

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF COMMERCE
FOR THE YEAR ENDED JUNE 30, 2023**

Finding:

While completing DFA-Office of Accounting's year-end closing book, the Agency makes accounting entries for various purposes, such as the accrual of receivables or payables, estimations of the allowance for doubtful accounts, and the correction of errors noted in the year. Audit procedures detected deficiencies in the following accounting entries:

- **Division of Workforce Services (DWS)** makes an annual entry to reduce the claimant benefit overpayment receivable by amounts estimated to be uncollectible, based on a rolling schedule of prior-year receivables and collections. Auditor recalculation of DWS' estimate for uncollectible accounts revealed errors in the Agency's calculations. As a result of these miscalculations, net claimant benefit overpayments receivable were overstated by \$14,670,625, and net claimant benefit overpayments receivable due back to the federal government were overstated by \$8,678,583. A similar issue was also noted in the prior year.
- DWS makes an accrual entry to estimate the amount of Unemployment Insurance (UI) benefits payable to claimants in the subsequent fiscal year, for which claimants filed in the current fiscal year, based on average claim duration, compensable claims in the last week of the year, and average weekly benefit amount. Auditor recalculation of DWS' estimate of UI benefits payable revealed errors in the Agency's calculations that resulted in the accrued liability being understated by \$1,062,269.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated. Upon notification of the potential misstatements, DFA-Office of Accounting made correcting entries in AASIS.

Recommendation:

We recommend the State strengthen controls over documentation and related calculations required to book year-end accounting entries.

Agency Response:

Claimant Benefit Overpayment Receivables:

Corrections were required to the original calculations used to make the AASIS journal entries. This was due to an error in the calculation of the percentage of overpayments that are considered to be uncollectible, which affected the net claimant benefit overpayments receivable and payable calculations. The spreadsheet used to calculate the amount of future repayments on Claimant Benefit Receivable & the Allowance for Doubtful Accounts contained an error. The column "% Calculated repayments in future fiscal years" incorrectly included the "% Repayments in current fiscal year" which resulted in a higher estimate of collectible receivables. UI Benefits/Accounting and UI Program worked together to correct the formulas in the spreadsheet used in the calculated reserve for doubtful accounts percentage and the overpayment principal balance at June 30, 2023 calculations. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, ADWS staff will be able to use the additional training that has been provided to calculate the amounts more accurately and timely. For future years the UI Program Staff will provide the ADWS UI Assistant Controller with the data needed to prepare the schedule. The ADWS UI Assistant Controller will calculate the final schedules. The ADWS UI Assistant Controller will review the spreadsheet to ensure it is calculating the correct amount of estimated collections. In addition, the ACFR lead staff will also review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

Unemployment Insurance benefits payable:

Corrections were required to the original calculations used to make the AASIS journal entries. There was a math error in the calculation of the UI Benefits payable amount provided by UI Program staff. UI Benefits/Accounting and UI Program worked together to correct the error in the calculated amount due for Unemployment Insurance benefits at June 30, 2023. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, the ADWS UI Assistant Controller will re-calculate and review the final UI Benefits payable schedule to ensure that there are no errors in the computation. The ACFR lead staff will review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

REPORT FINDING: 2023-001

Division of Workforce Services

While completing DFA-Office of Accounting's year-end closing book, the Agency makes accounting entries for various purposes, such as the accrual of receivables or payables, estimations of the allowance for doubtful accounts, and the correction of errors noted in the year. Audit procedures detected deficiencies in the following accounting entries:

- Division of Workforce Services (DWS) makes an annual entry to reduce the claimant benefit overpayment receivable by amounts estimated to be uncollectible, based on a rolling schedule of prior-year receivables and collections. Auditor recalculation of DWS' estimate for uncollectible accounts revealed errors in the Agency's calculations. As a result of these miscalculations, net claimant benefit overpayments receivable were overstated by \$14,670,625, and net claimant benefit overpayments receivable due back to the federal government were overstated by \$8,678,583. This issue was noted in a supplemental management letter finding in the prior year.
- DWS makes an accrual entry to estimate the amount of Unemployment Insurance (UI) benefits payable to claimants in the subsequent fiscal year, for which claimants filed in the current fiscal year, based on average claim duration, compensable claims in the last week of the year, and average weekly benefit amount. Auditor recalculation of DWS' estimate of UI benefits payable revealed errors in the Agency's calculations that resulted in the accrued liability being understated by \$1,062,269.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated. Upon notification of the potential misstatements, DFA-Office of Accounting made correcting entries in AASIS.

We recommend the State strengthen controls over documentation and related calculations required to book year-end accounting entries.

Views of Responsible Officials and Planned Corrective Action:

Claimant Benefit Overpayment Receivables:

Corrections were required to the original calculations used to make the AASIS journal entries. This was due to an error in the calculation of the percentage of overpayments that are considered to be uncollectible, which affected the net claimant benefit overpayments receivable and payable calculations. The spreadsheet used to calculate the amount of future repayments on Claimant Benefit Receivable & the Allowance for Doubtful Accounts contained an error. The column "% Calculated repayments in future fiscal years" incorrectly included the "% Repayments in current fiscal year" which resulted in a higher estimate of collectible receivables. UI Benefits/Accounting and UI Program worked together to correct the formulas in the spreadsheet used in the calculated reserve for doubtful accounts percentage and the overpayment principal balance at June 30, 2023 calculations. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, ADWS staff will be able to use the additional training that has been provided to calculate the amounts more accurately and timely. For future years the UI Program Staff will provide the ADWS UI Assistant Controller with the data needed to prepare the schedule. The ADWS UI Assistant Controller will calculate the final schedules. The ADWS UI Assistant Controller will review the spreadsheet to ensure it is calculating the correct amount of estimated collections. In addition, the ACFR lead staff will also review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

Unemployment Insurance benefits payable:

Corrections were required to the original calculations used to make the AASIS journal entries. There was a math error in the calculation of the UI Benefits payable amount provided by UI Program staff. UI Benefits/Accounting and UI Program worked together to correct the error in the calculated amount due for Unemployment Insurance benefits at June 30, 2023. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, the ADWS UI Assistant Controller will re-calculate and review the final UI Benefits payable schedule to ensure that there are no errors in the computation. The ACFR lead staff will review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Section II – Financial Statement Findings (Continued)

REPORT FINDING: 2023-001 (Continued)

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

Anticipated Completion Date: Corrective action was taken for the controls ALA staff recommended.

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**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Section III - Federal Award Findings and Questioned Costs

Finding Number: 2023-005
State/Educational Agency(s): Arkansas Department of Commerce –
Division of Workforce Services
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 17.225 – Unemployment Insurance
Federal Awarding Agency: U.S. Department of Labor
Federal Award Number(s): Not Applicable
Federal Award Year(s): Not Applicable
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Eligibility
Type of Finding: Noncompliance and Significant Deficiency

Repeat Finding:

A similar issue was reported in prior-year finding 2022-001.

Criteria:

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

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

Condition and Context:

In state fiscal year 2023, the Division of Workforce Services (DWS) identified 1,077 claims paid for Unemployment Insurance programs, totaling \$2,295,059, as likely fraud. (This is in addition to the claims identified in the previous years.) The \$2,295,059 is comprised of \$1,563,505 in federal funds and \$731,554 in state funds.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$1,563,505 (federal)

\$ 731,554 (state)

Cause:

In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the program during fiscal year 2021. DWS continued to identify claims in fiscal year 2023 that were paid during fiscal year 2021.

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

Due to the health concerns of the pandemic as well as unprecedented claims volume, claimants were not required to come into a local office for identity verification, the waiting week was waived for 2020, and the requirements for work search were adjusted in order to protect employees and claimants.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-005 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Division of Workforce Services
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	17.225 – Unemployment Insurance
Federal Awarding Agency:	U.S. Department of Labor
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	Not Applicable
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Eligibility
Type of Finding:	Noncompliance and Significant Deficiency

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

Before the pandemic, all claimants were required to come to the local office to verify their identity. Removing these process controls resulted in several consequences as itemized below:

- By waiving the waiting week, the claimant was able to receive payment the following week. For example, a fraudster could file a claim on Friday, then receive payment on Sunday, removing the typical week that an employer would respond to validate the separation from employment.
- The information mailed to the employer and claimant were not received before payments were made due to the lack of waiting week.
- Businesses were closed at that time and did not respond to the unemployment paperwork timely to report fraudulent claims.
- Identity theft fraudsters often changed the address of the individuals for which they had filed claims in order to prevent the victims from being notified and reporting the fraud.

In 2020, the work search requirement was reinstated. In 2021, all claimants had to verify their identity in-person at the local office before the claim was opened for a regular unemployment claim. The UIdentify program was utilized for identity verification for the PUA claims filed after January 1, 2021. The waiting week was reinstated in January 2021, which lengthened the time period for employers to respond before payment was issued.

In addition, Internal Audit created the Fraud Investigation Unit and hired additional staff to focus on investigating the identity theft fraud claims. When the perpetrator is identified, a determination is issued and an overpayment is established in the perpetrator's name/SSN for collection. The NASWA Integrity Data Hub (IDH) crossmatch was implemented in July 2020 as well in an effort to identify additional fraudulent claims for investigation.

ADWS was the first UI program to implement 2 projects with the Department of Labor for identity verification. One is using Login.gov and the other involves the United States Postal Service where they verify the identity of claimants for using multifactor authentication and in person presentation of ID. The Login.gov pilot started in 2022 and the USPS pilot project started in 2023.

1. The Login.gov project uses the current system that Federal agencies use to verify identity and went into service in Arkansas as of March 2022. A link is given to the claimant, when they select verify ID through login.gov and go through the steps to verify their identity through the federal government system. If they are approved, we are sent an IA2 verification to the UI processing system to allow staff to match back to the claim to prove ID verification.
2. The United States Postal Service project, implements in Arkansas March 2023, offers the claimant the same link as Login.gov, but grants the additional option to verify their identity at any US Post Office in the country. A barcode is created and must be taken with a valid government-issued ID (they are given examples) along with proof of current address to the post office in person. If they are approved, we are sent an IA2 verification to the UI processing system to allow staff to match back to the claim to prove ID verification.

Anticipated Completion Date: Corrective action was taken for the controls the ALA staff recommended.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-005 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Division of Workforce Services
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	17.225 – Unemployment Insurance
Federal Awarding Agency:	U.S. Department of Labor
Federal Award Number(s):	Not Applicable
Federal Award Year(s):	Not Applicable
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Eligibility
Type of Finding:	Noncompliance and Significant Deficiency

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

Contact Person:	Sheri Rooney Program Administrator Arkansas Division of Workforce Services #2 Capitol Mall Little Rock, AR 72201 501-682-3382 Sheri.Rooney@arkansas.gov
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**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-032
State/Educational Agency(s): Arkansas Department of Commerce –
Division of Workforce Services
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 97.050 – COVID 19: Presidential Declared Disaster
Assistance to Individuals and Households – Other Needs
(Supplemental Payments for Lost Wages)
Federal Awarding Agency: Federal Emergency Management Agency
Federal Award Number(s): 4518DRARSPLW
Federal Award Year(s): Not Applicable
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Eligibility
Type of Finding: Noncompliance and Significant Deficiency
Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

In state fiscal year 2023, the Division of Workforce Services (DWS) identified 64 claims paid for Lost Wages Assistance (LWA) totaling \$67,500 as likely fraud. This is in addition to the claims identified in the previous fiscal years.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$67,500

Cause:

In response to the increase in demand for services/benefits, the State relaxed controls over identity verification and income verification for the program during fiscal year 2021. DWS continued to identify claims in fiscal year 2023 that were paid during fiscal year 2021.

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

Due to the health concerns of the pandemic as well as unprecedented claims volume, claimants were not required to come into a local office for identity verification, the waiting week was waived for 2020, and the requirements for work search were adjusted in order to protect employees and claimants.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-032 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Division of Workforce Services
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	97.050 – COVID 19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)
Federal Awarding Agency:	Federal Emergency Management Agency
Federal Award Number(s):	4518DRARSPLW
Federal Award Year(s):	Not Applicable
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Eligibility
Type of Finding:	Noncompliance and Significant Deficiency

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

Before the pandemic, all claimants were required to come to the local office to verify their identity. Removing these process controls resulted in several consequences as itemized below:

- By waiving the waiting week, the claimant was able to receive payment the following week. For example, a fraudster could file a claim on Friday, then receive payment on Sunday, removing the typical week that an employer would respond to validate the separation from employment.
- The information mailed to the employer and claimant were not received before payments were made due to the lack of waiting week.
- Businesses were closed at that time and did not respond to the unemployment paperwork timely to report fraudulent claims.
- Identity theft fraudsters often changed the address of the individuals for which they had filed claims in order to prevent the victims from being notified and reporting the fraud.

In 2020, the work search requirement was reinstated. In 2021, all claimants had to verify their identity in-person at the local office before the claim was opened for a regular unemployment claim. The UIdentify program was utilized for identity verification for the PUA claims filed after January 1, 2021. The waiting week was reinstated in January 2021, which lengthened the time period for employers to respond before payment was issued.

In addition, Internal Audit created the Fraud Investigation Unit and hired additional staff to focus on investigating the identity theft fraud claims. When the perpetrator is identified, a determination is issued and an overpayment is established in the perpetrator's name/SSN for collection. The NASWA Integrity Data Hub (IDH) crossmatch was implemented in July 2020 as well in an effort to identify additional fraudulent claims for investigation.

ADWS was the first UI program to implement 2 projects with the Department of Labor for identity verification. One is using Login.gov and the other involves the United States Postal Service where they verify the identity of claimants for using multifactor authentication and in person presentation of ID. The Login.gov pilot started in 2022 and the USPS pilot project started in 2023.

1. The Login.gov project uses the current system that Federal agencies use to verify identity and went into service in Arkansas as of March 2022. A link is given to the claimant, when they select verify ID through login.gov and go through the steps to verify their identity through the federal government system. If they are approved, we are sent an IA2 verification to the UI processing system to allow staff to match back to the claim to prove ID verification.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-032 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Division of Workforce Services
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	97.050 – COVID 19: Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (Supplemental Payments for Lost Wages)
Federal Awarding Agency:	Federal Emergency Management Agency
Federal Award Number(s):	4518DRARSPLW
Federal Award Year(s):	Not Applicable
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Eligibility
Type of Finding:	Noncompliance and Significant Deficiency

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

Before the pandemic, all claimants were required to come to the local office to verify their identity. Removing these process controls resulted in several consequences as itemized below:

- By waiving the waiting week, the claimant was able to receive payment the following week. For example, a fraudster could file a claim on Friday, then receive payment on Sunday, removing the typical week that an employer would respond to validate the separation from employment.
- The information mailed to the employer and claimant were not received before payments were made due to the lack of waiting week.
- Businesses were closed at that time and did not respond to the unemployment paperwork timely to report fraudulent claims.
- Identity theft fraudsters often changed the address of the individuals for which they had filed claims in order to prevent the victims from being notified and reporting the fraud.

In 2020, the work search requirement was reinstated. In 2021, all claimants had to verify their identity in-person at the local office before the claim was opened for a regular unemployment claim. The UIdentify program was utilized for identity verification for the PUA claims filed after January 1, 2021. The waiting week was reinstated in January 2021, which lengthened the time period for employers to respond before payment was issued.

In addition, Internal Audit created the Fraud Investigation Unit and hired additional staff to focus on investigating the identity theft fraud claims. When the perpetrator is identified, a determination is issued and an overpayment is established in the perpetrator's name/SSN for collection. The NASWA Integrity Data Hub (IDH) crossmatch was implemented in July 2020 as well in an effort to identify additional fraudulent claims for investigation.

ADWS was the first UI program to implement 2 projects with the Department of Labor for identity verification. One is using Login.gov and the other involves the United States Postal Service where they verify the identity of claimants for using multifactor authentication and in person presentation of ID. The Login.gov pilot started in 2022 and the USPS pilot project started in 2023.

1. The Login.gov project uses the current system that Federal agencies use to verify identity and went into service in Arkansas as of March 2022. A link is given to the claimant, when they select verify ID through login.gov and go through the steps to verify their identity through the federal government system. If they are approved, we are sent an IA2 verification to the UI processing system to allow staff to match back to the claim to prove ID verification.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-032 (Continued)
State/Educational Agency(s): Arkansas Department of Commerce –
Division of Workforce Services
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 97.050 – COVID 19: Presidential Declared Disaster
Assistance to Individuals and Households – Other Needs
(Supplemental Payments for Lost Wages)
Federal Awarding Agency: Federal Emergency Management Agency
Federal Award Number(s): 4518DRARSPLW
Federal Award Year(s): Not Applicable
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Eligibility
Type of Finding: Noncompliance and Significant Deficiency

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

2. The United States Postal Service project, implements in Arkansas March 2023, offers the claimant the same link as Login.gov, but grants the additional option to verify their identity at any US Post Office in the country. A barcode is created and must be taken with a valid government-issued ID (they are given examples) along with proof of current address to the post office in person. If they are approved, we are sent an IA2 verification to the UI processing system to allow staff to match back to the claim to prove ID verification.

Anticipated Completion Date: Corrective action was taken for the ALA staff recommendations

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**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-006
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.027 – COVID 19: Coronavirus State and Local
Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): SLFRP3627
Federal Award Year(s): 2022
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding 2022-014.

Criteria:

In accordance with 2 CFR § 200.403(g), costs must be adequately documented to be allowable under federal awards.

In addition, state-promulgated rules governing the Arkansas Rural Connect (ARC) Program provide that internet service providers (ISPs) must submit receipts for all reimbursable expenses. The rules also provide that the full purchase price of capital equipment used for the build phase of a project and having value for other construction work subsequent to project completion, is not allowable.

Finally, 2 CFR § 200.303 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.
- 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 staff selected 20 payments made to ISPs to determine if sufficient, appropriate documentation was maintained to support that reimbursements were made for allowable project expenses. ALA review revealed the following:

Project 1:

- Two claims, totaling \$3,465, were reimbursed without appropriate supporting documentation (e.g., an invoice or receipt).

Project 2:

- Two claims, totaling \$5,179, were reimbursed without appropriate supporting documentation (e.g., an invoice or receipt).
- The Agency's contractor, UAMS-IDHI, approved reimbursement for a "fiber splicing trailer," also referred to as a tandem axle enclosed trailer, totaling \$25,673. This item is commonly used by broadband installers and has value for other non-ARC constructions projects, making it unallowable.

Project 3:

- Nine claims, totaling \$92,538, were reimbursed without appropriate supporting documentation (e.g., an invoice or receipt).
- Eight claims, totaling \$498,487, were reimbursed without appropriate supporting documentation (e.g., an invoice or receipt).

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-006 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	SLFRP3627
Federal Award Year(s):	2022
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Type of Finding:	Noncompliance and Material Weakness

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
\$625,342

Cause:

The Agency's contractor, UAMS-IDHI, did not perform its obligation to ensure reimbursement requests were appropriately supported. The contractor stated that it relaxed the review process as a result of an internal agreement with the previous Commission Director of Broadband.

Effect:

Reimbursements were approved for expenditures that may not have been allowable or may not have been incurred. The federal awarding agency may require recoupment.

Recommendation:

ALA staff recommend the Agency promptly develop, document, and establish procedures to monitor the agreement with its contractor to ensure completion of performance objectives and compliance with federal regulations.

Views of Responsible Officials and Planned Corrective Action:

ASBO has entered a contract with a new 3rd party administrator to provide oversight for all subgrant awardees. This contract is active now. We developed our contract to ensure improved monitoring for expenditures and verification of receipts. Also, we are in the process of developing a portal which will allow this contractor and ASBO to have full access to all documents from subgrantees. Our new vendor does have prior experience with subgrants management.

In addition, ASBO commits internally to the following:

- We will monitor all capital purchases when the invoices are received at our office.
- We will pull a random sample of five invoices per month and conduct our own review of expenses.

Highlights for the Baker contract:

ASBO's broadband grant program management vendor-partner, Michael Baker International (MBI), is contracted for the following activities and deliverables:

- Developing the workflow, process, and online forms that facilitate project monitoring and expense reimbursement.
- Responsible for pursuing and documenting additional information required for project monitoring and reimbursement activities. These activities shall be completed within the framework of the Broadband Grants Project Monitoring and Reimbursement System (see below for details) and not through external email or other document exchange system.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-006 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission
Pass-Through Entity:	Not Applicable
AL Number(s) and Program Title(s):	21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	SLFRP3627
Federal Award Year(s):	2022
Compliance Requirement(s) Affected:	Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Type of Finding:	Noncompliance and Material Weakness

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

- Develop and apply standardized naming conventions for all project documents that will be maintained throughout the life of the project. Documents shall be stored in a manner that promotes transparency and facilitates ease of use by auditors.
- Take all reasonable measures to ensure grant activities are implemented in a manner that ensures transparency, accountability, and oversight sufficient to (1) minimize the opportunity for waste, fraud, and abuse; (2) ensure that subrecipients use funds to further the objectives of Federal programs and the Arkansas State Broadband Office; and (3) allow the public to understand and monitor subgrants awarded under the program.
- Ensuring all reimbursement activity complies with Federal requirements, including Section 60102 of the Infrastructure Act, 2 C.F.R. Part 200 and any supplemental guidance issued by the Federal government.
- Responsible for knowing what constitutes eligible and ineligible expenses under both state and Federal rules.
- Provide education and guidance to subrecipients and the ASBO on key oversight and compliance requirements.
- Ensure payment activities follow all state and Federal policies and procedures. Contractor acknowledges policies may change over the life of the contract.
- Identify policies the ASBO is required to adopt and assist in drafting those policies to ensure ASBO compliance with Federal regulations.
- Assist the Arkansas State Broadband Office in enforcing program rules and laws and imposing penalties for nonperformance, failure to meet statutory obligations, or wasteful, fraudulent, or abusive expenditure of funds. Such penalties include, but are not limited to, imposition of additional award conditions, payment suspension, award suspension, grant termination, de-obligation/clawback of funds, and debarment of organizations and/or personnel.
- Conduct audits of subrecipients as are necessary and appropriate. Contractor shall report the results of any audits it conducts to the Arkansas State Broadband Office.
- Develop a template contract for subrecipients, specifying key terms including contract length, performance standards, construction and service rollout schedules, competitive access requirements, regulatory compliance requirements, environmental controls, grant reporting and data sharing requirements, monitoring and oversight procedures, and penalties for non-compliance.
- Retain and provide to the Arkansas State Broadband Office upon request all records, documents, and communications of any kind that relates in any manner to grant awards and project procurement, performance, and reimbursement. This data shall be labeled and stored in a manner that promotes transparency and facilitates ease of use by auditors.

Additionally, MBI is building two new systems for ASBO and subgrantee use:

1. Broadband Grants Project Monitoring and Reimbursement System
2. Grant Application Submission, Evaluation, Award, and Appeal System

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-006 (Continued)
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
AL Number(s) and Program Title(s): 21.027 – COVID 19: Coronavirus State and Local
Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): SLFRP3627
Federal Award Year(s): 2022
Compliance Requirement(s) Affected: Activities Allowed or Unallowed;
Allowable Costs/Cost Principles
Type of Finding: Noncompliance and Material Weakness

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

These systems will have the following features:

- Facilitate inputs, responses, data gathering, analysis, and adjudication decision recommendations and subsequent documentation of payment decisions for the Arkansas State Broadband Office's final approval.
- Provide a secure mechanism for grant applications and safeguard protected, proprietary, and other confidential information.
- Assign a unique identifier to each application and each project. Contractor shall develop and apply a standardized naming convention to all applications and associated documents that will be maintained throughout award, technical review, project monitoring, and project closing. Documents shall be named and stored in a manner that facilitates ease of use by auditors.
- System shall exhibit built-in quality controls, such as pre-screening, that assist applicants in submitting applications that meet all minimal requirements for consideration (such as requiring a SAM number).
- MBI shall be responsible for pursuing and documenting additional information required for clarification of submitted applications, technical reviews of applications, and project monitoring and reimbursement activities. These activities shall be completed within the framework of the Grant Application Submission, Evaluation, Award, and Appeal System or the Broadband Grants Project Monitoring and Reimbursement System and not through external email or other document exchange systems.

Anticipated Completion Date: System anticipated go live Date: April 26, 2024

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**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-007
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 21.027 – COVID 19: Coronavirus State and Local
Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): SLFRP3627
Federal Award Year(s): 2022
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding 2022-017.

Criteria:

In accordance with 2 CFR § 200.302(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, 2 CFR § 200.303(a) 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 award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Finally, 2 CFR § 200.214 holds entities subject to 2 CFR Part 180, which restricts awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities.

Condition and Context:

For the second consecutive year, the Agency failed to establish documented control procedures for this compliance requirement area.

The Agency is responsible for ensuring that entities receiving awards are registered in the System for Award Management (SAM) database and have not been suspended or debarred. Registration must occur prior to the issuance of a contract or grant agreement.

ALA staff reviewed 11 contracts and grant agreements to determine if the Agency complied with the requirement. ALA review revealed that one entity, with an agreement dated January 27, 2022, failed to register on SAM until February 18, 2022.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

Unknown

Cause:

The Agency failed to establish documented control procedures and did not have adequately trained staff to ensure compliance.

Effect:

Failure to develop, document, and implement procedures for internal control over compliance increases risk for issuance of contracts and grant agreements to excluded or ineligible entities.

Recommendation:

ALA staff recommend the Agency promptly develop, document, and establish policies to ensure contracts and grant agreements are only issued to eligible entities.

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-007
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 21.027 – COVID 19: Coronavirus State and Local
Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): SLFRP3627
Federal Award Year(s): 2022
Compliance Requirement(s) Affected: Procurement and Suspension and Debarment
Type of Finding: Noncompliance and Material Weakness

Views of Responsible Officials and Planned Corrective Action:

ASBO has made the registration at Sam.gov part of the application process that will be handled through the subgrant portal being developed with our new grants monitoring contractor. This will now be an electronic field that will be entered by the subgrantee. The 3rd party administrator will be responsible for verifying the subgrant applicant Sam.gov registration is valid and active.

Anticipated Completion Date: System anticipated go live Date: April 26, 2024

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**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number: 2023-008
State/Educational Agency(s): Arkansas Department of Commerce –
Arkansas Economic Development Commission
Pass-Through Entity: Not Applicable
ALN Number(s) and Program Title(s): 21.027 – COVID 19: Coronavirus State and Local
Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency: U.S. Department of Treasury
Federal Award Number(s): SLFRP3627
Federal Award Year(s): 2021
Compliance Requirement(s) Affected: Subrecipient Monitoring
Type of Finding: Material Noncompliance and Material Weakness

Repeat Finding:

A similar issue was reported in prior-year finding **2022-018**.

Criteria:

In accordance with 2 CFR § 200.332(a)(1), all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward:

- i. Subrecipient name (which must match the name associated with its unique entity identifier).
- ii. Subrecipient's unique entity identifier.
- iii. Federal Award Identification Number (FAIN).
- iv. Federal award date.
- v. Subaward Period of Performance start and end date.
- vi. Subaward budget period start and end date.
- vii. Amount of federal funds obligated by this action by the pass-through entity to the subrecipient.
- viii. Total amount of federal funds obligated to the subrecipient by the pass-through entity including the current financial obligation.
- ix. Total amount of the federal award committed to the subrecipient by the pass-through entity.
- x. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA).
- xi. Name of federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity.
- xii. Assistance listings number (ALN) and title; the pass-through entity must identify the dollar amount made available under each Federal award and the ALN at time of disbursement.
- xiii. Identification of whether the award is Research & Development.
- xiv. Indirect cost rate for the federal award.

In addition, 2 CFR § 200.332(a)(4) requires an approved federally recognized indirect cost rate between the subrecipient and the federal awarding agency.

2 CFR § 200.332(b) states that pass-through entities must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Finally, 2 CFR § 200.332(d) states that pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward performance goals are achieved.

Section 9(G) of the Arkansas Rule Connect (ARC) rules state that within 45 days after grant approval, the Internet Service Provider (ISP) should submit the project plans to a licensed Professional Engineer (PE) for a technical adequacy confirmation. Once received, the ISP should submit the PE approval stamp to the Arkansas State Broadband Office (ASBO).

State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Finding Number:	2023-008 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	SLFRP3627
Federal Award Year(s):	2021
Compliance Requirement(s) Affected:	Subrecipient Monitoring
Type of Finding:	Material Noncompliance and Material Weakness

Condition and Context:

ALA staff reviewed seven executed grant agreements, totaling \$28,392,301, to determine if they met the Uniform Guidance criteria. The following deficiencies were noted:

- The seven grant agreements did not include all required terms, specifically from the criteria noted above, ii, iii, iv, xi, xii, xiii, and xiv.
- An indirect cost rate agreement could not be provided.
- Discussion with management indicated that the ISPs were evaluated during the application process, but the results were not documented. Without proper documentation, ALA staff were unable to determine if the ISPs were assessed for risk as required by Uniform Guidance (2 CFR § 200.332(b)).
- Discussion with management indicated that the pass-through entity did not have documentation indicating that a PE reviewed the technical adequacy of any of the seven projects ALA reviewed.

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

None

Cause:

The Agency did not ensure staff were trained and knowledgeable regarding Uniform Guidance requirements for subrecipients.

Effect:

Without a proper grant agreement, subrecipients may be unaware that their award is subject to federal compliance requirements. The Agency could award federal funds to a high risk entity and fail to adjust the methods of monitoring accordingly. Absent a review by a PE, the project may fail to comply with performance requirements.

Recommendation:

ALA staff recommend the Agency provide training to appropriate staff to ensure adherence to Uniform Guidance regarding subrecipient monitoring.

Views of Responsible Officials and Planned Corrective Action:

ASBO has developed a Notice of Subgrant Award Information Form providing required information to each subrecipient. We have already sent this form out for CPF grants as an amendment to the current grant award. This form will be part of the subawards that will be issued for the upcoming BEAD subgrants. We are currently developing this form for all SLFRF grants to be sent out as an amendment. It is currently being reviewed for changes. Our goal is to have this form out as an amendment to all SLFRF subgrantees by June 1, 2024.

Anticipated Completion Date: June 1, 2024

**State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

Finding Number:	2023-008 (Continued)
State/Educational Agency(s):	Arkansas Department of Commerce – Arkansas Economic Development Commission
Pass-Through Entity:	Not Applicable
ALN Number(s) and Program Title(s):	21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)
Federal Awarding Agency:	U.S. Department of Treasury
Federal Award Number(s):	SLFRP3627
Federal Award Year(s):	2021
Compliance Requirement(s) Affected:	Subrecipient Monitoring
Type of Finding:	Material Noncompliance and Material Weakness

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

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