315. In response to the prior-year finding, Agency personnel indicated they would perform monthly reconciliations, including communicating with DFA; however, there is no evidence that these actions are occurring.

Recommendation:

We again recommend the Agency and DFA establish internal controls and documentation procedures to assure that the detail remittance and gross collection information provided by DFA are reconciled with each other so that subsequent distributions to affected parties are accurate.

Agency Response:

We admit that the Agency was deficient in reconciling the monthly collections report provided by DFA with DFA's monthly Statement of Gross Tax Collections. The amounts reflected in the Gross Tax Collections Report were consistently higher than the amounts reported to the Agency. Rather than DFA reconciling the amounts in their reports, the Agency is tasked with this procedure. Contact has been made with DFA (Miscellaneous Tax) personnel to explain differences when they occur. It should be noted that the accounting process within DFA has apparently been corrected since, for the first three months of this fiscal year, the amounts have coincided between the Collections report and the Gross Tax Collections report. Going forward, this process will be monitored more closely in order to adapt the proper controls.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS SOYBEAN PROMOTION BOARD
FOR THE YEAR ENDED JUNE 30, 2019**

Finding:

As required by Ark. Code Ann. §§ 19-4-2201 – 19-4-2202, non-exempt discretionary grants over \$10,000 are to be reviewed by the Arkansas Legislature, specifically the Legislative Council or the Joint Budget Committee, prior to being awarded. The Agency awarded four grants totaling \$236,030 during fiscal year 2019 that were not reviewed by the Arkansas Legislature.

Recommendation:

We recommend the Agency comply with Arkansas law concerning discretionary grants and submit all non-exempt, discretionary grants over \$10,000 to the Arkansas Legislature for review.

Agency Response:

The total grants that were identified as non-discretionary were for regular promotional expenditures for the board. The paperwork was not filed by the board administrator to go before the legislative review committee but has since corrected the measure working with other state agencies on who to send paperwork to be placed on the agenda. The promotional items for the board are approved by the board and some need to be paid in a timely manner for dues or other projects; hence these expenditures are identified to be submitted for prior approval of the review committee.

Finding:

To ensure compliance with Arkansas Executive Order 98-04 and various other laws, Department of Finance and Administration rules require that a "contract and grant disclosure and certification form" be completed for any contract or grant that is greater than \$25,000. The Agency failed to acquire the requisite disclosure forms from two contractors/grantees with agreements totaling \$197,530.

Recommendation:

We recommend the Agency acquire the requisite disclosure forms from potential grantees and contractors prior to awarding grants or contracts.

Agency Response:

The Agency will submit contract/grant disclosure forms for each project over the \$25,000 threshold, much like they do for contracts in accordance with OSP guidelines. This finding was simply overlooked as these were grants but, furthermore, grants will be treated the same as contracts as paperwork will be completed, submitted, and reviewed.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS GAME AND FISH COMMISSION
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

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

On December 5, 2018, a pair of night vision goggles, valued at \$2,738, and a Bushmaster 223 semi-automatic rifle, valued at \$757, were stolen from an Enforcement Officer’s state vehicle in Hazen, Arkansas. Incident and police reports were filed.

Recommendation:

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

Agency Response:

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

Finding:

Ark. Code Ann. § 19-4-1502 states that it shall be the responsibility of the executive head of each state agency to keep and maintain a record of all property of the agency. As noted in the previous two assessments, fixed assets (buildings) are again not sufficiently distinguishable by their recorded description and lack corresponding identification on the structures. Indistinguishable property has resulted in the demolition of structures that were not subsequently removed from Agency records. In addition, structures in use by the Agency were not included on the AASIS fixed asset listing. As a result, some assets cannot be independently verified for existence.

AASIS asset adjustments submitted by the Agency to DFA on June 26, 2019, reflected that 15 buildings with an estimated original cost of \$2,845,590 have never been added to the AASIS fixed asset listing, and 158 buildings with a total cost of \$1,663,465 have been demolished but not removed from the AASIS fixed asset list. As of June 30, 2018, the net effect on the financial statements is an understatement of fixed assets totaling \$1,182,125 and an unrecorded loss of \$305,746 on the removal of the 158 demolished buildings because some of those assets were not fully depreciated.

Recommendation:

We recommend the Agency continue to strengthen its controls over building identification, ensuring that those assets are properly reflected in AASIS.

Agency Response:

The Director, in his role as executive head of the Agency, views the responsibility to maintain proper recordkeeping of all Agency property as critical. In the fall of 2017, a building tagging process was developed for existing and new structures. The implementation of this process was initiated at the end of fiscal year 2018. The fixed asset records were updated in AASIS in fiscal year 2019. An annual inventory of structures will be conducted going forward.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2019

Finding:

Arkansas Teacher Retirement System (ATRS) discovered the benefits of two members had not been discontinued at the time of the death, resulting in overpayments of \$306,686 and \$17,186, respectively. One of the deaths was not reported to ATRS by the member's survivors, and the other was not correctly entered into the Agency's system. These members were identified with the implementation of new procedures by ATRS.

Recommendation:

We recommend ATRS ensure member records are updated with all available information and continue to research new methods of identifying deceased members to prevent overpayments.

Agency Response:

ATRS has relied on a number of methods in the past to identify when a member dies, including contracting with national data providers, daily in-house data searches, and data sharing with the Social Security Administration. ATRS agrees that it should utilize any available resource to ensure data accuracy. ATRS has already implemented at least one new method by requiring each member to affirmatively respond to a request for verification of status. This method is being rolled out incrementally, with requests going to about 7,000 members in each cycle. Special focus is placed upon members with out-of-state addresses since the two members above lived outside Arkansas. If the member fails to respond, ATRS will review the account and suspend benefits after multiple requests.

ATRS is also formalizing a process for recovery of overpayments when such an event occurs. Recovery efforts include identifying persons who likely have wrongly converted the overpayments, referring to law enforcement where warranted, demanding repayment, and pursuing legal action when our demands are not successful. Successful recovery has occurred at least in one case during recent years through ATRS's initiation of a probate proceeding.

Finding:

The actuarial liability is calculated based on information about each member in the system (i.e., salary, age, years of service, contribution status, etc.). Errors in this information have a direct impact on the amount of the liability. Our review of the Agency's member records revealed the following deficiencies:

- A comparison of member records with the Arkansas Health Department death database identified 5,084 ATRS records that had not been updated with a date of death. Forty-one members identified as deceased were sent to the actuary to be included in the calculation of the liability.
- The Agency used a default date of 1/1/1900 and 1/1/1901 when the member application was missing date of birth information. There were 9,335 member records with the default date of birth.
- Our review of 29,260 member records from 43 employers revealed member date of birth information for 21 records did not agree to information obtained from employer records, resulting in a net difference of 614 months or 51 years.
- The following school districts did not properly report their employees in ATRS covered positions as members of ATRS. For these employees, ATRS did not receive employer contributions, the employees did not receive any service credit, and the salary and contribution amounts were not included in the actuarial liability calculations.

School Name	Date Range	No. of Unreported Employees	Total Unreported Salaries	Employer Contributions Due	Interest Due	Total Due
Fort Smith School District	2015-2019	1	\$ 109,325	\$ 15,305	\$ 1,772	\$ 17,077
Pulaski County Special School District	2015-2019	3	\$ 131,123	\$ 18,357	\$ 1,497	\$ 19,854
Fayetteville School District	2015-2019	1	\$ 45,711	\$ 6,400	\$ 733	\$ 7,133
North Little Rock School District	2015-2019	1	\$ 71,876	\$ 10,063	\$ 1,284	\$ 11,347
Bryant School District	2015-2019	1	\$ 19,384	\$ 2,714	\$ 356	\$ 3,070
Bismarck School District	2015-2019	1	\$ 47,381	\$ 6,633	\$ 1,071	\$ 7,704
Charleston School District	2015-2019	1	\$ 9,648	\$ 1,351	\$ 169	\$ 1,520
Melbourne School District	2018-2019	1	\$ 750	\$ 105		\$ 105
Viola School District	2015-2019	2	\$ 62,125	\$ 8,698	\$ 1,206	\$ 9,904
Totals		12	\$ 497,323	\$ 69,626	\$ 8,088	\$ 77,714

Recommendation:

We recommend ATRS review the member information submitted by employers to determine the information is complete and has been properly reported. Member records should also be reviewed and updated timely with any missing information.

Agency Response:

- The 5,084 ATRS records from the Arkansas Health Department death database without updated dates of death were further analyzed by ATRS management. The primary concern is: Did ATRS make any regular monthly payments to these 5,084 members after their death? The answer is no. There were 5 members that were receiving a benefit, however ATRS learned of the deaths using existing procedures and removed them from payroll before the next payroll cycle. This audit did reveal 56 members that were inactive, non-vested but still had refundable contributions and deceased more than 5 years ago. These members are currently being processed to get these contributions paid to the members' estates.

Out of the 5,084 records above, there were 41 members identified as deceased that were sent to the actuary to be included in the calculation of the liability. Out of the 130,000 member records sent to the actuary each year, there will always be a number of deceased members sent. An average of 3 ATRS members die each day and it takes time to get a member's record updated. Another challenge in updating members' date of death is when death database comparison results are "not a perfect match". Out of the 41 members identified as deceased, 7 of these were "not a perfect match" members who died between 2012 and 2017 and should have been processed by ATRS in a more timely manner.

The vast majority of the 5,084 deceased records identified are defined by ATRS as "dormant zero-liability" members. A dormant zero-liability member is one that has no cost to the over-all liability of ATRS unless some future event is performed by the member. An example of a dormant zero-liability member is a substitute teacher that routinely only works a couple months of the year and does not have enough service credit to be vested. ATRS does not monitor these members against death databases since they have no liability to ATRS. Once this substitute teacher accrues enough service to be vested, they are monitored every couple of years along with the other deferred members. It can be difficult for ATRS staff members to easily identify when a member is classified as a dormant zero-liability member, therefore ATRS is working on modifying the database records to simplify the identification.

In general, ATRS has implemented several new procedures that should reduce the time it takes for ATRS to be notified of a deceased member. We are sending Annual Statements to all members in which ATRS owes benefits or refunds. Hopefully the family member of the deceased member will notify ATRS of the death upon receiving the Annual Statement.

- Over the years, ATRS has used both “1900-01-01” and “1901-01-01” as a default date for a missing date of birth on a member’s record. There are currently 9,335 member records with these default birth dates. Most of these records are for dormant zero-liability members. However, there are still 199 of the 9,335 members that still have contributions on record with ATRS. Those contributions need to be refunded to those members upon request or to the member’s estate once the member is deceased. The average amount of contributions on file for the 199 members is \$17.53. ATRS is in the process of locating the missing birth dates for these 199 members since having an accurate birth date on file will assist in matching against death databases.
- ATRS routinely compares the names, gender and birth dates of its members to the names and birth dates on record with the Arkansas Department of Motor Vehicles in order have accurate birth dates for our members. ATRS is adding a similar comparison with the names and birth dates on record with Arkansas Public School Computer Network (APSCN) in an effort resolve incorrect birth dates like the 21 records identified in this audit.
- ATRS relies on employers to report accurate information regarding member status, salary, etc. ATRS regularly finds and corrects reporting errors during routine reconciliations; however, if an employer does not assign the correct ATRS payroll deduction code no information regarding the member will be reported to the system. Legislative Audit was better able to discover these errors because of comparison to more comprehensive salary reports provided to them directly from APSCN. Previous efforts to access APSCN data have been unsuccessful, but ATRS is working with APSCN again to obtain an annual report that will include all employee salaries paid by districts for the fiscal year. This will allow ATRS to more effectively and easily find unreported members.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF ARKANSAS HERITAGE
(DEPARTMENT OF PARKS, HERITAGE, AND TOURISM)
FOR THE YEAR ENDED JUNE 30, 2018

Finding:

Our review of Historic Arkansas Museum contracts revealed an overpayment to four contractors totaling \$34,226, as follows:

- All four contractors were paid \$1,500 each, through the Loughborough Trust, prior to the effective date of their contracts. Subsequent contract payments were not adjusted to reflect the advance payments.
- An overpayment of \$2,726 was made to one contractor who subsequently became an Agency employee during the term of the contract.
- An overpayment of \$25,500 was made to one contractor because of an error in the contract amendment.

The overpayments were the result of inefficient oversight of the contract amendment process.

Recommendation:

We recommend the Agency establish appropriate controls to ensure compliance with state procurement laws and regulations.

Agency Response:

The Agency acknowledges inefficient internal oversight of the contract amendment process for Historic Arkansas Museum (HAM) for four contractors. The Agency has taken proactive measures to remediate the procurement process for these contractors.

HAM has employed four contractors for many years for the Arkansas Made Research Program, which researches, collects, documents, and preserves decorative, mechanical, and fine art produced by Arkansas artists and artisans. The contractors also assist the museum curator with exhibit preparations. These engagements and the annual contract renewal process began prior to the current agency management team's tenure. Although we had identified, generally, the unusual nature of these contracts and the need to correct them, the contracts and their renewals were not reviewed in-depth until this year. Following this internal review, the Agency has concluded that the most efficient method of managerial oversight is to convert current contractors to Agency staff members utilizing available, vacant agency positions within the Agency's headcount cap.

- a. The Historic Arkansas Museum is financially supported by both a non-profit 501(C)3 board (the HAM Foundation) and a private trust administered by the HAM Commission (the Loughborough Trust). While the HAM Foundation is an entirely separate entity, the Loughborough Trust and its fiscal relationship with HAM need better definition. The Loughborough Trust, for example, maintains its own checkbook with approval for expenditures through the HAM Commission. We are working to gain better clarification of roles.
- b. In early state fiscal year 2018, the HAM Commission authorized payments from a non-appropriated cash fund account to four contractors for \$1,500 each. These onetime payments were in response to scheduling delays in the contract review process for the four contractors. Scheduled payments to the contractors were to begin July 1, 2017, but delayed until the first week of September 2017; the individual payments of \$1,500 partially bridged the gap in payments for July and August.

Following legislative review in August 2017, each contractor submitted an invoice for payment for work completed in July and August, which the Agency Accounting Department paid as a typical supplier invoice. No adjustment was made for the prior payment of \$1,500 to each contractor, as the Agency Accounting Department was unaware of the specific circumstances of the prior payments from the non-appropriated cash fund account.

Since review of this internal control and compliance assessment finding, the Agency has stressed the need for greater transparency and control to Agency division managers of reviewed actions by the HAM Commission in regards to financial transactions associated with the non-appropriated cash fund account, including the need for adherence to state financial policies, procedures, practices, and guidelines.

- c. Contractor activities reviewed during the most recent internal control and compliance assessment at the HAM division of the Agency are continuous and uninterrupted throughout the state fiscal year. This has been the practice for several years. Assigned duties include acting as project managers for the Arkansas Made Research Program and assisting the museum curator with exhibit preparations.

Due to the continuous nature of the work performed by these HAM contractors, the HAM division developed a schedule of payments based on 48 weeks for a contract that was for 52 weeks. This allowed for the payment of contractor invoices prior to the four weeks in June when invoicing is suspended due to the annual shutdown of the state accounting system. This is not a practice followed by other Agency divisions.

Upon review of this internal control and compliance assessment finding, the Agency has ended this unique and informal practice of prorated contract payments and communicated the need to Agency division managers for adherence to state financial policies, procedures, practices, and guidelines.

- d. Due to communications issues between the Agency and the Office of State Procurement during the process of submitting a contract for legislative review in May 2017, an amendment to a renewing contract was incorrectly entered into the state accounting system, resulting in an incorrect contract amount for State Fiscal Year 2018.

The correct contract amount to enter into the state accounting system was \$31,025, a \$3,000 increase from the previous state fiscal year contract amount of \$28,025. The full, updated amount of \$31,025 was not entered, just the \$3,000 increase. The review period was for two years; therefore, the reviewed amount was \$6,000 ($.\$3,000 \times 2 = \$6,000$). The difference between the actual contract amount (\$31,025) and the reviewed amount (\$6,000) was \$25,050.

Because of this internal control and compliance assessment finding, the Agency has stressed to all relevant staff the need to better capture, record, and analyze financial data on contract renewals to ensure proper tracking of annual expenditures and total project cost over the lifetime of a contract.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF FINANCE AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

On October 1, 2018, DFA discovered three checks, totaling \$1,933, missing from September deposits at the Hot Springs - Downtown Revenue Office. After being questioned by police, Service Representative Faleasha Young admitted removing and destroying a \$639 check for her personal title and registration and recording a nonexistent customer check to conceal \$1,217 in misappropriated cash. A third check for \$77 remains unaccounted for. Young reimbursed DFA \$639, and her employment was terminated.

Recommendation:

We recommend the Agency strengthen controls around the receipt and recording of checks at the local revenue offices.

Agency Response:

DFA has changed its policy to require two persons go to the bank, where practical. One employee carries the bank bag and the other employee carries the key to the money bag. Ms. Young admitted she was aware the missing checks would be investigated and that she would be held accountable, but that she was desperate and did not know what else to do to help her family.

Finding:

A DFA employee from the Hot Springs – Albert Pike Revenue Office informed management that her cash drawer was short \$1,001 on December 3, 2018. Further investigation by DFA revealed that the employee did not follow protocol when accepting cash from a customer. After a failed attempt to have the customer pay the remaining balance, the employee reimbursed the State \$1,001 and retired from her position.

Recommendation:

We recommend the Agency emphasize the importance of following procedures for accepting cash from customers.

Agency Response:

On December 3, the employee made the District Manager aware she was short in her cash drawer, but she felt she had found the shortage; however, she later decided she had not. The employee and the District Manager could not find the shortage. DFA police investigated the incident and could not determine how the shortage occurred. The employee reimbursed the State \$1,001 and retired from her position.

DFA instituted a policy that someone in the office verify any transaction over \$500 that involves cash before the transaction is completed.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS TOBACCO CONTROL BOARD
(DEPARTMENT OF FINANCE AND ADMINISTRATION)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

Finding:

The Department of Finance and Administration (DFA) Financial Management Guide, R4-19-4-2004, requires agencies “to prepare aging reports at least monthly...to be reviewed by management...” The Agency was unable to produce complete aging reports for fiscal years ended June 30, 2018 and 2019, due to problems resulting from the conversion from the Agency’s legacy system to its new Records Management System (RMS). As such, receivables recorded could not be reconciled to receivables reported to DFA. In addition, it was not possible to determine if the Agency’s internal controls regarding receivables were appropriately designed and implemented.

Recommendation:

We recommend the Agency work with its partners at the Division of Information Systems (DIS) to complete the conversion of data to RMS and produce the required aging reports for regular review by management.

Agency Response:

During our recent audit for Fiscal Years 2018 and 2019, it was noted that we were unable to prepare aging reports of receivables at least monthly to be reviewed by management. Although the Agency was manually making corrections to resolve the issues stemming from the system conversions before the audit began, we have since spoken with DIS and have been assured they will make the remaining necessary corrections after July 1, 2020. Additionally, DIS has agreed to create a new aging report that will comply with the requirements of R4-19-4-2004 of the Financial Management Guide. This report will be reviewed each month by the Director.

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

Finding:

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

Recommendation:

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

Agency Response:

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

Finding:

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

Recommendation:

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

Agency Response:

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

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

Finding:

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

Recommendation:

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

Agency Response:

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

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

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

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

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

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

Finding:

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

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

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

Recommendation:

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

Agency Response:

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

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

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF VETERANS AFFAIRS
FOR THE YEAR ENDED JUNE 30, 2018

Finding:

Procurement law allows for various methods of obtaining technical services, including emergency procurements with approval by the Department of Finance and Administration – Office of State Procurement (DFA-OSP). The Agency used two vendors to provide nursing and nursing assistant staffing, with total expenditures of \$1,146,725, without establishing contracts within the procurement requirements established in Title 19, Chapter 11, of Arkansas Code. A similar finding was issued in the prior report.

Recommendation:

We again recommend the Agency work with DFA-OSP to determine the procurement method most suited to the Agency's situation and adhere to regulations for the appropriate procurement method.

Agency Response:

The Agency concurs with this finding. Per OSP, the Agency has been utilizing the contract the Department of Human Services (DHS) had with staffing entities to obtain services. Long-term use of DHS' contract does not fulfill the need of ADVA Veterans' Homes; therefore, in FY 2020, ADVA will be issuing a procurement action to obtain contracts tailored to meet the needs of ADVA Residents and the Office of Long-Term Care (OLTC) and VA guidelines.

Finding:

A properly established system of internal controls requires management approval before processing payments. Agency accounting staff processed disbursements for nursing and nursing assistant staffing before approval for services rendered was received from management of the North Little Rock Veterans Home and held the resulting warrants until receiving approval. Processing disbursements before receiving proper approval could allow for misappropriation of funds and overpayment for services.

Recommendation:

We recommend management establish policies requiring appropriate approval before the processing of disbursements.

Agency Response:

The Agency concurs with this finding. Multiple staffing changes occurred at the North Little Rock Veterans' Home, leading to extremely long approval times for invoices for staffing services. To prevent loss of these services, required to meet OLTC and VA requirements, Finance staff elected to have payments ready and in hand for the vendor as soon as invoice approval was received from Home. Warrants were delivered after approvals. New Management at the Home has established a point of contact for invoice reviews and approvals with appropriate deadline to ensure invoice approval is received prior to payment made to vendor. This has re-established internal controls for payment process as well as improved payment relationships with vendors and ensured continued services to meet staffing requirements.

Finding:

Financial Management Guide Regulation R4-19-4-501 requires daily deposits to the State Treasury and/or a commercial bank account; weekly deposits are allowable if an agency receives only minimal amounts of cash and/or checks. Of 75 rent receipts tested for the North Little Rock Veterans Home, 35 receipts, totaling \$70,102, were deposited more than 7 days from the date of receipt.

Recommendation:

We recommend the Agency implement internal controls to ensure that deposits are made in accordance with Financial Management Guide regulations.

Agency Response:

The Agency concurs with this finding. Staffing changes have been made at the North Little Rock Veterans Home that include a dedicated Business Office Manager that has been given instruction to ensure weekly deposit of cash or checks received at the Home. Dual roles in central office provide checks and balance to ensure deposits are made timely and recorded in both PointClick Care and AASIS.

Finding:

A properly established system of internal controls requires prompt filing of reimbursement claims for services rendered. The North Little Rock Veterans Home received VA approval on October 12, 2017, allowing retroactive recognition to August 3, 2017. Management did not apply for a VA facility identification number upon receipt of the approval and could not provide documentation of timely application for the identification number; therefore, the Agency did not receive it until January 2018. Review of claims made for resident room and board reimbursements revealed that claims for August through November 2017 were submitted in January 2018, with December claims submitted in February 2018. Claims not timely submitted to either the VA or Medicaid totaled \$1,475,871. Late submission has created cash flow difficulties as well as requests for additional funding and potentially avoidable intra fund transfers.

Recommendation:

We recommend the Agency implement internal controls ensuring that reimbursement claims are submitted to the VA and Medicaid timely.

Agency Response:

The Agency non concurs with this finding. The start-up process for the North Little Rock Veterans Home related to Medicaid, Medicare, and Veterans' Administration Reimbursement billing had issues that took time to work through. Subsequent billing actions to retroactively bill for services rendered were done and completed by February 2018. Central Office Support Staff and the NLR Home Business Office Manager (BOM) have worked very closely to continue processing billings in a timely manner for all funding sources. Central Office staff sends out reminders to the and the BOM responses indicating status of process to ensure prompt completion.

Finding:

Financial Management Guide Regulation R4-19-4-2004 requires state agencies to promptly record receivables and related receipts and collect all receivables in a cost-effective manner. A sample of veterans home resident receivables totaling \$204,536 at June 30, 2018, revealed that \$138,543 (68%) had not been collected as of April 30, 2019, as a results of ongoing issues with procedures followed by staff. Additionally, six accounts totaling \$47,993 were related to Fayetteville Veterans Home residents discharged or deceased more than one year ago.

Recommendation:

We recommend the Agency review all receivable accounts for collectability and seek monies due for services provided.

Agency Response:

The Agency concurs with this finding. During FY 2019, Agency staff worked to perform a reconciliation of Residents' account receivables. During this reconciliation, various accounts were requested for abatement and/or adjustments due to subsequent actions with payer sources or with the resident, such as death. Ongoing activities to collect outstanding balances have continued, and future abatements will be requested per DFA Financial Management Guidelines to allow ADVA to accurately report and record account receivable balances.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF ENVIRONMENTAL QUALITY
(DEPARTMENT OF ENERGY AND ENVIRONMENT)
FOR THE YEAR ENDED JUNE 30, 2019

Finding:

A properly designed and implemented control structure dictates that responsibilities over cash management be divided such that one individual does not have the authorization, custody, and records of a bank account.

The Agency had inadequate control over cash transactions; specifically, one employee signed checks and approved the monthly bank reconciliations. As a result, adequate controls were not in place to assure the safeguarding of the Agency's \$1.28 million of cash in bank.

Recommendation:

We recommend the Agency segregate the duties of issuing checks from the preparation and review of the bank reconciliations.

Agency Response:

The Arkansas Department of Environmental Quality (ADEQ) respectfully submits that it has adequately achieved the segregation of duties requested. Shortly after the 2019 audit recommendation, the two fiscal staff members with check issuing authorization, the Fiscal Division Manager and the Audit Coordinator, were removed from performing the reconciliation of the monthly bank statements, and that duty was reassigned to another fiscal staff member. Due to the then-limited structure of the ADEQ fiscal division, all fiscal employees reported to the Fiscal Division Manager. According to audit staff, this standard chain-of-command review of a subordinate's work voided the value of the segregation ADEQ had created. Consequently, ADEQ added strong protection of these funds through a dual-signature requirement. More importantly, a recent fiscal division hire in the role of Director of Compliance furthers the Department's fiscal controls and resolves any perceived problem. The Director of Compliance supervises the Fiscal Division Manager, does not have the authority to issue checks, and independently oversees the work of the staff member who performs the monthly bank reconciliations.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS FAIR HOUSING COMMISSION
(DEPARTMENT OF INSPECTOR GENERAL)
FOR THE YEAR ENDED JUNE 30, 2017**

Finding:

Receipts collected by the Agency were deposited into the State Treasury; however, the deposits were generally not made in a timely manner, as required by regulations issued by the Department of Finance and Administration (DFA). Weekly deposits are allowed; however, it was noted that during fiscal year 2017, receipts totaling \$114,471 were held between 8 and 69 days before being deposited.

Recommendation:

We recommend the Agency strengthen internal controls and comply with DFA regulations by making deposits at least weekly.

Management Response:

The Agency worked to comply with DFA regulations throughout FY17 but had insufficient staff to meet every portion of the applicable regulation which also requires separate personnel to collect, record, and make deposits.

The Agency had fiscal personnel for only one month in FY17 but did deposit most funds in accordance with DFA regulations which provide, "...in the last week of the month all deposits keyed into the State's accounting system must be delivered to the Treasurer of State or the commercial bank for deposit prior to noon on the last business day of the month." Per the Auditor's work papers, the Agency was only unable to deposit receipts totaling \$23,780 by the end of each month in FY17.

State accounting procedures require segregation of fiscal duties, which cannot be achieved absent sufficient personnel. DFA was aware the Agency lacked personnel sufficient to segregate fiscal duties as per its applicable regulation. Agency requests to use existing federal appropriated funds to hire necessary staff were denied, thereby adversely impacting the Agency's ability to comply with all portions of the regulation concurrently.

During FY17, fiscal duties were managed to the best extent possible using existing staff. All checks were recorded and maintained in a secured safe until deposit. The Agency will work within allowable resources to make timely deposits while also segregating duties using non-fiscal staff if necessary as advised.

Additional comment from the auditor:

It should be noted that the paragraph contained in DFA Financial Management Guide section R4-19-4-501, the latter portion of which the Agency quotes above, states the following:

"Good internal controls dictate daily deposits to Treasury and/or a commercial bank account. Weekly deposits are allowable if an agency receives only minimal amounts of cash and/or checks. However, in the last week of the month all deposits keyed into the State's accounting system must be delivered to the Treasurer of State or the commercial bank for deposit prior to noon on the last business day of the month."

Our finding is based on the Agency's noncompliance with this underlined portion. Additionally, per our workpapers, the amount not deposited by the Agency by the end of the month of receipt totaled \$66,141.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS GEOGRAPHIC INFORMATION SYSTEMS OFFICE
(DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Finding:

Financial Management Guide Regulation R4-19-4-2004 requires state agencies to promptly record amounts due for delivery of goods and services and promptly collect accounts receivable. Further, Financial Management Guide Regulation R1-19-4-805 requires agencies using the Department of Finance and Administration (DFA) Office of Accounting Services Bureau to report transactions on a "real-time" basis to be entered in AASIS.

Accounts receivable and related revenues totaling \$22,732 and \$81,615 that should have been recorded in fiscal years 2018 and 2017, respectively, were not recorded until the receivables were collected on March 3, 2019.

Recommendation:

We recommend the Agency strengthen controls related to receivables and cash collections and adhere to DFA Financial Management Guide regulations.

Agency Response:

The GIS Office will initiate the following controls to ensure compliance with R4-19-4-2004:

1. Agency Administrative Assistant will be enrolled in AASIS training.
2. The Office will utilize spreadsheet tracking for project accounting and milestones.
3. The Office will schedule calendar tasks at 30- and 60-day intervals for follow up reminders with client or until receivables are deposited.
4. The Office will complete the Pay Receivables entry for any amounts in the CAFR Closing Book to end each fiscal year.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ADMINISTRATIVE OFFICE OF THE COURTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

According to travel guidelines contained in the Arkansas State Trial Court Employment Guide, an employee's official station should be the location (e.g., courthouse, annex, justice complex, etc.) or address where an employee normally reports for duty and spends the majority of his or her productive time conducting official job duties. An employee may be reimbursed for transportation costs associated with attending court away from the official station, based on the number of miles between the location from which the employee leaves (i.e., the official station or residence) and the work-related destination, whichever is less.

A review of mileage reimbursements for 21 trial court employees revealed overpayments totaling \$14,386 (\$5,617, \$4,670, and \$4,099 in state fiscal years 2018, 2017, and 2016, respectively) due to the following:

- The official station was not properly determined for Individual A, resulting in improper reimbursements of \$12,364 for mileage between the individual's home and official station (\$3,595, \$4,670, and \$4,099, in state fiscal years 2018, 2017, and 2016, respectively).
- Individuals B and C consistently utilized their official stations as the starting point for calculating miles for reimbursement, although, for some destinations, the distance would have been shorter had their residences been used. Additionally, there was no indication that these individuals traveled to their official stations prior to making the trips to the other locations. As a result, Individuals B and C received mileage overpayments of \$1,388 and \$165, respectively, in state fiscal year 2018.
- A duplicate payment of \$469 was noted for Individual D.

The following additional issues were also noted:

- There was no documentation to support a mileage reimbursement of \$260.
- Due to inadequate information available for three other individuals, we could not determine if mileage reimbursements were correctly calculated; as a result, overpayments may have occurred.

Recommendation:

We recommend the Agency develop policies and procedures to ensure compliance with its travel guidelines for trial court employees. Additionally, we recommend the Agency work with the Department of Finance and Administration and the Attorney General's Office to determine and initiate necessary, appropriate action to collect overpayments.

Agency Response:

The Administrative Office of the Courts ("AOC") would like to thank Legislative Audit for its efforts and thoroughness. We strive to be responsible stewards of our funds and appreciate the work that Legislative Audit completes in order to ensure that we are financially prudent and accountable. We are pleased to see that of the millions of dollars of transactions and expenditures reviewed by Legislative Audit, only a few areas raised concern. This response regards travel reimbursement requests for State employees who are not employees of the AOC.

Circuit judges are the employers of court reporters and trial court administrators (together known as "trial court employees"). Individually or through their associative entity ("Judicial Council"), circuit judges set policy regarding salaries, leave, discipline, hiring, termination, and reimbursement. Judicial Council established travel reimbursement policy that requires each trial court employee to submit a travel reimbursement form ("TR-1 ") to his or her employing circuit judge for review.

Each circuit judge is responsible for reviewing a travel reimbursement claims from his or her employee. Only the circuit judge has knowledge of a trial court employee's actual travel. If the circuit judge approves, the TR-1 is sent to the AOC, which the Finance and Administration Division processes so as to provide the financial reimbursement approved by the judge.

The AOC provides training on the policy and distributes reminders of Judicial Council policy to all circuit judges and trial court employees. The AOC conducts random audits of claims. If the AOC is made aware of a particular concern regarding a violation of the policy, the AOC conducts an internal investigation and takes appropriate action.

Of 239 trial court employees, Legislative Audit identified three employees who may have received reimbursements inconsistent with Judicial Council policy. One employee, Individual A, accounted for 86 percent of the overpayments. An anonymous complaint regarding these requests was sent to the AOC in Fall 2018. Immediate action was taken to investigate, cease payments, and refer the matter to the appropriate authorities.

Legislative Audit identified Individuals B and C as receiving a combined overpayment of approximately \$1,500. The AOC contacted their judges to remind them of their policy, and the judges reported that they would adhere to Judicial Council policy before sending reimbursement requests to the AOC to be processed.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
AUDITOR OF STATE
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

REPEAT FINDING: The Agency is the administrator of unclaimed property of Arkansas citizens for the State. Ark. Code Ann. § 18-28-210(b) deems that upon payment or delivery to the administrator, the State assumes custody of and responsibility for the safekeeping of property. The Agency held \$19.4 million in unclaimed property in the form of stock at June 30, 2018. During the prior-year audit, numerous unclaimed property stock records were noted as inaccurate, resulting in claimants being either overpaid or underpaid when collecting their property. The extent of the errors made it difficult to determine the number or dollar amount of total errors. During current-year testing, we noted that some of the prior-year errors have not been corrected and discovered the same types of errors continue to occur. Below is a list of the types of errors noted during current testing:

- The Agency continues to make undocumented adjustments to owners' accounts that are not reviewed or approved by management. For example, the Agency incorrectly made five adjustments to stocks in the unclaimed property system that resulted in excess cash balances on 607 owners' accounts totaling \$13,474. As of June 2019, these errors resulted in overpayments to 17 claimants and a loss to the State totaling \$376. If a review/approval process over adjustment entries into the system is not implemented, overpayments or underpayments may continue to occur.
- The Agency continues to make adjustments to owners' accounts that result in negative stock balances. For example, on May 23, 2018, the Agency backdated an adjustment on an account to April 9, 2013, resulting in a negative balance of 56 shares of Comcast stock and \$63 in negative dividends. This transaction will result in continued negative Comcast dividends being added to this account and excess Comcast stock dividends added to other owners' accounts until the negative shares are removed. At June 30, 2019, the negative shares remained in the Agency's records, and any excess dividends claimed will result in a loss to the State.
- The Agency continues to misapply dividends to owners' accounts. For example, in February 2017, Verizon Communications Inc., issued dividends that the Agency misapplied, overpaying 21 owners' accounts \$1,272 and underpaying 73 other owners' accounts. Inaccurate dividends continued to be applied during the current fiscal year. As of June 2019, 5 of the owners of the overpaid accounts have claimed their property, at a loss to the State of \$432. Until corrected, inaccurate claims will continue to be paid.
- The Agency continues to not apply dividends to owner's accounts in a timely manner. Our testing identified 9 separate occasions in which dividends were applied to 3,528 owners' accounts in excess of a year after the dividend occurred and an additional 5 instances in which dividends were applied to 756 owners' accounts more than 2 years after the dividend occurred. The delay in recording is not in compliance with generally accepted accounting practices and may result in additional costs to the State to subsequently process claims on the same property.
- The Agency still lacks adequate reconciliation procedures. The Agency has contracted with an outside third party to hold unclaimed stocks. The absence of Agency procedures to periodically reconcile the Agency's unclaimed property records to the statements of the holder of the stocks has resulted in unaccounted for differences between the two. For example, the Agency had an extra 2,492 shares of Verizon Communications, Inc., stock on its books that were not on hand with the third party holder. Over a period of time, this difference resulted in an excess \$4,356 in dividends applied to owners' accounts at a risk of loss to the State.

The Agency's internal controls related to unclaimed stocks remain deficient and place the State's assets at risk of loss or misappropriation. Factors contributing to the deficiencies are as follows:

- Management oversight is insufficient (e.g., Agency stock recordings are not reviewed or approved).
- Stock transactions are not always documented or performed timely.
- Agency records are not properly reconciled.

- Lack of segregation of duties allows the same employee to process and post stock transactions as well as record subsequent error corrections.

Recommendation:

We again recommend the Agency implement the following procedures to maintain the integrity and accuracy of the unclaimed property stock records:

- Develop and implement written internal control procedures to ensure (a) all stock transactions and error corrections are recorded timely, are supported by adequate documentation, and have been reviewed by someone not involved in the process and (b) the duties of processing and posting transactions are segregated to separate individuals.
- Perform periodic reconciliations between Agency records and the stockholder's records. The reconciliation should be performed by an individual removed from the transaction process.

Agency Response:

The Office acknowledges inadequate segregation of duties, a lack of written procedures, and training shortcomings, which have led to a repeat finding of the above-mentioned adjustments, misapplied dividends, and untimely application of dividends. Management is striving to prevent future errors from occurring by strengthening the system of internal control within the Office and is also working diligently to detect and correct previous errors.

Management has hired a Securities Agent to specialize in the proper management of securities and provide appropriate segregation of duties within the unclaimed property system. An Internal Auditor has also been hired to provide guidance on strengthening the Office's system of internal control.

Furthermore, after the results of the 2017 Legislative Audit Report, Management began exploring options for an enhanced unclaimed property system. The Office has now undergone a system conversion to a new system, which has significantly improved system controls, reporting capabilities, and the ability to house supporting documentation within the system. In the previous system, all transactions, on the approximate 19,000,000 shares being held by the Office, required manual data entry. The new system allows the upload of data from the Office's custodian bank, significantly reducing the amount of manual data entry. The new system's vendor also provides training services to ensure staff understands how to properly utilize the system. The Deputy Auditor and Internal Auditor have worked with the vendor to establish proper access and the utilization of system controls, which will ensure appropriate segregation of duties.

Management has also drafted policies and procedures, which provide guidelines for the handling and proper documentation of security sales, transfers, reregisters, adjustments/error corrections, dividends, worthless securities, and reconciliations. The Office has begun performing monthly reconciliations of the Office's unclaimed property system records to the custodian bank records. The Securities Agent is utilizing data from these reconciliations, as well as system generated reports, to research and correct previous errors.

Finding:

REPEAT FINDING: The Agency's correction of errors noted in the prior-year audit did not accurately restore owners' account balances. During the prior-year audit, we identified 14 stocks erroneously recorded as "sold" in the unclaimed property system. Before the Agency was able to correct the error, the property was claimed by the rightful owner/heir. In addition, the change in stock value on the date the property was claimed was not taken into account, thus depriving the owner of any increased value that may have occurred.

Recommendation:

Stock values fluctuate daily and should be taken into account whenever stock is sold. Owners' accounts should be updated to reflect the current market value of the stock owned on the date the stock was sold.

Agency Response:

The Office recognizes that stock values fluctuate on a daily basis; however, as stated previously, the Office acts only as a custodian. After this error was identified, the Office met with Legislative Audit to discuss the plan to correct the error, including a discussion of the date to be utilized. Management has hired a Securities Agent to research and resolve errors in the unclaimed property system, to ensure property owner's receive accurate payouts on their claims.

Finding:

While information is not removed from the unclaimed property system, the Agency is overwriting the detailed history of stock transactions on owners' property accounts. Overwriting accounts has the effect of removing the transaction history from the account, including the transaction's date, amount, and unique identification number. The original and all subsequent transactions must be retained at the property owner level to maintain complete accounting records for the needs of the Agency and to leave a proper audit trail. For example, the Agency overwrote 133 owners' accounts that contained Verizon Communications stock on September 5, 2018, and again on May 7, 2019. These actions altered the balance of the owners' accounts without explanation or supporting documentation.

Recommendation:

We recommend the Agency develop and implement written internal control procedures to prevent the future overwriting of owners' account transaction history and to ensure the detail of original and subsequent stock transactions are retained on owners' property accounts.

Agency Response:

This was a software issue in the previous unclaimed property system, which allowed transactions to be removed from view at the property owner level; however, such transactions were available to be viewed when utilizing the audit trail feature of the previous software.

As of December 2019, the Office has implemented a new unclaimed property system, which ensures all transactions are visible at the property owner level.

Finding:

Due to a lack of management oversight, the Agency's calculation of excess unclaimed property transferred to the Department of Finance and Administration (DFA) was understated by \$3,043,582.

Recommendation:

We recommend the Agency implement a review process to ensure the accuracy of the amount calculated and transferred. Furthermore, due to recent changes in Arkansas legislation, we also recommend the Agency consult with DFA on how future transfer amounts should be determined.

Agency Response:

The Office has met with DFA and the consensus is that we will most likely need a Legislative change.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
OFFICE OF THE PROSECUTOR COORDINATOR
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Ark. Code Ann. § 19-4-1207 requires the agency head to ensure that no obligations are incurred that cannot be lawfully discharged from funds appropriated. A review of expenditures revealed two transactions totaling \$10,080 were not properly recorded as employee benefits for the year ended June 30, 2018. Had the expenditures been properly recorded against the appropriate budget item, the Agency's expenditures would have exceeded the remaining budget for that commitment item. Ark. Code Ann. 19-2-104(a)(1) prohibits expenditures or obligations in excess of the amount appropriated.

Recommendation:

We recommend the Agency comply with state laws and regulations pertaining to proper recognition and payment of accounts payable, as well as budgetary laws.

Agency Response:

The transactions referred to in the finding were the result of an inadvertent GL code entry error. Had the general ledger keying error not been made, and the Agency's expenditures exceeded its remaining budget, the Agency would have requested additional match appropriation at that time. Per the letter dated April 26, 2018, to Department of Finance and Administration (DFA) Director Larry Walther, the Agency requested additional salary appropriation for fiscal year 2018 and would have additionally asked for salary match appropriation.

Since the exit interview, the Office of the Prosecutor Coordinator consulted with Cassie Cantlon and David Paes, CAFR Section of DFA, who suggested the implementation of AASIS transaction ZFPR2 (Park Document with Reference). This transaction will alleviate the need to re-enter consecutive vendor payment information each time a payment is made, lessening the risk for keying errors. The Office of the Prosecutor Coordinator will implement this AASIS transaction going forward and monitor year-end budget and appropriation balances more thoroughly in the future.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS NATURAL RESOURCES COMMISSION
(DEPARTMENT OF AGRICULTURE)
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Testing of vehicle logs revealed that documentation required by the Department of Finance and Administration (DFA) Fleet Management Guide, Regulation 17.1, was not being recorded by all employees. Specifically, two employees with assigned vehicles did not record time in and time out for their vehicles, as required. The noncompliance occurred after all employees using Agency vehicles were given additional training due to a prior-year finding concerning the same issue.

Recommendation:

We recommend the Agency enforce controls in place to provide assurance that documentation requirements for vehicle usage are complete.

Agency Response:

The employees who did not record the starting and ending time each day incorrectly assumed that, since they had vehicles permanently assigned to them, they did not need to provide this information. They modified the form so they would have more space to record the multiple places they travel each day. The Commission has immediately revised their vehicle logs to reflect the time in and the time out each day.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-001
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
10.560 – State Administrative Expenses for Child Nutrition
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342; 6AR300302
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Cash Management
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-002**.

Criteria:

In accordance with 2 CFR § 200.400(b), a non-federal entity assumes responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award.

Condition and Context:

The Agency receives the following grant awards for reimbursement payments to meal providers and sponsoring organizations:

- 1) CNP Block Consolidated (CFDA 10.555).
- 2) CNP CACFP Cash in Lieu (CFDA 10.558).
- 3) CNP CACFP Sponsor Administrative (CFDA 10.558).

The Agency receives the State Administrative Expenses (SAE) for Child Nutrition grant award (CFDA 10.560) for costs incurred to administer Child Nutrition programs, including CACFP.

Discussions with managerial accounting staff during the 2017 Statewide Single Audit revealed the practice of drawing funds for sponsor administrative and cash in lieu (CIL) expenditures from the CNP Block grant award and “repaying” the CNP Block grant award during the closeout period and when additional funds became available.

ALA correspondence with the federal awarding agency indicated that each grant award has a designated purpose, and funds are not to be used interchangeably among the grant awards. This correspondence was shared with the Agency’s managerial accounting staff on January 24, 2018, and with Agency management on February 8, 2018.

According to the Agency, corrective action was taken on or around October 1, 2018, to correct errors regarding the unallowable use of federal awards noted in the 2018 Single Audit.

ALA reviewed 39 cash draws that were completed in state fiscal year 2019 to determine if the Agency corrected its unallowable practices. The review of cash draws completed prior to October 1, 2018, revealed the following:

- \$164,969 of CIL expenditures, \$38,824 of sponsor administrative expenditures, and \$33,852 of state administrative expenditures were inappropriately drawn from the CNP Block grant award.

Additionally, the review of cash draws completed on or after October 1, 2018, revealed the following:

- \$246,959 of CIL expenditures and \$51,624 of sponsor administrative expenditures were inappropriately drawn from the CNP Block grant award.
- \$694,736 of meal reimbursement expenditures and \$16,668 sponsor administrative expenditures were inappropriately drawn from the CIL grant award.
- \$20,510 of CIL expenditures that occurred during federal fiscal year 2018 were inappropriately drawn from the federal fiscal year 2019 CIL grant award.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-001 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 10.558 – Child and Adult Care Food Program
10.560 – State Administrative Expenses for Child Nutrition
Federal Awarding Agency: U.S. Department of Agriculture
Federal Award Number(s): 6AR300322; 6AR300342; 6AR300302
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Cash Management
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

Lastly, review of four cash draws from the SAE for Child Nutrition grant award revealed the following:

- \$238,973 of meal reimbursement expenditures and \$19,352 of sponsor administrative expenditures were inappropriately drawn from the SAE for Child Nutrition grant award.

ALA noted that managerial accounting staff prepared book entries to correct the erroneous drawing of funds from the CNP Block grant award for sponsor administrative expenditures and state administrative expenditures.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$1,526,467

Cause:

The Agency did not establish procedures to ensure grant awards were adequately funded prior to processing federal cash draws.

Effect:

Funds were drawn for unallowable expenditures of the federal awards.

Recommendation:

ALA staff recommend the Agency establish procedures to ensure that staff properly monitor federal cash draws by reconciling with allowable expenditures and request additional funds when necessary.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. Subsequent to a similar finding in 2018, the agency corrected a programming error in its accounting dashboard system that was identified as the root cause of the error. For the current finding, the agency has identified the root cause of all the cash management issues as a result of incorrect fund mapping in the accounting dashboard system or adhoc draws that were incorrectly requested due to human error. The agency has worked with its contractor to create more specificity in the dashboard to link subaccounts to awards and program codes in order to prevent drawing from the wrong subaccount. Additionally, on January 29, 2020 the agency updated its Daily Draw Procedures and Policies to revise the process for completing adhoc draws.

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-002
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-007**.

Criteria:

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

In addition, 45 CFR § 75.303 states that a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

This includes ensuring that claims paid because of manual or “forced” overrides are appropriate and sufficiently documented.

Condition and Context:

ALA requested the Agency’s written, “documented” procedures of controls over compliance for claims payments. Although the Agency provided documentation, it was dated subsequent to June 30, 2019. As a result, ALA concluded that written, “documented” procedures were not maintained during the audit period.

In addition, ALA staff reviewed 60 claims initially suspended in the Medicaid Management Information System (MMIS) but subsequently paid to determine if the claims were appropriately processed, in accordance with the established guidance in the Arkansas Resolution Manual (Manual). The Manual provides guidance regarding methods of correction for claims that are suspended due to system edits and audits. Methods of correction for claims include making manual adjustments to allow system processing, forcing the claim through the system for payment, or denying payment. Our review revealed the following deficiencies for four claims:

- One claim was suspended because it was identified as a duplicate. The Manual states that the appropriate method of correction is to deny the claim, but the Agency failed to follow the guidance in the Manual. Questioned costs totaled \$307. (Note: The Agency recouped this amount from the provider subsequent to ALA testing.)
- One claim was suspended because the recipient had coverage under a private health insurance policy during the dates of service of the claim. The Manual states that the appropriate method of correction is to deny the claim, but the Agency failed to follow the guidance in the Manual. Questioned costs totaled \$287. (Note: The Agency recouped this amount from the provider subsequent to ALA testing.)

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-002 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- Two claims were suspended because they were missing a Medicare paid date. The Manual does not contain a method of correction directing a reviewer to manually override these claims. Questioned costs totaled \$450.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$1,044 (Medicaid Cluster)

Cause:

The Agency has experienced staff turnover and did not develop or adequately document internal control procedures for its staff. These factors contributed to the Agency not having effective procedures in place to ensure that claims were being manually-forced for payment, in accordance with the documented, allowable methods contained in the Arkansas Resolution Manual.

Effect:

Failure to document and implement appropriate procedures for internal controls limits the Agency’s ability to adequately monitor the program for possible improper payments and noncompliance. For example, claims initially suspended and subsequently processed for payment could be unallowable.

Recommendation:

ALA staff recommend the Agency develop and document internal control procedures over claims payments to aid in ensuring compliance and proper payments.

In addition, ALA staff recommend the Agency specifically strengthen policies and procedures to ensure that the documented methods of correction included in the Arkansas Resolution Manual are complete and that the Agency adheres to these methods when manually forcing claims for payment.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency has identified the root cause of the issue as human error. For two testing items, the agency noted that personnel at DXC, the contractor responsible for reviewing suspended claims in MMIS, had approved the claim in error. The payments for these claims have been recouped. Two of the claims were paid correctly and will not be recouped. Those payments were suspended as the result of a system error that has since been corrected by a CSR. The agency will develop a process to review a sample of claims that are suspended and then approved for payment by DXC. The agency will update its internal controls as necessary to comply with the guidelines of COSO or Greenbook.

Anticipated Completion Date: 5/10/2020

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-002 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed – Claims Payments
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, 2019**

Finding Number: 2019-003
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Eligibility
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar finding was reported in prior-year finding **2018-006**.

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

In addition, eligibility standards that all CHIP recipients must meet are defined by 42 CFR §§ 457.310, 457.315, and 457.320.

Condition and Context:

Similar deficiencies were discovered during our review of two compliance areas and are noted below. The claims data was provided by the Agency’s OPTUM Group.

Activities Allowed or Unallowed - ALA staff selected 60 CHIP recipients to determine if the associated claims were allowable, in accordance with the CHIP state plan and federal guidelines. Our review of the CURAM benefit history tab revealed that 8 of the 60 CHIP recipients, with claims totaling \$6,814, were shown as enrolled in Medicaid. However, the claims were being paid out of the CHIP federal award.

Eligibility - ALA staff selected 60 CHIP recipients to determine that the eligibility criteria were met. Our review of the CURAM benefit history tab revealed that 6 of the 60 CHIP recipients, with claims totaling \$2,396, were shown as enrolled in Medicaid. However, the claims were being paid out of the CHIP federal award.

ALA discussed these discrepancies with Division of County Operations (DCO) staff to determine why these claims were being paid out of the CHIP federal award. DCO staff stated that the recipients were determined to be retroactively eligible for Medicaid due to a change in circumstances during the audit period (i.e., change in household income).

ALA also inquired of management about why the CHIP claims data was not adjusted to accurately reflect the activity. The Agency stated that management decided an adjustment was not necessary. However, CMS is requiring corrective action by the Agency because, during this time period, CHIP claims were federally reimbursed at 100% while Medicaid claims were federally reimbursed at a lower rate of 70.87% in the quarter ended September 30, 2018, and 70.51% in the remaining quarters ended December 31, 2018, March 31, 2019, and June 30, 2019.

Statistically Valid Sample:

Not a statically valid sample

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-003 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Eligibility
Type of Finding: Noncompliance and Material Weakness

Questioned Costs:
\$9,210

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

Cause:

Adequate system processing controls have not been designed or implemented to ensure that claims for recipients are appropriately reflected.

Effect:

Claims cannot be confirmed as accurately reported to the federal awarding agency and cannot be confirmed as funded at the appropriate federal rate.

Recommendation:

ALA staff recommend the Agency immediately design and implement internal controls over compliance to ensure that CHIP and Medicaid recipients’ claims are accurately reported to the federal awarding agency.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The Agency will develop a procedure to identify and adjust claims with a change in eligibility category caused by retroactive eligibility start dates.

Anticipated Completion Date: 4/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-004
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Condition and Context:

The Public Assistance Reporting Information System, or PARIS, is a data matching service that helps detect improper payments by checking if recipients of public assistance receive duplicate benefits in two or more states. It is administered by an Office of the Administration for Children and Families (ACF) within the federal Department of Health and Human Services.

ALA selected two quarters from state fiscal year 2019 for review to ensure that the Agency participated in the interstate PARIS match and that there was adequate supporting documentation to demonstrate that the Agency adequately reviewed any matches identified and to determine if those individuals were no longer residents of the State and, therefore, no longer eligible to receive benefits.

Our testing revealed that the Agency participated in the PARIS match for the two quarters selected for testing. In addition, the Agency was able to show documentation that the matches identified were adequately reviewed in the CURAM eligibility system. However, there was no documentation provided to prove that matches were adequately reviewed in the Arkansas Networked System for Welfare Eligibility and Reporting, or ANSWER, eligibility system.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

Cause:

The process to review the matches in the ANSWER system is a manual one, and a breakdown occurred at some point in that process. Additional information regarding the specific breakdown is currently unknown.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-004 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Material Weakness

Effect:

Failure to comprehensively review the PARIS interstate matches could result in the Agency not identifying timely those individuals who are no longer residents of the State and are, thus, ineligible for benefits. As a result, improper payments could be made on behalf of those ineligible recipients.

Recommendation:

ALA staff recommend the Agency develop and document procedures to ensure that the PARIS interstate matches are reviewed timely to aid in preventing benefits from being made on behalf of ineligible recipients.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. While the matches were not completed in the ANSWER system, the agency participated in the PARIS match and received match data. The DCO Reporting Unit processed the November 2018 and May 2019 PARIS match in the Curam eligibility system. Due to staff turnover, the agency was unable to complete the November 2018 and May 2019 PARIS match in the ANSWER eligibility system. The agency has implemented a new process to ensure the PARIS match is processed every quarter in ANSWER. The process has been documented and a schedule put in place to ensure timely completion of the match. The new match process will be documented in the Business Review Board bi-monthly report. DCO executive management staff will be responsible for monitoring completion of the match.

Anticipated Completion Date: Completed

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-005
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions – Provider Eligibility
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

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

In addition, 45 CFR § 75.303 states that a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Condition and Context:

ALA requested written documentation of the Agency’s internal controls in place over the Provider Eligibility compliance area. The documentation provided was developed by the Agency during the audit period ending June 30, 2019, and, therefore, could not have been in place and effective at the onset of the audit period (i.e., July 1, 2018). Additionally, the documentation provided did not adequately address all components required.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency has experienced staff turnover and did not develop or document internal control procedures for its staff.

Effect:

Failure to document and implement appropriate procedures for internal control limits the Agency’s ability to adequately monitor the Medicaid and CHIP programs for possible improper payments made to ineligible providers.

Recommendation:

ALA staff recommend the Agency develop and document internal controls to aid in ensuring that payments are only made to eligible providers.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-005 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions – Provider Eligibility
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. The agency will update its existing internal control to provide a more comprehensive overview of provider eligibility and control activities currently in place. Additionally, the internal control will be updated to include the missing COSO or Greenbook elements of control environment, risk assessment, and monitoring activities. The updated internal control will be provided to necessary staff.

Anticipated Completion Date: 4/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-006
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Fee-for-Service)
Type of Finding: Material Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-020**.

Criteria:

According to section 140.000, Provider Participation, any provider of health services must be enrolled in the Arkansas Medicaid Program prior to reimbursement for any services provided to Arkansas Medicaid beneficiaries. Enrollment is considered complete when a provider has signed and submitted the following forms:

- Application.
- W-9 tax form.
- Medicaid provider contract.
- PCP agreement, if applicable.
- EPSDT agreement, if applicable.
- Change in ownership control or conviction of crime form.
- Disclosure of significant business transactions form.
- Specific license or certification based on provider type and specialty, if applicable.
- Participation in the Medicare program, if applicable.

42 CFR § 455.414 (effective March 25, 2011, with an extended deadline of September 25, 2016, for full compliance) states that the State Medicaid Agency must revalidate the enrollment of all providers at least every five years. Revalidation includes a new application; satisfactory completion of screening activities; and,

if applicable, fee payment. Screening activities vary depending on the risk category of the provider as follows:

- The limited-risk category includes database checks.
- The moderate-risk category includes those required for limited, plus site visits.
- The high-risk category includes those required for moderate, plus fingerprint background checks.

Condition and Context:

ALA staff reviewed 60 paid providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. ALA review revealed deficiencies with 35 of the provider files as follows:

High-risk category:

- One provider did not have a license on file covering the entire enrollment period.
- One provider did not have a contract on file covering the entire enrollment period.
- Two providers did not have an application on file covering the entire enrollment period.
- One provider did not have disclosure forms on file covering the entire enrollment period.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-006 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Fee-for-Service)
Type of Finding: Material Noncompliance and Material Weakness

Condition and Context (Continued):

- Seven providers did not comply with the site visit and fingerprint background check screening requirements.
- One provider did not comply with the database checks screening requirement.
- One provider did not revalidate timely, either by the September 26, 2016, extended deadline or within the five years since the provider last enrolled.

Moderate-risk category:

- Two providers did not have certifications on file covering the entire enrollment period.
- One provider did not have an application on file covering the entire enrollment period.
- Two providers did not have disclosure forms on file covering the entire enrollment period.
- Nine providers did not comply with the site visit screening requirement.
- One provider did not comply with the database checks screening requirement.
- For two providers, a revalidation has not been performed.

Limited-risk category:

- Two providers did not have a license on file covering the entire enrollment period.
- Two providers did not have a contract on file covering the entire enrollment period.
- Three providers did not have an application on file covering the entire enrollment period.
- Five providers did not have a W-9 form on file covering the entire enrollment period.
- Two providers did not have documentation on file covering the entire enrollment period that offered proof of participation in the Medicare program.
- Seven providers did not have disclosure forms on file covering the entire enrollment period.
- For one provider, there was no documentation provided proving eligibility.
- Seven providers did not comply with the database checks screening requirement.
- Eleven providers did not revalidate timely, either by the September 26, 2016, extended deadline or within the five years since they last enrolled.
- For five providers, a revalidation had not been performed.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$8,864,004 (Medicaid)
\$1,046,663 (CHIP)

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-006 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Fee-for-Service)
Type of Finding: Material Noncompliance and Material Weakness

Cause:

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

Effect:

Claims paid to ineligible providers were processed and paid.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

DHS disputes in part and concurs in part with the finding. Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements.

The following information requested by ALA was available but was not provided due to agency mistake:

- The agency does have licenses on file for the three providers noted to not have a license that covered fiscal year 2019
- Of the two providers that did not have certifications on file, one was terminated and the other had an updated license that the agency was able to verify using the CMS website
- The agency has contracts for three providers noted to not have a contract on file for fiscal year 2019
- The agency has applications, either completed through the portal or revalidation, for the six providers noted
- The agency has W-9 forms for three of the five providers noted
- The agency has documentation showing active participation in the Medicare program for the two providers noted
- The agency has eight of the ten disclosure forms, which were completed in Pecos, for the providers listed
- The agency has documentation proving eligibility for the one provider noted to be missing
- Regarding the seven high risk providers out of compliance with additional screening requirements, the agency received approval from CMS to change moderate and high-risk providers
- The agency completed two of the nine site visits noted for moderate risk providers
- The agency completed six of the nine database checks screening for the listed providers
- The agency has completed two of the seven required revalidations for the listed providers

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-006 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Fee-for-Service)
Type of Finding: Material Noncompliance and Material Weakness

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

Prior to testing for the next Single Audit, DHS will provide ALA with training and access to the system (Interchange) in which all provider eligibility documentation is maintained.

Anticipated Completion Date: 6/30/2020

Contact Person: Janet Mann
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Additional Comments from the Auditor:

The Agency stated it partially disputes and partially concurs with the finding. The portion of the finding it disputes is unclear.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-007
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Managed Care Organizations)
Type of Finding: Material Noncompliance and Material Weakness
Repeat Finding:
Not applicable

Criteria:

According to section 140.000, Provider Participation, any provider of health services must be enrolled in the Arkansas Medicaid Program prior to reimbursement for any services provided to Arkansas Medicaid beneficiaries. Managed Care Network providers must also be enrolled in the Arkansas Medicaid Program. Enrollment is considered complete when a provider has signed and submitted the following forms:

- Application.
- W-9 tax form.
- Medicaid provider contract.
- PCP agreement, if applicable.
- EPSDT agreement, if applicable.
- Change in ownership control or conviction of crime form.
- Disclosure of significant business transactions form.
- Specific license or certification based on provider type and specialty, if applicable.
- Participation in the Medicare program, if applicable.

42 CFR § 455.414 (effective March 25, 2011, with an extended deadline of September 25, 2016, for full compliance) states that the State Medicaid Agency must revalidate the enrollment of all providers at least every five years. Revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. Screening activities vary depending on the risk category of the provider as follows:

- The limited-risk category includes database checks.
- The moderate-risk category includes those required for limited, plus site visits.
- The high-risk category includes those required for moderate, plus fingerprint background checks.

Condition and Context:

To determine if Managed Care Network providers met all necessary criteria to participate in the Medicaid program, ALA staff selected 60 paid provider files for review. The providers selected participated in the dental managed care program, commonly referred to as Healthy Smiles, and the Provider-Led Arkansas Shares Savings Entity, or PASSE, managed care program. ALA review revealed deficiencies with 40 of the provider files as follows:

High-risk category:

- Three providers did not comply with the site visit and fingerprint background check screening requirements.
- Two providers did not have certifications on file covering the entire enrollment period.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-007 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Managed Care Organizations)
Type of Finding: Material Noncompliance and Material Weakness

Condition and Context (Continued):

- For one provider, a revalidation had not been performed.

Moderate-risk category:

- Four providers did not comply with the site visit screening requirement.

Limited-risk category:

- Eight providers did not have a license on file covering the entire enrollment period.
- Four providers did not have certifications on file covering the entire enrollment period.
- Two providers did not have a contract on file covering the entire enrollment period.
- Five providers did not have an application on file covering the entire enrollment period.
- Five providers did not have a W-9 form on file covering the entire enrollment period.
- Thirteen providers did not have disclosure forms on file covering the entire enrollment period.
- Eleven providers did not comply with the database checks screening requirement.
- Fifteen providers did not revalidate timely, either by the September 26, 2016, extended deadline or within the five years since they last enrolled.
- For fourteen providers, a revalidation had not been performed.

The following payments were made by the managed care entities to the providers identified above with deficiencies:

Dental managed care:

\$1,366,460 (Medicaid)

\$ 396,257 (CHIP)

PASSE

\$494,713 (Medicaid)

\$ 16,948 (CHIP)

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

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

Statistically Valid Sample:

Not a statistically valid sample

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-007 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Managed Care Organizations)
Type of Finding: Material Noncompliance and Material Weakness

Questioned Costs:
Unknown

Cause:

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

Effect:

Claims to ineligible providers were processed and paid by the managed care entities.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

DHS disputes in part and concurs in part the finding. Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements.

The following information requested by ALA was available but was not provided due to agency mistake:

- The agency has two of the eight licenses for the noted providers
- Of the six providers noted to have missing certifications, the agency has certifications for two providers
- The agency does not have certifications for the remaining providers, which are therapy groups and pharmacies, because certifications are not required for those provider types
- The agency has the two provider contracts that were noted to be missing; the contracts were submitted through the portal
- The agency has applications and W9 forms for the five providers noted to be missing that documentation for the fiscal year
- The agency has four of the thirteen disclosure forms noted to be missing from provider files
- The agency conducted one of the four site visits noted
- The agency completed nine of the eleven database checks screening noted to be missing from provider files.
- The agency has completed nine of the fifteen revalidations noted to not have been performed

Prior to testing for the next Single Audit, DHS will provide ALA with training and access to the system (Interchange) in which all provider eligibility documentation is maintained.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-007 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5021; 05-1905AR5021
(Children’s Health Insurance Program)
05-1805AR5MAP; 05-1905AR5MAP
(Medicaid Cluster)
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Provider Eligibility (Managed Care Organizations)
Type of Finding: Material Noncompliance and Material Weakness

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

Anticipated Completion Date: 6/30/2020

Contact Person: Janet Mann
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Additional Comments from the Auditor:

The Agency stated it partially disputes and partially concurs with the finding. The portion of the finding it disputes is unclear.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-008
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.767 – Children’s Health Insurance Program
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1705AR0301; 05-1805AR5021; 05-1905AR5021
Federal Award Year(s): 2017, 2018, and 2019
Compliance Requirement(s) Affected: Period of Performance
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

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

In addition, 45 CFR § 75.303 states that a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Condition and Context:

The Agency failed to establish written procedures over the period of performance compliance requirement area. As a result, ALA was unable to determine if the Agency’s federal award management was effective or efficient.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

Although the Agency was notified over four years ago to establish written procedures over compliance for all federal awards, it continues to fail to prioritize this task for some compliance requirement areas.

Effect:

Failure to establish written procedures over compliance requirement areas limits the Agency’s ability to manage the awards effectively.

Recommendation:

ALA staff recommend the Agency promptly establish written procedures over compliance areas, as required by Uniform Guidance.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency will document the controls it already has in place into written procedures that comply with COSO or Greenbook guidelines to ensure CHIP funds are not expended beyond the period of performance.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number:	2019-008 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.767 – Children’s Health Insurance Program
Federal Awarding Agency:	U.S. Department of Health and Human Services
Federal Award Number(s):	05-1705AR0301; 05-1805AR5021; 05-1905AR5021
Federal Award Year(s):	2017, 2018, and 2019
Compliance Requirement(s) Affected:	Period of Performance
Type of Finding:	Noncompliance and Material Weakness

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

Anticipated Completion Date: 4/30/2020

Contact Person: Sara Bradley
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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-009
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5ADM; 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Administration and Training
Type of Finding: Noncompliance and Material Weakness
Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Additionally, 45 CFR § 75.430 states that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- Be incorporated into the official records of the non-federal entity.
- Reasonably reflect the total activity for which the employee is compensated by the non-federal entity (not exceeding 100%).
- Comply with established accounting policies and practices of the non-federal entity.
- Support the distribution of the employee's salary among specific activities if the employee works on more than one activity (federal program, non-federal program, direct activity, non-direct activity, unallowable activity, etc.).

Condition and Context:

The Agency uses the Direct Employee Certification system to ensure employees with salaries that are directly charged to a federal program complete a semi-annual direct employee certification. Certifications must be completed within 30 days of the end of the certification period. The system generates weekly reports that identify incomplete, pending, or rejected certifications. These weekly reports are provided to division CFOs as applicable, and the CFO is responsible for addressing any deficiencies.

ALA selected nine weeks for review to determine if the Direct Employee Certification system was operating effectively. Our review revealed that for all nine weeks, sufficient, appropriate evidence was not provided or maintained by the Agency that demonstrated review or any action by division CFOs.

Additionally, ALA selected 60 employees whose salary expenditures were paid solely from Medicaid funds to determine if certifications were completed timely and salaries were properly charged to the Medicaid program. Our review revealed nine instances in which the certifications were not completed timely. In one specific instance, we noted 100% of an employee's time, totaling \$8,962, was incorrectly charged solely to the Medicaid program.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-009 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5ADM; 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Administration and Training
Type of Finding: Noncompliance and Material Weakness

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$8,962

Cause:
The Agency failed to fully implement controls or follow internal control policies to ensure expenditures were directly coded to the Medicaid program appropriately.

Effect:
The Agency failed to correct salary and other expenditures inappropriately charged directly to the Medicaid program.

Recommendation:
ALA staff recommend the Agency continue to strengthen internal controls and provide adequate oversight to ensure internal control policies in place are being followed.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. Affected agency employees automatically receive Direct Certification notices. OFA staff will begin running Direct Employee Certification reports on a bi-weekly basis to check for missing or rejected certifications. The bi-weekly reports will cover the two-week period immediately preceding the date the report is ran and will be forwarded to affected divisions and staff will be retrained on the importance of timely completion of the certification. Reports that generate no results for the time period run will be screen-captured and filed accordingly. When a report shows a certification rejection, the rejection will be confirmed by the employee's manager. If confirmed, the appropriate salary and/or position corrections will be made.

Anticipated Completion Date: 4/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-010
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5ADM; 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed - Contracts
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 42 CFR § 433.116(j), expenditures for the operation of an eligibility and enrollment system for Medicaid are eligible for reimbursement at the federal financial participation (FFP) rate of 75%.

Expenditures for the design, development, installation, or enhancement of an eligibility and enrollment system for Medicaid are eligible for reimbursement at the FFP rate of 90%, as stated by 42 CFR § 433.112(c)(1).

Condition and Context:

ALA staff reviewed two invoices paid under the ESystems, Inc., contract for the state's existing eligibility and enrollment system. One of the invoices reviewed indicated an application operations and production support (AOPS) charge of \$715,870 that was reimbursed at the 90% FFP rate instead of the 75% FFP rate, resulting in an excess unallowed reimbursement totaling \$107,381.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$107,381

Cause:

Management review in the approval process failed to identify the coding error when the invoice was paid using the internal order of HELX0018 instead of HE8X0018.

Effect:

The Agency was over-reimbursed by CMS at 90% of cost instead of the appropriate 75% of cost.

Recommendation:

ALA staff recommend the Agency be more diligent in the review of invoices prior to payment to ensure the appropriate reimbursement rate is utilized concerning the state's eligibility and enrollment system.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency has implemented a new process to ensure that invoices are paid using the correct internal order. DMS Finance will review copies of all IT related APD's and require that they indicate on the invoice approval the internal order number to which each line should be charged. DMS Finance will review the approval to ensure that it matches the APD. If any inconsistencies are found or other questions arise, DMS Finance will contact the vendor approver for clarification. Additionally, when the purchase order is initially set up, DMS Finance will meet with IT staff to review the purchase orders and ensure the coding is correct.

Anticipated Completion Date: 4/30/2020

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-010 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5ADM; 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed - Contracts
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, 2019**

Finding Number: 2019-011
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Home and Community-Based Services
(ARChoices Waiver)
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-013**.

Criteria:

Prior to January 1, 2019, the ARChoices waiver was governed by Section 212.300 of the ARChoices provider manual. It stated that each beneficiary must have an individualized Person-Centered Service Plan (PCSP) and that attendant care hours are based on the Resource Utilization Group (RUG) score produced from the ARPath assessment. Services must be provided according to the beneficiary's PCSP, with reimbursement limited to the amount and frequency authorized in the PCSP.

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

Condition and Context:

ALA staff selected 60 beneficiaries for review to determine if attendant care services were provided in accordance with the beneficiary's PCSP and did not exceed the frequency or the maximum amount allowed. Our review revealed the following:

- 44 beneficiaries had at least one claim for a date of service that was not covered by a valid agreement. Questioned costs totaled \$279,209.
- Attendant care services for 4 beneficiaries exceeded the amount authorized in an agreement. Questioned costs totaled \$279.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$279,488

Cause:

The Agency failed to ensure that attendant care hour claims for ARChoice wavier beneficiaries were adequately supported by current and valid agreements (PCSP, RUG score, or ARIA assessment). Additionally, the Agency failed to ensure that there were adequate controls in the claims payment system to both identify and deny claims, as applicable, if the amount billed exceeded the amount authorized.

Effect:

Amounts paid were in excess of amounts authorized.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-011 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Home and Community-Based Services
(ARChoices Waiver)
Type of Finding: Noncompliance and Material Weakness

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency determined there were several causal areas for this finding including a State-court injunction that prevented the agency from using its approved CMS assessment method, issues that occurred within the agency's billing system, and deficiencies within the agency's waiver re-evaluation process. All deficiencies noted in the finding will be corrected with the improvement of the waiver re-evaluation process. Current activities are underway to improve the re-evaluation process including realigning resources and activities within one management division, value stream mapping to eliminate unnecessary administrative tasks, and development of a workflow management system to track and report re-evaluation activities. In addition, a Level 2 Review process will be added to handle special needs cases, such as Appeals, so supervisory reviews are completed without delaying processing of other evaluations.

Anticipated Completion Date: 6/1/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-012
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1905AR5MAP
Federal Award Year(s): 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Managed Care
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

The Provider-Led Arkansas Shared Savings Entity (PASSE) program transitioned to a full-risk Managed Care Organization (MCO) model on March 1, 2019. The program covers services for behavioral health (BH) recipients and developmentally disabled (DD) recipients. To receive services through PASSE, an individual must have an independent assessment performed that designates him or her at the appropriate level of need to participate in the program.

The 1915(c) Home and Community-Based waiver, applicable to the DD population, requires that an independent assessment be performed at least every three years. Section 1915(i) of the Social Security Act, which is applicable to the BH population and provides states with the option to offer home and community-based services through the state's plan, requires that than an independent assessment be performed at least every 12 months. 42 CFR §441.720(b) states that for reassessments, the independent assessment of need must be conducted at least every 12 months and as needed when the individual's support needs or circumstances change significantly, in order to revise the service plan.

Condition and Context:

ALA selected 60 PASSE recipients (56 BH recipients and 4 DD recipients) to determine if the following attributes were met:

- There was an open eligibility segment for the recipient during the dates of service covered.
- There was a valid independent assessment on file for the dates of service covered.
- The appropriate amount was paid based upon the actuarially determined rates.

Our review revealed PASSE payments, totaling \$58,894, for 23 BH recipients were made for dates of services outside the date range covered by the recipients' independent assessment.

In addition, an unallowable fee-for-service claim, totaling \$145, was discovered. Fee-for-service claims should not be paid for individuals who are covered under PASSE. (There are a few exceptions including, but not limited to, certain school-based services that are provided by school employees.)

The discovery of an unallowable fee-for-service claim prompted ALA to retrieve all fee-for-service claims for all individuals with PASSE payments during state fiscal year 2019 to determine if additional unallowable fee-for-service claims had been paid. After filtering and removing the claims that could be allowable (as previously mentioned), the remaining fee-for-service claims totaled \$2,575,426. These claims will require a review by the Agency to determine if the fee-for-service claim or PASSE payment should be recouped.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$58,894

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-012 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1905AR5MAP
Federal Award Year(s): 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Managed Care
Type of Finding: Noncompliance and Material Weakness

Cause:

The PASSE full-risk managed care program was a new program in state fiscal year 2019. According to the Agency, the bulk of the initial BH assessments was performed in a five-month period during the spring of 2018. In 2019, the reassessments were spread over the full 12 months.

In addition, the Agency is still in the process of identifying and working out any edits that need to be added or updated in the MMIS claims payment system to ensure that there are no unallowable fee-for-service claims paid on behalf of PASSE recipients.

Effect:

The independent assessments for the BH population were not consistently performed within the required 12-month time frame, and unallowable fee-for-service claims were paid during the time when the individuals were already covered under the PASSE program.

Recommendation:

ALA staff recommend the Agency develop and document procedures to ensure that independent assessments are completed timely and that there are appropriate edits in the MMIS claims payments system to prevent unallowable fee-for-service claims paid being paid for recipients who are already covered under the PASSE managed care program.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency has updated its independent assessment process to ensure timely completion of annual assessments. The agency determined that the fee-for-service claims were paid for individuals covered under PASSE due to a DXC product finding that has now been corrected. As a result, the agency has implemented a new process for running fee-for-service claims data for PASSE members to determine if any claims were improperly paid. Any claim for an excluded service or excluded service provider will be removed from this review. Edits and system updates will be performed as necessary to prevent and/or correct system errors. The agency has reviewed the fee-for-service claims totaling \$2,575,426 and determined them to be unallowable. DHS will recoup the claims and instruct providers to submit clean claims to the PASSE for payment.

Anticipated Completion Date: 4/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-013
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Managed Care (Dental)
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

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

In addition, 45 CFR § 75.303 states that a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Condition and Context:

ALA requested written documentation of the Agency's internal controls in place over the Managed Care – Dental program. The only information provided by the Agency was the provider manuals developed by the two participating entities. There was no written documentation of the Agency's internal control procedures over the Managed Care – Dental program.

In addition, the Agency asserted that its management utilizes information included in monthly Division of Medicare and Medicaid Services (DMS) reports as a monitoring tool to identify areas that may require further analysis. However, documentation supporting the actual use of these reports could not be provided for the four months ALA selected for testing.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency has experienced staff turnover and did not develop or document internal control procedures for its staff.

Effect:

Failure to document and implement appropriate procedures for internal control limits the Agency's ability to adequately monitor the program for possible improper payments and noncompliance.

Recommendation:

ALA staff recommend the Agency develop and document internal controls over the Managed Care – Dental program to aid in ensuring compliance and proper payments.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-013 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Activities Allowed or Unallowed –
Managed Care (Dental)
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. DMS has internal control procedures in place to monitor 1915(b) Waiver and Dental Managed Care contract compliance. DMS will document the internal control procedures to comply with COSO or Greenbook guidelines.

Anticipated Completion Date: 4/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-014
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Allowable Costs and Cost Principles
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

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

In addition, 45 CFR § 75.303 states that a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

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

Under Section 6506 of the Affordable Care Act (42 USC 1396b(d)(2)), states have up to one year from the date of discovery of an overpayment for Medicaid services to recover, or attempt to recover, such overpayment before making an adjustment to refund the federal share of the overpayment. Except in the case of overpayments resulting from fraud, the adjustment to refund the federal share must be made no later than the deadline for filing the quarterly CMS-64 report for the quarter in which the one-year period ends, regardless of whether the state recovers the overpayment.

The date of discovery for fraudulent overpayments is the date of the final written notice of the state's overpayment determination. When the state is unable to recover an overpayment from a provider within one year from the date of discovery because a final determination of the amount has not been made under an administrative or judicial process, no adjustment shall be made to the quarterly expenditure report until 30 days after the date on which a final judgment is made (including final determination on an appeal).

Condition and Context:

The Agency failed to establish and document internal control procedures over the escheated warrants and overpayments compliance requirement. As a result, ALA met with DHS reporting staff and accounts receivable staff, as well as Navigant staff, to gain an understanding of controls that may be in place but not documented. ALA was unable to identify any controls that were in place to ensure compliance with federal regulations.

Overpayments may be identified by DHS, the Office of Medicaid Inspector General (OMIG), or the Medicaid Fraud Control Unit (MFCU) of the Office of the Attorney General. DHS is responsible for completion of the required quarterly expenditure reports for the Medicaid program (CMS-64) and, therefore, for obtaining information needed to properly report overpayments on these reports.

Overpayments identified by OMIG: OMIG notifies DHS of identified overpayments (a) when the provider repays the identified amount or fails to respond to the finding letter or (b) after all possible appeals have been exhausted. For cases under appeal, OMIG does not notify DHS of the initial "discovery date"; therefore, some uncollected overpayments may not be reported by the required deadline.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Allowable Costs and Cost Principles
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

Additionally, OMIG utilizes a "claim log" to monitor identified overpayments and collections related to the overpayments. ALA reviewed the fiscal year 2018 claim log to determine whether uncollected balances were collected or reported in fiscal year 2019 and reviewed the fiscal year 2019 claim log to determine whether payments collected by OMIG were included on the proper CMS-64 report. ALA was unable to determine if outstanding balances on the 2018 claim log were reported on the state fiscal year 2019 CMS-64 reports and was unable to trace six payments totaling \$5,713 (federal portion \$4,033) to internal reports used to calculate total overpayments for the quarterly CMS-64 reports for state fiscal year 2019.

Overpayments identified by MFCU: Discussions with both MFCU and DHS staff revealed MFCU does not report identified overpayments to DHS until a payment is received. As a result, uncollected overpayments resulting from fraud are not included on the quarterly CMS-64 reports as required.

Additionally, payments forwarded to DHS directly from MFCU are generally not included on internal reports used to calculate total overpayments for the quarterly CMS-64 reports. As a result, these payments may not be reported as collected overpayments, as required.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

Cause:

The Agency failed to establish adequate controls to ensure compliance with federal regulations related to reporting of identified overpayments. Additionally, individuals involved in collecting and reporting overpayments are not familiar with the federal regulations governing the reporting of identified overpayments.

Effect:

DHS failed to report all identified overpayments and may not have reported some overpayments timely. Per 42 CFR §433.320(a)(4), if a state fails to refund overpayments in accordance with this section, the state will be liable for interest, at the Current Value of Funds Rate, on the federal portion of the non-recovered, non-refunded overpayment amount. Interest will begin to accrue on the day after the one-year period following discovery until the last day of the quarter for which the state submits a CMS-64 report refunding the federal share of the overpayment.

Recommendation:

ALA staff recommend the Agency contact CMS to obtain an understanding of reporting requirements for overpayments identified by OMIG and MFCU. ALA further recommend the Agency design and implement controls to ensure all identified overpayments are included on the CMS-64 report and are reported timely.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency has updated and documented its procedures for processing and reporting overpayments received from OMIG and MFCU. Once received, the overpayments are coded to identify the source and if federal funds are associated with the identified overpayment. This information will be used to report overpayments on the CMS-64. The six payments totaling \$5,713 that ALA was unable to trace to internal reports were included on reports for FFY Q1 2019 and FFY Q4 2019.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number: 2019-014 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Allowable Costs and Cost Principles
Type of Finding: Noncompliance and Material Weakness

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

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-015
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Allowable Costs and Cost Principles –
Non-Disproportionate Share
Hospital Supplemental Payments
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Condition and Context:

ALA requested the Agency's documented internal controls over compliance for the non-disproportionate share hospital supplemental payments compliance area. The documentation provided by the Agency only included the procedures for processing upper payment limit (UPL) payments to eligible hospitals. ALA determined the Agency's documented controls are incomplete and do not meet the required criteria.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency failed to establish written documentation of controls that address all elements of effective internal controls.

Effect:

Failure to establish and document adequate controls could result in errors in determination of supplemental payments and failure to identify errors timely.

Recommendation:

ALA staff recommend the Agency review and document controls in place for properly determining non-disproportionate share hospital payments to ensure the Agency's controls adequately address all internal control elements in accordance with COSO and/or the Green Book.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. DMS has internal controls in place for processing of upper payment limit (UPL) payments. The agency will update its existing procedure for processing UPL payments to meet the guidelines of COSO or Greenbook.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-015 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Allowable Costs and Cost Principles –
Non-Disproportionate Share
Hospital Supplemental Payments
Type of Finding: Noncompliance and Significant Deficiency

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

Anticipated Completion Date: 3/31/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-016
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2014, 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-014**.

Criteria:

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

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

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

Condition and Context:

ALA staff reviewed 23 traditional Medicaid recipient files in the ANSWER system and 37 Modified Adjusted Gross Income (MAGI) Medicaid recipient files in the Curam system to ensure sufficient, appropriate evidence was provided to support the Agency's determination of eligibility. The review revealed deficiencies as summarized below:

- One client file, with 588 claims totaling \$39,892, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 58 claims. Questioned costs totaled \$3,142.
The annual reevaluation was also not completed timely. The 2019 reevaluation, due in January 2019, was not completed until February 26, 2019. (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child) (Non-MAGI/ANSWER)
- One client file, with 49 claims totaling \$903, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 25 claims. Questioned costs totaled \$456.
The annual reevaluation was also not completed timely. The 2019 reevaluation, due in December 2018, was not completed until February 5, 2019. (Aid to the Aged) (Non-MAGI/ANSWER)
- One client file, with 112 claims totaling \$7,073, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 3 claims. Questioned costs totaled \$727. (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child) (Non-MAGI/ANSWER)
- One client file, with 52 claims totaling \$655, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 4 claims. Questioned costs totaled \$28. (Disabled Tax Equity and Fiscal Responsibility Act [TEFRA] Child) (Non-MAGI/ANSWER)
- One client file, with 173 claims totaling \$10,784, did not contain a DCO-704 signed by a registered nurse verifying medical necessity and did not contain documentation supporting the income and resources criteria, affecting 73 claims. Questioned costs totaled \$3,347.
The annual reevaluation was also not completed timely. The 2019 reevaluation, due in December 2018, was not completed until February 1, 2019. (AR Choices) (Non-MAGI/ANSWER)

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-016 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2014, 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file, with 22 claims totaling \$2,818, did not contain a DCO-704 signed by a registered nurse verifying medical necessity and did not contain documentation supporting the income and resources criteria, affecting 22 claims. Questioned costs totaled \$1,997.
In addition, 103 claims paid in 2018 were also affected. Questioned costs totaled \$3,323.
The annual reevaluation was also not completed timely. The 2018 reevaluation, due in August 2017, was not completed. (Aid to the Aged) (Non-MAGI/ANSWER)
- One client file, with 113 claims totaling \$7,827, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 26 claims. Questioned costs totaled \$1,305. (AR Choices) (Non-MAGI/ANSWER)
- One client file, with 15 claims totaling \$24,715, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, affecting 10 claims. Questioned costs totaled \$10,347.
The annual reevaluation was also not completed timely. The 2019 reevaluation, due in January 2019, was not completed until March 29, 2019. (Assisted Living/ Living Choices) (Non-MAGI/ANSWER)
- One client file, with 143 claims totaling \$50,790, did not contain documentation proving resource eligibility, affecting 18 claims. Questioned costs totaled \$8,053.
The annual reevaluation was also not completed timely. The 2019 reevaluation, due in April 2019, was not completed until November 1, 2019, after the recipient's file was selected for review. (Aid to the Aged) (Non-MAGI/ANSWER)
- One client file, with 29 claims totaling \$5,633, did not contain a DCO-704 signed by a registered nurse verifying medical necessity, documentation supporting the resources or income criteria, disability verification, institutional status, or proof of assignment of medical rights by the recipient to DHS, affecting all 29 claims. Questioned costs totaled \$3,972.
In addition, 137 claims paid in 2018, 2017, 2016, 2015, and 2014 were also affected. Questioned costs totaled \$325, \$76, \$193, \$362, and \$71, respectively.
The annual reevaluations were also not completed timely. The 2014 reevaluation, due in April 2014, had not been completed at the conclusion of audit fieldwork, and there were no reevaluations for 2015, 2016, 2017, 2018, or 2019. (Aid to the Disabled) (Non-MAGI/ANSWER)
- One client file, with 13 claims totaling \$3,539, did not contain documentation proving income eligibility, affecting all 13 claims. Questioned costs totaled \$2,496. (Adult Expansion) (MAGI/CURAM)
- One client file, with 10 claims totaling \$116, did not contain documentation proving the recipient had assigned medical rights to DHS, affecting all 10 claims. Questioned costs totaled \$82. (ARKids A) (MAGI/CURAM)

Additional deficiencies related to eligible recipients with late *re-determinations*. Although no questioned costs are associated with these recipients, the total amount of claims paid (state and federal) as of fieldwork date of December 2, 2019, for dates of services between the time the reevaluation was due and the day before it was performed is noted below in order to show what could have been paid in error if the recipient had ultimately been deemed ineligible:

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-016 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2014, 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

Condition and Context (Continued):

- One client file did not have a timely reevaluation, as it was due in December 2018 but was not completed until February 20, 2019. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$13,178 in state fiscal year 2019. (Aid to the Aged) (Non-MAGI/ANSWER)
- One client file did not have a timely reevaluation, as it was due in February 2019 but was not completed until March 6, 2019. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$5,262 in state fiscal year 2019. (Aid to the Disabled) (Non-MAGI/ANSWER)
- One client file did not have a timely reevaluation, as it was due in July 2018 but was not completed until August 12, 2018. The claims paid for dates of services between when the reevaluation was due and the day before it was performed totaled \$434 in state fiscal year 2019. (Adult Expansion) (MAGI/CURAM)

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

State Fiscal Year 2019 - \$35,952
State Fiscal Year 2018 - \$3,648
State Fiscal Year 2017 - \$76
State Fiscal Year 2016 - \$193
State Fiscal Year 2015 - \$362
State Fiscal Year 2014 - \$71

Cause:

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

Effect:

Payments to providers were made on behalf of ineligible recipients.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency noted that the root cause of the error resulted from DAABHS and the agency's contractor, Optum, being unable to complete the reassessments timely. A new business process is being developed to ensure timely medical eligibility determination. Current activities are underway to improve the re-evaluation process including realigning resources and activities within one management division, value stream mapping to eliminate unnecessary administrative tasks, and development of a workflow management system to track and report re-evaluation activities. Eligibility staff have been instructed on the process. The program eligibility analysts and area directors will monitor the process.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-016 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1405AR5MAP; 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2014, 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Eligibility
Type of Finding: Noncompliance and Material Weakness

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

Anticipated Completion Date: 6/1/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-017
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Matching, Level of Effort, Earmarking
Type of Finding: Material Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2018-015**.

Criteria:

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

42 CFR § 433.10 and § 433.15 established rates to be used to calculate non-administrative and administrative state match and require that the state pay part of the costs for providing and administering the Medical Assistance Program (MAP).

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

Condition and Context:

To verify that state general revenues and other non-federal funding sources used to "match" the federal grant award monies were from an appropriate source of funding, ALA selected 25 daily draw dates and traced the daily draw amount recorded in AASIS to the Agency's supporting draw packet. The following issues were noted:

- The Agency did not maintain documentation identifying the original source of revenues identified as *other non-federal*.
- The Agency utilizes an outside accounting system, Lotus 1-2-3, to maintain and track *State General Revenue* and *other non-federal* fund balances available. Agency staff manually key information into this system daily. However, there are no reviews or other controls in place to ensure the accuracy of the funding category balances.
- Accounting records maintained in the Lotus 1-2-3 system include one-sided adjustments to *State General Revenue* and *other non-federal* funds, causing the ending balances of both funding categories to be inaccurate.

Additionally, to confirm the Agency was properly monitoring its state match, we requested the reconciliations the Agency indicated it used to track, compare, and verify state match requirements.

Although reconciliations were provided for the first three quarters of 2019, they contained numerous errors, and the Agency failed to provide the reconciliation for the fourth quarter ending June 30, 2019. ALA attempted to perform alternative procedures; however, because of the issues noted above, we were unable to verify that the Agency met the match requirements.

(NOTE: The Agency's reported state match for all active Medicaid grants was \$1,677,981,874.)

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-017 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Matching, Level of Effort, Earmarking
Type of Finding: Material Noncompliance and Material Weakness

Cause:

The Agency did not adhere to its documented internal control policies and procedures by preparing adequate quarterly comparisons. Additionally, no established procedures were in place to verify the Agency met the state match requirements or that the funds used toward the state match were from allowable sources.

Effect:

Inadequate controls for effectively monitoring the match compliance requirement could result in failure to meet match and also limits the Agency's ability to effectively manage the grant.

Recommendation:

ALA staff recommend the Agency adhere to its established internal control policies and procedures over matching to ensure appropriate state match. ALA further recommends the Agency implement appropriate controls to allow the Agency to track funding sources used to meet state match requirements for federal programs.

Views of Responsible Officials and Planned Corrective Action:

DHS disputes in part and concurs in part with the finding. The agency does maintain documentation identifying sources of revenues through the certification of income from the divisions. Each program is assigned an internal order, fund, and source of funding. This is maintained on the Coding Validation Table. When monies are received through accounts receivable, transfers, and draws, they are split in the funds control ledgers by the funding split designated on the CVT (coding validation table). The general ledger account numbers also designate the source of revenue (transfers). AASIS does not separate the internal orders (program codes) by funding source and we balance to AASIS. The monies are deposited into designated fund as one total. While the agency maintains documentation identifying "other non-federal" revenues, the funds and sources could be documented with greater specificity. The agency will update its process to provide greater specificity in tracking "other non-federal" revenues.

Controls are imbedded in the ledgers and Lotus program which ensure accuracy of funding category balances, if funds or accounts are not balanced an error message is given and reason is researched and corrected before allowed to move on to next step. Controls are in place by when a transfer document is created in AASIS it is reviewed by another person then posted if approved (the same person cannot post). If requests for transfers are made to DFA they must be approved by a manager.

Adjustments made in Lotus are not one-sided. Adjustments are made to ledgers to true-up State, Federal, and Other based on Cost Allocation. Our daily expenditures are posted to our ledgers daily based on the internal order in the indirect worksheet. These percentages are trued up quarterly when cost allocation runs. Therefore, an adjustment is needed to true up the splits on our ledgers between, State, Federal and Other. It does not change the balance in the fund.

Due to the limitation of AASIS not separating fund splits, we are not able to provide the level of detail for each program code as asked for by ALA. However, we maintain that State General Revenue and Other sources are certified by directors and used as certified per state and federal laws. We maintain that we balance our funds to AASIS and state general revenue reports from DFA therefore are accurate.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-017 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
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 \(Continued\):](#)

Anticipated Completion Date: 6/30/2020

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Additional Comments from the Auditor:

Since the Agency was unable to provide documentation that state match requirements were met during state fiscal year 2019, ALA met with Agency employees on several occasions to obtain an understanding of the funding process. ALA performed a walkthrough of the “State” and “Other” funds draw process for one of the dates selected for testing. During this walkthrough, auditors had multiple discussions with Agency staff, including Tina Coutu (Assistant Deputy Director for Managerial Accounting), Sherry Gresham (Budget Specialist, Managerial Accounting), and Donna Reed (Budget Specialist, Managerial Accounting).

During these discussions, Agency staff explained that AASIS does not include functionality to identify funding source (Federal, State, or Other); therefore, the Agency utilizes the Lotus 1-2-3 system to identify the balance of available funds from these sources. Information from AASIS is uploaded into an Access database to identify the proper funding splits. Reports are generated from this database, and information from these reports is manually keyed into the Lotus 1-2-3 system. According to Donna Reed, the Agency does not have a review process in place to ensure amounts from the Access database are properly entered into Lotus 1-2-3.

Additionally, on multiple occasions, Agency staff told ALA that the balances included in Lotus 1-2-3 represent an accumulation of funds over several years, and the Agency was unable to specifically identify the source of these funds. As a result, ALA was unable to determine the source of funds available for payment of Medicaid expenditures.

Furthermore, while performing the walkthrough, the auditor noted “adjustments” on the ledger reports printed from the Lotus 1-2-3 system that reduced the total needed funding for the specified source of funds. According to Donna Reed, if payment of expenditures will result in a negative balance for state general revenue funds, an “adjustment” is made to the ledger report to reclassify a portion of the “Other” funds to the “State” category. In reviewing these adjustments, ALA noted the “State” category was reduced, but no adjustment was made to the “Other” category. Also, during review of monthly funding reports from the Lotus 1-2-3 system, ALA noted multiple instances of negative balances for “State” or “Other” funds at month-end.

Finally, according to Donna Reed, the Agency performs quarterly “true-ups” of the balances. Based on review of “true-up” procedures obtained from the Agency, ALA was unable to determine how this process ensures that funds used to meet state match requirements are appropriate.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-018
State/Educational Agency(s): Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP;
05-1805AR5ADM, 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar finding was reported in the year finding **2018-009**.

Criteria:

42 CFR 430.30(c) requires submission of a quarterly statement of expenditures report (CMS-64) for the Medical Assistance Program (MAP) no later than 30 days after the end of each quarter. To ensure compliance, the Agency maintains policies and procedures for the preparation of the CMS-64 report. One procedure specifically states that the Agency will prepare quarterly reconciliations, as well as review, investigate, and provide explanations for identified variances. Reconciliations, along with the variance explanations, should be included as supporting documentation for the CMS-64.

Condition and Context:

ALA requested the quarterly reconciliations between expenditures recorded in its financial management system and expenditures reported to the federal awarding agency. The Agency provided reconciliations for portions of the CMS-64 reports to "payout" reports but did not complete reconciliations for the report as a whole. Payout reports are created by DMS staff and represent the 13 weekly funding requests for each quarter. The Agency utilizes an Excel workbook to combine the claims data included in each week's funding request to create the payout reports. However, the reconciliations provided did not include reconciliations to the Agency's financial management systems (AASIS and Allocap).

ALA staff also performed testing of expenditures reported on the CMS-64 for the quarters ended December 31, 2018, and March 31, 2019, to confirm accuracy and completeness with the expenditures recorded in the Agency's financial management system. ALA review revealed the following errors:

From the December 31, 2018, report:

- Twenty-three line items totaling \$1,322,346,159 and representing 86% of MAP expenditures were selected. An error was identified in one line item, resulting in an **overstatement** of the federal portion of expenditures totaling \$477,042.
- Nine line items totaling \$91,932,560 and representing 94% of administrative expenditures were selected. Errors were identified in four line items, resulting in an **overstatement** of the federal portion of expenditures totaling \$29,870.

From the March 31, 2019, report:

- Twenty-one line items totaling \$1,499,993,497 and representing 85% of MAP expenditures were selected. Two errors were identified, resulting in an **understatement** of the federal portion of expenditures totaling \$939.
- Eight line items totaling \$72,862,882 and representing 92% of administrative expenditures were selected. Errors were identified in four line items, resulting in an **overstatement** of the federal portion of expenditures totaling \$119,695.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-018 (Continued)
State/Educational Agency(s): Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP;
05-1805AR5ADM, 05-1905AR5ADM
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Reporting
Type of Finding: Noncompliance and Material Weakness

Cause:

In an effort to reduce reporting errors, the Agency has continued to review and adjust reporting procedures for MAP expenditures. The error in MAP expenditures on the December 31, 2018, report occurred when an adjustment was entered on the wrong line in the Agency's workbook.

For state fiscal year 2019, the Agency implemented a new cost allocation system. The Agency's Excel workbook used to report administrative expenditures was not completely updated to properly allocate expenditures to the appropriate CMS-64 line item (and federal financial participation rate) using the cost allocation system reports.

Effect:

The Agency failed to accurately report expenditures for the selected quarters.

Recommendation:

ALA staff recommend the Agency implement additional procedures and controls over the reporting process to ensure reports are accurate and complete prior to certification.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. Effective with the December 31, 2019 submission of the CMS-64 reports, DHS is utilizing the services of a contractor to assist in the compiling, analyzing, data entry and reconciliation of the CMS-64 reports. For the quarter ending December 31, 2019, the contractor completed a reconciliation to the payout and cost allocation reports for the following:

- All Waiver authority medical service expenditures;
- All Medicaid administrative claiming expenditures;
- All CHIP expenditures,
- All Medicaid expansion expenditures;
- All State plan expenditures;
- Total computable amounts reported in MBES for Medicaid collections and overpayments were reconciled to the workpapers used to support Medicaid collections and overpayments.

The agency is in the process of working with the contractor to develop and implement a quarterly reconciliation to include the payout reports, cost allocation (Allocap) and the state's financial management system (AASIS). When the reconciliation process has been finalized, written procedures on the reconciliation process will be documented.

Anticipated Completion Date: 6/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-019
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1905AR5MAP
Federal Award Year(s): 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Claims Paid Subsequent to Recipient Death
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:

A similar issue was reported in prior-year finding **2018-021**.

Criteria:

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

Condition and Context:

The Arkansas Department of Health provided ALA with a list of deceased individuals, which ALA used to identify individuals who had claims or capitation payments paid or adjusted in state fiscal year 2019 with dates of service after their date of death. The resulting population was split into those related to claims payments and those related to capitation payments.

ALA staff review of 60 recipients with claims paid for dates of service subsequent to the date of death revealed the following:

- Nine recipients had claims paid for dates of service after their date of death. One recipient's claims, totaling \$576, were for dates of service seven months after the date of death. These claims had not been recouped as of fieldwork date October 14, 2019. Questioned costs totaled \$689 and \$8 for state fiscal years 2019 and 2018, respectively.
- For nine recipients, the Medicaid Management Information System (MMIS) did not have a date of death recorded or the date of death was not correct as of fieldwork date November 22, 2019.

ALA staff review of 60 recipients with capitation payments for dates of service subsequent to the date of death revealed the following:

- Fifty-seven recipients had capitation payments paid for dates of service after their date of death. These claims had not been recouped as of fieldwork date October 14, 2019. Questioned costs totaled \$722, \$435, \$183, \$141, and \$37 for state fiscal years 2019, 2018, 2017, 2016 and 2015, respectively.
- For nine recipients, MMIS did not have a date of death recorded, or the date of death was not correct as of fieldwork date November 22, 2019.
- For 10 recipients, capitation payments were paid more than six months past the date of death and ranged from 7 to 54 months.

Statistically Valid Sample:

Not a statistically valid sample

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-019 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1505AR5MAP; 05-1605AR5MAP;
05-1705AR5MAP; 05-1805AR5MAP;
05-1905AR5MAP
Federal Award Year(s): 2015, 2016, 2017, 2018, and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Claims Paid Subsequent to Recipient Death
Type of Finding: Noncompliance and Significant Deficiency

Questioned Costs:

State Fiscal Year 2015 - \$37
State Fiscal Year 2016 - \$141
State Fiscal Year 2017 - \$183
State Fiscal Year 2018 - \$443
State Fiscal Year 2019 - \$1,411

Cause:

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

Effect:

Claims and capitation payments were made on behalf of deceased recipients.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. Claims and capitation payments were paid subsequent to the date of death due to the agency not receiving timely notification of death and the span of time required to confirm date of death after receiving notification. An automatic retrospective review is completed in the MMIS to identify claims for recoupment that were paid subsequent to date of death. In some cases, eligibility is closed for another reason prior to receiving notification of date of death and the date of death is not updated in MMIS causing the claims to not be recouped. The Agency is currently reviewing all date of death discrepancies between eligibility systems and MMIS and updating the systems to reflect the reported date of death. Additionally, root causes of date for date of death discrepancies will be identified and system updates will be made to correct the discrepancies. System updates will be made as root causes are identified.

Claims were also not recouped for some capitated payments made after date of death due to a delay in completion of NET and PCCM reconciliations. Those claims will be recouped upon the completion of the reconciliations.

Anticipated Completion Date: 6/30/2020

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State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-020
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Inpatient Hospital and Long-Term
Care Facility Audits
Type of Finding: Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 45 CFR § 75.303, a non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award. These controls should be in compliance with Green Book or COSO guidance.
- Evaluate and monitor its compliance with the award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

To ensure long-term care facility rates are appropriate, the Agency performs periodic audits of the financial and statistical records of participating providers.

Condition and Context:

During our review of the Agency's internal controls and procedures regarding cost report reviews and audits of nursing facilities and intermediate care facilities, ALA discovered the Agency utilized a consultant, Myers and Stauffer, to create new procedures for desk and expanded reviews and to perform reviews of long-term care facility cost reports during the year ended June 30, 2019.

ALA requested a copy of the Myers and Stauffer contract, which revealed that Myers and Stauffer was subcontracted with DXC (fiscal agent and MMIS interchange contract). Further review revealed the DXC contract did not include deliverables for the services being provided by Myers and Stauffer. As a result, the Agency does not have an enforceable contract to ensure the reviews are completed adequately or completed timely or to ensure compliance with federal regulations concerning the completion of cost reports and rate setting for these providers.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency failed to amend the contract with DXC to include deliverables for developing cost report review procedures and performing cost report reviews.

Effect:

The Agency does not have an enforceable contract in place to ensure required audits are completed timely or at all.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-020 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: US Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Inpatient Hospital and Long-Term
Care Facility Audits
Type of Finding: Material Weakness

Recommendation:

ALA staff recommend the Agency amend the contract to include deliverables for developing cost report audit procedures and for performance of cost report audits in accordance with federal regulations.

Views of Responsible Officials and Planned Corrective Action:

DHS disputes this finding. The terms and conditions for the referenced contract state the contractor is fully responsible for all work performed under the contract and may enter into written subcontracts for performance of its functions under the contract. The contract deliverables require the contractor to hire and utilize staff to provide Business Process Outsourcing (BPO) services for third party liability and long-term care facility programs. These services included multiple Business Processes, such as nursing facility desk reviews and calculation of nursing facility rates. These services are further defined in the proposed scope of work submitted to DHS by DXC. In the proposed scope, DXC details the completion of nursing facility desk reviews and long-term care cost facility reports. The proposed scope, once approved by DHS, became part of the scope of work between DXC and Myers and Stauffer, the subcontractor DXC hired to perform the work in compliance with the Contract Performance Indicators. If Myers and Stauffer had failed to perform their obligations as subcontractor, DHS would have legal recourse against DXC as the primary contractor.

Anticipated Completion Date: Completed

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Additional Comments from the Auditor:

DHS staff commented at the preliminary exit conference that ALA had not been communicating with procurement staff concerning the contract referenced in Finding 2019-020. However, ALA had discussed the finding with individuals the Agency had identified as points of contact, as noted below. Additionally, Agency staff did not voice any concerns regarding this finding or provide any explanation that supports the Agency's official response, either during or subsequent to the final exit conference.

As a result of these factors and to establish additional context, a timeline of ALA's communication with Agency staff regarding the contract and the related finding is provided below.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number:	2019-020 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	US Department of Health and Human Services
Federal Award Number(s):	05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s):	2018 and 2019
Compliance Requirement(s) Affected:	Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits
Type of Finding:	Material Weakness

Additional Comments from the Auditor (Continued):

Communication Timeline

August 6, 2019 – ALA first discovered the relationship between Myers & Stauffer and DXC. At that time, ALA requested copies of DXC contract amendments, which included the work performed by Myers & Stauffer regarding long-term care (LTC) facility cost report reviews.

August 7, 2019 – The Agency provided ALA with a Word document describing services to be provided by DXC. No official contract documents were included, so ALA promptly requested additional clarification to determine if the Word document was from an official contract amendment or an amendment request. The Agency did not provide the additional information requested.

During discussions with Lynn Burton (Business Operations Manager, Shared Services Office of Finance – Provider Reimbursement), ALA was informed that the original contract between DXC and DHS did not include the performance of LTC cost report reviews as a deliverable, but the Agency had requested an amendment to include these reviews. Consequently, auditors reviewed contract documents previously provided but were unable to locate the deliverables in any contracts or amendments.

August 12, 2019 – At the Agency’s request, ALA utilized a **JIRA request** to update the Agency regarding the status of this contract issue and asked that the Agency provide documentation for inclusion of the deliverable in the contract and any amendments.

August 13, 2019 – ALA met with Lynn Burton and Maggie Newton (Business Operations Manager, DMS – Promulgation & Compliance, Contract Oversight), who again stated that the original contract did not include the performance of LTC cost report reviews in the deliverables and that they were unable to find addition of the reviews in any subsequent amendments.

August 19, 2019 – The Agency provided ALA with 14 additional attachments to the original contract, with no guidance regarding where ALA would find deliverables related to the cost report reviews. ALA reviewed the files and found an area regarding Provider Reimbursement that referenced an RFP attachment the Agency had not provided.

August 20, 2019 – ALA requested the RFP attachment.

August 21, 2019 – The Agency provided 21 additional documents (671 total pages) related to the contract, including the RFP attachment. However, again, the Agency provided no guidance as to where ALA would find deliverables related to the review of LTC cost reports.

August 29, 2019 – ALA notified the Agency (through JIRA) that auditors had reviewed the documentation provided; were unable to locate the deliverables in the contract; and as a result, would issue an internal control finding (i.e., Finding 2019-020). **The Agency provided no additional response to ALA from August 29 through the end of audit field work on December 27, 2019.** As a result, Finding 2019-020 was issued based on the information provided to ALA as of the end of field work.

January 8, 2020 – ALA met with Brett Hays (DHS Chief Security and Compliance Officer) and Kristen Green (Attorney Specialist, Shared Services – Office of Security and Compliance) to discuss Single Audit findings in preparation for the preliminary exit conference for the Medicaid and CHIP programs.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Finding Number:	2019-020 (Continued)
State/Educational Agency(s):	Arkansas Department of Human Services
Pass-Through Entity:	Not Applicable
CFDA Number(s) and Program Title(s):	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	US Department of Health and Human Services
Federal Award Number(s):	05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s):	2018 and 2019
Compliance Requirement(s) Affected:	Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits
Type of Finding:	Material Weakness

Additional Comments from the Auditor (Continued):

January 22, 2020 – At the preliminary exit conference, ALA again presented each audit finding related to the Medicaid and CHIP programs. Numerous Agency staff were present, including Cindy Gillespie (Secretary of Arkansas Human Services), Dawn Stehle (Deputy Director/Medicaid Director), Janet Mann (DMS Director), and Brett Hays. Regarding Finding 2019-020, Ms. Gillespie commented that ALA had not been communicating with Agency procurement staff concerning the contract. In response, ALA informed Ms. Gillespie that auditors asked for contract information using the JIRA system, as the Agency requested, and were not in control of how the Agency retrieved or provided the information.

February 10, 2020 – ALA met with Agency staff for the final exit conference for all major programs administered by DHS. The Agency expressed no concerns, during or subsequent to the final exit conference, regarding Finding 2019-020 and offered no explanation to support the official response provided by Mary Kathryn Williams (Chief Procurement Officer).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-021
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Utilization Control and Program Integrity and
Medicaid Fraud Control Unit
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:
Not applicable

Criteria:

In accordance with 42 CFR § 438.350, each state that contracts with a Managed Care Organization (MCO) or Prepaid Ambulatory Health Plan (PAHP) must ensure that an annual external quality review (EQR) is performed for each MCO or PAHP.

In addition, 42 CFR § 438.364 states that the EQR results must be included in an annual technical report that must be finalized by April 30 of each year.

Condition and Context:

The Healthy Smiles Waiver, Arkansas's dental managed care program, is a PAHP and became effective on January 1, 2018. Two entities participate in the dental managed care program: Delta Dental and MCNA Dental. An EQR is required for both entities and was due by April 30, 2019.

ALA inquiry and request for the annual report revealed that as of October 28, 2019, the Agency had yet to retain a vendor to perform the EQR and was still working on the RFP (request for proposal) to select the vendor.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency has experienced staff turnover and did not develop or document internal control procedures for the dental managed care program for its staff.

Effect:

Failure to document and implement appropriate procedures for internal control limits the Agency's ability to adequately monitor the program for noncompliance, such as the noncompliance with the EQR requirements for the dental managed care program noted above.

Recommendation:

ALA staff recommend the Agency develop and document internal controls over the dental managed care program to aid in ensuring compliance with the program, including those related to EQRs.

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with the finding. The agency has begun the process to secure a vendor to perform the reviews. The contract for this service was posted for bid on January 31, 2020 and a contract start date of July 1, 2020.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding Number: 2019-021 (Continued)
State/Educational Agency(s): Arkansas Department of Human Services
Pass-Through Entity: Not Applicable
CFDA Number(s) and Program Title(s): 93.778 – Medical Assistance Program
(Medicaid Cluster)
Federal Awarding Agency: U.S. Department of Health and Human Services
Federal Award Number(s): 05-1805AR5MAP; 05-1905AR5MAP
Federal Award Year(s): 2018 and 2019
Compliance Requirement(s) Affected: Special Tests and Provisions –
Utilization Control and Program Integrity and
Medicaid Fraud Control Unit
Type of Finding: Noncompliance and Material Weakness

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

Anticipated Completion Date: 7/1/2020

Contact Person: Janet Mann
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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS DEPARTMENT OF HIGHER EDUCATION
(DEPARTMENT OF EDUCATION)
FOR THE YEAR ENDED JUNE 30, 2018

Finding:

Agencies are required to record amounts due for student loans in accordance with Ark. Code Ann. § 19-2-304. Additionally, according to Ark. Code Ann. § 19-2-305(a), "A state agency shall diligently and actively pursue the collection of their accounts and notes receivable." In accordance with the Financial Management Guide R4-19-4-2004, "the Chief Fiscal Officer of the State shall verify that all efforts to collect the indebtedness have been fulfilled. He may then, by written approval, declare the debt or remaining debt unable to be collected and notify the State agency and Legislative Joint Auditing Committee of abatement of the debt."

The Arkansas Department of Higher Education (ADHE) oversees several state-funded student loan programs. Students who receive the loans may be eligible to have the loans forgiven if they meet certain criteria; students not meeting the criteria are placed in repayment status. The Agency is required to maintain student loan subsidiary ledgers to track changes to total loan balances throughout the year. These subsidiary ledgers are then used to adjust loans receivables in AASIS during the fiscal year-end closing process.

Review of 40 **active** individual student loan files revealed three instances totaling \$56,697 in which student loan balances did not match the subsidiary ledgers, resulting in an overstated receivables balance.

Review of 25 **inactive** student loan files revealed the following deficiencies in loans receivable:

- Four instances totaling \$10,932 in which student loan balances did not match the subsidiary ledgers, resulting in an overstated receivables balance.
- Three instances totaling \$12,000 in which student loan balances were written off without proper approval from the Chief Fiscal Officer of the State.

Recommendation:

We recommend the Agency continue to review the subsidiary ledgers to ensure receivables are properly reported and actively pursued for collection. In addition, we recommend the Agency receive the proper approval of the Chief Fiscal Officer of the State before abatement of student loan balances.

Agency Response:

The Department agrees with the finding. ADHE has dedicated a staff member full time as well as additional staff to correct the deficiency in the student loan programs. Once account ledgers have been reconciled, staff will ensure that AASIS and the subsidiary ledgers are balanced on a monthly basis and that the subsidiary ledgers are also balanced monthly with our servicing agent, Campus Partners. After the last audit, staff had corrected the balancing between Agency ledgers and AASIS; however, the balancing between AASIS and our servicing agent was still lacking. That has been addressed and corrected moving forward. ADHE staff will also be auditing files for all student loan files with a remaining balance to verify all necessary documentation has been included in the file and that the proper loan status has been assigned.

Finding:

The Chief Fiscal Officer of the State, under the authority of Ark. Code Ann. § 19-4-901-907 and related sections, issues rules concerning state-owned vehicles and publishes the State of Arkansas Vehicle Use and Management Handbook. Each use of any vehicle must be recorded as follows:

1. Day and time of use.
2. Starting location and destination.
3. Beginning and ending odometer mileage.
4. Cost and amount of fuel purchased, if any.
5. Any problems encountered with the vehicle.

This information must be maintained in the vehicle use log, a written record carried in every vehicle at all times. The Handbook also requires employees to reimburse the cost of their personal use of state vehicles.

The ADHE Director obtained commuter status in February 2018 and commuted in a state vehicle from May 2018 through May 2019; however, no vehicle use log was maintained. As a result, we could not determine an accurate amount of reimbursements for personal use of the vehicle.

Recommendation:

We recommend the Agency comply with Arkansas Code and the rules issued by the Chief Fiscal Officer of the State contained in the State of Arkansas Vehicle Use and Management Handbook. The Agency should coordinate with the Department of Finance and Administration (DFA) to determine the appropriate amount of reimbursement for personal use of the state vehicle.

Agency Response:

The Department agrees with the finding. ADHE has taken steps to correct these issues by implementing a daily log for the Director to maintain in her commuter vehicle. The Director is also being invoiced monthly for the personal use of the vehicle in accordance with the State Vehicle Use and Management Handbook

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF EDUCATION – ARKANSAS SCHOOL FOR THE DEAF
FOR THE YEAR ENDED JUNE 30, 2017**

Finding:

Ark. Code Ann. § 19-4-1502 requires agencies to maintain a record of all agency property. Also, in accordance with Section R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide, “The bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters (ACA 25-1-124) for each state agency, board, commission or institution is responsible for, and held accountable for, reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit. Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or the apparent theft or misappropriation of state funds or property.”

During an asset sighting, the Agency was unable to locate 12 assets totaling \$6,223, and an additional three assets totaling \$2,898 were not tagged with the asset number or inventory number to allow for proper identification. In addition, Building Improvements totaling \$283,414 were incorrectly coded as Equipment. Also, in discussions surrounding the review of assets, we discovered that on November 17, 2016 and May 12, 2017, an incident report was filed with the Little Rock Police Department documenting the theft of a laptop and a lawnmower, respectively. Total value of stolen property was \$7,508. Based on review of the capital asset listing on June 27, 2018, the items reported as stolen remained on the Agency's asset listing, and it does not appear losses were reported in accordance with R1-19-4-2004. Without a current and accurate asset listing, the ability to maintain a record of the Agency's capital assets in accordance with Ark. Code Ann. §19-4-1502 could be jeopardized and could lead to misappropriation of assets.

Recommendation:

We recommend the Agency perform a complete inventory check and maintain proper records of asset activity. In addition, we recommend the Agency strengthen controls related to safeguarding of assets to prevent further occurrences of theft and ensure compliance with R1-19-4-2004.

Management Response:

Arkansas School for the Deaf (ASD) has been working diligently to get a grasp on inventory items. There are over 3,000 items on our asset list and 20 building that they could be located in. ASD has hired a staff member to work on getting old items removed and documents showing where the current items are located. ASD has worked with DFA to get the incorrectly classified assets changed. The list of stolen items and police reports have been sent over to DFA and have been documented correctly.

Finding:

According to Ark. Code Ann. § 19-11-229, procurement of commodities and services exceeding an estimated purchase price of \$50,000 shall be awarded by competitive sealed bidding. Ark. Code Ann. § 19-11-234 requires an agency to competitively bid procurements from \$10,000 up to \$50,000 (limits in place in fiscal year 2017 as authorized by Act 1189 of the Regular Session of 2013). Our review of expenses revealed the Agency authorized payments to one vendor using a purchase order for a data and electrical installation project with a total invoice amount of \$68,800. Work was performed and payment issued without requesting, receiving, and evaluating competitive bids, as required by state procurement law. In addition, it was noted that three bids were not obtained, or a contract entered into, for sign language interpreting services provided by one vendor in the amount of \$34,163. Failure to use competitive bidding for procurements exceeding limits defined in state procurement law increases the risk the Agency will not obtain the best products and/or services for the best price.

Recommendation:

We recommend the Agency implement policies and procedures to ensure compliance with Arkansas Code, as applicable.

Management Response:

The data and electrical installation was needed to be performed before students returned from summer break for the emergency response system in all classrooms and buildings. Staff have completed the procurement training since this purchase.

ASD has an extensive need for sign language interpreters to meet the needs of deaf students and deaf staff members. In doing so, we use multiple vendors to meet these needs. Since there are a limited number of qualified interpreters in the Little Rock area, we reached the threshold faster than expected. Going forward, we will create a plan to cover interpreting needs while following the three bid requirement. ASD has negotiated the pricing for each vendor.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF EDUCATION
ARKANSAS EDUCATIONAL TELEVISION COMMISSION
FOR THE YEAR ENDED JUNE 30, 2019**

Finding:

The Agency received a grant from Arkansas Department of Education (ADE) for \$2,830,550 for fiscal year 2019 to fund the Internet-Delivered Education for Arkansas Schools (IDEAS) program for teacher professional development and educational resources. ADE performed an internal audit review of Agency program disbursements and noted costs considered unrelated to the IDEAS program totaling \$409,092, for which ADE recommended refund or recoupment from the subsequent year's grant. The Agency recorded a liability payable to ADE at June 30, 2019, fiscal year-end.

Recommendation:

We recommend the Agency comply with grant agreement requirements.

Agency Response:

AETN has worked cooperatively with ADE to successfully provide online and face-to-face professional development for teachers and other educators since 2006 through the IDEAS program. We have managed and operated the IDEAS program under the ADE guidance that we understood to be in place. We agree to follow and work within current ADE guidance for the IDEAS program and have worked cooperatively with ADE staff to fully understand all aspects of this current guidance. We have dedicated management staff to stay in close contact with ADE program and fiscal staff to monitor and review IDEAS' operations and results.