AUDIT FINDING
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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
JUDICIAL DISCIPLINE AND DISABILITY COMMISSION
FOR THE YEAR ENDED JUNE 30, 2022

Finding:
According to regulation R1-19-4-1210 of the State Financial Management Guide, adequate internal administrative procedures and controls shall be established by each state agency executive administrator to ensure prompt and accurate payment of obligations. During testing of expenditures, we noted that the Commission again overpaid invoices and failed to promptly pay invoices, resulting in late fees and finance charges as discussed below:

Due to exceptions noted during our regular testing, we expanded testing to cover all payments made in fiscal year 2022 to the vendor that supplies postage for the Agency's postage meter. Expanded testing revealed the following errors, which appear to be the result of oversight by Agency staff charged with processing payments and delays by management in reviewing and approving items for payment:

- Duplicate payments totaling $428 made in October 2021 and June 2022.
- Six payments that included invoiced amounts for late fees and/or finance charges totaling $230, issued in September and December 2021 as well as February and May 2022.

  Additionally, the Agency recorded these late fees and finance charges in the general ledger as "postage" rather than "penalties and interest."

Recommendation:
We recommend the Agency strengthen controls over disbursements by implementing procedures designed to make correct and timely payments that are appropriately recorded as to amount, classification, and period.

Agency Response:
The Commission will strengthen its controls by getting READ-ONLY access to AASIS, verifying the billed amounts, and requesting that the vendor submit invoices by email to expedite the ability to process the payments in a timely matter.

The Agency's Fiscal Manager has taken steps to get READ-ONLY access to AASIS. The support managers for AASIS attempted to install "SAP front-end installer" on to the Fiscal Manager's computer in July 2023. They were unable to complete the installation because the current computer will not support the program. The Agency will request additional funding to purchase new computers during the next biennial budget process. The Fiscal Manager will continue to verify billed amounts and implement additional internal controls to ensure that overpayments do not occur. The Fiscal Manager will request emailed invoices from vendors. The new Agency Director and the Fiscal Manager have implemented an internal, expedited process for reviewing and approving items for payment so that management delays do not occur.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF LABOR AND LICENSING
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
In accordance with R1-19-4-903 of the State Financial Management Guide, travel reimbursements, including private vehicle mileage, are allowable for official business. The shortest major highway route between destinations determines the maximum mileage allowed.

During our analysis of mileage reimbursements, we noted one employee with reimbursements totaling $5,736, an increase of $4,640 compared to fiscal year 2021. Upon review of the employee's TR-1 forms for fiscal year 2022, we discovered that the mileage between destinations was calculated incorrectly on several forms, resulting in overpayments totaling $441.

Additional review revealed another employee was overpaid for mileage reimbursements, totaling $39, because of a formula error.

Recommendation:
We recommend the Agency review all TR-1 forms for accuracy prior to approval and issuance of payment.

Agency Response:
The division employee will prepare and submit their TR-1's subject to approval by the employee's supervisor. Agency travel supervisors will review and approve these TR-1's to ensure that travel expenses comply with State travel laws and rules. In addition, the finance section of the Agency will provide training for all travel supervisors approved by the Secretary during fiscal year 2024.

Finding 2:
Ark. Code Ann. § 21-8-701(4-5) requires an agency head, department director, or division director of state government; a chief of staff or chief deputy of a constitutional officer; and a public appointee to a state board or commission to file a written statement of financial interest with the Secretary of State by January 31 of each year for the previous year.

Our review revealed that, of 185 individuals required to file a statement, 69 failed to do so, as summarized below:

Agency	Tested	Exceptions
Department of Labor and Licensing	11	6
Division of Labor	20	11
Abstractors' Board	5	4
State Board of Public Accountancy	7	1
Appraiser Licensing and Certification Board	10	3
State Board of Architects, Landscape Architects, and Interior Designers	9	4
State Athletic Commission	8	8
Auctioneer's Licensing Board	7	1
Professional Bail Bond Company and Professional Bail Bondsman Licensing Board	8	2
State Board of Barber Examiners	5	0
State Board of Collection Agencies	6	2
Contractors Licensing Board	15	1
State Board of Licensure for Professional Engineers and Professional Surveyors	10	3
State Board of Registration for Professional Geologists	8	2
Real Estate Commission	6	2
Home Inspector Registration Board	7	1
Towing and Recovery Board	10	5
Fire Protection Licensing Board	12	3
Manufactured Home Commission	7	4
Motor Vehicle Commission	10	5
Workers' Compensation Commission	4	1
Totals	**185**	**69**

Recommendation:
We recommend the Agency implement procedures to ensure statements of financial interest are filed as required by state law.

Agency Response:
The Department is currently working on a comprehensive and consistent procedure to remind all required employees to timely file their Statements of Financial Interest. Please note, however, that further review of the Secretary of State's website revealed eleven Statements of Financial Interest that were, in fact, filed.

Finding 3:
Seven business areas had 53 employees who earned 1,336 hours of compensatory time for fiscal year 2022 as shown below:

Agency	# of Employees	Hours Earned
State Board of Public Accountancy	1	2
State Athletic Commission	1	8
Professional Bail Bonds Company and Professional Bail Bondsmen Licensing Board	1	8
State Board of Collection Agencies	1	47
Real Estate Commission	10	77
Division of Labor and Licensing	29	803
Department of Labor and Licensing	10	391
Total	**53**	**1,336**

Office of Personnel Management (OPM) policy 28 and the Agency's internal policies state that compensatory time may only be earned with prior approval from the employee's supervisor for a legitimate business purpose.

Our review revealed the following deficiencies:

- Department of Labor and Licensing (BA 9910) – Prior documented approval could not be provided for the compensatory time accrued by two employees:
  - > *HVACR Mechanical Inspector* – One employee earned compensatory time in two weekly periods, but documented prior approval was only obtained for one of those periods. Unauthorized compensatory time totaled 9 hours.
  - > *Fiscal Support Supervisor* – One employee earned compensatory time in 17 weekly periods, but documented prior approval was not obtained. Unauthorized compensatory time totaled 150 hours.
- Division of Labor (BA 0800) – Prior documented approval could not be provided for the compensatory time accrued by three employees:
  - > *Elevator Division/Code Enforcement* – One employee earned compensatory time in eight weekly periods, but documented prior approval was only obtained for two of those periods. Unauthorized compensatory time totaled 46 hours.
  - > *Labor Mediator* – One employee earned compensatory time in six weekly periods, but documented prior approval was not obtained. Unauthorized compensatory time totaled 76 hours.
  - > *Arkansas Occupational Safety and Health (AOSH)* – One employee earned compensatory time in eight weekly periods but documented prior approval was not obtained. Unauthorized compensatory time totaled 79 hours.
- Board of Collection Agencies (BA 0221) – One employee earned 47 hours of compensatory time, but the Agency could provide documented approval for only 5 hours.

OPM policy 28 also requires Agencies to maintain complete and accurate records in AASIS regarding compensatory time earned and used. Our review revealed the following:

- Department of Labor and Licensing (BA 9910) – In two weekly periods, one employee recorded time worked in 5-minute increments instead of 15-minute increments, causing an incorrect accrual of .76 hours of unearned compensatory time.

· Athletic Commission (BA 0209) – One employee with an 8-hour workday recorded annual leave of 16 hours on the same day, resulting in the incorrect accrual of 8 hours of compensatory time. On April 25, 2023, prior to the end of fieldwork, the Agency corrected the accrual.

· Professional Bail Bondsman Licensing Board (BA 0211) – One employee with an 8-hour workday recorded 8 hours of sick leave and 8 hours of annual leave on the same day, resulting in the incorrect accrual of 8 hours of compensatory time. As of the end of fieldwork, the Agency had not corrected the accrual of compensatory time in AASIS. (Note: The compensatory time had not been used by the employee.)

· Real Estate Commission (BA 0248) – One employee with an 8-hour workday recorded 7.25 hours of attendance and 1.25 hours of authorized leave on the same day, resulting in the incorrect accrual of .5 hours of compensatory time.

Recommendation:
We recommend the Agency implement procedures to ensure prior written approval is obtained before compensatory time is worked by employees. In addition, procedures should also ensure that employee time worked is accurately recorded, reviewed, and approved to prevent the accrual of unearned compensatory time.

Agency Response:
The Department has implemented an overtime and compensatory time policy that determines the process for earning and using compensatory time. It specifically states that employees should have written approval from their supervisor in advance of earning compensatory time and that failure to do so may result in disciplinary action. Furthermore, this policy states that accrued compensatory time shall be used prior to the use of any accrued annual leave hours.

Finding 4:
Office of Personnel Management (OPM) Policy 54 outlines the requirements for leave payouts for state employees at separation of employment. Our review of payouts revealed the following deficiencies:

· Division of Labor (BA 0800) – One employee was overpaid $210 in annual leave payout.

· Workers Compensation Commission (BA 0390)

> One employee submitted paperwork to take two weeks of annual leave prior to the actual retirement date. Because the Agency incorrectly entered the retirement date, the employee was not paid for the 88 hours of annual leave taken between the last day of work and the actual retirement date. As a result, the employee is due $2,886 (gross). In addition, because this employee was not compensated for an additional 39.5 hours of annual leave and 8 hours of birthday leave, an additional $1,558 (gross) is due to the employee.

> Annual leave payouts, totaling $435 and $137, respectively, were not paid for two additional employees.

Recommendation:
We recommend the Agency review and strengthen its procedures regarding lump sum payments to ensure calculations are accurate prior to issuing payment. In addition, the Agency should contact OPM to initiate payment to the three employees noted above.

Agency Response:
The Department is currently exploring the manner and method of making former employees whole in consultation with OPM. Regarding the overpayment of $210 on the former employee's annual leave payout, the Department will consult with DFA on appropriate action to recover the loss. The Department's Chief Human Resource Officer is developing a standard operating procedure regarding lump sum payouts that will be followed by all human resource employees within the Department in order to keep these errors from occurring in the future.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF PARKS, HERITAGE, AND TOURISM
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
R1 19-4-1503 of the Department of Finance and Administration (DFA) Financial Management Guide requires agencies to maintain a record of all property. Accession logs are maintained in separate databases for the Arkansas State Archives (ASA) and for museums located at the Delta Cultural Center (DCC), Mosaic Templar Cultural Center (MTCC), Old State House Museum (OSH), and Historic Arkansas Museum (HAM). The databases are used to track and account for assets in museum collections and are considered the system of record. We requested accession logs as of fiscal year-end June 30, 2022, and compared the asset values recorded in the logs to the values recorded in AASIS at year-end to determine accuracy and completeness. Our review revealed that variances still remain between the accession logs and AASIS Arts & Historical Treasures, with assets overstated in AASIS by $683,259.

Recommendation:
We recommend the Agency continue to reconcile art and historical treasures assets per AASIS to the museum accession logs in the databases and establish appropriate procedures to maintain record of and to safeguard assets.

Agency Response:
During fiscal year 2023, a corrective action plan was developed. Before the close of fiscal year 2023, the reconciliation for DCC was submitted to DFA for correction within AASIS. This reconciliation removed unmatched fixed assets from AASIS and added those from the accession logs that were missing by year of acquisition. Specific listings of the accession logs were added to each fixed asset in AASIS for tracking and inventory purposes. Heritage staff members are adding the AASIS asset numbers into the accession logs.

During fiscal year 2024, the remaining four, ASA, MTCC, OSH and HAM, were submitted to DFA for correction in AASIS. The same methodology was applied where unmatched fixed assets were removed from AASIS and those missing in AASIS from the accession logs were added by year of acquisition. The specific listings of accession logs and items were added to each fixed asset in AASIS for tracking purposes. Heritage staff members are adding the AASIS asset numbers into their accession logs.

In subsequent fiscal years, we will be conducting an annual inventory of historical artifacts and treasures to ensure accurate records are maintained.

Finding 2:
Department of Transformation and Shared Services – Office of Personnel Management (DTSS-OPM) Policy #54, which is based on Ark. Code Ann. § 21-4-501, allows for the payment of accumulated, unused sick leave at retirement. As noted in fiscal year 2020, there were deficiencies in the Agency's calculations of sick leave payouts. A review of all 13 employees' sick leave payouts made in the fiscal year revealed 2 instances in which employees did not receive the correct payment amount, as follows:

- One employee received a payment of $3,640 but was entitled to $6,386, resulting in an underpayment of $2,746.
- Another employee, who was entitled to $6,593, received $3,732 in fiscal year 2022. In an attempt to correct the miscalculation, the Agency made a payout of $1,244 to the employee in fiscal year 2023, leaving $1,617 still due the employee.

Lack of appropriate training and a failure in the review process allowed for the miscalculation of sick leave payouts.

Recommendation:
We recommend the Agency work with OPM to process the underpayments and strengthen internal controls around the processing of sick leave payouts.

Agency Response:
Additional review procedures have been implemented by our Human Resources (HR) Department. The HR Analyst conducts the initial review for eligibility and calculation with documentation. This information will be provided to the Human Resource Administrator who will review and re-calculate. The final step will be to provide the documentation to the Payroll Coordinator who will re-calculate and run an individual payroll simulation to ensure accuracy of payment. If any errors are found the documentation will be returned to the HR Analyst to repeat the process until the payout is accurate on the simulation document, prior to the final processing of payroll.

Management acknowledges its responsibility for oversight in adherence to established policies and procedures and establishment of proper internal controls processes in all areas of operation. We have addressed the causes that created the error and appropriate control procedures are in place to prevent a recurrence of this issue.

Finding:
A review of salary adjustments in fiscal year 2022 revealed a part-time employee's hourly rate was erroneously raised from $12.52 to $25.03. As a result, the employee was overpaid $2,194 over a five-month period, until DFA discovered the error and corrected the hourly rate to $14.92. The employee worked on a seasonal/temporary basis, and employment was terminated in April 2022.

In addition, the Agency failed to report the loss of public funds to Arkansas Legislative Audit as required by Ark. Code Ann. § 25-1-124.

Recommendation:
We recommend Agency management strengthen internal controls to ensure wage increases are properly supported and sufficiently reviewed. Furthermore, the Agency should report any loss of public funds greater than $1,000 to Arkansas Legislative Audit within five business days upon discovery of the loss, as required by Ark. Code Ann. § 25-1-124.

Agency Response:
We agree with Arkansas Legislative Audit's recommendation. Department of Finance and Administration will continue to work to assure that wage increase are supported and sufficiently reviewed. Furthermore, we will adhere to Ark. Code Ann. § 25-1-124 for reporting losses of public funds.

Finding:
During review of OAL's October 2022 Monthly Disclosure Report to the Governor and Co-Chairs of the Arkansas Legislative Council Lottery Oversight Subcommittee, we noted a Draw Integrity Audit report issued by the OAL Internal Auditor. The report disclosed a damaged fiberoptic cable, which caused a network outage between the Central Gaming System and OAL. The lack of connectivity caused the Automated Draw System to not function as designed during the Midday and Evening Draws held on August 1 and 2, and the Midday Draws held on August 3 for the Cash 3, Cash 4, and Natural State Jackpot games. Ultimately, the draws were conducted by OAL Security and Compliance staff using manual draw procedures on-site at Intralot.

We reviewed the internal auditor's observations, as well as management's response to those observations, and determined that there was not a clearly defined policy regarding which draw procedures should be followed in the event a lottery draw process failed. Lack of a clearly defined policy led to confusion among OAL staff and resulted in backup draw procedures being amended when the Automated Draw process could not be completed. Not having a clearly defined draw policy, that instructs staff as to which procedures should be implemented if certain circumstances occur, could lead to lottery draws not occurring on time and/or loss of credibility with the public, negatively impacting sales and net proceeds.

Recommendation:
We recommend the OAL implement a clearly defined draw policy that covers all possibilities of a lottery draw failure that could occur and update the disaster recovery plan and any other policy or procedure to mirror or refer to the newly implemented draw policy to eliminate any confusion regarding backup draw procedures.

Agency Response:
The office of the Arkansas Lottery reviewed the alleged deficiencies and responds as follows. It is our belief that communication between Security draw staff and IA during the incident was not sufficient. However, the actions of Lottery staff and the resolution achieved served the best interest of players and the public at large.

The manual draw process that was utilized was set up and designed for a failure on the automation system. This is the sole purpose of this feature. This then-existing procedure was used during the fiber optic cut with great efficiency and served to ensure continuity of operations (e.g., the draws).

Policies have been created to address the Internal Auditor's concerns with communication and situational awareness. However, the substantive process has not been changed, but notification measures have been addressed. Simply, it is not possible to foresee every lottery draw failure scenario. The Arkansas Lottery feels it is better to implement a general plan for troubleshooting purposes; and it is management's belief that a degree of fluidity in the procedures ensures that remediation of any issues can occur.

The revision has been implemented and are set forth in the OAL disaster recovery plan (6.4 Drawing and Game Related Functions). The revision has also been updated in Security Policy 15.4 MUSL Emergency Drawing Procedures, 15.5 Manual Procedures for In-State Drawings, 15.6 Manual Drawing Procedures for In-State Drawings (on-site at Intralot).

Following is a summary of the actions described in the amended procedures:

> IA will be notified, and if unavailable, the draw process will be recorded (Security 15.5 and 15.6). Primary RNGs will be used with the manual draw function (Security Policy 15.5). If needed the backup RNG, at secondary location, will be used for a manual draw (Security Policy 15.6). If all RNGs are unavailable for manual draw, then MUSL will be contacted to conduct draws (Security 15.4).

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

Finding Number:	**2023-014**
State/Educational Agency(s):	**Arkansas Department of Finance and Administration – Office of Child Support Enforcement**
Pass-Through Entity:	**Not Applicable**
ALN Number(s) and Program Title(s):	**93.563 – Child Support Enforcement**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**2201ARCSES**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking**
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 statues, regulations, and terms and conditions of the award.

In addition, 45 CFR § 75.403(f) states that factors affecting the allowability of costs include ensuring the costs were not included as a cost of any other federally financed program in either the current or a prior period.

Condition and Context:
During the reconciliation of expenditures, ALA reviewed all miscellaneous revenue and other receipts to determine if the Agency calculated the correct state match and used allowable sources of revenue.

ALA review revealed that the Agency received a one-time transfer from the Coronavirus Aid, Relief and Economic Security (CARES) Act federal program (ALN # 21.019) totaling $760,938. These funds were used to reimburse the Agency's payroll expenditures, which is allowable. However, the Agency failed to reduce its subsequent request for reimbursement from the Child Support Enforcement program by the $760,938 it had received from CARES Act funds. As a result, the Agency was reimbursed an additional $502,219 ($760,938 x 66%) for the same payroll expenditures from the Child Support Enforcement program, which is unallowable.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$ 502,219

Cause:
The Agency did not remove CARES Act funds used as reimbursement for a portion of payroll expenditures from its subsequent matching calculation for the Child Support Enforcement Program.

Effect:
The Agency received reimbursement in excess of what was allowable resulting in a liability, totaling $502,219, to the federal awarding agency of the Child Support Enforcement Program.

Recommendation:
ALA staff recommend the Agency strengthen internal controls over the affected compliance areas to ensure all costs reimbursed by another federal program are adequately tracked and removed from the reimbursement request for the Child Support Enforcement Program. In addition, ALA staff recommend the Agency contact the federal awarding agency to resolve this matter.

Finding Number:	**2023-014 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Finance and Administration – Office of Child Support Enforcement**
Pass-Through Entity:	**Not Applicable**
ALN Number(s) and Program Title(s):	**93.563 – Child Support Enforcement**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**2201ARCSES**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Action:

The agency agrees with the finding. We found an error in the formula of the worksheet used for the preparation and submission of the quarterly expenditure report. The error resulted in not properly reporting the CARES Act reimbursement.

The agency will report to the federal Child Support Services program to account for the over-reimbursement of federal share of expenditures. The error in the specific worksheet that resulted in the over-reporting of allowed expenditures has been corrected. Further, the agency will perform a review of all other subsidiary reports and worksheets that are used in preparation of the federal expenditure reports. This will be done in order to ensure that the federal reports are prepared accurately. Additionally, procedures for review of report preparation will be enhanced to further strengthen internal controls.

Anticipated Completion Date: Correction of the specific worksheet deficiency has been completed. Corrections to the federal reports to account for the over-reimbursement will be completed in the next federal reporting cycle due on May 15, 2024. Review of all other subsidiary reports and worksheets and the enhanced report preparation review is part of an ongoing project to be completed no later than August 15, 2024.

Contact Person:

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF VETERANS AFFAIRS
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
Our review of contracts and expenses/payments revealed direct payments to two vendors. Direct payments are not tied to a contract within AASIS, which can cause contracts to be overpaid. The following issues were noted:

- Quality Staffing – As of June 30, 2022, the contract (including amendments) totaled $1.5 million, with payments charged against the contract totaling $766,840. We discovered one contract service payment totaling $26,275 made outside the contract.
- Highland Healthcare – As of June 30, 2022, the contract (including amendments) totaled $2 million, with payments charged against the contract totaling $1,356,746. We discovered one contract service payment totaling $4,743 made outside the contract.

These payments would not have created a contract overage, but they could lead to an overage in the future.

Although outside the fiscal year under audit, it should be noted that we also discovered a direct payment in fiscal year 2023 totaling $31,793.

Additionally, the contract listing provided by the Agency was outdated and incomplete.

Recommendation:
We recommend the Agency's new administration review with applicable employees its current procedures regarding contract payments to ensure compliance.

Agency Response:
Direct payments were made at the direction of the former Accounting Operations Manager. Executive Order 20-03 as authorized by Ark. Code Ann. 19-11-233 was believed to be the authorization to make direct payments. Remaining staff note they were also advised to pay prior year invoices that were past the 45 days by direct pay as a way to separate old expenditures from the current fiscal year.

As of April 2023, the Agency has a new Procurement Manager. All contracts are being reviewed and updated as needed. There will be a few direct payments during the time it takes for these contracts to go through OSP and ALC review and approval process. Once new contracts are completed, all future direct payments must have the approval of the CFO or Account Operations Manager. The CFO and AOM will only approve direct payments for such things as utilities, rent, and leases unless there is an emergency that will cause harm or death.

An internal Excel workbook has been created as an additional check point for the expenditure amounts and outlined agreement numbers. This will provide a heads up when contracts are getting low on funds or reaching the expiration date. An AASIS status report will be generated the first week of each month by the fiscal team and/or the Procurement Manager to check for expiring contracts.

The Agency is also in contact with OSP about the possibility of in-person training for procurement. Online training is also available through the OSP website.

All staffing contracts for the Veterans' Homes will be ran through an additional employee that will create and contact the vendors for adjustments when needed. We believe this will speed up the process of getting the correct invoices to the fiscal team to be paid in a timely manner.

Finally, the fiscal team will conduct monthly unliquidated reviews with Cemeteries and Veterans' Homes to forecast contract needs.

Finding 2:
In accordance with Chapter 5 of the Arkansas Procurement Manual, a competitive bid is a procurement method used for purchases between $20,000 and $75,000. Competitive bids require the buyer to request price quotes (bids) from at least three different prospective contractors to allow for competitive pricing. Low cost determines the successful contractor.

Our review of expenditures revealed one vendor that provided drapes for the Fayetteville Veterans Home was paid $33,629. Although a purchase order was created for this service, documented competitive bid information or a contract could not be provided.

Recommendation:
We recommend the Agency's new administration review, strengthen, and implement procedures to ensure applicable employees adhere to competitive bidding procedures and contract requirements, in accordance with the Arkansas Procurement Manual and state law.

Agency Response:
The Agency is no longer using this vendor. The procurement department has been told that anything with historical data of being over $18,000 annually needs to be sent out for competitive bidding for future use of that vendor as a safeguard for unforeseen expenses.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
GAME AND FISH COMMISSION
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that "the bonded disbursing officer for each state agency, board, commission or institution is responsible for…reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Division of Legislative Audit. Losses include the apparent theft or misappropriation of state funds or property theft." The Arkansas Game and Fish Commission (AGFC) notified us of the following thefts of state property:

- On September 6, 2022, a Wildlife Officer reported a theft at the Holland Bottoms WMA compound of a 2013 Honda Rancher ATV, valued at $5,655. Additionally, a fence was damaged for apparent entry into the compound. An incident report was filed with the Pulaski County Sheriff's Office.

- On April 11, 2023, an AGFC employee reported that a 2005 metal enclosed trailer, valued at $5,000, was stolen from AGFC property. An incident report was filed with the Lonoke County Sheriff's Office.

- On May 23, 2023, a Wildlife Officer reported that the chain securing the gate at the Gene Rush Wildlife Management Area was cut and the following items stolen:

    - Two 2014 Honda Rubicon ATVs valued at $4,353 and $4,821, respectively.
    - A 2007 Tandem trailer valued at $2,982.
    - A 50 gallon fuel tank containing approximately 25 gallons of torch fuel valued at $110.
    - A 50 gallon fuel tank containing approximately 25 gallons of gasoline valued at $100.
    - Two drip torches valued at $1,800 each.
    - A toolbox containing straps and miscellaneous hand tools valued at $650.

    The value of the items stolen totaled $16,616. An incident report was filed with the Newton County Sheriff's Office.

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 will provide employees with additional information and guidance to support the prevention of future occurrences of theft and strengthen internal controls to safeguard our inventory.

Finding 2:
Department of Transformation and Shared Services – Office of Personnel Management (DTSS-OPM) Policy #54, which is based on Ark. Code Ann. § 21-4-501, allows for the payment of accumulated, unused sick leave at retirement or death of an employee. A review of employee sick leave payouts made during the fiscal year revealed that, due to a calculation error by the Agency, one employee was overpaid $2,515.

Recommendation:
We recommend the Agency strengthen internal controls over the processing of sick leave payouts. We also recommend the Agency contact DTSS-OPM to start the process of recoupment.

Agency Response:
Management concurs with the finding. We have already implemented changes to the internal process for sick leave payouts to strengthen internal controls. These process updates include incorporating the TSS-Office of Personnel Management Sick Leave Payout form to reduce the risk of errors. Additional supporting documentation for calculation of the payout and validation of changes made within the State system are provided by the Payroll Manager for management review.

Finding 1:
In accordance with R1-19-4-702 of the Department of Finance and Administration (DFA) Financial Management Guide, a prior-year obligation is one for which goods/services were received and accepted prior to June 30, 2023, for which no remittance had been made. These payments must be identified and recorded as an accounts payable for the prior year.

Our review of payments made shortly after year-end revealed three payments, totaling $142,000, for services rendered prior to year-end that should have been identified as accounts payable as of June 30, 2023.

Recommendation:
We recommend the Department review and strengthen internal controls regarding appropriate recording of accounts payables to provide assurance that the financial statements are accurate and complete.

Agency Response:
The agency has established a year-end meeting with the Department of the Military staff to inform the employees of the year-end procedures. The Accounts Payable staff will be checking for when the goods/service were received and accepted by placing a Y before the invoice number if received prior to June 30, 2024. The Accounts Payable supervisor and Budget Staff will run reports to make sure that the documents have the Y in the reference field.

Finding 2:
In accordance with DFA Financial Management Guide Section R4-19-4-2004, agencies are required to develop and follow procedures to ensure all receivables are collected promptly. In addition, agencies must diligently and actively pursue the collection of receivables.

Our review of the Department's federal receivable balance revealed an understatement of $10,928,164.

The Department operates on a Cash Management Improvement Act (CMIA) system with federal funds, which allows the cash balance to become negative. The State takes responsibility for paying invoices first and then requests reimbursements from the federal government at the beginning of the following month. Turnover experienced by the Department at the end of fiscal year 2023 resulted in reimbursement requests being delayed; additionally, many expenditures already incurred by the State in fiscal year 2023, and awaiting reimbursement from the federal government, were delayed into fiscal year 2024. Those amounts should have been accrued as a federal receivable at the end of the fiscal year.

Additionally, any receipt recorded in fiscal year 2024 as a reimbursement of fiscal year 2023 expenditures that was not receipted in the first 45 days of the fiscal year should have been recorded as a deferred inflow of resources. Because the Department did not record the proper federal receivable, the deferred inflows of resources was also understated. Based on testing performed, the deferred inflows of resources amount was understated by $10,958,048 in fiscal year 2023.

Recommendation:
We recommend the Department implement appropriate controls to ensure necessary processes regarding federal reimbursements are in place to ensure federal receivables and deferred inflows of resources are accurately tracked on a periodic basis.

Agency Response:
The agency has implemented a new tracking system for the Federal 270 Reimbursements and a procedure that all 270 reimbursement deposit slips will be sent to the Treasury Office for accountability of the receivables. The Deposits in Transit and the tracking system should give us the total receivables for the Department of the Military. The agencies Budget Analyst and Federal Budget Manager will work together to ensure the total receivables are correct.

Finding:
In accordance with Ark. Code Ann. § 25-1-124, Arkansas State Highway Employees Retirement System (the System) reported to Arkansas Legislative Audit in September 2022 overpayments of retiree and beneficiary benefits and an apparent theft of funds through identity theft.

Two annuitant deaths occurred that were not reported to the System and not immediately discovered, resulting in overpayments totaling $19,494. This amount was offset by a death benefit for one of the annuitants, resulting in a net amount of $11,994.

An apparent theft of funds through identity theft occurred when a false change of bank form was received and processed by the System. The form appeared valid, with correct Social Security number, copy of a voided check, and notarization. The retiree, having not received the benefit payment, notified the System, and the System then became aware that the form was not valid. The Department of Finance and Administration reversed the $5,647 ACH payment, but the receiving bank denied the reversal.

As a result of such issues, the assets managed by the System, which are intended for the benefit of all members, are at risk of not being used effectively.

Recommendation:
We recommend the System continue to strengthen internal controls surrounding methods of identifying deceased retirees to ensure that benefits cease within a reasonable period after a retiree or beneficiary is no longer eligible. In addition, we recommend the System continue to explore ways to strengthen internal controls surrounding the acceptance and processing of any change forms. For ineligible payments made, we recommend the System continue to actively pursue collection.

Agency Response:
ASHERS added additional death audit procedures in August 2022 in response to findings from the FY2021 audit. As a result of these additional steps, two prior retiree deaths which had gone unreported were discovered. As of June 30, 2023, ASHERS has received full restitution for these overpayments.

The retiree was made whole by the System through issuance of a replacement annuity payment in the amount of $5,647. In addition, the System updated the process for banking changes, and the incident was reported to the Arkansas Attorney General.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ADMINISTRATIVE OFFICE OF THE COURTS
FOR THE YEAR ENDED JUNE 30, 2022

Finding:
Ark. Const. art. 5, § 29, states, "Except as provided in Arkansas Constitution, Article 19, § 31, no money shall be drawn from the treasury except in pursuance of specific appropriation made by law, the purpose of which shall be distinctly stated in the bill, and the maximum amount which may be drawn shall be specified in dollars and cents; and no appropriations made by the General Assembly after December 31, 2008, shall be for a longer period than one (1) fiscal year."

In addition, Ark. Const. art. 16, § 12, states, "Except as provided in Arkansas Constitution, Article 19, § 31, no money shall be paid out of the treasury until the same shall have been appropriated by law; and then only in accordance with said appropriation."

Also, Act 1008 of the 2021 Regular Session (Act 1008) appropriated funds to reimburse county jurors, to be payable from the County Juror Reimbursement fund, in section 21, and appropriated funds for professional fees of the Division of Dependency-Neglect Representation to be transferred from the State Administration of Justice Fund and payable from the State Central Services Fund, in section 10.

Although section 21 of Act 1008 originally allowed for $850,000 in juror reimbursements, inadequate transfers from the Administration of Justice Fund resulted in only $273,034, or 32%, of that amount being funded in state fiscal year 2022. Once that amount was materially expended, the Agency utilized the appropriation and funding afforded to the Division of Dependency-Neglect Representation for professional fees under section 10 of Act 1008 to make additional jury reimbursement payments. Fifty payments totaling $231,025 were coded as professional fees for the Division of Dependency-Neglect Representation but were actually jury reimbursements. Had the payments been appropriately coded as jury reimbursements, the final funded appropriation for jury reimbursements in the amount of $273,034 would have been exceeded by $230,751.

The Agency should not have used funds appropriated in Section 10 of Act 1008 for the Division of Dependency-Neglect Representation professional fees on reimbursing counties for juror costs under Section 21 of Act 1008. The funds were appropriated for one purpose but were used for another purpose, in violation of Ark. Const. art 16, § 12.

Finally, Ark. Code Ann. § 16-10-310(d)(1) provides the Agency with a solution if funds appropriated for county juror reimbursements runs out: "If required to help meet the commitments of the State Administration of Justice Fund and if funds are determined to be available, the Chief Fiscal Officer of the State may transfer a sum not to exceed four million dollars ($4,000,000) during any fiscal year from the Budget Stabilization Trust Fund to the State Administration of Justice Fund."

Recommendation:
We recommend the Agency review and strengthen policies and procedures to ensure that expenditures are appropriately coded and are in accordance with Agency appropriations and the Arkansas Constitution.

Agency Response:
The AOC was appropriated $850,000 to reimburse counties for juror expenses. Due to a dramatic decrease in Administration of Justice Fund revenue, the AOC received only $273,034 in funding. However, total requests for reimbursement amounted to $503,785. To process the full amount requested from the counties of Arkansas, a larger appropriation of $230,751 from AOJ Funds would be necessary. Because of the limited amount of money in the AOJ fund, that would hurt all the other entities (such as State Police Retirement, the State Crime Lab, and the Office of the Prosecutor Coordinator) that receive AOJ funding.

In an attempt to find a creative solution that would not create a negative impact on other entities, the agency determined that the difference could be paid using AOC Division of Dependency Neglect professional fees and services funds. Sound financial practices had resulted in significant savings without compromising Dependency Neglect responsibilities. Using these funds to process remaining county juror reimbursements ensured that justice would continue to be administered as jurors performed their professional service.

In its finding, Legislative Audit reports that it believes Dependency Neglect funds could not be used in this manner. Legislative Audit advised that in the event county juror reimbursement funds run out, the agency could follow the instructions set by A.C.A. § 16-10-310(d)(l):

> "If required to help meet the commitments of the State Administration of Justice Fund and if funds are determined to be available, the Chief Fiscal Officer of the State may transfer a sum not to exceed four million dollars ($4,000,000) during any fiscal year from the Budget Stabilization Trust Fund to the State Administration of Justice Fund."

When facing this issue, the agency attempted to use all the resources it had been given. Applying the remaining funds in professional fees and services to cover juror professional fees and services appeared on its face to be an appropriate use and certainly one that is critical for the administration of justice. However, the agency acknowledges its mistake and will not repeat this error in the future. The AOC contacted the Office of Budget to determine if an error correction was possible. However, that office advised that this was no longer an option because the mistake occurred in the previous fiscal year.

In the current fiscal year (2023), the AOC is presented with a similar situation where requests for county juror reimbursements exceed funding but not appropriation. Following the recommendation by Legislative Audit, the AOC contacted the Chief Fiscal Officer of the State inquiring about a transfer of funds per A.C.A. § 16-10-310(d)(l). The Department of Finance and Administration advised that providing funding from the Budget Stabilization Trust Fund would require a proportional increase to all 21 entities receiving AOJ funding, thereby far exceeding the $4 million limitation. Thus, the prescribed solution appears unable to solve the problem.

The AOC anticipates that this problem will be a reoccurring one. Therefore, the agency proposes another possible remedy that could help avoid such a situation in future fiscal years: adding special language to the AOC appropriation act that grants the agency flexibility to transfer leftover funds across its 38 fund centers. This minor change could result in significant savings and a more efficient use of funds appropriated to the AOC. The AOC seeks to work with the General Assembly, Legislative Audit, and the Bureau of Legislative Research to craft such a solution in the next session.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
AUDITOR OF STATE
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
The Auditor of State's Office incurred $14,208 in Internal Revenue Service (IRS) penalties. Initially, the Office incurred $57,635 in penalties during fiscal year 2022 due to errors in dating the federal withholding forms submitted to the IRS for February 28, April 15, April 30, and August 31 of 2021. The first IRS notice of penalty was received by the Agency on December 3, 2021. The penalties were disputed, and $43,427 of the penalties paid were resolved and refunded, leaving a total of $14,208 paid for one incident.

Recommendation:
We recommend the Agency strengthen policies and procedures to make certain that federal withholding forms submitted to the IRS are accurate to ensure the efficient use of state funds.

Agency Response:
The Auditor of State's Office (AOS) does not utilize AASIS for payroll and instead uses a separate payroll system. AOS tax payments are due to the IRS within one business day of each pay date. AOS remits IRS Form 941 quarterly to the IRS to substantiate those tax payments.

The non-AASIS payroll system generates IRS Form 941, which populates the pay date based on the date AOS updates and finalizes the payroll. The system populated date is at least two business days before the actual pay date due to required processing time in AASIS. The previous Accounting Manager failed to review and properly update the system-generated Form 941 before submitting to the IRS. This failure created an appearance of late payments, although no late payments was made to the IRS.

The office recognized and corrected this issue by strengthening the procedures related to the quarterly completion of the IRS Form 941. The Payroll Accountant prepares Form 941 by reviewing the payroll calendar and IRS payments made for each pay date during the quarter. The Accounting Manager reviews the completed Form 941 and supporting documentation to ensure Form 941 reflects accurate pay dates prior to submitting to the IRS.

Additionally, the office has requested to move payroll to AASIS to eliminate the inherent risks associated with the non-AASIS payroll system.

Finding 2:
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 Arkansas Legislative Audit. Losses include…the apparent theft or misappropriation of state funds or property theft." The Auditor of State notified us of the following theft of state property:

On September 28, 2022, the Agency was notified of fraudulent unclaimed property claims made in Pennsylvania that could involve an Arkansas claimant. Upon notification, the Agency located a claim for $1,311, made by this claimant on July 9, 2020, and added the claim to the fraud mitigation tables within the Unclaimed Property Management System. Pennsylvania officials plan to refer this case to the U.S. Attorney's Office and include the Arkansas claim. As of report date, the Agency had received no further communication regarding this matter.

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

Agency Response:
In fiscal year 2020, when the fraudulent claim was paid, the Unclaimed Property (UCP) Division paid more than 20,000 claims resulting in over $18 million returned to rightful owners. Unfortunately, due to the nature and volume of unclaimed property claims, the office cannot prevent all complex fraud schemes.

The office has implemented all available fraud features in the unclaimed property management system, KAPS. The UCP Division monitors notifications and fraud alerts from other states and industry leaders. UCP staff record data related to potential fraud in the KAPS system for monitoring. This data feeds into Kelmar's Fraud Index (KFI) feature in KAPS and alerts UCP Claim Agents to potential fraud. UCP will continue to utilize preventative and detective controls to mitigate fraud risks in unclaimed property.

Finding 1:
Twenty-six employees were paid in excess of the line-item salary appropriation, per Act 45 of 2021, by a total of $69,055, in conflict with Ark. Const. art. 16, § 4, which states, "Except as provided in Arkansas Constitution, Article 19, § 31, the General Assembly shall fix the salaries and fees of all officers in the State; and no greater salary or fee than that fixed by law shall be paid to any officer, employee, or other person, or at any rate other than par value; and the number and salaries of the clerks and employees of the different departments of the State shall be fixed by law."

Recommendation:
We recommend the AG's Office ensure employees are not paid above appropriated line-item maximum salary amounts.

Agency Response:
I agree that these payments to employees in excess of their line-item salary appropriations – which were made during the tenure of the previous Attorney General – violated not only Article 16, Section 4, of the Arkansas Constitution, but also the Regular Salary Procedures and Restrictions Act, codified at A.C.A. § 21-5-101. In fact, my predecessor opined in Attorney General Opinion No. 2017-080 that payments in excess of line-item salary appropriations were unlawful. I explained my views on this question in Attorney General Opinion No. 2023-004, which was written in response to an opinion request by Senator Jimmy Hickey, Jr. I have not authorized and will not authorize payments to employees in excess of their line-item salary appropriations.

Finding 2:
Settlement funds are monies primarily received by the Consumer Protection Division for various claims and lawsuits. Act 54 of 2022, Section 13, established a spending limit of $25 million in settlement funds. On January 5 and 6, 2023, three checks totaling $27.5 million were disbursed from the settlement fund and transferred to the State, causing the Office to exceed the appropriation spending limit, in noncompliance with Act 54 of 2022.

An internal investigation conducted by the current Attorney General resulted in a request to return a portion of the dispersed funds, as well as a one-time appropriation request of $17.5 million, which increased the total appropriation for fiscal year 2023 to $42.5 million. The Department of Finance and Administration returned $17.5 million to the Attorney General's settlement fund. For the year ended June 30, 2023, the Attorney General's expenditures of settlement funds were less than the $42.5 million adjusted appropriation.

Recommendation:
We recommend the Agency continually monitor expenditures to ensure compliance with appropriation limits.

Agency Response:
I agree that my predecessor exceeded the settlement fund spending limit. Upon taking office, I ordered that an internal audit be conducted. This audit found that the previous Attorney General exceeded the appropriated limit of $25,000,000 in settlement fund spending contained in Section 13 of Act 54 of 2022. The excess was due to large disbursements of settlement funds authorized by the previous Attorney General, especially a total of $27,500,000 transferred out of the Office on January 6, 2023 – four days before my swearing in. I self-reported the overage in separate letters to the Joint Budget Committee and the Legislative Joint Auditing Committee dated March 14, 2023. To bring the Office back into compliance with the law, I sought and obtained the return of certain settlement funds and an increased appropriation. I will not only comply with the appropriation for settlement fund spending going forward, but I also request and received a $10,000,000 reduction of that appropriation in Act 495 of 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.

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.

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.

Contact Person:

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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 identify 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.

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.

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:

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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 identify 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.

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.

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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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).

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 contact 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.

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 facilities 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

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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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.

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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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).

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

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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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF CORRECTIONS
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit a loss of funds totaling $2,980. According to Agency management, a batch deposit from the Division of Community Correction for inmate banking activity was delivered to the bank on November 29, 2022. The deposit was not recorded by the bank, and according to correspondence, the bank has no record of receiving this deposit. Procedures in place at the time allowed Division employees to obtain the previous day's processed deposit slips from the bank the next business day.

Recommendation:
We recommend Agency management establish procedures to verify that all deposits are properly accounted for and confirmed as being received by the bank or other financial institution.

Agency Response:
Due to the discovery of the error, we switched to remote electric deposit for both Division of Community Correction bank accounts. Money orders are now scanned and uploaded to the bank, with same day credit to our accounts.

Finding 2:
Act 203 of the Fiscal Session of 2022 (codified at Ark. Code Ann. § 12-28-108) requires the Department of Corrections to conduct an annual audit of the number and types of firearms and ammunition owned by and in the possession of the correctional facilities, with the audit submitted to the Secretary for review. After reviewing the audit submitted to the Secretary, we noted inconsistencies among the divisions in the systems they used to track and maintain records of firearms and ammunition, as well as a lack of documentation of the procedures performed in completing the audit. Because of these inconsistencies and lack of documentation of the procedures performed, we could not determine if the Agency complied with the requirements of the law. These issues seemed to be caused by limited communication and coordination by management to all divisions regarding the expectations of the audit.

Recommendation:
To the extent practical, we recommend management establish Agency-wide policies and procedures documenting how compliance with the law will be achieved.

Agency Response:
Arkansas Division of Community Correction (ACC) utilizes QuickBooks to maintain inventory. Due to operational roadblocks with the Division of Correction, such as multiple shifts changes each day, we have had difficulty working out effective methods of utilizing QuickBooks and its functionalities. The Department of Corrections will continue its review of policies and commit to further streamline procedures that are accurate and effective for the Department.

Finding 3:
The Agency's Division of Community Correction inmate banking unit again has improper segregation of duties over cash receipting due to limited staffing or poorly designed internal controls. P4-19-4-501 of the State Financial Management Guide provides agencies a framework to assist in designing an adequate internal control structure around cash receipts, including proper segregation of duties so that no one person is collecting, recording, depositing, and reconciling cash receipts. We tested 40 daily deposits and noted four exceptions: three segregation of duties issues (i.e., the same individual received and recorded the day's activity), and one exception in which procedures could not be verified as the original supporting documentation could not be located. Due to a lack of compliance with the State's Financial Management Guide and failure to ensure that internal controls over cash receipts are operating effectively, improper accounting and other errors could occur. A similar finding was reported in the FY2020 audit (Finding 2020-3), and the Agency did not take corrective action to address the finding.

Recommendation:
We recommend Agency management review P4-19-4-501 of the State Financial Management Guide, establish procedures to comply with the policy, and ensure internal controls over cash receipts are operating effectively.

Agency Response:
The Finance Division provided additional training and guidance on the significance of segregation of duties. Additional staff will be made available in the absence of full-time ACC banking staff to ensure proper internal controls over cash receipts and deposits.

Finding 4:
The FY2021 audit included Finding 2021-2 regarding the Division of Correction's unit inmate councils not receiving and/or maintaining vendor invoices supporting purchases made during that fiscal year. Part of the Agency's response to finding 2021-2 included audits of the inmate councils by internal audit, upon request of the Director, Warden, or Deputy Warden and upon a change in the Warden position. Additionally, internal audit was to perform random audits of inmate councils statewide. The Agency did not implement corrective action. Specifically, we requested reports or other documentation of any audits completed from July 2022 through June 2023, which the Agency could not provide. When corrective action plans to address reportable issues are not followed, issues can continue and affect multiple periods.

Recommendation:
We recommend Agency management develop procedures to ensure that corrective action established to address reportable issues is implemented and operational.

Agency Response:
The initial plan was developed when Internal Audit worked for the Department; however, transformation moved Internal Audit under the Inspector General's Audit Section. The Department recognizes that based upon documentation presented to the Inspector General's Office, as part of implementing Executive Order 21-20, the previous work conducted by the auditors did not meet internal audit standards. The Inspector General's Office has been working with staff to create an audit program for auditing the Inmate Councils so that audits are consistent and properly documented to comply with audit standards.

Finding 5:
The Division of Correction overestimated proceeds due from crop sales by approximately $530,000, resulting in the overstatement of assets and deferred inflows of resources related to revenues. Accurate financial reporting under the modified accrual basis of accounting and Ark. Code Ann. § 19-4-505 sometimes requires estimates of amounts when final information for completed transactions is unavailable. At year-end, the Agency was owed a final payment on rice sold from the 2021 calendar year crop cycle, and as the vendor had not determined this amount, the Agency estimated what was to be received using proceeds from prior transactions and current market information. The data used by the Agency in calculating the estimate was inaccurate and did not reflect actual events that occurred, which caused the misstatement.

Recommendation:
We recommend Agency management obtain the best available data when making estimates and incorporate a secondary review of all calculations.

Agency Response:
This finding is strictly due to poor communication between the Farm and Finance Divisions. Going forward, the Finance Division will receive and use calculations from the Farm Division. Additional information regarding crop contracts, pricing and production will be provided by the farm administrator and budget manager to ensure proper accrual of amounts due for farm products.

Finding 6:
Effective internal control over cash receipts should allow management to monitor areas that receive cash by maintaining logs or other records that document the location of receipt books as well as the expected prenumbered range of receipts issued and outstanding. The Agency has not established a uniform process for obtaining receipt books or issuing books to individual correctional units, centers, or programs of the Department. This physical receipt documentation is obtained independently by these areas without coordination through accounting shared services. As a result, we were unable to determine if our testing population of receipts was complete and accurate, and the Agency was unable to provide assurance that all receipts have been accounted for appropriately.

Recommendation:
We recommend Agency management establish a Department-wide policy for obtaining receipt books that incorporates logs or other records that document the number of books and range of receipts included in the books, to whom books are issued, and any other information considered relevant.

Agency Response:
We have purchased preprinted, sequentially numbered receipt books for distribution to all DOC departments that receive money. We have a master log of all receipt books with notation of who has the book and date received. Accounting Control personnel follow up to ensure receipts are reported consecutively and promptly.

Finding 7:
Adequate internal controls over the valuation of inventory should include procedures to verify that items purchased are recorded in the inventory management system at their correct cost. Because these controls were not in operation at the Division of Correction's central warehouse, our testing identified 23 exceptions at this location between the value added to the Agency's inventory management system and the purchase price. Any errors in additions to inventory have a direct effect on the inventory valuation recorded in AASIS.

Recommendation:
We recommend Agency management implement internal controls at the Division of Correction's central warehouse to include reconciliations of purchases in AASIS to additions in the Agency's inventory management system.

Agency Response:
Additional training, from the Finance Division, has been provided to warehouse staff to ensure pricing from the AASIS purchase order is used for entry into QuickBooks for inventory valuation. As a quality assurance measure, the Finance Division is providing on-going training to appropriate warehouse staff to ensure accurate entry into QuickBooks.

Finding:
The Monroe County Conservation District, which receives funding from the Department of Agriculture, notified the Department of questionable payroll disbursements and engaged a certified public accountant to investigate these matters. The investigation revealed that the District Office Manager issued 14 unauthorized payroll checks, totaling $14,306, to herself over the three-year period ended December 31, 2023. The Office Manager resigned on April 2, 2024.

Recommendation:
We recommend the Department continue to monitor conservation districts and encourage districts to strengthen internal controls to prevent unauthorized transactions.

Agency Response:
The Department concurs with the finding. The Department immediately notified the Arkansas Department of Finance and Administration and Arkansas Legislative Audit as soon as the conservation district board notified the Department that unauthorized payroll disbursements were suspected. While internal controls are the responsibility of the conservation districts and their management, the Department will continue to monitor the districts' controls via reviews of "agreed upon procedures" performed by an independent certified public accountant. Although the Department has no direct authority over the conservation districts, the Department will recommend the following to the districts:

- Regular review of payroll expenditures, with comparison to their annual budget.
- Strengthening of their internal controls, including designation of a single board member with signature authority for all checks issued by the district to prevent unauthorized payroll disbursements.
- Review of financial reports at every regularly scheduled meeting.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF ENERGY AND ENVIRONMENT
FOR THE YEAR ENDED JUNE 30, 2022

Finding 1:
As allowed by Ark. Code Ann. § 21-5-106, state employees with 10 or more years of service are eligible for an annual career service recognition payment based upon their total years of service. The Department recently discovered that the career service date field in AASIS was not updated when an employee was hired after a break in service. As a result, the employee was overpaid for career service recognition payments by a total of $3,000 from 2015 through 2022. Upon notification of the overpayments, the employee immediately reimbursed the Department.

Recommendation:
We recommend the Agency strengthen internal controls to ensure that AASIS personnel records are properly updated.

Agency Response:
In response to this issue, E&E [Department of Energy and Environment] has corrected the career service date discrepancy for the former employee and has received full reimbursement from the former employee. E&E investigated the issue and determined that the issue occurred as a result of a data entry error in 2015. Since the data entry error occurred, E&E has significantly centralized personnel processes and implemented measures to prevent this type of error in the future. E&E has begun an internal investigation to identify any further discrepancies in career service dates.

Finding 2:
Arkansas State Board of Finance Rule 2012-A states that collateralization is necessary when an agency deposits cash funds with a bank or financial institution in excess of current FDIC coverage, and the total fair value of the pledged collateral shall be at least equal to 105% of the total amount of cash funds on deposit with a bank or financial institution that is in excess of current FDIC insurance coverage. The Agency was unable to provide evidence of collateral pledged for its two accounts held at Arvest Bank. As a result, we were unable to verify that the Agency had sufficient collateral pledged on $1.02 million of deposits not covered by FDIC.

Recommendation:
We recommend the Agency comply with Arkansas State Board of Finance Rule 2012-A and maintain evidence of such compliance.

Agency Response:
This issue has been corrected, and E&E is in compliance with Arkansas State Board of Finance Rule 2012-A.

Finding 3:
The Arkansas Geological Survey warehouse was burglarized on July 19, 2021, and July 23, 2021. During these burglaries, a riding lawn mower, which was included on the Agency's fixed asset listing, and numerous non-capitalized items were stolen. Law enforcement was notified, but the Agency did not request that the stolen property be removed from the fixed asset listing, as required by section P2-19-4-1503 of the State of Arkansas Financial Management Guide, until inquiries were made by the auditor.

Recommendation:
We recommend the Department strengthen controls related to fixed assets and comply with requirements of the Financial Management Guide so that financial records are updated properly and timely.

Agency Response:
The Office of State Geologist (formerly Arkansas Geological Survey) was incorporated into E&E's Oil and Gas Commission in August 2023. E&E is in the process of incorporating the Office of State Geologist into its department-wide asset management protocol. As a part of that protocol, E&E will conduct regular internal asset inventory audits, handle the coordination of asset disposal and retirement, and facilitate accurate record keeping of E&E's inventory moving forward.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DIVISION OF ELEMENTARY AND SECONDARY EDUCATION –
ARKANSAS EDUCATIONAL TELEVISION COMMISSION
FOR THE YEAR ENDED JUNE 30, 2023

Finding 1:
Ark. Code Ann. § 19-11-204(13)(A) defines "small procurements" as procurements not exceeding $20,000, which may be obtained without seeking bids; however, competition should be used to the maximum extent practicable. Additionally, Ark. Code Ann. § 19-11-234 provides guidance regarding competitive bidding for contracts in which the purchase price exceeds $20,000 and is less than or equal to $75,000 and states that using repeated small quantity procurements to circumvent competitive bid limits or failing to obtain competitive bids without justification constitutes a violation of Arkansas Procurement Law. The *State of Arkansas Financial Management Guide* states that vendors should be selected before a purchase order is created; after the purchase order is approved, it can be printed and sent to the vendor. Services Contract Instructions issued by the Department of Transformation and Shared Services – Office of State Procurement (OSP) require that the department and the contractor complete the signature portion of the form. Additionally, the use of state-issued credit cards (such as purchasing cards and travel cards) is governed by rules and regulations issued by OSP.

Our review of 61 maintenance and operation expense items, totaling $3,405,679, and 35 expense items specifically from credit card activities, totaling $199,066, revealed the following:

- The Agency obtained goods and services without always obtaining bids for transactions that were at or near the threshold for requiring bids, which increases the risk that noncompliance could occur. In one instance, a change order of $5,000 was made after the contract began, which caused the total contract to rise above the bid threshold.
- A contract valued at $250,000 was not manually or digitally signed by the vendor; rather, the vendor's name was typed onto the contract.
- Contracts for two vendors, valued at $48,448 and $37,200, respectively, were not executed for services.
- Expenditures totaling $25,037 were coded to incorrect expenditure descriptions.
- Expenditures totaling $75,825 for contractors' travel costs were charged directly to the Agency's travel card, and $6,825 was charged to the personal credit card of an employee, instead of being paid by the contractors. OSP guidance on the use of credit cards stipulates that the travel card is intended for official state travel-related use only and should never be used for personal purchases or to pay for someone else's travel expenses.
- Overpayments for rental car charges totaling $3,033 were identified. In one instance, the cost of a contractor's rental car was charged directly to the Agency's credit card and reimbursed to the contractor. As a result, the Agency unnecessarily paid the contractor $2,762. The Agency was unaware of this event until informed by the auditors. In another instance, a credit of $271 was issued by a rental car company to a different contractor towards a new personal rental instead of refunded to the Agency. This event was self-reported by the Agency. After auditor inquiries, the Agency recovered the funds from both contractors.
- The Agency was charged $108 for a hotel room for a contractor who did not stay overnight.

The Agency did not adequately plan, prepare, and train staff to ensure that the extraordinary number and type of transactions associated with its projects would always follow applicable state laws and guidelines.

Recommendation:
We recommend the Agency strengthen internal controls to comply with applicable sections of Arkansas procurement laws, state travel regulations, and the Arkansas Financial Management Guide.

Agency Response:
See agency response following Finding 2.

Finding 2:
Ark. Code Ann. § 6-3-110(b) states that "only an appropriate state employee may supervise state employees of the Educational Television Division of the Division of Elementary and Secondary Education," and "no person or employee paid with funds not appropriated by the General Assembly shall supervise any state employee of the Educational Television Division." An AETC employee trained an employee of the Arkansas PBS Foundation ("Foundation") from June 26 through September 1, 2023. As stipulated in a Short Term Accounting Shared Services Agreement, which was executed between the Agency and the Foundation on July 26, 2023, the Agency employee was under the exclusive direction of the Chief Executive Officer of the Foundation during the days of the training. AETC received $17,025 from the Foundation to cover payroll costs associated with the employee.

As a result of this arrangement, the employee was supervised by a person who was not a state employee and who was paid with funds not appropriated by the General Assembly.

Recommendation:
We recommend the Agency comply with applicable sections of Arkansas Code.

Agency Response:
Arkansas PBS values the time, effort, and recommendations of Arkansas Legislative Audit. We acknowledge and concur with the FY23 findings. Please find our detailed responses to the audit findings below.

The following FY23 background information informs the audit findings:

- The agency had 60% turnover in its fiscal/procurement positions during FY23.
- The CFO, controller and procurement coordinator positions were vacant for 5 months, 3 months and one month, respectively. A new CFO began work on January 31, a new procurement coordinator on April 3, and a new controller on June 19. A fiscal division manager position was added (filled on June 26).
- The agency does not employ a contracts administrator. The CFO manages procurement contracting.
- In FY2023, the agency issued 464 purchase orders totaling $7,506,307. Thirty-two percent (32%) of the POs were for two projects: 99 for the K2 project and 48 for the Rise & Shine S3 project.
- All fiscal and procurement activities for the Rise & Shine S3 project and most fiscal/procurement activities for the K2 project were concentrated during the spring-summer of 2023. Project complexity, the extraordinary number and type of transactions, as well as insufficient staff capacity contributed to regulatory compliance issues.

Finding 2023-1

Item 1.1
This finding is related to approximately 240 individual educational video segments produced during a 90-day period (Rise & Shine S3 project).

The agency had 30 days to plan (48 purchase orders) and 60 days to execute the work, which included puppet shows to teach spelling, educational field trips throughout the state, video-taped readings of stories, animated videos to teach colors and shapes, educational music videos and video-taped lessons by teachers. Work began in early April 2023.

On April 14, 2023, the agency solicited competitive bids from 12 prospective vendors for field trip video production services. Each prospective vendor was permitted to bid on up to ten (10) of 36 digital field trip segments to be filmed throughout the state.

After bids were received, the agency hired the 6 qualified bidders and the collective cost for the 6 contracts totaled $145,000 for 55 segments. Since the cost of the video production work was substantially higher than $75,000, it should have been bid as a formal contract through the Office of State Procurement but was not. Awarding a formal bid to multiple venders would have required pre-approval from the OSP Director, but approval was not obtained by the agency.

During this period of extreme workload when the agency was transitioning to a new procurement coordinator, the proper steps to manage this procurement were not taken.

The agency solicited bids via email, received 7 bids, and issued a multi-award to 6 bidders. Bids ranged from $1,850 per segment to $5,500 per segment.

The agency accepted four (4) bids as-is:

# Segments	Per Segment	Total	Contractor
10	$ 1,850	$ 18,500	DENNIS MATTHEW JORDAN*
10	$ 2,000	$ 20,000	DUNN MEDIA GROUP LLC
10	$ 2,500	$ 25,000	MADE BY MATTHEWS
10	$ 3,000	$ 30,000	SDS FILMS LLC
40	$ 2,338	$ 93,500	

*later increased from $18,500 to $23,500

The agency negotiated with two vendors to reduce their bids from $3,500 x 10 segments to $3,200 x 10 segments, and from $5,000 per segment x 3 segments to $3,000 per segment x 5 segments.

In the instance of the $5,000 increase to the $18,500 original PO ($23,500 amended total), the vendor's original bid was 32% lower than the average of the other bids awarded. Due to the logistics of creative preproduction, the agency was unable to provide precise topics and locations to vendors for the 55 segments in advance. Once creative directions for each field trip segment were decided and field trip logistics were finalized, there was additional work required that this particular vendor was unable to budget in the original $18,500 bid submitted.

The agency deemed it in the state's best interest to renegotiate the contract amount with the existing vendor. All other bids received for this solicitation exceeded this vendor's original bid. It was deemed unlikely the agency would find a qualified vendor to perform the work for the same or less money within the designated timeframe. Purchase orders totaling $145,500 were issued for 55 video segments.

# Segments	Per Segment	Total	Contractor
10	$ 2,000	$ 20,000	DUNN MEDIA GROUP LLC
10	$ 2,350	$ 23,500	DENNIS MATTHEW JORDAN
10	$ 2,500	$ 25,000	MADE BY MATTHEWS
5	$ 3,000	$ 15,000	TITAN CONCEPTS LLC
10	$ 3,000	$ 30,000	SDS FILMS LLC
10	$ 3,200	$ 32,000	ONELIGHT FILM LLC
55	$ 2,645	$ 145,500	

Item 1.2
Management acknowledges the oversight. The contract was electronically signed by the vendor on March 27, 2023, and sent to the agency via email, but the digital signature was not certified.

The agency has clarified signature requirements with staff and has specified that a certificate-based digital ID such as Adobe Sign is required for digital signatures.

Item 1.3
Both missing contracts were for the K2 project. Both POs (issued without a contract) were issued on April 13, 2023, during the period when the agency was transitioning to a new procurement coordinator, resulting in the oversight.

Item 1.4
The accounting errors were for K2 project expenses, including a FEDEX p-card transaction incorrectly coded to freight that was for printing services; an equipment rental transaction coded to audio/visual equipment rather than to other rent and leases; and a mileage reimbursement that was accidentally coded to special purpose supplies.

Item 1.5
It is industry-standard practice in the film industry for all production expenses to be borne by the production company. Cast and crew as a standard practice do not pay their own expenses up-front, to be reimbursed later. For the K2 project, Arkansas PBS served as the production company, and in expanding its service in education to Arkansas, it was the first time the agency had managed a project of this type and magnitude. Given the size and scope of the K2 project, the project had a very limited planning period.

The agency should have requested guidance from OSP on the unique project requirements that were new to the agency.

Over 112 primary cast and crew (contractors) worked on this project, several of whom required airfare, hotel, and rental car accommodation and/or mileage reimbursement for use of personal vehicles for project work.

In the instance of the agency travel card use for contractor travel, the agency failed to closely review the travel card regulations and was therefore unaware that it was violating state procurement law in this instance.

A contracted crew member in a key production role informed the agency late in the day that he was being ousted from his Airbnb accommodation due to a declined agency credit card (no available credit). To secure the contractor's room and avoid possible disruption to the K2 project, the CFO consulted with Arkansas PBS fiscal staff about expense reimbursement regulations but did not review the DFA Financial Management Guide for allowability before giving her personal credit card to cover the bill. The agency failed to remove the CFO's personal credit card from the Airbnb account and the card was subsequently charged for two additional reservations before the error was discovered. The above was self-disclosed to both DFA and Arkansas Legislative Audit by the CFO. In addition, the CFO received cash back on her credit card related to the three lodging transactions, which she self-disclosed to both DFA and Legislative Audit and paid in full to the agency.

Item 1.6
A contractor on the K2 project reserved a rental car in his own name prior to the establishment of an agency corporate account with Hertz. He then submitted a reimbursement request to the agency for the rental car charge, which the agency paid ($2,762). Subsequently, Hertz approved the agency's account application and the contractor's reservation was switched to the agency account. Hertz made the decision without the agency's authorization to retroactively credit the contractor's personal credit card and charge the agency travel card for the earlier rental car costs.

With the volume of project transactions, the agency failed to catch this error and the contractor did not notify the agency that he had been reimbursed twice for the same transaction, by both Hertz and the agency. The contractor has since reimbursed the agency in full for the overpayment.

A second contractor on the K2 project received a reimbursement (credit) from Hertz to her personal credit card that was due to the agency. This was a Hertz administrative error. The agency has since received the full $271 reimbursement from the contractor.

Item 1.7
A contracted actor on the K2 project was originally scheduled to work one production day but was then extended to work 3 days due to needed production schedule changes. Hotel availability was limited in Central Arkansas due to high occupancy rates after the tornado that occurred in the spring of 2023. The agency moved the actor (a minor) and parent to a hotel that had multi-day availability but failed to cancel the original one-day reservation.

2023-2

In drafting and executing the agreement with the agency's affiliated foundation, the agency CFO was unaware of applicable sections of Arkansas Code. In the future, only an appropriate state employee will supervise state employees of the agency.

Corrective Action Plan
Arkansas PBS will strengthen its internal controls to ensure compliance with all applicable laws, rules, and regulations in the future.

The agency is creating new internal resources to ensure that agency employees are knowledgeable and fully prepared to comply with state laws, rules, and regulations. In December of 2023, the agency issued a detailed procurement guide to all agency employees and in January of 2024 began the initial phase of conducting agency-wide procurement trainings.

Finding Number:	**2023-011**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D210039**
Federal Award Year(s):	**2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.302, the auditee must provide an accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements.

In addition, the U.S. Department of Education's Office of Elementary and Secondary Education requires ESSER grantees to submit an Annual Performance Report (APR) with data on expenditures, planned expenditures, subrecipients, and uses of funds.

Condition and Context:
To aid in the completion of year three's ESSER APR, Agency staff obtained data from the Arkansas Public School Computer Network (APSCN), the accounting system utilized by Local Educational Agencies (LEAs), to monitor program expenditures. The data was compiled by Agency staff and was included on the templates provided by the U.S. Department of Education (ED).

To ensure compliance with line item 3.b1 – *LEA Expenditures by ESSER Subgrant Fund and Expenditure Category* of the APR, which is identified in the Compliance Supplement as a key line item, ALA performed a review of the data included on the templates that was uploaded to the Annual Reporting Data Collection Tool on the ED website. The template includes data for the 255 participating LEAs.

ALA's review of the data template revealed a clerical error that reported LEAs' grand totals as non-LEA expenditures. The clerical error resulted in overstated expenditures in the following categories:

- Meeting students' academic, social, emotional, and other needs - $89,966,926 overstatement;
- Mental health supports for students and staff - $1,428,542 overstatement;
- Operational continuity and other allowed uses - $62,756,767 overstatement

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Overstated amount - $154,152,235

Cause:
The Agency failed to ensure LEA expenditures reflected in the APSCN report were adequately represented on the ESSER II annual report.

Effect:
Inaccurate data was submitted to the federal awarding agency.

Recommendation:
ALA staff recommend the Agency implement additional procedures and controls over the reporting process to ensure reports are thoroughly reviewed prior to submission.

Finding Number:	**2023-011**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D210039**
Federal Award Year(s):	**2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

Arkansas Department of Education recognizes this finding. ADE Finance completed the named report which contained a subtotal error that overstated the totals when provided to Legislative Auditors. However, logic verifications built into the Federal System disallowed the items mentioned to be submitted. Therefore, the data reflected in Federal reporting for Arkansas was not overstated nor actual expenses and associated drawdowns completed erroneously. This information was confirmed with the U.S. Department of Education (ED) on February 21, 2024.

ADE Finance assures that revisions to the FY23 ESSER data template will be made and uploaded to the Federal Reporting System during the allowable period of July 29, 2024, and August 15, 2024.

Anticipated Completion Date: Data was effectively corrected at the time of reporting within the Federal System. ADE Finance will revise its uploaded FY23 ESSER data template during the allowable period of July 29, 2024, through August 15, 2024.

Contact Person:

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Finding Number:	**2023-012**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund;**
	84.425U – COVID 19: American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D2000039; S425D210039; S425U210039**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.302, the auditee must provide an accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements.

In addition, the U.S. Department of Education's Office of Elementary and Secondary Education requires ESSER grantees to submit an Annual Performance Report (APR) with data on expenditures, planned expenditures, subrecipients, and uses of funds.

Condition and Context:
To accurately complete the ESSER APR, the Agency prepared a survey to be completed by each of the Local Educational Agencies (LEAs) to capture data to complete specific lines of the APR. The completed surveys were compiled and included on the templates provided by the U.S. Department of Education (ED). The surveys contained the number of staff supported by ESSER funding and the total expenditure amount by position categories. Each LEA utilizes the Arkansas Public School Computer Network (APSCN) to process and track its expenditures. Agency staff also have access to APSCN.

To ensure compliance with line item 3.b10 – *LEA Hiring and Retention of Specific Positions* of the APR, which is identified in the Compliance Supplement as a key line item, ALA performed a review of the data included on the template that was uploaded to the Annual Reporting Data Collection Tool on the ED website. The template includes data for the 263 participating LEAs.

A sample of 25 LEAs was selected to determine if the data included in the template was supported by data submitted by the LEA on the survey. ALA review revealed that the data uploaded on the template is supported by the surveys completed and submitted by each LEA.

However, the survey data does not represent the salary expenditures reflected in APSCN. As a result, ALA performed a comparison between the total salary and benefit expenditures reflected in APSCN to the total salary and benefit expenditures reported on the APR. ALA review revealed that the total amount reported as expended for staff supported by ESSER funds is understated by $98,192,610. (It should be noted that 22 of the 263 LEAs reported accurate salary expenditures supported by APSCN.)

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Understated amount - $98,192,610

Finding Number:	**2023-012 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund;** **84.425U – COVID 19: American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D2000039; S425D210039; S425U210039**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Cause:
The survey provided by the Agency to capture the data necessary to complete the key line item on the APR did not contain sufficient instructions to ensure each LEA completed the survey accurately. As a result, multiple LEAs submitted inaccurate information and the Agency failed to perform additional procedures to corroborate the survey data provided.

Effect:
Inaccurate data was submitted on the APR.

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

Views of Responsible Officials and Planned Corrective Action:
Arkansas Department of Education recognizes this finding. The ADE Finance unit utilized data extracted from the statewide Local Educational Agencies (LEAs) system, APSCN, for the majority of parameters reported. However, APSCN does not have the ability to cross-reference financial expenses with Local Educational Agency's (LEAs) personnel data, which led to the creation of the survey. LEAs were expected to report data during a subsequent school year post COVID-19 Pandemic. ADE gathered state total expenses for requested categories from the system compiled with the requested breakdowns by position type obtained in the manual survey. The two data sets did not align, thus seen in Questioned Costs which reflects the difference between the two datasets. LEA actual expenses, associated drawdowns, and disbursements were not affected by the amounts reported in the annual ESSER data.

ADE Finance is currently working with APSCN personnel to explore options for assembling data without manual input from LEAs. When implemented, discrepancies in the state data reported to federal systems and LEAs data should not exist. ADE has the goal of utilizing this method for FY23 reporting in May 2024.

Anticipated Completion Date: ADE Finance will revise its uploaded FY22 ESSER data template during the allowable period of July 29, 2024, through August 15, 2024.

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

Finding Number:	**2023-013**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund**
	84.425U – COVID 19: American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D2000039; S425D210039; S425U210039**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.302, the auditee must provide an accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements.

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

Condition and Context:
To ensure compliance with year three's ESSER Annual Performance Report (APR), ALA performed a review of line item 5.a – *Full-Time Equivalent (FTE) Positions*, which is identified in the Compliance Supplement as a key line item, to determine if the information reported was accurate and properly supported with accounting records for Local Educational Agencies (LEAs) and non-LEAs. Agency staff utilized the template provided by the U.S. Department of Education (ED) to upload data to the Annual Reporting Data Collection Tool. The template includes data for the 256 participating LEAs and 41 non-LEAs.

The Agency estimated the FTE position data for non-LEAs based on websites and other available information but did not maintain supporting documentation for the information reported to the federal awarding agency. As a result, ALA staff were unable to verify that the data was accurate and complete.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency did not maintain appropriate supporting documentation.

Effect:
The accuracy of data submitted to the federal awarding agency is unknown.

Recommendation:
ALA staff recommend the Agency strengthen internal controls over the review of special reports to ensure reported data is appropriately supported in accordance with federal laws and regulations.

Finding Number:	**2023-013 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**84.425D – COVID 19: Elementary and Secondary School Emergency Relief (ESSER) Fund** **84.425U – COVID 19: American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)**
Federal Awarding Agency:	**U.S. Department of Education**
Federal Award Number(s):	**S425D2000039; S425D210039; S425U210039**
Federal Award Year(s):	**2020 and 2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

Arkansas Department of Education recognizes this finding. ADE Finance understands the importance of supporting documentation for non-LEAs and has implemented a plan for FY23 communications. Furthermore, ADE Finance conducted follow-up communication with the U.S. Department of Education (ED) on March 1, 2024. It was concluded that FTE position data for non-LEAs were optional for Years 1 and 2 Annual Performance Reports per the ESSER Form Review Webinar Guidance. ADE was further instructed to omit non-LEA information from the template should it be unreasonable to provide for the FY22 reporting year in question.

ADE will ensure non-LEA entities provide the requested 5.a – Full-Time Equivalent (FTE) Compliance Supplement information for supporting documentation with FY23 and subsequent Reporting Periods.

Anticipated Completion Date: May 2024. ADE Finance is coordinating communication with non-Local Educational Agencies (non-LEAs) in effort to revise the data for FY22, however will omit the related data per U.S. Department of Education (ED) guidance provided on March 1, 2024, should non-LEAs be unable to provide quality data.

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Finding:
As required by Section R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide, the Agency notified Arkansas Legislative Audit (ALA) of the following theft of state property:

> On December 9, 2022, a Bushmaster rifle equipped with an Aimpoint Optic sight was stolen from a parked State Police vehicle while an employee was attending training in Dallas, Texas. Incident and police reports were filed. The cost of the property taken was $1,182.

Recommendation:
We recommend the Agency continue to report losses of property when they occur.

Agency Response:
An incident report was filed with the Dallas Police Department and the serial number of the weapon was reported as stolen in the Arkansas Crime Information Center (ACIC) database. The weapon has not been recovered at this time [October 11, 2023].

Finding Number:	**2023-002**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300323; 6AR300342**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.303(c), a non-federal entity must evaluate and monitor its compliance with statutes, regulations, and the terms and conditions of federal awards.

In addition, 2 CFR § 200.400(a) and (b), the non-federal entity is responsible for the efficient and effective administration of the federal award through the application of sound management practices and 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 separate grant awards for reimbursement payments to meal providers and sponsoring organizations:

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

Previous correspondence between ALA and 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. (Note: This correspondence was shared with Agency management during calendar year 2018.)

All expenditures are assigned an internal order number to identify the applicable federal program and cost category within AASIS, the State's accounting system. The Agency's Division of Child Care and Early Childhood Education (DCCECE) staff are responsible for ensuring expenditures are properly coded in AASIS, and the managerial accounting staff utilize expenditure transactions in AASIS to complete cash draws for direct costs to the program.

ALA review of 15 cash draws to determine if funds were drawn from the appropriate grant revealed the following:

- Sponsor Administrative and Cash in Lieu expenditures (ALN 10.558), totaling $98,474 and $38,342, respectively, were inappropriately drawn from the CNP Block Consolidated grant (ALN 10.555).

(Note: DCCECE transitioned from the Arkansas Department of Human Services to the Arkansas Department of Education on August 1, 2023.)

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$136,816

Cause:
DCCECE personnel did not correctly code CACFP Sponsor Administrative expenditures in AASIS, causing managerial accounting staff to draw funds from the incorrect grant award. Additionally, managerial accounting staff did not establish procedures to ensure the Cash in Lieu grant award was adequately funded prior to processing federal cash draws.

Finding Number:	**2023-002 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300323; 6AR300342**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance and Material Weakness**

Effect:
Funds were drawn for unallowable expenditures (based on the purpose of each grant).

Recommendation:
ALA staff recommend the Agency establish and document procedures that specifically address the proper coding of expenditures in AASIS. In addition, ALA staff recommend the Agency strengthen 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:

Department of Human Services Response

DHS concurs with the finding. The Division of Childcare and Early Childhood Education (DCCECE) utilized a custom software platform to provide payment files to the State's accounting software, AASIS, to issue payments to recipients. Within this software, the AASIS coding for Sponsor Administrative costs is coded to CNP Block Consolidated (ALN 10.555) instead of CNP CACFP Sponsor Administrative (ALN 10.558) for the questioned costs of $98,474.00. Expense error corrections were not received timely by managerial accounting staff prior to the close out of SFY2023. Effective August 1, 2023, the division formerly known as DCCECE at DHS transitioned to the Arkansas Department of Education (ADE). DHS alerted financial staff with ADE in February 2024 to review the custom software platform to ensure grant expenses are being properly coded now.

Due to depleted grant funds in CNP CACFP Cash in Lieu (ALN 10.558), the questioned costs of $38,341.68 in grants funds were manually moved by DHS Managerial Accounting staff into the CNP Block Consolidated grant. Managerial accounting staff have been retrained to ensure adequate federal funds are available prior to drawing. If manual adjustments are required, the division's CFO, or their designee, must review and approve manual adjustments prior to the managerial accounting staff executing manual adjustments. DHS Office of Finance is developing an internal control documenting the prior approval process.

DHS will continue to work in cooperation and coordination with ADE to provide all relevant financial information, documentation, or other items necessary for the administrative functions of DCCECE so as not to disrupt any services.

Arkansas Department of Education Response

The Arkansas Department of Education, Finance unit monitors federal grant awards by using separate cost centers for each program and award year within. This process provides transparent delineation of expenses and revenues within the State's accounting system, AASIS. Additionally, ADE Finance owns an established procedure to reconcile federal grant awards for each month, within 90 days of the month's end. The reconciliation procedure accounts for all activity within the grants and ensures data is aligned from the federal drawdown system to the State's accounting system, AASIS.

Anticipated Completion Date:
Department of Human Services Response: 3/31/2024

Arkansas Department of Education Response: The itemized CNP programs are reconciled using ADE procedures as of August 1,2023. ADE ensures the accuracy of data from August 1, 2023, through January 31, 2024.

Finding Number:	**2023-002 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300323; 6AR300342**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

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Finding Number:	**2023-003**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
2 CFR § 200.303(a) requires a non-federal entity to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

In addition, in accordance with 31 CFR § 205.33(a), a state must minimize the time between the drawdown of federal funds and their disbursement for program purposes. The timing and amount of fund transfers must be as close as is administratively feasible to the actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition and Context:
The Agency's Division of Managerial Accounting staff perform weekly reconciliations between federal cash draw downs and expenditure transactions in AASIS, the State's accounting system. The reconciliation is utilized to ensure funds are drawn for actual expenditures. The Division's policy is to use funds drawn in excess of actual expenditures within three days after discovery; otherwise, funds are returned to the federal awarding agency.

ALA reviewed the cash draw reconciliations that were completed for federal fiscal years 2022 and 2023 to determine if they were completed accurately and to ensure the Agency adhered to its policy regarding excess funds drawn.

ALA review revealed that funds drawn against the 2023 CNP Block grant exceeded the allowable expenditures totaling $1,496,279. The Agency was not in compliance with its policy regarding excess funds drawn because the Agency did not immediately adjust future draws or return excess funds, as stated in its policy.

(Note: DCCECE transitioned from the Arkansas Department of Human Services to the Arkansas Department of Education on August 1, 2023.)

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$1,496,279

Cause:
Managerial Accounting staff did not effectively utilize the cash draw reconciliation to ensure funds drawn were only for immediate cash needs.

Effect:
Agency staff did not adjust subsequent cash draws or return funds to the federal awarding agency after the excess draws were discovered.

Recommendation:
ALA staff recommend the Agency review and strengthen its control procedures regarding draws and contact the Arkansas Department of Education and the federal awarding agency to ensure draws do not exceed allowable expenditures going forward.

Finding Number:	**2023-003**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Significant Deficiency**

Views of Responsible Officials and Planned Corrective Action:

Department of Human Services Response

DHS concurs with the finding. Specifically, the documentation provided to auditors during the audit period did not include a full review of allowable expenditures correlated to the federal draws. During the quarter, indirect costs are estimated and are then adjusted to actual indirect costs when the quarterly cost allocation report is completed. If an overpayment was identified after comparing to the cost allocation report, the next federal draw would be reduced by the overpayment. Due to the timing of the DHS Cost Allocation report and the omittance of the allowable 2022 CNP Block grant expenditures, the expenses were understated for 2023 CNP Block grant resulting in the appearance of a federal overpayment.

Following the audit, it was determined DHS DCCECE staff coded 161 transactions totaling direct costs of $1,977,927.62 of allowable expenses for October 2022, November 2022, and March 2023 in the State's accounting software, AASIS, to the 2022 CNP Block grant when only $505,835.54 federal grant funds were available. The difference of $1,472,092.08 in federal funding was properly drawn from the 2023 CNP Block grant, but AASIS error corrections were not timely submitted to the managerial accounting prior to the close of SFY2023 to ensure the proper allocation of the expenditures. The cost allocation report provided to auditors during the audit period only included the 2023 CNP Block grant AASIS coding and did not include the 2022 CNP Block grant AASIS coding of $1,472,092.08. The remaining difference of $24,186.92 is due to timing of DHS's Cost Allocation quarterly report that became available July 20th for the June 30th 2023 CNP Block grant expenses. DHS submitted additional documentation to ALA in February 2024 accounting for all allowable expenditures.

DHS Managerial Accounting staff have been provided additional cost allocation training and audit response training. Documents responsive to audit requests will be more fully reviewed prior to submission as senior finance management staffing allows. Effective August 1, 2023, DHS DCCECE has transitioned to Arkansas Department of Education (ADE). DHS will continue to work in cooperation and coordination to provide all relevant financial information, documentation, or other items necessary for the administrative functions of DCCECE so as not to disrupt any services.

Arkansas Department of Education Response

Arkansas Department of Education, Finance unit monitors fund balances in the States's accounting system, AASIS, at minimum, every other day. The frequency of this process accounts for previous activity in funds or cost centers and pending activity recognized at the time of the review including, but not limited to, upcoming expenses and drawdown requests. ADE procedures ensure the finance unit closely oversees cash on hand, if any, and all necessary drawdowns are completed for immediate use.

Additionally, funds associated with the Office of Early Childhood (formerly DCCECE) that were carried to ADE are shown in the cash edit table, allowing the fund to have a negative balance in the State's accounting system, AASIS. Including funds in the cash edit table supports the agency in preventing excess drawdowns by allowing funds to be received after expenses are processed. ADE is confident this procedure ensures accurate amounts are drawn.

Anticipated Completion Date:
Department of Human Services Response: Complete

Arkansas Department of Education Response: ADE Finance has implemented the named procedure and continues to monitor cash on hand closely, as the ADE Office of Early Childhood staff, (formerly DHS DCCECE), are trained in this procedure.

Finding Number:	**2023-003 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Significant Deficiency**

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

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Finding Number:	**2023-004**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300323; 6AR300342**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Procurement and Suspension and Debarment**
Type of Finding:	**Material Weakness**

Repeat Finding:
Not applicable

Criteria:
2 CFR § 200.303(a) requires a non-federal entity to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

In addition, 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:
A management evaluation was performed by the U.S. Department of Agriculture – Food and Nutrition Service (USDA-FNS) in July 2021. The evaluation revealed that the Agency was not clearly documenting its review of the National Disqualified List (NDL) prior to approving providers. In December 2021, the Agency implemented a procedure to upload the results of the search for suspended and debarred providers from the NDL to its Special Nutrition Program (SNP) database. The search and upload would occur prior to the approval of a provider.

To determine if the Agency's new control procedure was operating as designed and effective, ALA selected 25 approved providers located within the SNP database to determine if the Agency uploaded its search of the NDL prior to approving the application. This review revealed the following:

- In 15 instances, the NDL search was not uploaded to the SNP database.
- In one instance, the Agency Coordinator and the Manager approved a provider on October 11, 2022, and October 13, 2022, respectively. However, the NDL search was not uploaded prior to the approvals. The upload occurred on December 5, 2022.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not consistently adhere to the newly established procedure.

Effect:
Failure to adhere to the newly established procedure for internal control over compliance increases the risk that an ineligible provider is approved in error.

Recommendation:
ALA staff recommend the Agency review its newly developed control procedure with applicable staff to ensure compliance with suspension and debarment requirements.

Finding Number:	**2023-004 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.558 – Child and Adult Care Food Program**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**6AR300322; 6AR300323; 6AR300342**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Procurement and Suspension and Debarment**
Type of Finding:	**Material Weakness**

Views of Responsible Officials and Planned Corrective Action:

Department of Human Services Response

DHS concurs with the finding. The SNP database has been updated to reflect that a National Disqualified List (NDL) search was run on the 15 providers that were reviewed. The Health and Nutrition Unit for the Office of Early Childhood conducted a staff training on the written application procedure with an emphasis on performing and documenting NDL searches prior to approval of the application. (Note: Effective August 1, 2023, DHS DCCECE has transitioned to Arkansas Department of Education.)

Arkansas Department of Education Response

Arkansas Department of Education's Office of Early Childhood, Health and Nutrition unit conducted training December 2023 and continues to maintain staff training on the written application procedure to ensure providers are reviewed against the National Disqualified List (NDL) database and prior to approval.

Anticipated Completion Date:

Department of Human Services Response:	Complete
Arkansas Department of Education Response:	Continuous

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Finding Number:	**2023-015**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable.

Criteria:
In accordance with 45 CFR 1356.40(b)(1), the adoption assistance agreement must be signed and in effect at the time of or prior to the final decree of adoption. The adoption assistance agreement is defined at 42 USC 675(3).

Condition and Context:
ALA staff reviewed 60 client adoption files to ensure sufficient, appropriate evidence was provided to support the Agency's determination of eligibility. The clients selected for testing had adoption legalization dates that spanned from March 2006 to April 2023. The review revealed deficiencies as summarized below:

- One client file, with an adoption legalization date of July 16, 2010, did not contain a signed subsidy agreement. The adoptive parents received monthly subsidy payments from August 2010 - present. Questioned costs representing the federal portion, totaled $51,098, as follows:
  - $3,281 - SFY 2011
  - $3,487 - SFY 2012
  - $3,648 - SFY 2013
  - $3,702 - SFY 2014
  - $3.784 - SFY 2015
  - $3,708 - SFY 2016
  - $3,684 - SFY 2017
  - $3,726 - SFY 2018
  - $3,918 - SFY 2019
  - $4,190 - SFY 2020
  - $4,370 - SFY 2021
  - $4,594 - SFY 2022
  - $4,637 - SFY 2023
  - $ 369 - SFY 2024
- Two subsidy agreements, with adoption legalized dates of March 9, 2006, and May 27, 2009, respectively, were signed but not dated by the adoptive parents. However, the agreements were signed and dated by the Division of Child and Family Services (DCFS) Director.
- One subsidy agreement, signed and dated by the adoptive parents and DCFS Director, stated the adoptive family qualified for a "deferred subsidy." The agreement did not authorize a federal subsidy at the time of adoption. A keying error in the Children's Reporting and Information System (CHRIS) caused the adoptive family to begin receiving a federal subsidy on the decree of adoption date. The adoptive parents received three unauthorized monthly subsidy payments in state fiscal year 2023. Questioned costs representing the federal portion, totaled $737.

Statistically Valid Sample:
Not a statistically valid sample

Finding Number:	**2023-015 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Questioned Costs:
$51,835

Cause:
DCFS did not maintain sufficient records to support the adoption subsidy agreement with the parents of the adopted child.

Effect:
DCFS does not have adequate documentation supporting the eligibility of federal adoption subsidy payments made on behalf of adopted children.

Recommendation:
ALA staff recommend the Agency continue providing adequate communication with and training to appropriate personnel to ensure compliance with program requirements and retention of documentation.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency has updated its documented controls to require confirmation that agreements are signed by all parties before processing adoption subsidy packets. Adoption staff will be trained on the updated controls.

Anticipated Completion Date: 3/31/2024

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Finding Number:	**2023-016**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Repeat Finding:
Not applicable

Criteria:
In accordance with 42 USC § 673 (a)(4)(A) and (B), a payment may not be made to parents with respect to a child if the state determines that the parents are no longer legally responsible for the support of the child or if the state determines that the child is no longer receiving any support from the parents. Parents who have been receiving adoption assistance payments shall keep the state, administering the program, informed of circumstances that would make them ineligible for the payments.

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:
When an adoptive parent is no longer legally responsible for the support of the child (i.e., death of parent, termination of parental rights, child no longer receiving support from parent), the Adoption Unit must be notified in order to end the adoption subsidy. However, the notifications are not always timely, and the required information entered into the Children's Reporting and Information System (CHRIS) can be delayed, resulting in payments made to parents past the subsidy end date. As a result, the Agency established internal control procedures to identify these types of payments and the overpayment information is provided to the accounts receivable department for collection.

ALA obtained a report from Division of Children and Family Services (DCFS) staff that contained all subsidy overpayments for the state fiscal year ended June 30, 2023. The report revealed subsidy overpayments for 29 clients with payments made to 22 providers. ALA reviewed documentation for five clients to ensure that the overpayments were researched and properly submitted for collection and that proper collection efforts were made by the accounts receivable department.

ALA review revealed the following deficiencies:

- Three subsidy payments, totaling $1,016, were made on behalf of three children subsequent to the death of the provider. The adoption unit failed to properly research the event to determine if an overpayment had occurred. As a result, questioned costs representing the federal portion, totaled $787.
- Two subsidy payments, totaling $1,170, were made subsequent to the death of one client. The adoption unit failed to properly research the event to determine if an overpayment had occurred. As a result, questioned costs representing the federal portion, totaled $908.

Finding Number:	**2023-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Condition and Context (Continued):

- The Agency did not receive timely notification that parental rights had been terminated for three clients. As a result, 91 subsidy payments, totaling $40,638, were processed in error. A portion of these payments dated back to prior fiscal years 2018 through 2022. Additionally, when discovered, the overpayment information sent to the accounts receivable department for two clients was not complete. Questioned costs representing the federal portion, totaled $30,713, as follows:
  - $2,837 - SFY 2018
  - $3,749 - SFY 2019
  - $4,190 - SFY 2020
  - $5,738 - SFY 2021
  - $9,457 - SFY 2022
  - $4,742 - SFY 2023

The following discoveries contributed to the errors regarding the overpayments for the three clients noted above and are as follows:

- For two of the three clients whose overpayment balance was submitted to Accounts Receivable (A/R) for collection, A/R failed to send the Notice of Collection letters to the providers. The letter is sent via certified mail, and the provider is required to sign for the letter. The signed notice is required before A/R can pursue any legal action to collect the overpayment from the provider.
- For three providers, the subsidy overpayment was recorded in the Agency's accounts receivable system (AROPTS) as a Foster Care Board overpayment. As a result, the Demand Notice and the Notice to Intercept State Income Tax Refund(s) sent to the provider misrepresented the overpayment as Foster Care instead of Adoption Assistance.
- In one instance, the Demand Notice and the Notice to Intercept State Income Tax Refund(s) sent to the provider included inaccurate overpayment information. Each notice letter included different overpayment information and did not agree to the overpayment amount submitted from the Adoption Unit to A/R.
- One provider submitted a reimbursement totaling $920, but it was not properly recorded by A/R. As a result, the overpayment balance was not appropriately reduced.

Further discussion with the Agency revealed that adjustments have not been made for these overpayments on the quarterly federal financial reports or communicated with the federal awarding agency.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$32,408

Finding Number:	**2023-016 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Cause:
The internal control process for identifying, researching, calculating, and submitting overpayments to A/R is not adequate. In addition, internal control procedures for processing and collecting overpayments by A/R are not adequate. Finally, the adoption unit is not notified of relevant events timely resulting in the ending of a subsidy.

Effect:
The Division of Children and Family Services does not have an adequate process in place to accurately identify and calculate overpayments and properly notify the Agency's A/R department that an overpayment has occurred. In addition, the Agency's A/R department does not have an adequate process in place to effectively and efficiently attempt to collect adoption subsidy overpayments. Finally, the federal awarding agency may require recoupment.

Recommendation:
ALA staff recommend the Agency immediately update its internal control procedures document regarding the overpayment processes and provide relevant training to staff. In addition, ALA staff recommend the Agency immediately develop procedures for notifying the Adoption Unit of the termination of adoptive parent parental rights to ensure subsidy end date information is processed timely.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency has updated its internal controls procedures to require enhanced review of payments made after the death of a provider or a client and enhanced monitoring of when a client is removed from an adoptive parent's home. The Accounts Receivable Unit in the Office of Finance has implemented systems changes that ensures all claims will generate a collections notice with the correct claims data. The noted outstanding collection notices have been sent and data entry errors have been corrected.

Anticipated Completion Date: Complete

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Finding Number:	**2023-017**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2301ARADPT; 2201ARADPT; 2101ARADPT**
Federal Award Year(s):	**2021, 2022, and 2023**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
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 a federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Additionally, 45 CFR 75.342(a) states that a non-federal entity is responsible for the oversight of operations for federal award supported activities. The non-federal entity must monitor its activities to assure compliance with applicable federal requirements.

Since federal fiscal year 2010, federal regulations have required states to apply less restrictive program eligibility requirements to children who meet specific criteria. This can result in additional federal funding and, therefore, a reduction in state costs. Federal regulations at 42 USC 673(a)(8) require the Agency to calculate the amount saved, if any, and spend an equal amount on certain program services. Maintaining this state spending at the appropriate level is referred to as level of effort.

The Agency is also required to spend no less than 30 percent of any such savings on post-adoption services, post guardianship services, and services to support and sustain positive permanent outcomes for children who might otherwise enter the State's foster care program. The Agency must accurately report these amounts to the federal grantor on the Annual Adoption Savings Report.

Condition and Context:
ALA staff requested the Agency's internal control procedures over the level of effort – adoption savings requirement. Additionally, ALA staff requested the file tracking the excess funds used as savings. This review revealed the following deficiencies:

- The Agency was unable to provide documented internal controls addressing any of the five elements of COSO for the time period under review.
- The Agency was unable to provide documentation to support that it was monitoring adoption savings activities to ensure compliance with Level of Effort requirements.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency has not established an internal control process for tracking or monitoring state-funded spending and completing the Annual Adoption Savings Report. It is noted that the Division responsible for the report and monitoring the level of effort requirement has recently experienced significant employee turnover.

Finding Number:	**2023-017 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2301ARADPT; 2201ARADPT**
Federal Award Year(s):	**2022, 2023**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Weakness**

Effect:
Without a system to accurately account for and record expenditures related to adoption savings, the Agency could not demonstrate it spent the amount reported. Inadequate controls for effectively monitoring compliance could result in failure to meet level of effort requirement and also limit the Agency's ability to effectively manage the grant.

Recommendation:
ALA staff recommend the Agency establish internal controls to track state-funded spending. In addition, the Agency should establish written policies and procedures specifying how the Agency will determine the amount of adoption assistance savings and subsequent expenditures of those savings to be reported to the grantor. Finally, ALA staff recommend the Agency review maintenance of effort reports to ensure the amount of expenditures reported to the grantor has been accurately determined and is adequately supported.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency will develop a procedure to monitor and accurately report adoption savings activities and will submit an updated Adoption Savings Report to correct any previously incorrectly reported amounts.

Anticipated Completion Date: 3/31/2024

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Finding Number:	**2023-018**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2201ARADPT**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking; Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
45 CFR 75.342(a) states that a non-federal entity is responsible for the oversight of operations for federal award supported activities. The non-federal entity must monitor its activities to assure compliance with applicable federal requirements.

Since federal fiscal year 2010, federal regulations have required states to apply less restrictive program eligibility requirements to children who meet specific criteria. This can result in additional federal funding and, therefore, a reduction in state costs. Federal regulations at 42 USC 673(a)(8) require the Agency to calculate the amount saved, if any, and spend an equal amount on certain program services. Maintaining this state spending at the appropriate level is referred to as level of effort.

The Agency is also required to spend no less than 30 percent of any such savings on post-adoption services, post guardianship services, and services to support and sustain positive permanent outcomes for children who might otherwise enter the State's foster care program. The Agency must accurately report these amounts to the federal grantor on the Annual Adoption Savings Report.

According to the supplemental terms and conditions relating to Title IV-E programs from the federal awarding agency, the Annual Adoption Savings Report (Part 4) must be submitted no later than 30 days following the end of the federal fiscal year (i.e., no later than October 30). (See 45 CFR §201.5 and 45 CFR §1355.30(n)(1).)

Condition and Context:
ALA staff reviewed the Annual Adoption Savings Calculation and Accounting report for period ended September 30, 2022. ALA staff requested documentation supporting the amount spent on program services utilizing the adoption savings to ensure the expenditures were sufficient to equal the savings calculated and reported. This review revealed the following deficiencies:

- The Annual Adoption Savings Report for the period ended September 30, 2022 was incomplete and the data used in preparing the report calculation was not adequately supported.
- The Annual Adoption Savings Report was not submitted within established time constraints.
- The Agency was unable to provide documentation to support that it was tracking the annual adoption savings amounts in order to meet the level of effort compliance requirements.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency has not established an internal control process for tracking or monitoring state-funded spending and completing the Annual Adoption Savings Report. It was noted that the Division responsible for the report and monitoring the level of effort requirement has recently experienced significant employee turnover.

Finding Number:	**2023-018 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.659 – Adoption Assistance**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2201ARADPT**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking; Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Effect:
Without a system to accurately account for and record expenditures related to adoption savings, the Agency could not demonstrate it spent the amount reported. The grant agreement allows the grantor to take action for noncompliance that can include temporarily withholding funds, wholly or partly suspending or terminating the award, and withholding further awards from the program.

Recommendation:
ALA staff recommend the Agency establish internal controls to track state-funded spending. In addition, the Agency should establish written policies and procedures specifying how the Agency will determine the amount of adoption assistance savings and subsequent expenditures of those savings to be reported to the grantor. Finally, ALA staff recommend the Agency review maintenance of effort reports to ensure the amount of expenditures reported to the grantor has been accurately determined, is adequately supported, and is submitted timely.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency will develop a procedure to monitor and accurately report adoption savings activities and will submit an updated Adoption Savings Report to correct any previously incorrectly reported amounts.

Anticipated Completion Date: 3/31/2024

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Finding Number:	**2023-019**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles - Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-026**.

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

In accordance with 42 CFR § 438.8(c), if a state elects to mandate a minimum MLR, that minimum must be equal to or higher than 85%. 42 CFR § 438.8(j) indicates that if the state requires a minimum MLR to be met and if it is not met, there must be remittance to the state. Sections 9.3.1, 12.2.1, and 12.2.2 of the Dental Managed Care contracts state that the Dental Managed Care entities must submit a report detailing the calculation of its MLR on the 15th day of August in the year following the completion of each calendar year and that the MLR will be used to enforce a rebate at the end of the year.

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

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

- 42 CFR § 438.4(b) - Capitation rates for MCOs must be reviewed and approved by CMS as actuarially sound and must be provided to CMS in an approved format and within a timeframe that meets the requirements defined by 42 CFR § 438.7.
- 42 CFR § 438.7(a) - States must submit all MCO rate certifications concurrent with the review and approval process for contracts as specified in 42 CFR § 438.3(a).
- 42 CFR § 438.3(a) - CMS must review and approve all contracts, including those contracts that are not subject to the prior approval requirements in 42 CFR § 438.806. For states seeking approval of contracts prior to a specific effective date, proposed final contracts must be submitted to CMS for review no later than 90 days prior to the effective date of the contract.
- 42 CFR § 438.3(c) - The capitation rate and the receipt of capitation payments under the contract must be specifically identified in the applicable contract submitted for CMS review and approval.

Finding Number:	**2023-019 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)** **05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles - Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria (Continued):

- 42 CFR § 438.806(b) - For MCO contracts, **prior approval by CMS** is a condition of Federal Financial Participation (FFP) under any MCO contract that has a value equal to or greater than the following threshold amounts: $1,000,000 for 1998 (the value for all subsequent years is increased by the percentage increase in the consumer price index). FFP is not available in an MCO contract that does not have prior approval from CMS.

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

Dental Managed Care:

- The calendar year 2021 MLR calculation for one of the two Dental Managed Care entities reflected a remittance, totaling $2,094,667, which was due to the State no later than December 31, 2022. However, the remittance still had not been made as of fieldwork date (November 3, 2023). Total questioned costs related to the federal portion of these expenditures were $1,485,140 and $150,870 for Medicaid and CHIP, respectively.
- Audited financial reports were not provided to the actuary for the three most recent and complete years prior to the reporting period. As the Dental Managed Care program was effective beginning January 1, 2018, audited financial reports from calendar years 2019, 2020, and 2021 for the two Dental Managed Care entities should have been provided.

PASSE:

- Audited financial reports were not provided to the actuary for the three most recent and complete years prior to the reporting period. As the PASSE managed care program was effective beginning March 1, 2019, audited financial reports from calendar years 2019, 2020, and 2021 for three of the four PASSEs should have been provided. (The three PASSEs are AR Total Care, Empower, and Summit' CareSource did not participate in the PASSE program until calendar year 2022).
- No documentation was provided to substantiate that the Agency received approval from CMS for the calendar year 2022 PASSE contracts or rates **prior** to the start of calendar year 2022. Previously approved calendar year 2021 rates continued to be paid throughout all of calendar year 2022. Documentation obtained shows that the original calendar year 2022 PASSE contracts that were effective through September 30, 2022, were submitted to CMS for approval on January 5, 2021, that PASSE amendments extending the PASSE contracts through December 31, 2022, were submitted to CMS for approval on October 7, 2022, and the initial calendar year 2022 rates were submitted to CMS for approval on January 7, 2022. Multiple calendar year 2022 rate submissions have occurred since the initial rates were submitted, with the most recent submission occurring on June 21, 2023.

Finding Number:	**2023-019 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles - Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):
PASSE (Continued):

As of fieldwork date, November 8, 2023, the Agency has still not received CMS approval for either the calendar year 2022 PASSE contracts or rates.

- No documentation was provided to substantiate that the Agency received approval from CMS for the calendar year 2023 PASSE contracts or rates **prior** to the start of calendar year 2023. Previously approved calendar year 2021 rates were initially paid, but were later adjusted to the calendar year 2023 rates. Documentation obtained shows that the calendar year 2023 PASSE contracts and rates were submitted to CMS for approval on November 28, 2022. As of fieldwork date of November 8, 2023, the Agency has still not received CMS approval for either the calendar year 2023 PASSE contracts or rates.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$1,485,140 (Medicaid)
$ 150,870 (CHIP)

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

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

Recommendation:
ALA staff recommend the Agency develop and implement control procedures for managed care MLR requirements for both the Dental and PASSE managed care programs to ensure that the required audited financial reports are provided; calculated Dental Managed Care MLR remittances due are received timely, in accordance with the terms and conditions included in the Dental Managed Care contracts; and PASSE contracts and capitation rates receive prior approval from CMS as required.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs, in part, and disputes, in part, this finding. The noted MLR remittance was submitted for collection on December 12, 2023. The agency has developed and implemented a process to collect all MLR rebates through monthly capitation payments. The agency will amend its Dental Managed Care contract to address this recoupment process.

Finding Number:	**2023-019 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)** **05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles - Managed Care Medical Loss Ratio (PASSE and Dental)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action (Continued):
The agency has provided its actuary with the audited financial statements for all Dental Managed Care and PASSE entities dating back to the beginning of these programs and will update its internal control to clarify the process for calculating the three years of reports that must be submitted to the actuary.

The agency disagrees that approved contracted rates were not being used for calendar year 2022. 42 CFR § 438.4(b) only requires that capitation rates be set at an actuarially sound rate for a specified time period. The requirement to receive approval for capitated rates does not mean that states are required to use previously approved rates from a prior year until a new one is approved. Actuarial best practices dictate that it is not appropriate to pay actuarial rates developed for a prior time period because there may be material differences in trend rates, covered benefits, provider reimbursement, and covered populations. Instead, it is optimal to use rates specifically developed for the applicable time limit even if CMS has not approved the rates. By using this approach, the agency ensures that it is paying MCO's and PASSE's capitation rates developed to be consistent with their financial responsibilities. Continued adherence to this practice is necessary as CMS consistently approves rates well after the beginning of the contract year. While CMS approval is beyond the agency's control, agency controls and contracts have been updated to ensure rates and contracts are submitted 90 days prior to the start of the contract year.

Anticipated Completion Date: Complete

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Additional Comments from the Auditor:
ALA agrees that the actuary was provided with the audited financials. However, 42 CFR § 438.5(c)(1), states that the audited financial reports are to be those as defined at 42 CFR § 438.3(m), which those provided were not. See finding 2023-023 for further details.

ALA agrees that continuing to pay rates from a prior year until a new one is approved is also not appropriate. As a MCO plan, PASSE contracts and rates must receive **prior** CMS approval. No documentation was provided to show that this was obtained for calendar years 2022 and 2023.

Finally, although the timeliness of receiving CMS approval is ultimately beyond the agency's control, 42 CFR § 438.3(a) indicates that proposed final contracts must be submitted to CMS for review no later than 90 days prior to the effective date of the contract. As noted above, based upon documentation provided, the initial calendar year 2022 rates were submitted to CMS for approval on January 7, 2022, and the initial calendar year 2023 rates were submitted to CMS for approval on November 28, 2022.

Finding Number:	**2023-020**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-023**.

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 statues, regulations, and terms and conditions of the award.

Also, 42 CFR 435.945(d), states that all Medicaid state eligibility determination systems must conduct data matching through the Public Assistance Reporting Information System (PARIS).

Condition and Context:
PARIS is a data matching service that identifies recipients of public assistance who receive duplicate benefits in two or more states, in order to help detect improper payments. This system is administered by the Office of the Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services.

ALA selected two quarters from state fiscal year 2023 for review to ensure that the Agency participated in the interstate PARIS match and to determine that adequate supporting documentation was available to demonstrate that the Agency adequately reviewed identified matches and determined whether those recipients were currently residing in Arkansas and, therefore, properly received benefits under the Arkansas Medicaid or CHIP programs.

ALA review confirmed that the Agency participated in the PARIS match for the two quarters selected for testing (i.e., November 2022 and May 2023).

ALA then selected a sample of 20 recipients (10 recipient cases from each selected quarterly report) that were flagged as receiving Medicaid or CHIP benefits in Arkansas and another state to determine if those cases were reviewed. ALA testing of PARIS match results revealed one recipient with an open Medicaid case in both Arkansas and another state. The match was based on the recipient's name, date of birth, and social security number. Information related to this match was not uploaded to the ARIES eligibility system because of a system coding issue; therefore, the recipient's case was not reviewed to determine if the recipient met the residency requirement.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Finding Number:	**2023-020 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)** **05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Cause:
The ARIES system logic excluded PARIS match results from being uploaded into the system when any address line field was left blank. For example, if "Address line 1" on the PARIS match report was empty, system logic did not consider information recorded on "Address line 2," which could confirm the recipient's out of state address. According to the Division of County Operations (DCO), PARIS matching system logic within ARIES will need to be adjusted to ensure these types of cases are identified in the future.

Effect:
Failure to review the PARIS interstate matches could result in the Agency not identifying individuals who are no longer residents of Arkansas and, as a result, are ineligible to receive benefits under the Arkansas Medicaid or CHIP programs. Improper payments could be made on behalf of ineligible recipients.

Recommendation:
ALA staff recommend the Agency develop system controls in ARIES to ensure that all PARIS interstate match data received by the State is used when determining whether Medicaid benefits are dually active in Arkansas and another state. This will ensure the recipients qualify for continued eligibility coverage.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. ARIES system logic has been updated to consider all information recorded in the PARIS match reports when identifying cases for review.

Anticipated Completion Date: Complete

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Finding Number:	**2023-021**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002 (Children's Health Insurance Program)**
	05-2305AR5ADM; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year findings **2022-024**.

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

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

Condition and Context:
Medicaid:
ALA selected seven days from June 2023 to determine if the funds used as match for administrative and program expenditures for those days were from an allowable funding source. The match required from the seven days selected totaled $41,444,396. Of this amount, ALA staff were able to confirm allowable funding sources for $17,699,441 but were unable to confirm allowable funding sources for the balance totaling $23,744,955.

CHIP:
ALA selected two days from June 2023 to determine if the funds used as match for administrative and program expenditures for those days were from an allowable funding source. The match required from the two days selected totaled $772,427. Of this amount, ALA staff were able to confirm allowable funding sources for $364,794 but unable to confirm allowable funding sources for the balance totaling $407,633.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
MAP - $23,744,955
CHIP - $407,633

Cause:
In response to prior-year findings, the Agency implemented new procedures to include AASIS coding detail in the Funds Management Ledger and in AASIS transfer entries to allow for improved monitoring of funding sources by program. However, the new procedures were not implemented until June 2023. Although ALA was able to perform testing and determine the new procedures were implemented, many funding sources, including both state general revenues and other non-federal revenue sources are transferred to paying funds immediately when they become available. As such, the Agency had not implemented the new procedures at the time the funds were initially transferred; therefore, these entries did not include the needed detail to determine the source of funds.

Finding Number:	**2023-021 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002 (Children's Health Insurance Program)**
	05-2305AR5ADM; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Cause (Continued):
ALA further noted, as stated in prior-year audit findings, the Agency utilizes a Lotus ledger system to monitor source of funds by AASIS fund. ALA reviewed reports from this system and identified many errors, including incorrect amounts, misclassified funding source, and discrepancies between prior-month ending balances and current-month beginning balances. Therefore, ALA determined the reports could not be relied upon to verify allowable source of funds.

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

Recommendation:
ALA staff recommend the Agency continue to strengthen procedures and 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 this finding. All funds used as match for administrative and program expenditures were from an allowable funding source. The agency confirmed that the Arkansas Medicaid Program Trust Fund, which funds all bank accounts used for administrative and program expenditures for Medicaid and CHIP, is only funded with statutorily allowed revenues. The complex nature of Medicaid and CHIP finance and frequency of transactions necessitates paying accounts be sufficiently funded to pay all costs associated with administering the programs. This often results in accounts carrying a fund balance that does not require the agency to draw down additional state general revenue or other non-federal funds to meet its state match obligation. While the agency disagrees that a dollar-for-dollar reconciliation of funding draws is the appropriate way to confirm program expenditures are from an allowable source, we continue to update our general ledger system to improve the ability to monitor state general revenues and other non-federal federal revenue sources used to match federal funding.

Anticipated Completion Date: Complete

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Finding Number:	**2023-021 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002 (Children's Health Insurance Program)** **05-2305AR5ADM; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Material Noncompliance and Material Weakness**

Additional Comments from the Auditor:

As noted in prior year findings related to state matching requirements, the Agency does not maintain documentation identifying the original source of revenues for the category "other non-federal." Additionally, the Arkansas Administrative Statewide Information System (AASIS) does not include functionality to identify the revenue source for monies previously transferred to the AASIS paying funds; therefore, the Agency utilizes an outside accounting system, Lotus 1-2-3, to maintain and trace federal revenue, *state general revenue* and *other non-federal* funds available. ALA further notes Agency staff manually key information into this system daily; however, no reviews or other controls are in place to ensure the accuracy of the funding category balances. ALA review of the June 2023 reports from the Lotus system revealed multiple errors as identified in the "Cause" section of the finding above. ALA also performed a review of division level monitoring of revenue sources. Per this review, the Agency's monitoring procedures are performed at the division level and are not broken out to the federal program level. Therefore, ALA was unable to verify the funds used to the meet the State matching requirements were from an appropriate funding source.

Finding Number:	**2023-022**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
	93.778 – Medical Assistance Program (Medicaid Cluster)
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-033**.

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 terms and conditions of the award.

The Agency's controls include the establishment of written procedures for identifying and properly reporting expenditures on the quarterly CMS-64 and CMS-21 reports. Established written procedures ensure the Agency can prepare reports accurately and timely in instances of system issues or staff changes.

Additionally, the Agency completes reconciliations of Total Medical Service Expenditures per CMS-64 and CMS-21 reports to the Quarterly Cost Allocation Reports. The reconciliations help to ensure that expenditures are accurately reported.

Finally, 42 CFR 430.30(c) requires submission of a quarterly CMS-64 for the Medical Assistance Program (MAP) no later than 30 days after the end of each quarter. Amounts reported on the CMS-64 must be an accurate and complete accounting of actual expenditures.

Condition and Context:
ALA reviewed written procedures for the CHIP and Medicaid reporting workbooks for the quarters ended September 30, 2022 and March 31, 2023. Reporting instructions were included for each workbook. However, the instructions had not been updated to cover all current items in the workbooks, making the control ineffective.

The Agency's quarterly reconciliations of total reported expenditures to cost allocation reports for the quarters previously mentioned were also reviewed. ALA review revealed the Agency failed to identify and explain a significant portion of the noted variance between the Agency's accounting system and reported expenditures for the quarter ended September 30, 2022.

The unexplained portion of the variance totaled $108.1 million (5.92% of total reported expenditures) for the Medicaid program and totaled $8.2 million (21.37% of total reported expenditures) for CHIP. Therefore, the reconciliation is not considered effective as the variances were not adequately explained.

Finding Number:	**2023-022 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)** **05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
Additionally, ALA staff performed testing of expenditures reported on the CMS-64 for the quarters ending September 30, 2022, and March 31, 2023, to confirm accuracy and completeness with the expenditures recorded in the Agency's financial management system. ALA review revealed the following errors:

- From the September 30, 2022, CMS-64 report, 25 line items totaling $1,912,069,973 and representing 91.52% of MAP expenditures were selected. ALA identified uncorrected errors affecting three line items, resulting in a net understatement of the federal portion of expenditures totaling $87,676.
- From the March 31, 2023, CMS-64 report, 24 line items totaling $2,044,925,178 and representing 90.54% of MAP expenditures were selected. ALA identified uncorrected errors affecting two line items, resulting in a net overstatement of the federal portion of expenditures totaling $53,907.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Understated amount - $87,676
Overstated amount - $53,907

Cause:
The Agency did not adequately perform the implemented control activities to ensure they were operating effectively. In addition, the Agency failed to adequately review report line calculations for accuracy prior to submitting the quarterly reports

Effect:
The Agency's control procedures to ensure quarterly reports are completed timely and accurately may not be effective in preventing, detecting, and correcting expenditure reporting errors.

Expenditure amounts reported on the CMS-64 were misstated for the MAP, resulting in the Agency claiming incorrect federal funding amounts for the expenditures.

Recommendation:
ALA staff recommend the Agency update reporting instructions for CHIP and Medicaid workbooks to ensure reports are prepared timely and accurately. ALA further recommends the Agency ensure any large variances have an explanation when reconciling reported amounts to cost allocation to ensure expenditures are correctly reported.

Additionally, ALA staff recommend the Agency perform a thorough review of report calculations for accuracy prior to submitting the quarterly reports; review and verify the accuracy of the supporting documentation for all manual adjustments; and correct identified errors by entering prior period adjustments on subsequent CMS-64 reports.

Finding Number:	**2023-022 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program** **93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)** **05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency will update its written reporting instructions for Medicaid and CHIP to cover all items in the report workbooks. After the conclusion of the audit testing, the agency confirmed that the noted variance between the agency's accounting system and reported expenditures for the quarter ended September 30, 2022, was below the 5% threshold which requires an explanation to be provided to CMS financial analysts. The agency has reassigned resources to the Medicaid reporting section which will allow for additional time to spend researching variances identified in quarterly reconciliations. The agency also confirmed that the understatement of the federal portion of the September 30, 2022, CMS-64 report was $10,582, and the overstatement of the federal portion of the of the March 31, 2023, CMS-64 report was $30,664. The agency will correct these errors through an adjustment on an upcoming submission of the CMS-64 report.

Anticipated Completion Date: 7/31/2024

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Finding Number:	**2023-023**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-025**.

Criteria:
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.

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

Condition and Context:
ALA performed testing to determine if there was sufficient, adequate language in the managed care contracts and agreements for Provider-Led Arkansas Shares Savings Entity (PASSE) and Dental Managed Care regarding audited financial reports. ALA review revealed that adequate language was not included in the Dental Managed Care contracts requiring that the annual financial audit be performed. Although the Agency has taken steps to update the contract to include this language, as of fieldwork performed in September 2023, the contracts still had not been formally updated.

In addition, ALA performed testing to ensure that the annual audited financial reports were performed for the applicable managed care program entities and that the reports were in compliance with federal regulations.

Four MCOs participated in the PASSE managed care program, and two dental managed care entities participated in the Dental Managed Care program during calendar year 2022. These entities would have been required to submit audited financial reports.

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

Finding Number:	**2023-023 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not adequately develop control procedures for its staff to ensure that adequate language was contained in the Dental Managed Care contract regarding audited financial reports. In addition, the Agency did not adequately monitor the submission of reports to ensure they complied with federal regulations.

Effect:
Failure to implement appropriate procedures for internal control limits the Agency's ability to adequately monitor the programs for possible noncompliance. In addition, failure to monitor the adequacy of the reports submitted led to the Agency not identifying that the reports received did not comply with federal regulations.

Recommendation:
ALA staff recommend the Agency update the language in the Dental Managed Care contract to require audited financial reports, in accordance with 42 CFR § § 438.3(m). In addition, the Agency should strengthen monitoring controls to ensure that all reports received are in compliance with requirements included in the federal regulations.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs, in part, and disputes, in part, the finding. DHS has submitted and received approval from CMS for changes to the Dental Managed Care contract that requires the completion of annual audited financial reports. The agency disagrees that the audited financial reports submitted by the PASSE and Dental Managed Care Organizations (DMO) do not comply with 42 CFR 438.3(M). CMS guidance pertaining to that regulation provides that states have the flexibility to specify the applicable generally accepted accounting and auditing principles for the audited financial reports in the managed care plan contracts. The Arkansas Insurance Department also requires insurers to submit annual audited financial statements. Ark. Code Ann. 23-61-108 requires PASSE's and DMO's to follow the National Association of Insurance Commissioners *Accounting Practices and Procedures Manual*. DHS interprets 42 CFR 438.3(M) and its related guidance to permit the State Medicaid Agency flexibility to adopt the same accounting principles as the State Insurance Agency. As a practical matter, DHS reviewed the use of the audited financial statements and the information necessary to be contained within those statements. DMS discussed the use of the audited financial statements with the External Quality Review Organization (EQRO) that performs our External Quality Review. The EQRO confirmed that audited financial statements that complied with the Arkansas statutory basis would be satisfactory for review purposes.

Finding Number:	**2023-023 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021; 05-2305AR3002 (Children's Health Insurance Program)**
	05-2205AR5MAP; 05-2305AR5MAP (Medicaid Cluster)
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Managed Care Financial Audits (PASSE and Dental)**
Type of Finding:	**Noncompliance and Material Weakness**

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

Anticipated Completion Date: Complete

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Additional Comments from the Auditor:

ALA cannot confirm the specific CMS guidance that the Agency is referring to as it was not provided to auditors during fieldwork. However, auditors did discuss a particular question and answer, item 10, included in the CMS Medicaid and CHIP Managed Care Final Rule (CMS-2390-F) Frequently Asked Questions (FAQs) dated November 10, 2016, with the Agency. This item indicates that states have the flexibility to specify the applicable generally accepted accounting and auditing principles for the audited financial reports **in the managed care plan contracts**. During SFY23, the PASSE agreements (section 11.1.9) required that the audited financials be in accordance with GAAP and GAAS. As noted above, ALA review revealed that during SFY23, adequate language was not included in the Dental Managed Care contracts requiring that the annual financial audit be performed. Auditors agree that once the terms of the PASSE and Dental contracts are updated to require that audited financials be on the statutory basis, that there will no longer be non-compliance noted related to the financials not being in accordance with GAAP. However, regardless of the specific basis, 42 CFR § 438.3(m) still requires that financials be specific to the Medicaid contract.

Finding Number:	**2023-024**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Managed Care (PASSE)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-027**.

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 (IA) performed that designates him or her at the appropriate level of need to participate in the program.

The § 1915(c) Home and Community-Based Services Waiver, applicable to the DD population, requires that an IA be performed at least every three years. Appendix K flexibilities were granted by which an additional 12-month extension was allowed for the IAs effective beginning March 12, 2020. This flexibility ended six months after the end of the public health emergency (PHE). As the PHE ended on May 11, 2023, flexibilities ended on November 11, 2023.

§ 1915(i) of the Social Security Act, applicable to the BH population, which provides states the option to offer home and community-based services through the state's plan, requires that an IA be performed at least every 12 months. In addition, 42 CFR § 441.720(b) states that for reassessments, the IA 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. Section 1135 flexibilities were granted by which an additional 12-month extension was allowed for the IAs effective beginning March 17, 2020. This flexibility ended when the PHE ended on May 11, 2023.

Condition and Context:
ALA selected 40 PASSE recipients (all BH recipients) to determine if the following attributes had been met:

- An open eligibility segment for the recipient during the dates of service.
- A valid IA on file in effect for the dates of service.
- Appropriate amount paid in accordance with the actuarially determined rates.
- No disallowed fee-for-service claims paid for a recipient already covered by PASSE

ALA review revealed an exception affecting payments for five BH recipients as detailed below:

- Sample item 3: The IA expired on March 29, 2022, and no other IA was completed prior to June 30, 2023. Payments for this recipient were made for dates of service from July 1, 2022 through March 31, 2023. Questioned costs totaled $7,806.
- Sample item 6: The IA expired on May 22, 2021, and no other IA was completed prior to June 30, 2023. Payments for this recipient were made for dates of service from July 1, 2022 through June 30, 2023. Questioned costs totaled $4,315.
- Sample item 10: The IA expired on May 9, 2023, and no other IA was completed prior to June 30, 2023. Payments for this recipient were made for dates of service from May 10, 2023 through June 30, 2023. Questioned costs totaled $1,594.
- Sample item 12: The IA expired on June 23, 2021, and no other IA was completed prior to June 30, 2023. Payments for this recipient were made for dates of service from July 1, 2022 through June 30, 2023. Questioned costs totaled $13,247.

Finding Number:	**2023-024 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5021**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Managed Care (PASSE)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

- Sample item 27: The IA dated August 4, 2022, indicated a level of need designation that did not support the services provided. Payments for this recipient continued for dates of service from August 4, 2022 through April 10, 2023. Questioned costs totaled $8,334.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$35,296

Cause:
The Agency did not adequately monitor IAs to ensure they were completed timely. In addition, although ARKids B recipients could have been removed from the benefit rolls and services discontinued, the Agency treated them as though they were subject to the continuous coverage requirements of the Families First Coronavirus Response Act (FFCRA), which was applicable to all Medicaid and Medicaid expansion recipients. ARKids B recipients are not considered Medicaid or Medicaid expansion recipients. All deficiencies above relate to payments coded to ARKids B recipients.

Effect:
Gaps were revealed in performance of the required IAs and need level designations included on IAs did not support the services provided. As a result, payments were made outside the approved/updated dates of service.

Recommendation:
ALA staff recommend the Agency review and strengthen its independent assessment procedures to ensure they are completed timely, support the services provided, and are in accordance with federal regulations.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. As the Public Health Emergency has concluded, the agency has returned to normal operations which requires disenrollment of any PASSE member that has not received an independent assessment within the last 12 months.

Anticipated Completion Date: Complete

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Finding Number:	**2023-025**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-028**.

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 statues, regulations, and terms and conditions of the award.

The Agency is responsible for determining if Children's Health Insurance Program (CHIP) recipients meet the eligibility criteria as specified in its approved State Plan. Eligibility requirements for CHIP are outlined in the Arkansas Medical Services Manual. The Manual contains specific CHIP policies and procedures and is in addition to the approved State Plan.

The State's ARKids First program includes three separate recipient aid categories under which children receive benefits. Placement in these categories is determined based on monthly household income and a Federal Poverty Level (FPL) percentage.

1. ARKids A (Medicaid) is funded through the Medical Assistance Program grant and provides coverage as follows:
    - Children under the age of 6 with household income up to 142% of the FPL.
    - Children aged 6 - 18 with household income up to 100% of the FPL.
2. ARKids A (MCHIP) is funded through the CHIP grant in accordance with the Affordable Care Act and provides coverage to children aged 6 - 18 with household income over 100% of the FPL up to 142% of the FPL.
3. ARKids B is funded through the CHIP grant and provides coverage to children up to the age of 19 with household incomes from 142% of the FPL up to 211% of the FPL. Once determined eligible, recipients remain eligible for a 12-month period, regardless of changes in household income.

Additionally, Section 6008 of the Families First Coronavirus Response Act (FFCRA) allowed for a temporary Federal Medical Assistance Percentage (FMAP) increase during the public health emergency (PHE). In accordance with FFCRA, a state is not eligible for the temporary FMAP increase if the state reduces the medical assistance for which the beneficiary is eligible for beneficiaries who were enrolled as of March 18, 2020, or become enrolled after that date but no later than the last day of the month in which the emergency period ends.

Condition and Context:
The State received approval for a CHIP PHE state plan amendment that became effective on March 18, 2020. The amendment allowed certain eligibility requirements to be waived through the duration of the PHE and included the following:

- Waived requirements related to timely processing of applications and renewals.
- Delayed processing of renewals and extended deadlines for families to respond to renewal requests.

Finding Number:	**2023-025 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Condition and Context (Continued):

- Delayed action on closure for certain changes in circumstances for CHIP beneficiaries. However, the following circumstances for closure will be allowed during the PHE:
  - Recipient ceases to be a resident of the state
  - Voluntary closure.
  - Eligibility due to fraud, abuse or perjury, or death.
- Waived co-payments for COVID-19 testing and treatment for the duration of the PHE.

Additionally, CMS guidance states that when information is received and processed regarding an enrollee and the state determines the enrollee ineligible for CHIP, the state is required to process the termination and transfer the individual to Medicaid or the Exchange. The guidance further states that PHE state plan amendments do not grant the state authority to extend eligibility periods for those determined ineligible for coverage under CHIP, which would include the ARKids B and Unborn Children programs.

In December 2022, the federal Consolidated Appropriations Act of 2023 gave states the authority to begin the process of re-determining eligibility for Medicaid enrollees kept on Medicaid rolls due to the continuous coverage requirement beginning April 1, 2023, and to reinstate routine eligibility operations. States have 12 months to initiate renewals and an additional two months to complete the process.

ALA selected 60 active CHIP recipient identification numbers to determine if PHE rules were followed when re-determination of benefits was made. ALA reviewed revealed the following deficiencies:

- The Agency failed to move two recipients from ARKids B to ARKids A – Medicaid when household income and size qualified the recipients for ARKids A – Medicaid. Claims incorrectly paid from CHIP totaled $11,470 (federal portion - $9,676).
- The Agency improperly extended benefits past the allowed 60 day post-partum period for one recipient enrolled in the Unborn Children aid category due to the PHE. Claims incorrectly paid from CHIP totaled $23 (federal portion – $19)
- The Agency improperly moved one recipient from ARKids A - Medicaid to ARKids B based on a change of income. As this change would result in a reduction in services provided to the recipient, it was inconsistent with the requirements of section 6008(b)(3) of the FFCRA. Claims incorrectly paid from CHIP totaled $336 (federal portion - $283).

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$9,978

Cause:
Errors in the Arkansas Integrated Eligibility System (ARIES) system resulted in improper eligibility determinations. Additionally, discussion with Agency personnel indicated that top-level Agency management chose to continue allowing the ARKids B eligibility segments to remain open, even though information was provided that should have resulted in an ineligible determination. This is in direct conflict with CMS guidance issued on January 6, 2021, clarifying that ARKids B cases **MUST** be closed once deemed ineligible.

Finding Number:	**2023-025 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Effect:
Expenditures were not accurately reported to the federal awarding agency, were not paid from the appropriate grant award, and were not funded at the appropriate federal rate.

Recommendation:
ALA staff recommend the Agency design and implement internal controls over compliance to ensure that recipients are placed in the appropriate recipient aid category.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency is conducting an ARIES system review to determine the root cause of the incorrect eligibility determinations and will identify and implement any needed updates to the automatic renewal process.

Anticipated Completion Date: 4/30/2024

Contact Person:
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Finding Number:	**2023-026**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-029**.

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:
From a population of 5,984 providers, ALA staff reviewed files of 40 providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. ALA review revealed deficiencies with two of the provider files as follows:

Moderate-risk category:

- Sample item 28: The provider's revalidation was due by May 23, 2023, but was not performed. In addition, the Agency did not perform the additional screening requirement (site visit). Questioned costs totaled $801.

Limited-risk category:

- Sample item 36: The provider's revalidation was due by June 12, 2023, but was not performed. Questioned costs totaled $503.

Finding Number:	**2023-026 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
NOTE: Because of the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, approved Arkansas's request to temporarily cease revalidation, including screening requirements of providers located in Arkansas or otherwise directly impacted by the emergency. This was effective as of March 1, 2020, and continued through the expiration of the Public Health Emergency (PHE) on May 11, 2023. State agencies were given six additional months to complete revalidations that were due during the PHE.

The deficiencies noted above were due subsequent to May 11, 2023.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$1,304

(Known questioned costs greater than $25,000 for a type of compliance requirement are required to be reported. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned [likely questioned costs], not just the questioned costs specifically identified. The auditor must also report known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.)

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. Although testing results support that improvements have been made since the new procedures were implemented, deficiencies continued to exist during state fiscal year 2023.

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

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

Views of Responsible Officials and Planned Corrective Action:
DHS disputes the finding. The revalidation date for the provider noted in sample item 28 was 7/20/2022. Per CMS guidance, revalidations, site visits, and fingerprint background checks were paused during the COVID Public Health Emergency (PHE) (3/1/2020-5/11/2023) and states were given until 11/11/2023 to complete revalidations due during the PHE. As this provider's revalidation and site visit were completed on 10/12/2023, the agency is in compliance with all provider revalidation requirements.

Finding Number:	**2023-026 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR3002**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action (Continued):
Based on research conducted by DMS, the provider noted in sample item 36 was not enrolled until 9/16/2018. Therefore, the revalidation date for this provider is 9/16/2023 as opposed to 6/12/2023 and there would be no questioned cost for the audit period.

Anticipated Completion Date: Complete

Contact Person:
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Additional Comments from the Auditor:
Deficiencies are determined based on support provided by the Agency and reviewed by auditors during an iterative process performed during fieldwork. This includes any documentation supporting revalidation due dates. Auditors concluded based upon information provided.

Finding Number:	**2023-027**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-030**.

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 CHIP program, ALA staff selected 40 provider files from a population of 2,776 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 four of the provider files as follows:

Limited-risk category:

- Sample item 9: The provider failed to revalidate timely. Revalidation was due by September 25, 2016, but was not performed until July 7, 2023. Ineligible costs totaled $256.

Finding Number:	**2023-027 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

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

- Sample item 19: The Agency did not provide documentation of the required W-9 that covered the entire enrollment period. The Agency has since obtained an updated W-9 effective October 5, 2023. Ineligible costs totaled $96.
- Sample item 33: The Agency did not provide documentation of the provider's licensure that covered the entire enrollment period. Ineligible costs totaled $2,006.
- Sample item 37: The Agency did not provide documentation of the required application that covered the entire enrollment period. Ineligible costs totaled $3,416.

Total ineligible costs identified above totaled $5,774 for PASSE. There were no ineligible costs identified for Dental Managed Care.

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

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

In addition, because of the Coronavirus pandemic, the Centers for Medicare and Medicaid Services (CMS), under section 1135(b)(1)(B) of the Social Security Act, approved Arkansas's request to temporarily cease revalidation, including screening requirements, of providers located in Arkansas or otherwise directly impacted by the emergency. This was effective as of March 1, 2020, and continued through the expiration of the Public Health Emergency (PHE), on May 11, 2023. State agencies were given six additional months to complete revalidations that were due during the PHE.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Unknown

Cause:
The Agency asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. Although testing results support that improvements have been made since the new procedures were implemented, deficiencies continued to exist during fiscal year 2023.

Finding Number:	**2023-027 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.767 – Children's Health Insurance Program**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5021; 05-2305AR3002**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Material Weakness**

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

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

Views of Responsible Officials and Planned Corrective Action:
DHS concurs, in part, and disputes, in part, the finding. Effective May 31, 2019, DMS established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider application documents, provider revalidation, site visits and fingerprint background requirements. The deficiency noted for the provider referenced in sample item 9 relates to non-compliance with site visit requirements pre-dating May 31, 2019, and CMS's approval of the agency's corrective action plan. Since CMS implemented 1135 waiver flexibilities during the Public Health Emergency (PHE), the provider was not terminated and was notified of the agency's intent to revalidate their enrollment within six months of the end of the PHE. The provider successfully completed the revalidation process prior to the expiration of the 1135 waiver flexibilities.

The absence of enrollment documentation noted in sample items 19 and 37 can be attributed to transitions and document storage issues that occurred within the legacy MMIS system. Since the time of enrollment for these two providers, the agency has made multiple updates to the MMIS system to capture and retain enrollment documentation. The agency has obtained the required documentation noted as missing for both sample items. The deficiency noted in sample item 33 has been resolved as the agency has verified licensure of the provider covering the audit period.

Anticipated Completion Date: Complete

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Additional Comments from the Auditor:
As noted in the finding above, the deficiency for sample item #9 is based on the provider's untimely revalidation, not the Agency's failure to perform a site visit. A revalidation was due 09/25/2016, prior to the PHE and questioned costs are calculated after expiration of the 1135 PHE waiver for the period 5/12/23 through 06/30/23.

Finding Number:	**2023-028**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-022**.

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 statues, regulations, and terms and conditions of the award.

In addition, 42 CFR § 435.1009 states that federal financial participation (FFP) is not available for payments made on behalf of individuals who are inmates in public institutions, including eligible juveniles. To be considered an inmate of a public institution, a person must be living in an institution that is the responsibility of a governmental unit or over which a governmental unit exercises administrative control.

Finally, under section 1001 of the Substance Use Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act (SUPPORT Act), states are 1) prohibited from terminating the Medicaid eligibility of an "eligible juvenile" who becomes an inmate of a public institution, 2) required to process applications submitted by incarcerated youth, and 3) required to re-determine the Medicaid eligibility of eligible juveniles before their release from a public institution.

An eligible juvenile is defined as a "juvenile who is an inmate of a public institution and who (A) was determined eligible for medical assistance under the State plan immediately before becoming an inmate of such a public institution; or (B) is determined eligible for such medical assistance while an inmate of a public institution."

In compliance with this requirement, Medical Services Manual section D-380 states that coverage for children entering the custody of the Division of Youth Services (DYS) will be placed in suspension status for up to 12 months from the initial approval or most recent renewal. When a child with suspended Medicaid eligibility receives eligible medical treatment off the grounds of the juvenile detention facility (inpatient services) or is released from custody, the child's Medicaid case will be reinstated for a fixed eligibility period from the date of hospitalization to the date of hospital discharge. Once the child returns to the DYS state-run facility, the Medicaid case is re-suspended.

Condition and Context:
ALA staff selected 60 files for incarcerated juveniles to determine whether the State is properly suspending a juvenile's benefit coverage when the juvenile is held in a public institution and then properly reinstating coverage when the juvenile is placed in non-public institutions or released from DYS custody. ALA's review also included ensuring that benefit payments were not made for dates of service that fell within the juvenile's incarceration period.

ALA review revealed the following deficiencies:

- The Agency failed to appropriately suspend Medicaid benefits for three juveniles in DYS custody. ALA also identified payments, totaling $8,860, made for dates of service within the incarceration period for two of these individuals. The federal portion of these payments totaled $6,836.
- Although the Agency appropriately suspended benefits for 23 juveniles, the payments, totaling $40,963, were made for dates of service within the incarceration period for these juveniles. The federal portion of the Medicaid payments totaled $30,621.

Finding Number:	**2023-028 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):

- Although the Agency appropriately suspended benefits for 4 of the 60 juveniles tested, the Agency failed to properly reinstate benefits after their incarceration ended. Additionally, the Agency paid claims, totaling $8,477, for dates of service within the incarceration period for these juveniles. The federal portion of these payments totaled $6,577.
- The Agency failed to appropriately suspend and reinstate benefits for 7 of the 60 selected juveniles. As a result, payments totaling $51,042 were made for dates of service within the incarceration period for these juveniles. The federal portion of these payments totaled $39,423.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$83,457

Cause:
The Agency failed to properly monitor Medicaid eligibility for juveniles in DYS custody. Suspensions of benefits were not always entered timely, were entered with incorrect effective dates, or were not entered into the system when an eligible juvenile was incarcerated.

Effect:
The Agency improperly received and used funds for payments made on behalf of incarcerated juveniles.

Recommendation:
ALA staff recommend the Agency design and implement internal controls over compliance to ensure that Medicaid benefits are properly suspended when eligible juveniles are incarcerated and properly reinstated when leaving DYS facilities, based on guidance set forth in the Medical Services Policy Manual and in compliance with federal regulations.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. Since June 2023, DYS has made multiple changes to improve monitoring of suspension and reinstatement of Medicaid eligibility for incarcerated juveniles. For juveniles with SSI Medicaid, the Social Security Administration (SSA) is responsible for suspending Medicaid coverage. All incarcerations for cases noted in the findings involving SSI Medicaid were reported timely to SSA by the agency. DYS closely monitors these cases and continues to send closure requests to SSA until the cases are closed out. DYS has also updated its communication processes with DCO to ensure cases are suspended and reinstated in a timely manner. All payments noted as occurring during the incarceration period were capitated payments made for the PASSE, Dental Managed Care, NET, and PCCM programs. Some audit findings highlighted payments made for members during their month of incarceration, which is acceptable for all programs. The full monthly rate is paid for Dental Managed Care, NET, and PCCM even if the member is only eligible for part of the month. The PASSE program operates on a per-diem basis and any payments made for days when the member is ineligible are recouped as part of a monthly reconciliation.

Finding Number:	**2023-028 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action (Continued):
The agency currently has a reconciliation process for all four programs that identifies payments made after a member's incarceration date that should be recouped. Some payments noted in the findings will be recouped as part of a reconciliation process that has yet to run. In addition to the current reconciliation process, the agency is in the process of developing an MMIS change that will automatically update member profiles to accurately reflect incarceration dates. This will ensure capitated payments are paused and reinstated in a timely manner and that recoupments and repayments are subsequently processed.

Anticipated Completion Date: 6/30/2024

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Finding Number:	**2023-029**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
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 statues, regulations, and terms and conditions of the award.

In addition, 42 CFR § 435.1009 states that federal financial participation (FFP) is not available for payments made on behalf of individuals who are inmates in public institutions. To be considered an inmate of a public institution, a person must be living in an institution that is the responsibility of a governmental unit or over which a governmental unit exercises administrative control.

Additionally, Section 6008 of the Families First Coronavirus Response Act (FFCRA) allowed for a temporary Federal Medical Assistance Percentage (FMAP) increase during the Public Health Emergency (PHE). In accordance with FFCRA, a state is not eligible for the temporary FMAP increase if the state reduces the medical assistance for which the beneficiary is eligible for beneficiaries who were enrolled as of March 28, 2020, or become enrolled after that date but no later than the last day of the month in which the emergency period ends.

Condition and Context:
The State received approval for a Medicaid PHE state plan amendment that became effective on March 18, 2020. The amendment allowed certain eligibility requirements to be waived through the duration of the PHE and included the following:

- Waived requirements related to timely processing of applications and renewals.
- Delayed processing of renewals and extended deadlines for families to respond to renewal requests.
- Delayed action on closure for certain changes in circumstances for Medicaid beneficiaries. However, the following circumstances for closure will be allowed during the PHE:
    - ❖ Recipient ceases to be a resident of the state.
    - ❖ Voluntary closure
    - ❖ Eligibility was due to fraud, abuse or perjury, or death.
- Waived co-payments for COVID-19 testing and treatment for the duration of the PHE.

In December 2022, the federal Consolidated Appropriations Act, 2023 gave states the authority to begin the process of re-determining eligibility for Medicaid enrollees kept on Medicaid rolls due to continuous coverage requirement beginning April 1, 2023, and to reinstate routine eligibility operations. States have 12 months to initiate renewals and an additional two months to complete the process.

ALA selected 60 active Medicaid recipient identification numbers to determine if eligibility determinations and redeterminations were made in accordance with the State Plan and relevant PHE rules.

Finding Number:	**2023-029 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (Continued):
ALA review revealed the following deficiencies:

- If an incarcerated recipient is eligible for at least one day of service during the month of incarceration, the entire payment for that month would be allowed and not recouped. All payments after the month of incarceration would be recouped.

  One recipient was incarcerated on September 20, 2022. The Agency continued to pay claims during the incarceration for dates of service in October and November 2022 totaling $1,127. The claim payments were not recouped as required. Questioned costs representing the federal portion totaled $874.
- One recipient was simultaneously enrolled in dual Medicaid state aid categories. ALA made the Agency aware of the error, which the Agency corrected on November 14, 2023. Because the state aid categories are from the same funding source, no questioned costs were identified.
- The Agency improperly moved one recipient from ARKids A - Medicaid to ARKids B based on a change of income. As this change would result in a reduction in services provided to the recipient, it was inconsistent with the requirements of section 6008(b)(3) of the FFCRA. No questioned costs were identified.
- The Agency determined an incorrect end date for one recipient's coverage under the Pregnant Woman-Limited (PW) category. Due to this error, coverage under PW ended prior to the birth of her child and resulted in the Agency improperly opening a Parent Caretaker Relative case under PHE rules. The Agency later reopened the PW segment, which resulted in dual segments within the system. No questioned costs were identified.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$874

(Known questioned costs greater than $25,000 for a type of compliance requirement are required to be reported. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned [likely questioned costs], not just the questioned costs specifically identified. The auditor must also report known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.)

Cause:
Errors in the ARIES system resulted in improper eligibility determinations. Additionally, MMIS claims payment system improperly reopened a previously closed eligibility segment. According to Division of County Operations (DCO) staff, the cause of previously closed eligibility segment's reopening in MMIS is unknown at this time.

Effect:
Expenditures were not accurately reported to the federal awarding agency, were not paid from the appropriate grant award, and were not funded at the appropriate federal rate.

Finding Number:	**2023-029 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Material Weakness**

Recommendation:
ALA staff recommend the Agency design and implement internal controls over compliance to ensure that recipients are placed in the appropriate recipient aid categories.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency is in the process of developing an MMIS change that will automatically update member profiles to accurately reflect incarceration dates. This will ensure capitated payments are paused and reinstated in a timely manner and that recoupments and repayments are subsequently processed. The agency is conducting an ARIES system review to determine the root cause of the incorrect eligibility determinations and will identify and implement any needed updates to the automatic renewal process.

Anticipated Completion Date: 6/30/2024

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

Finding Number:	**2023-030**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR5MAP**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
A similar issue was reported in prior-year finding **2022-034**.

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:
From a population of 11,165, ALA staff reviewed files of 40 providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. ALA's review revealed deficiencies with three of the provider files as follows:

Moderate-risk category:

- Sample item 21: This provider enrolled on August 28, 2018, and the Agency failed to provide documentation of the required site visit during enrollment. As a result, amounts paid to the provider from August 28, 2018 through February 29, 2020, and May 12, 2023 through June 30, 2023, are considered questioned costs. *Questioned costs totaled $9,611*.

  In accordance with the CMS 1135 waiver, revalidations, site visits, and fingerprint background checks were paused from March 1, 2020 through May 11, 2023, as a result of the Public Health Emergency (PHE). Amounts paid to the provider during the PHE are not included in the questioned costs noted above.

Finding Number:	**2023-030 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR5MAP**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

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

- Sample item 29: This provider enrolled on February 3, 2015. A revalidation was due on February 3, 2020, but was not completed until June 28, 2023. As a result, amounts paid to the provider from February 3, 2020 through February 29, 2020, and May 12, 2023 through June 27, 2023, are considered questioned costs. *Questioned costs totaled $5,934*.

  In accordance with the CMS 1135 waiver, revalidations, site visits, and fingerprint background checks were paused from March 1, 2020 through May 11, 2023, due to the PHE. In addition, revalidations due during the PHE could be extended to November 11, 2023. However, this provider's revalidation was due prior to March 1, 2020; therefore, the extension is not applicable in this case. Amounts paid to the provider during the PHE are not included in the questioned costs noted above
- Sample item 32: The Agency failed to provide documentation of the provider's certification that covered any portion of fiscal year 2023. Questioned costs totaled $18,757.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$34,302

Cause:
The Agency had asserted that, effective May 31, 2019, it established and implemented new procedures to improve the following areas of provider enrollment: maintenance of provider enrollment application documents, provider revalidation, site visits, and fingerprint background requirements. Although testing results support that improvements have been made since the new procedures were implemented, deficiencies continued to exist during fiscal year 2023.

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

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

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 application documents, provider revalidation, site visits and fingerprint background requirements. The deficiency noted for the provider referenced in sample item 21 relates to non-compliance with site visit requirements pre-dating May 31, 2019 and CMS's approval of the agency's corrective action plan. A site visit was performed for this provider on 8/31/2023. The agency has created system controls that require site visits before a moderate or high-risk provider may enroll with Arkansas Medicaid.

Finding Number:	**2023-030 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**05-2305AR5MAP**
Federal Award Year(s):	**2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee-for-Service)**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Action (Continued):
The provider noted in sample item 29 began the revalidation process in December of 2019 and their application was set to terminate at the end of February 2020. The provider was not terminated before beginning of the Public Health Emergency (PHE) with their revalidation date being reset to 9/5/2023 when the CMS 1135 waiver flexibilities were implemented. The provider has since timely completed the revalidation process.

The provider noted in sample item 32 did not keep its certification up to date for the audit period. During the PHE, many licensing and certification agencies were not processing new requests or renewals for extended periods of time. A review of this provider's information revealed that it is likely that they would have been able to maintain continued certification. The agency has automated its certification verification process to terminate providers if a certification lapses for any reason.

Anticipated Completion Date: Complete

Contact Person:

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Finding Number:	**2023-031**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Medicaid Recovery Audit Contractors (RACs)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable.

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

In addition, 42 CFR § 455.502 established the Medicaid Recovery Audit Contractor (RAC) program as a measure for States to promote the integrity of the Medicaid program. States must enter into contracts with one or more eligible Medicaid RACs to carry out the activities described at 42 CFR 455.506, which includes reviewing claims submitted by providers or other individuals for which payment has been made to identify underpayments and overpayments and recouping overpayments. Under 42 CFR § 455.516, a State may seek to be excepted from some or all Medicaid RAC contracting requirements by submitting a written justification to CMS requesting CMS review and approval through the State Plan amendment (SPA) process.

Condition and Context:
ALA made inquiries to determine if there were any internal controls in place for which testing could be performed. It was determined that there were no documented internal controls nor were there any internal controls in place at the Agency that pertained to the Medicaid RAC program.

In addition, ALA performed testing to determine if the State had established a Medicaid RAC with an eligible contractor that was conducting the required Medicaid RAC activities in accordance with the approved state plan including any exceptions.

The results of ALA testing revealed that, although there was no SPA in place that authorized an exception for the State to not have a Medicaid RAC in place, there were no contracts in place with any RACs for the year ended June 30, 2023.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not adequately develop internal control procedures for its staff to ensure compliance with federal regulations related to the Medicaid RAC program. In addition, documentation obtained during fieldwork indicated that the Agency acknowledged in November 2022 that an updated SPA needed to be submitted to CMS either to establish the Office of Medicaid Inspector General (OMIG) as the RAC or to request an exemption from the requirement to contract with a RAC. However, the Agency had not requested a waiver through a SPA as of fieldwork date of October 3, 2023.

Finding Number:	**2023-031 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
ALN 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):	**05-2205AR5MAP; 05-2305AR5MAP**
Federal Award Year(s):	**2022 and 2023**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Medicaid Recovery Audit Contractors (RACs)**
Type of Finding:	**Material Noncompliance and Material Weakness**

Effect:
Failure to implement appropriate procedures for internal controls led to the Agency's non-compliance with federal regulations pertaining to the Medicaid RAC program.

Recommendation:
ALA staff recommend the Agency either contract with an eligible RAC to perform the functions required under the Medicaid RAC program, in accordance with the approved Medicaid State Plan, or submit an SPA to CMS, as the Agency indicated was its intent, in a timely manner either to establish OMIG as the RAC or to request an exemption from the requirement to contract with a RAC.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with the finding. The agency will request that CMS grant a full exemption from the requirement that a state enter a contract with a Medicaid Recovery Audit Contractor.

Anticipated Completion Date: 5/31/2024

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