ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF MILITARY
FOR THE YEAR ENDED JUNE 30, 2025

Finding 1:
Ark. Code. Ann. § 25-1-124 states that "a public employee with supervisory fiduciary responsibility over all fiscal matters of a public employer shall report to Arkansas Legislative Audit (ALA) a loss of public funds that amounts to $1,000 or more in one calendar year. Losses include apparent unauthorized disbursements of public funds; or the apparent theft or misappropriation of state funds or property. This report shall be made within five business days of the date the public employee learns of the loss of public funds."

After receiving an email request that appeared to be from an employee, the Department of Military's Human Resources Department changed the employee's direct deposit banking information without verifying the authenticity of the request that resulted in a loss of public funds totaling $1,069. Before the change was identified as unauthorized, a direct deposit was issued to the new bank account. The Agency failed to report the loss to ALA within five business days, and as of report date, the funds had not been recovered.

Recommendation:
We recommend the Department strengthen internal controls related to the processing of payroll-related changes. We also recommend the Agency establish procedures to ensure ALA is notified when there is an apparent loss of public funds, in compliance with Arkansas Code.

Agency Response:
The HR Office has implemented enhanced verification procedures for all direct deposit updates. Employees are now required to appear in person and present a valid driver's license to verify their identity before any banking changes are processed. Direct deposit changes are no longer accepted or completed via email. Additionally, employees must complete a new direct deposit authorization form during the in-office verification process.

Finding 2:
Agencies are required to record amounts due for receivables in accordance with Ark. Code Ann. § 19-2-304, and receivables at fiscal year-end should reflect amounts owed to the Agency. Our review of the Department's federal receivables balance revealed an overstatement totaling $20,543,581, which was caused by the Agency preparing the entry using inaccurate data. The federal expenses incurred by the Agency for operations used in the calculation were amounts from the prior fiscal year, and all 12 months of activity were included. The amounts for federal payroll used for the calculation were for fiscal year 2025; however, all 12 months of activity were included. The actual amounts included in the calculation should have been only those transactions that occurred at, or near, the fiscal year-end that had not been receipted prior to June 30.

Additionally, because of the federal accrual overstatement, the deferred inflows (i.e., receivables that are not receipted within the first 45 days of the following fiscal year) reported by the Agency were overstated by $18,171,390.

Recommendation:
We recommend the Department strengthen internal controls related to federal receipts to ensure receivables and deferred inflows of resources are accurately recorded.

Agency Response:
The agency is implementing software that will centralize and streamline financial documentation across the DoD and the state. This system will house all SF-270 documentation and purchase order processes, provide secure access for our federal partners, and support workflow automations and reporting dashboards to improve transparency and efficiency. By consolidating these functions into a single platform, the system will modernize and streamline our business processes, reduce manual effort, minimize errors, and improve the flow of financial information across programs. In addition to these capabilities, the implemented solution will automate the deposit process and track outstanding reimbursement amounts owed to the state. Once fully deployed, we expect the new system to resolve this issue going forward. Until the system is completely in place, the agency is using a three-way match process to verify all accounts receivable amounts. Under this temporary process, the Accountant I responsible for recording deposits maintains a dedicated spreadsheet, while the Fiscal Support Administrator maintains a separate spreadsheet approved by the auditor. The Fiscal Support Administrator then reconciles both spreadsheets with the 270 App Tracker to ensure the accuracy of all recorded amounts.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF PARKS, HERITAGE, AND TOURISM
FOR THE YEAR ENDED JUNE 30, 2025

Finding 1:
Section P1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that "the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters for each state agency is responsible for, and held accountable for, reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit (ALA). Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or property."

As required, the Arkansas Department of Parks, Heritage, and Tourism (ADPHT) notified ALA in February 2026 of an apparent unauthorized disbursement of state funds totaling $2,378 from a payroll direct deposit involving impersonation of an employee. A Direct Deposit Bank Change form was received by an Office of Personnel Management (OPM) Human Resources staff member from what appeared to be an ADPHT employee's personal email address, and the employee's direct deposit banking information was changed in the payroll system without verification of the request's authenticity. Before the change was identified as unauthorized, a direct deposit was issued to the new bank account. As of report date, the funds had not been recovered.

Recommendation:
We recommend the Agency work with OPM to strengthen internal controls related to the centralized processing of payroll-related changes resulting from the absorption of human resources functions by the Department of Shared Administrative Services.

Agency Response:
The Agency concurs with this finding.

Upon discovery of the fraudulent direct deposit change and the resulting unauthorized disbursement of $2,378, the Arkansas Department of Parks, Heritage, and Tourism (ADPHT) immediately notified Arkansas Legislative Audit and the Department of Finance and Administration's Office of Accounting, in accordance with Section P-19-4-2004 of the DFA Financial Management Guide. The Agency also worked with the Office of Personnel Management (OPM) to reverse a change and secure the employee's payroll information.

Because payroll-related changes are processed through the centralized human resources structure under the Department of Shared Administrative Services, ADPHT relies on OPM's established procedures and controls for validating and approving direct deposit updates. ADPHT is working collaboratively with OPM to strengthen these controls and ensure that verification steps are consistently applied.

This includes:

- Enhancing validation procedures for all direct deposit change requests, including confirmation through official state communication channels.
- Implementing additional review steps for changes submitted from non-state email accounts.
- Supporting OPM in providing additional training to HR personnel on fraud prevention and identity verification.

ADPHT will continue to coordinate closely with OPM to ensure that appropriate safeguards are in place to prevent fraudulent activity and protect employee payroll information.

Finding 2:
Arkansas State Board of Finance Rule 2012-A states that all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized, and the collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit. During our review of collateral, we noted that $100,085 of a bank account's balance of $350,085 was uninsured and uncollateralized at June 30, 2025. The amount uncollateralized by Rule 2012-A was $105,089, or 105% of the amount not covered by FDIC insurance. The deficiency was caused by an abnormally high amount of War Memorial Stadium funds on deposit at year-end in accounts where the combined balances would typically be lower than the $250,000 FDIC coverage. Failure to properly collateralize deposits prevents public funds from being protected in the event of default by the financial institution.

Recommendation:
We recommend the Agency analyze deposits with financial institutions throughout the year to ensure compliance with Arkansas State Board of Finance Rule 2012-A to mitigate the risk of loss of uninsured deposits due to bank failure.

Agency Response:
The Agency concurs with this finding.

ADPHT acknowledges that $100,085 of the $350,085 balance in one bank account was uninsured and uncollateralized at June 30, 2025, resulting in a collateralization deficiency under Arkansas State Board of Finance Rule 2012-A. The unusually high year-end balance at War Memorial Stadium contributed to the deficiency. Upon recognizing that the pledged collateral was insufficient, the Agency immediately contacted the financial institution and obtained additional collateral to fully secure the uninsured portion of the deposit in accordance with the 105% requirement. The bank confirmed the collateral adjustment, and the account is now properly collateralized.

To prevent future deficiencies, the Agency has implemented the following corrective actions:

- More frequent monitoring of cash balances at all financial institutions, with emphasis on periods when deposits historically fluctuate.
- Periodic review of collateral levels to ensure compliance with Rule 2012-A.
- Procedures requiring staff to notify the bank promptly when account balances increase significantly or unexpectedly.

These steps will help ensure that all Agency deposits remain fully protected and compliance with state collateralization requirements.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS PUBLIC EMPLOYEE RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2025

Finding 1:
Section P1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that "the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters for each state agency is responsible for, and held accountable for, reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit (ALA). Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or property."

As required, the Arkansas Public Employees Retirement System (APERS) notified ALA of the following apparent loss of state funds and property:

- In December 2024, APERS became aware of two instances in which an employee in the APERS call center reset account credentials for a Member Self Service (MSS) account without verifying that the caller was the account holder; therefore, access was granted to an unauthorized user. Before access to the MSS account was revoked, the unauthorized user redirected one month's benefit payment of $2,692. As of report date, the funds had not been recovered.

- On June 13, 2025, APERS reported that a Microsoft Surface Pro 8 Tablet and keyboard valued at $1,768 were not returned by a former employee. The proper paperwork had not been completed to assign the asset to the employee, allowing it to be overlooked during the offboarding process and collection of property. Subsequently, APERS recovered the equipment.

Recommendation:
We recommend the Agency continue to monitor and strengthen controls related to the safeguarding of assets and data security to prevent future losses.

Agency Response:
This finding lists two instances. For the security incident on December 6, 2024, APERS took immediate action as soon as we became aware. We quickly identified any other possible attempts to misdirect our members' funds. Our IT and Assurance Departments, along with other agency personnel, reviewed all accounts that had been updated to deposit funds into suspicious banks. Members were contacted by phone to verify that the information was correct. Additional fraud detection processes were implemented, including compiling a list of institutions frequently used by bad actors to misdirect funds. Our software now blocks those institutions, so online changes to them are not allowed. A member may still use those institutions, but they must submit a notarized application for that change to be made. Additionally, APERS has adopted proactive measures to identify potential fraud by monthly queries for banking changes, which are reviewed by our Assurance team. Two-factor authentication was added to the Member Self Service portal to combat attempts by bad actors seeking to take control of members' accounts.

The second incident, involving a Microsoft Surface Pro 8 tablet and keyboard that were not returned by a former employee, was resolved, and the missing equipment was recovered. This employee was a member of the Finance Team and was responsible for inventory management. The device had been assigned to this employee for a special project. Afterwards, it was to be returned to the manufacturer to address a warranty issue. In her role with Inventory, she agreed to manage the device's return to the manufacturer upon completion of her project. At the time the employee was separated from employment, IT immediately notified HR that the employee had a device in her possession that needed to be returned. Multiple attempts to recover the device were made by contacting the employee, but she repeatedly denied having it. Giving her the benefit of the doubt, we conducted several searches of APERS' offices to confirm the device wasn't present. Only after multiple attempts to recover the device and multiple searches to confirm it wasn't still in our building failed did we contact law enforcement to request an inquiry, which resulted in the device's return. This finding, as written, implies that the device wasn't recovered because the proper paperwork wasn't completed, and that APERS was unaware that the device was in her possession, which isn't the case.

Finding 2:
In accordance with Ark. Code Ann. § 25-1-124, APERS reported to ALA overpayments to retirees and beneficiaries of the public employees, state police, and judicial plans totaling $261,993 for the period July 1, 2024 through June 30, 2025. Overpayments of one to two months' worth of benefits routinely occur with the public employees plan as the plan pays benefits at the beginning of the month for that month. However, ineffective internal controls allowed payments to be calculated incorrectly upon initial setup, resulting in the following excessive amounts.

- APERS overpaid a public employees plan member approximately $42,317 by not appropriately recognizing reciprocal service as concurrent service, allowing the member to retire under normal retirement provisions versus early retirement provisions.

- APERS overpaid a judicial plan member approximately $46,764 by not appropriately calculating the benefit under Tier I provisions, but rather using Tier II provisions, and furthermore at an inaccurate rate for Tier II.

Recommendation:
We recommend Agency management strengthen internal controls to ensure that provisions used when establishing a member's benefit are accurate and that proper reconciliation of initial benefit calculations are performed that would identify inconsistencies. For ineligible payments made, we recommend the Agency continue to actively pursue collection.

Agency Response:
We acknowledge that calculating benefits for members with reciprocal service is complicated. Our Assurance team conducted an extensive audit of benefits that included reciprocal service and will audit that category annually going forward. This additional layer of review will help ensure accuracy in these complex benefit calculations.

Finding 3:
For the Arkansas Judicial Retirement System (AJRS) issue, Tier I is a closed population, and all Tier I members were reviewed as a result of this incident. We have strengthened internal controls to ensure that provisions used when establishing a member's benefit are accurate and that proper reconciliation of initial benefit calculations is performed, thereby identifying inconsistencies. For ineligible payments made, the agency continues to actively pursue collection.

APERS internal controls over benefit payments were not operating effectively. ALA tested 60 members added to the benefit rolls who retired, entered the deferred retirement option program (DROP), or retired from the DROP in FY2025. For two members, differences were noted between the amount received and the amount recalculated; when combined, these differences resulted in a total overpayment of $752 before they were corrected. One difference occurred when, despite being reconciled and finalized, incorrect earnings history was used in the final average salary calculation, allowing for a $512 underpayment in benefits. The second difference occurred when the Agency's pension administration system, COMPASS, erroneously removed a "flag" within the system when the member was exiting the DROP. This "flag" was indicative of the member's monthly benefit being capped in accordance with IRS Title 26 Section 415 Limit, and removal of the "flag" allowed for a $1,264 overpayment in benefits. As a result of this discovery, a query was performed to see if any other members were affected. Four additional members were affected by the 415 Limit "flag" error within the system upon DROP exit, with an additional overpayment for these four members totaling approximately $94,000. APERS was ultimately able to negotiate with the COMPASS vendor to cover the overpayments related to this issue in the form of a service credit expected in the first quarter of 2026.

In response to a prior audit finding related to benefit overpayments, APERS implemented a procedure in January 2022, the Benefit Reconciliation Audit Report. This procedure creates a report each time the benefit payroll is generated. The report helps APERS staff verify that retirees and beneficiaries are receiving the correct annuity amount. The factors used to calculate a retiree's benefit should match the payment when the benefit payroll is generated. If a retiree's calculation factors do not match the payment stream, that member appears on the report, allowing staff to review the member's file to find the discrepancy.

ALA randomly selected two months from FY2025 to review to ensure the Benefit Reconciliation Audit Report was being reviewed and the control was operating effectively. The Agency was unable to provide evidence that the reports were being reviewed monthly, and upon questioning management, it was noted that the Agency is still working to identify an experienced team to review these reports monthly. By not reviewing the monthly Benefit Reconciliation Audit Report, the Agency could be failing to identify potential discrepancies before large overpayments or underpayments result.

Recommendation:
We recommend Agency management strengthen internal controls regarding the calculation of benefit payments, for both initial benefit setup and upon members retiring from the DROP, to mitigate errors that, cumulatively and over the term that benefits are received, may result in material amounts owed to or by the Agency. We also recommend the Agency employ all measures to identify potential discrepancies, including effective monthly review of the Benefit Reconciliation Audit Report.

Agency Response:
The APERS Assurance Office will begin reviewing the Benefit Reconciliation Audit Report monthly. While this report offers value, it should be noted that the report did not identify the removal of the flag for the Section 415 Limit. We are working with our pension administration system vendor, COMPASS, to enhance system controls and prevent similar errors in the future.

The agency has strengthened internal controls regarding the calculation of benefit payments, for both initial benefit set up and upon members retiring from the Deferred Retirement Option Program (DROP), to mitigate errors that, cumulatively over the term benefits are received, may result in material amounts owed to or by the agency. Benefit counselors review issues during monthly meetings as they are discovered to ensure all staff are aware of problematic calculations. We are employing all measures to identify potential discrepancies, including an effective monthly review of the Benefit Reconciliation Audit Report.

APERS negotiated with the COMPASS vendor to cover the overpayments related to the Section 415 Limit flag issue as a service credit, expected in the first quarter of 2026. This resolution demonstrates our commitment to protecting the interests of the retirement system and our members.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF FINANCE AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2024

Finding 1:
Ark. Code Ann. § 19-4-1502 states, "It is the responsibility of the executive head of every State agency to keep and maintain a record of all property of the agency, belonging to the State of Arkansas."

As required by Ark. Code Ann. § 25-1-124(b)(1), the Department of Finance and Administration (DFA) notified ALA on September 22, 2023, that a taser was stolen from the Alcohol Beverage Control Enforcement Division. According to the police report, the market value of the item was $1,342.

Recommendation:
We recommend the Agency emphasize the importance of good internal controls surrounding the access to Agency assets.

Agency Response:
In November 2022, it was determined that an issued Taser was missing from inventory. During the subsequent review, it was also identified that the serial number for the device had been entered incorrectly by an administrative analyst who was responsible for maintaining equipment inventory records. This data entry error impeded the Division's ability to successfully track the item.

The Division has since implemented enhanced internal controls to strengthen equipment accountability and prevent recurrence. Responsibility for oversight of equipment inventory, issuance, and return has been reassigned to sworn enforcement personnel, including both a Supervisory Enforcement Agent and an Enforcement Agent. Under the revised process, sworn staff physically verify equipment and associated serial numbers prior to any record entry.

Following sworn verification, an administrative analyst enters the inventory data. This multi-layered review process establishes separation of duties and provides multiple points of verification, significantly improving the accuracy, reliability, and accountability of the Division's equipment tracking system.

The Division remains committed to maintaining strong internal controls and will continue to monitor and evaluate these procedures to ensure ongoing compliance and asset accountability.

Finding 2:
In accordance with Ark. Code Ann. § 25-1-124 (b)(1), DFA notified ALA in February 2025 of a loss of public funds. To receive federal grants, a subgrantee must comply with 2 CFR § 200.403(b) and (g), which states that, to be allowable under Federal awards, costs must conform to any limitations or exclusions set forth in the Federal award as to types or amount of cost items and be adequately documented.

After a subsequent review of grant awards disbursed to the Family Services Agency (FSA), the Office of Intergovernmental Services (IGS) identified numerous expenditures that should have been disallowed before disbursement. IGS reduced a later request for reimbursement of the disallowed amounts, and the FSA reimbursed IGS $5,483 on April 28, 2025.

Recommendation:
We recommend the Agency emphasize the importance of reviewing and monitoring all requests for reimbursement and only fund qualified expenditures from grantees.

Agency Response:
The Intergovernmental Services Division (IGS) acknowledges the audit finding regarding the reimbursement of unallowable costs to the Family Services Agency (FSA). IGS concurs that certain expenditures reimbursed to FSA did not meet the allowability requirements outlined in 2 CFR § 200.403(b) and (g).

FSA reimbursed the full amount of $5,483 on April 28, 2025, in accordance with Ark. Code Ann. § 25-1-124(b)(1). Additionally, FSA is no longer receiving funding through IGS grants.

IGS' internal review of the matter identified deficiencies in the reimbursement review process, including incomplete documentation verification and limited follow-up monitoring. To address these issues, IGS is evaluating and strengthening its internal review procedures to ensure that adequate supporting documentation is obtained and reviewed prior to reimbursement, and that appropriate monitoring of subrecipient expenditures is conducted.

These corrective actions are intended to enhance oversight and ensure compliance with applicable federal and state requirements governing allowable costs.

Finding 3:
In accordance with Ark. Code Ann. § 25-1-124 (b)(1), DFA notified ALA in June 2025 of unauthorized debits occurring at a DFA bank account. Per section P1-19-4-805 of the Financial Management Guide, agencies with commercial bank accounts must complete bank reconciliations monthly. Nine unauthorized transactions totaling $5,638 occurred in a bank account at DFA-Revenue from April through July 2025.

The Agency was refunded $5,433 of the unauthorized debits, with $205 remaining outstanding.

Recommendation:
We recommend the Agency continue to monitor all accounts for possible fraud and to continue to use all avenues necessary to collect the remaining outstanding unauthorized debits.

Agency Response:
The Department acknowledges the audit finding related to the fraudulent transactions identified on a bank account maintained by the State Revenue Division. Upon discovery, the affected bank account was promptly closed on August 12, 2025, and a new account was established to replace it.

The Department recognizes that the fraudulent transactions were not identified as timely as intended through the monthly reconciliation process. At the time, reconciliations were performed on a monthly basis using standard procedures that relied primarily on end-of-period bank statement reviews. Due to the timing and number of accounts, the unauthorized activity was not immediately identified during the reconciliation cycle. This contributed to the delay in detection.

With the establishment of the new account, the Department has taken significant steps to strengthen its banking and reconciliation controls. Business online banking services have been implemented to allow for more frequent and timely monitoring of account activity. Additionally, enhanced fraud prevention measures have been put in place, including Positive Pay for checks and ACH Positive Pay across all six Bank OZK accounts, to prevent and detect unauthorized transactions before they are processed.

Furthermore, the Internal Audit function continues to perform monthly reconciliations and has enhanced its review procedures by incorporating more detailed transaction-level analysis and increased oversight of unusual or high-risk activity.

These corrective actions are designed to improve the timeliness of fraud detection, strengthen internal controls, and reduce the risk of unauthorized transactions occurring or going undetected in the future.

The Department remains committed to maintaining strong financial oversight and will continue to assess and enhance its control environment as necessary.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES
FOR THE YEAR ENDED JUNE 30, 2024

Finding 1:
Department of Transformation and Shared Services-Office of Personnel Management (DTSS-OPM) Policy Number 23 and Ark. Code Ann. § 21-5-106 authorize annual lump-sum career service payments to reward state employees upon completion of 10 or more years of service. In our review of 35 career service payments, we noted one payment made by the Division of Information Systems for $800, the amount awarded for 10 to 14 years of service, to which the employee was not entitled. The employee had a break in service, and errors were made when the re-hire information was entered in AASIS. Therefore, the employee's career service and annual leave accrual dates were not updated correctly, resulting in 1.52 years more career service credit than was due.

Recommendation:
We recommend the Agency strengthen controls to ensure correct career service and leave accrual dates are entered into AASIS. We also recommend the Agency contact DTSS-OPM for guidance on recouping overpayments to the employee.

Agency Response:
SAS agrees with the finding and has taken steps to prevent this from occurring again. SAS will complete an OMNI calculation for all new hires and is conducting a review of existing employees to ensure accuracy across the department. After conducting an updated OMNI calculation, SAS has corrected the career service date of the employee in question. We are holding their career service payment this year to recoup the overpayment.

Finding 2:
State Financial Management Guide P2-19-4-1801 states that all assets disposed of and received by Marketing and Redistribution (M&R) must be promptly removed from capital assets within the month the Surplus Disposal Form (SDF) is received from M&R. State Financial Management Guide P1-19-4-1503 states that all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets.

During current-year testing of 15 asset retirements, we identified one asset, totaling $30,553, that was included on a surplus disposal form dated May 24, 2021, but was not deactivated in AASIS until December 19, 2023.

Also, during current-year testing of 42 items, we discovered 2 cameras, valued at $8,492, that were still included on the Agency's fixed asset listing as of June 30, 2024, even though the Agency determined the items were stolen after an internal investigation completed on July 10, 2023.

Failure to remove items from their asset listing timely results in an overstatement of the Agency's capital asset balance. This is the fifth year in a row that an equipment-related issue has been communicated in some form to DTSS.

Recommendation:
We recommend the Agency strengthen controls over capital assets by ensuring that assets that have been transferred, lost, stolen, destroyed, or sold are properly documented, approved, and promptly removed from the AASIS asset listing.

Agency Response:
SAS agrees with the finding and now has a dedicated individual (Inventory Manager) who has taken steps to ensure each step of the asset disposal process is completed in a timely manner.

Finding 3:
Ark. Code Ann. § 19-4-102(a)(1)(B) requires "adequate accounting for all fiscal transactions." During a review of Agency cash holdings, we discovered that the Agency double counted $940,182 on its year-end financial records. The deposits were included on the Agency's year-end cash in transit report, even though the deposits were already fully processed and included in their cash in bank totals. By not ensuring that items listed as cash in transit were not already deposited and included in their records, the Agency overstated its assets.

Recommendation:
We recommend the Agency strengthen controls by comparing amounts on its cash in transit report to recently completed deposits to ensure that there is no double counting of cash balances.

Agency Response:
SAS agrees with the finding and has implemented a new procedure to compare the cash in transit report to the deposits instead of relying on the treasury dates on the report.

Finding 4:
According to Section R1-19-4-702 of the DFA Financial Management Guide, if an agency pays an invoice in the fiscal year after goods are received, that invoice should be recorded as a payable. The Employee Benefits Division (EBD) paid $3,765,296 for Arkansas State Employee (ASE) Health Claims and $6,504,086 for Public School Employee (PSE) Health Claims in fiscal year 2025 that should have been recorded as a payable in fiscal year 2024, resulting in the understatement of accounts payable and expenditures at the end of fiscal year 2024.

Recommendation:
We recommend the Agency ensure all liabilities are recorded in the year they are incurred.

Agency Response:
SAS agrees with the finding and SAS payables staff received additional training on prior year payables. To more easily determine the applicable fiscal year for payments, we have begun including additional backup documentation with all Employee Benefits Division payments.

Finding 5:
Per 17.1 of the State of Arkansas Vehicle Use and Management Guide, every vehicle owned by the State must carry a log, and drivers of the vehicle must update the log with each use. The following information must be recorded in the log every time the vehicle is used:

- Date and time of use.
- Starting location and destination.
- Beginning and ending mileage.
- Cost and amount of fuel purchased, if any.
- Any problems encountered with the vehicle.

During review of Agency vehicle logs, we once again noted numerous violations, including failure to record date and time of use, starting location or destination, beginning and ending mileage, and fuel purchases in the vehicle mileage logs. Agency logs either did not contain the proper fields required by state guidelines or were not properly filled out by Agency personnel.

Maintaining accurate vehicle logs ensures that state vehicles are used appropriately.

Recommendation:
We recommend the Agency increase oversight to ensure that state vehicle use is appropriate, and logs are maintained in accordance with state guidelines.

Agency Response:
SAS agrees with the finding and has created new vehicle logs which contain all the required fields. These were distributed to each area with instructions and a start date of 6/1/2025 to begin using the new forms.

State of Arkansas
Schedule of Findings and Questioned Costs
Department of Shared Administrative Services – Office of State Technology
For the Year Ended June 30, 2025

Financial Statement Finding

REPORT FINDING: 2025-001

Office of State Technology

Prior to August 2025, most AASIS servers were not monitored or logged to detect unauthorized access and changes since Splunk, a vulnerability intrusion detection application, was decommissioned by the Agency. Not actively logging and monitoring for threats could cause a security risk and makes the servers vulnerable to hacking and unauthorized access. After audit inquiry, the Agency began implementing a logging system; however, as of report date, implementation was incomplete.

We recommend Office of State Technology (OST) continue the implementation of a logging system and subsequent monitoring of it for threats and unauthorized access.

Views of Responsible Officials and Planned Corrective Action:
Prior to August 2025, the Office of State Technology maintained centralized logging for all AASIS servers; however, those logs were not being forwarded from the centralized logging system to Microsoft Sentinel for correlation and analysis. This issue has been remediated. The centralized logging system has been updated, and AASIS server logs are now successfully forwarding to Microsoft Sentinel.

Anticipated Completion Date: 03/02/2026

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
TREASURER OF STATE
FOR THE YEAR ENDED JUNE 30, 2025

Finding:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework of internal controls, adopted by the State of Arkansas in the Department of Finance and Administration's (DFA's) Financial Management Guide, provides that communication related to both operational and financial data is needed at all levels of an organization in a relevant, reliable, and timely fashion. We identified that the Office did not have the policies and procedures in place to ensure the financial effects of certain fiscal year-end activities were appropriately recorded. As a result, we noted the following:

- Liabilities were understated by $330,763,926 related to changes made by Act 1017 of the 2025 Regular Session to Ark. Code Ann. § 19-26-203, which required certain treasury investment earnings to be distributed after fiscal year-end. Because the activity was authorized and known prior to year-end, a liability should have been recorded.
- Liabilities were understated by $4,215,013 related to monies placed in the MLC0000 (county aid) fund at year-end, in accordance with Ark. Code Ann. § 19-26-204, that were not distributed to counties until after fiscal year-end. Because the activity was authorized and known prior to year-end, a liability should have been recorded.
- The net effect of these misstatements was an understatement of liabilities and an overstatement of fund balance totaling $334,978,939.

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

Upon notification, the Office agreed with the proposed adjustments, which are reflected in the accompanying financial statements.

Recommendation:

We recommend the Office strengthen its controls over financial reporting by implementing policies and procedures to identify and evaluate year-end activities, including legislative changes, to ensure transactions are recorded in the appropriate period.

Agency Response:

The Office of the Arkansas State Treasurer appreciates the review conducted by Legislative Audit and recognizes the importance of maintaining strong internal controls in alignment with the COSO framework and DFA's Financial Management Guide.

Regarding the audit finding related to the understatement of liabilities totaling $334,978,939, the Office concurs that the financial effects of certain fiscal year-end activities were not recorded in accordance with applicable accounting standards. Specifically, recent legislative changes under Act 1017 of the 2025 Regular Session, as well as statutory requirements under Ark. Code Ann. §§ 19-26-203 and 19-26-204, created obligations that were known at fiscal year-end but were not recorded as liabilities in the initial financial reporting due to the timing provisions introduced by the new statute.

It is important to note that the underlying transactions associated with these amounts were completed in accordance with law. However, due to the implementation of new statutory requirements, these transactions were not recognized as liabilities at fiscal year-end. This circumstance arose in connection with the first year of application of the updated statutory framework.

Upon notification by Legislative Audit, the Office promptly reviewed the matter, agreed with the proposed adjustments, and ensured that all necessary corrections were reflected in the financial statements. The Office takes this matter seriously and is committed to strengthening its internal controls over financial reporting. To address the issues identified, the Office is implementing the following corrective actions:

- Updating written policies and procedures specific to year-end financial reporting, with an emphasis on identifying and recording obligations arising from legislative actions and statutory requirements.
- Enhancing review protocols to ensure that all known liabilities at fiscal year-end are properly evaluated and recorded in accordance with generally accepted accounting principles.
- Updating and enhancing legislative tracking software and processes to better identify, monitor, and assess the financial reporting impact of newly enacted legislation, particularly as it relates to timing and recognition of obligations.
- Increasing coordination between accounting staff and legal/legislative personnel to ensure timely identification and interpretation of legislative changes impacting financial reporting.
- Providing additional training to relevant personnel on year-end closing procedures and the recognition of liabilities.

The Office believes these measures will significantly improve the accuracy and completeness of its financial reporting and reduce the likelihood of similar issues in future reporting periods.

The Arkansas State Treasurer’s Office remains committed to transparency, accountability, and continuous improvement in its financial management practices.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
COMMESSIONER OF STATE LANDS
FOR THE YEAR ENDED JUNE 30, 2024

Finding:

The Arkansas Commissioner of State Lands entered into a contract for services related to website hosting, maintenance, and development of various web applications. The contract included established hourly billing rates for services performed by the vendor's staff.

We identified overpayments totaling $28,584 and $21,648 to this vendor for services performed in fiscal years 2024 and 2025, respectively. The overpayments occurred when the vendor failed to update billing rates in accordance with updated contract terms, and the Agency failed to identify the improper billing rates because the rates were not listed on the invoices.

Recommendation:

We recommend the Agency implement procedures to confirm services are billed in accordance with contract terms. We further recommend the Agency obtain reimbursement from the vendor for the full overpaid amount.

Agency Response:

The Commissioner of State Lands (COSL) acknowledges the overpayments totaling $28,584 for FY 2024 and $21,648 for FY 2025 related to services billed at outdated rates. The COSL has obtained and recorded reimbursement from the vendor for the full overpaid amount. In response to ALA's recommendations, the COSL is implementing updated procedures to ensure all invoices are reviewed and verified with current contract terms, including confirming hourly billing rates. Additionally, we will require all future invoices from vendors to be itemized and include applicable billing rates to ensure transparency and accurate billing.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF COMMERCE
FOR THE YEAR ENDED JUNE 30, 2024

Finding 1:
P1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that "the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters for each state agency, board, commission, or institution is responsible for…reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit (ALA). Losses include…the apparent theft or misappropriation of state funds or property theft." The Arkansas Securities Department notified ALA in May 2025 that an employee of the enforcement section used an Agency travel card to make $2,900 in unauthorized personal purchases. The employee was authorized to attend a conference from May 6-9, 2025, in Ft. Lauderdale, Florida, as part of his continuing education. While at the conference, the employee made unauthorized purchases of airfare for himself and another person to fly from Ft. Lauderdale to St. Thomas, U.S. Virgin Islands, using the Agency travel card. The employee also made additional unauthorized charges on the Agency travel card to prepay for lodging in St. Thomas for the dates of May 9-18, 2025. A police report was filed by the Agency, and the individual's employment was terminated.

Recommendation:
We recommend the Agency continue to monitor and strengthen controls related to travel card purchases to prevent future occurrences of theft.

Agency Response:
In response to this determination of fraud, the Arkansas Security Division (ASD) conducted an internal investigation and thoroughly reviewed the controls currently applicable to its travel card program. During its investigation, a refund of $1,866.42 was received and applied as a prior year refund to expenditure on 7/3/2025. ASD staff sought to confirm the utilization practices of travel cards among state agencies. We were informed by the Office of State Procurement – State Credit Card Section that the practice of using state issued travel cards is very common among state agencies in Arkansas and is permitted by their office. Once confirmed, we evaluated the next steps in modifying our existing process. ASD staff made several modifications to current controls, including reducing the credit limits on travel cards from $10,000 to $5,000. Also, as part of a phasing out process, new employees will not be assigned travel cards. While ASD believes this was an isolated incident that could not have been prevented, the staff currently felt it was imperative to conduct a thorough review and make any modifications necessary to implement mitigants to offset the risk of reoccurrence. As recommended in the ALA Audit Finding Summary Form for the year ending June 30, 2025, the ASD will continue to actively monitor controls related to travel card purchases to lessen the probability of fraud occurring in the future.

Finding 2:
P4-19-4-2004 of the DFA Office of Accounting Financial Management Guide states that agencies must promptly record amounts due for delivery of goods and services, licenses, unpaid taxes, student loans, special assessments, accounts receivable, notes receivable and capital leases receivable. It also states that agencies are to develop and follow written criteria for the determination of uncollectible accounts. Our review of the Arkansas Insurance Department's (AID) receivables revealed the following:

- Ark. Code Ann. § 23-90-112 allows the Insurance Commissioner to issue assessments on Arkansas insurers to produce the additional funds needed by the Arkansas Property and Casualty Guaranty Fund to cover the claims of insolvent insurers. On June 17, 2024, an assessment was issued, but the Agency failed to properly record the $19,904,451 receivable during its year-end closing book process.
- The Agency failed to properly calculate the gross receivable due from insurance companies in receivership resulting in a $641,283 understatement. Additionally, the Agency failed to follow their methodology for calculating the allowance for doubtful accounts for three receiverships resulting in a $194,805 understatement. The net effect of these errors is an understatement of the net receivable by $446,478.

Recommendation:
We recommend the Agency review the financial reporting requirements and strengthen controls to ensure proper reporting of accounts receivable and deferred inflows of resources.

Agency Response:

The Arkansas Insurance Department agrees with the findings and the following corrective actions have been taken to ensure proper and timely financial reporting.

Due to the sudden departure of the Liquidation Director and subsequent lack of financial information, receivables were improperly calculated during the year-end close-out. As recommended, corrective actions have been taken to minimize misstatement of financial statements. In response to this finding, the new Liquidation Director has transferred all reporting requirements to the external Accounting Firm for review and processing prior to submission to AID Accounting for recording. AID Accounting has also added additional review procedures for its year-end closing book processes.

Due to increased insurer insolvencies, an assessment was issued in FY25 to cover claim costs, which had not been needed since 2005. Accounting staff were not aware of the assessment resulting in the failure to properly record its receivables during the year-end close-out. AID has implemented new year-end procedures to collect all necessary information from the Liquidation Division to ensure assessments issued are recorded properly.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Financial Statement Finding

REPORT FINDING: 2025-002

Department of Commerce - Division of Workforce Services

While completing DFA-Office of Accounting's year-end closing book, the Agency makes accounting entries for various purposes. GASB Cod. Sec. 2250.128 requires that changes in accounting estimates be justified on the basis of the new methodology being preferable to the old methodology for understandability, reliability, relevance, timeliness, consistency, and comparability of financial reporting. In addition, P4-19-4-2004 of DFA-Office of Accounting's Financial Management Guide requires that written procedures for determining uncollectible accounts be filed with DFA-Office of Accounting. The Department of Commerce - Division of Workforce Service (DWS) changed its methodology for estimating the allowance for doubtful accounts related to the accrual of receivables and payables for its unemployment insurance (UI) programs. These changes were not justified to be preferable, nor were they properly filed with DFA-Office of Accounting. As a result, we noted the following:

- DWS makes an annual entry to reduce amounts due from benefit overpayments made to UI claimants, using an amount estimated as uncollectible. The amount recorded in the current fiscal year using the new methodology was $144.4 million (95.6% uncollectible), which we determined was not reasonable considering prior-year estimates and current-year collections. This estimate would have likely fallen in a range of $87.2 million to $132.3 million (57.8% - 87.6% uncollectible), based on amounts recorded in prior years. The net receivable that resulted after recording the $144.4 allowance was $6.6 million, which likely understated receivables by $12.1 million to $57.2 million. DWS did not provide us with the information needed to recalculate the estimate using the old methodology.
- The Agency's change in methodology for calculating the allowance for doubtful accounts, noted above, has a direct effect on the amount recorded as a net UI claimant benefits receivable due to the federal government. The estimated federal payable recorded by the Agency under the new methodology was $3.0 million (4.4% collectible), which we determined was not reasonable considering prior-year estimates and current-year collections. The estimated payable likely would have fallen in a range of $8.6 million (12.4% collectible) to $29.3 million (42.2% collectible), based on amounts recorded in prior years.
- DWS makes an annual entry to reduce amounts due from judgments and bankruptcy liens against the State's employers by an amount estimated as uncollectible. The amount recorded in the current fiscal year using the new methodology was $17.8 million and would have been $17.9 million using the old methodology. While the difference between amounts recorded was only $100,000, DWS did not provide support for the amounts of prior-year judgment repayments used in its new methodology, and we were unable to recalculate the Agency's estimate.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated. Upon notification of the potential misstatements, DWS adjusted the methodology used to calculate amounts estimated as uncollectible for claimant benefit overpayments and the related federal payable, and DFA-Office of Accounting made correcting entries in AASIS.

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

REPORT FINDING: 2025-002 (Continued)

Department of Commerce - Division of Workforce Services

Views of Responsible Officials and Planned Corrective Action:
DWS acknowledges the finding and has implemented the following corrective action: We have streamlined the allowance calculation. And the reports needed by the auditors, which were not available, have been added to our year end IT request list for June 30, 2026.

Anticipated Completion Date: 06/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-007**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**N/A**
AL Number(s) and Program Title(s):	**14.228 – Community Development Block Grants**
Federal Awarding Agency:	**Department of Housing and Urban Development**
Federal Award Number(s):	**B18DC050001, B20DC050001, BC21DC050001, B22DC050001, and B23DC050001**
Federal Award Year(s):	**2018, 2020, 2021, 2022, and 2023**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
In accordance with Appendix A of 2 CFR Part 170, direct recipients of grants or cooperative agreements are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System.

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

Condition and Context:
During state fiscal year 2025, reimbursements were made to subrecipients represented by approximately 125 subaward agreements. ALA staff performed testing of 28 subawards, made by the Arkansas Economic Development Commission (AEDC), to confirm submission of subawards in accordance with FFATA. ALA's review revealed nine subawards were not reported to SAM.gov (previously the Federal Subaward Reporting System) at the beginning of audit field work. Additionally, the Agency records the date subawards are submitted on internal data collection sheets. Submission dates were not recorded on the data collection sheets for seven subawards even though four had been reported timely. Conversely, submission dates were inaccurately recorded for six subawards that were not reported, as required by FFATA, at the beginning of audit field work.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The failure of Agency controls was caused by employee turnover.

Effect:
The Agency was not in compliance with Appendix A of 2 CFR § 170. Failure to file Federal Funding Accountability and Transparency Act Subaward reports could result in the reduction or termination of future funding.

Recommendation:
ALA staff recommend the Agency strengthen controls over financial reporting compliance to ensure reports are submitted timely and in accordance with federal laws and regulations.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-007 (Continued)**
AL Number(s) and Program Title(s): **14.228 – Community Development Block Grants**

Views of Responsible Officials and Planned Corrective Action:
The AEDC Grants Division has established internal controls and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA), primarily focused on AEDC's responsibility for accurate and timely reporting of CDBG subawards of $30,000 or more.

AEDC's established compliance controls for FFATA include, as reported to ALA staff at the beginning of their field work in this area, are:

- Grants Coordinator and/or Division Director checks SAM.gov at the beginning of the grant funding year (after HUD Grant Awards have been signed) or upon the need to report on the first subaward to ensure HUD's award to the State of Arkansas is entered as a Prime Contract.
- All CDBG applicants are required to submit application Exhibit K, FFATA (Federal Funding Accountability & Transparency Act) Reporting Form. This form and ACEDP Policies & Procedures require subrecipients to have an active registration in the System for Award Management (SAM.gov) and obtain a Unique Entity Identifier and AEDC verifying the accuracy of this information before issuing a subaward.
- If funding is awarded, completed FFATA Reporting Form is included in the grant agreement packet, prepared by the Grants Manager and approved by the Division Director. A Grant Review Form checklist includes a check that this form is included.
- Once a Grant Agreement is executed and the packet returned to the Grants Coordinator for processing, the Grants Coordinator will use the FFATA Reporting Form and information from the Grant Agreement to enter the subaward in SAM.gov, as a subaward associated with the applicable Prime Award (annual allocation). Also included in the packet is a copy of the subawardee's active Registration and UEI, as well as a Data Collection Sheet which includes a space for the Grants Coordinator to write the date the subaward was entered in SAM.gov.
- A timely submission procedure ensures that subaward information is entered into the FSRS at SAM.gov no later than the end of the month following the month in which the subaward obligation was made. To ensure AEDC meets this timely submission requirement, subawards are entered upon return of the AEDC executed grant agreement from the Deputy Director to the Grants Coordinator, who enters the date of the Deputy Director's signature as the Award Date.
- In the ACEDP Grant Agreement the subawardee agrees to comply with The Federal Funding Accountability and Transparency Act, and related federal requirements.
- Project closeout procedures include a File Composition Checklist which lists the FFATA Form and the Data Collection Sheet (with subaward reporting date).

By the Anticipated Completion Date, the Grants Coordinator and/or the Division Director will ensure each previously awarded subaward has been reported to SAM.gov, and will follow the above controls going forward to ensure compliance.

Anticipated Completion Date: 06/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-010**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Allowable Cost/Cost Principles**
Type of Finding:	**Material Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.403(g), allowable costs must be adequately documented.

Arkansas State Broadband Office (ASBO) Administrative Procedures require reimbursement requests to be specific to the project and to be for incurred costs documented by attached source documentation, such as receipts, vouchers, bills, invoices, etc. All subaward expenditures must be allowable, necessary, and reasonable for the proper and efficient administration of the grant; be allocable to the grant; be authorized or not prohibited under state or local laws; and conform to the limits of exclusions in federal laws and regulations.

Condition and Context:
ALA selected five broadband infrastructure projects, totaling $39,789,080, for testing, from a total of 20 broadband infrastructure projects totaling $127,227,854. During testing, ALA reviewed 247 invoices totaling $20,486,786 and identified issues with 212 invoices totaling $6,666,409.

The invoices with issues did not have appropriate documentation to identify the items purchased, to support proof of payment by the subrecipient for the items, and/or to determine the expense was related to the specific project. Also, ALA discovered duplicate invoices and invoices associated with other projects. Many invoices had a combination of these various issues.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$6,666,409

Cause:
ASBO management did not properly review invoices submitted by subrecipients for appropriate supporting documentation.

Effect:
Failure to obtain proper supporting documentation for invoices may result in the reimbursement of unallowable expenses.

Recommendation:
ALA staff recommend the Agency follow established procedures for review of reimbursement requests. Invoices should have appropriate source documentation enabling the reviewer to determine the cost meets the criteria for allowability.

Finding Number: **2025-010 (Continued)**
AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Views of Responsible Officials and Planned Corrective Action:
ASBO respectfully notes that Treasury's SLFRF and CPF Supplementary Broadband Guidance provides that ISPs receiving fixed amount subawards for broadband infrastructure projects are not required to comply with the cost principles of 2 CFR Part 200, Subpart E (see U.S. Department of the Treasury, SLFRF and CPF Supplementary Broadband Guidance, available at: https://home.treasury.gov/system/files/136/SLFRF-and-CPF-Supplementary-Broadband-Guidance.pdf)

Further, the guidance states, "...[m]ore specifically, subawards that provide for a maximum payment amount that is calculated based on a reasonable estimate of actual cost (see 2 CFR 200.201(b)(1)) will be considered fixed amount subawards even if the subaward agreement also provides that payments to the ISP subrecipient will be limited to actual costs after review of evidence of costs." Arkansas' CPF subawards meet these criteria.

In short, relative to the applicability of cost principles under the Uniform Guidance, U.S. Treasury treats Arkansas' CPF subawards as fixed amount subawards, exempting cost principles. Accordingly, ALA's citation to §200.403(g) under Subpart E is not directly applicable to Arkansas' CPF Program.

Nevertheless, while ASBO maintains that the cost principles standard noted above does not apply to the awards in question, the office conducted a detailed review of the invoices identified. That review determined the following:

- A substantial portion of the invoices were specific to approved CPF projects and included subrecipient certification statements affirming project use.
- Certain invoices flagged as insufficiently detailed included annotations or supporting documentation sufficient to trace costs to the relevant project.
- Invoices identified as potential duplicates were, in several cases, attributable to mixed inventory usage (allowed under GAAP) or subsequent credit/refund adjustments.
- A limited subset of invoices (approximately $47,047.79) may require further reconciliation due to a known calculation variance. This funding may be returned, if deemed necessary.

ASBO does not concur that the invoices totaling $6,666,409 represent unallowable expenditures. Rather, the observation reflects differences in documentation presentation, invoice formatting, and inventory accounting practices. The office maintains that the costs were associated with eligible broadband infrastructure activities under CPF.

Further, in accordance with 2 CFR § 200.201(b)(1), the CPF broadband projects reviewed were monitored through routine oversight and reporting.

To strengthen documentation consistency and audit traceability, ASBO is implementing a standardized reimbursement checklist requiring clearer identification of project attribution and supporting documentation prior to approval.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-011**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Allowable Cost/Cost Principles**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
As outlined in the Uniform Guidance at 2 CFR Part 200, Subpart E, regarding Cost Principles, allowable costs must meet the following criteria: (1) be necessary, reasonable, and allocable for the performance of the federal award, (2) be accorded consistent treatment as either a direct cost or indirect cost, and (3) be adequately documented.

In accordance with 2 CFR § 200.405(d), if a cost benefits two or more projects or activities and can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. However, when those proportions cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable, documented basis.

Condition and Context:
The Arkansas State Broadband Office (ASBO) administers several grants that provide capital projects funding for the construction of infrastructure for broadband networks. The Coronavirus Capital Projects Fund grant allows the agency to request reimbursement for administrative costs incurred over the period of performance that do not exceed the greater of five percent of the total amount of the grant received under the Capital Projects Fund or $25,000. ALA reviewed five administrative cost reimbursement drawdowns totaling $887,309, from 16 administrative drawdowns totaling $1,338,559, and noted the Agency allocated staff salaries and other professional services to three different broadband grant programs. The Agency did not maintain support for the basis used to allocate the administrative expenses to the grants. Additionally, ALA recalculated the draw amounts using the Agency's allocation percentages and noted the Agency had overdrawn on the Capital Projects Fund grant by $22,516.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$22,516

Cause:
Determination of percentage allocations was based on verbal communications between ASBO staff members; however, the Agency did not maintain documentation to support these determinations. Also, management did not ensure calculations of the drawdown amounts were accurate.

Effect:
Failure to properly document the basis for the allocation of administrative costs could lead to a disproportional amount of costs charged to the various grants. As a result, the grants could exceed the maximum amounts allowed by Federal Guidance.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-011 (Continued)**

AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Recommendation:
ALA staff recommend the Agency develop an administrative cost allocation percentage based on the proportional benefit to each grant. The Agency should maintain documentation to support the determination. Management should ensure the percentages are accurately applied to the respective grants prior to submitting any request for reimbursement.

Views of Responsible Officials and Planned Corrective Action:
Administrative costs charged to CPF were program-related and remained within the statutory administrative cap. ASBO acknowledges, however, that documentation supporting the internal methodology used to allocate administrative costs across multiple broadband funding streams was not sufficiently formalized during the period reviewed.

The identified variance of $22,516 reflects an administrative reconciliation issue rather than an unallowable expenditure, and the variance amount was reduced from a subsequent administrative cost drawdown.

Moving forward, the team will more formalize its administrative cost allocation methodology to include a narrative explanation to support allocation percentages, as well as authorizing signatures.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-012**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Allowable Cost/Cost Principles**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.332(b), all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward. The following is a partial listing of the information a pass-through entity must provide when available:

(1) Federal award identification.
  (i) Subrecipient name (which must match the name associated with its unique entity identifier);
  (ii) Subrecipient's unique entity identifier (UEI).

Condition and Context:
ALA reviewed five broadband infrastructure projects totaling $39,789,080, from a total of 20 broadband infrastructure projects totaling $127,227,854, and noted the grant awards had been issued to internet service providers (ISPs) with a unique entity identifier; however, the ISP was not always the entity that would construct and own the broadband network. Several of these ISPs were wholly owned subsidiaries of electric cooperatives, which have a different unique entity identifier. ALA reviewed 247 invoices associated with 15 reimbursement requests and noted 173 invoices totaling $10,793,988 in which the expenses submitted for reimbursement were incurred and paid by the electric cooperative instead of the ISP. ALA also noted 6 instances totaling $3,364,595 in which the reimbursement payments related to these invoices were made to the electric cooperative instead of the ISP.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Arkansas State Broadband Office (ASBO) did not execute the grant agreements with the party that would have ownership of the broadband network when the project was complete.

Effect:
Failure to ensure grant agreements are executed with the appropriate subrecipient could lead to the submission of expenses and payments that are improper.

Recommendation:
ALA staff recommend the Agency ensure the subrecipient in the grant agreement is the party that will construct and own the broadband network when it is complete. Doing so will ensure the subrecipient is able to submit and be reimbursed for expenses incurred and place the liability for completion of the project with the appropriate party.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-012 (Continued)**
AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Views of Responsible Officials and Planned Corrective Action:
ASBO acknowledges the auditor's observation regarding the execution of subaward agreements with ISP entities that are wholly owned subsidiaries of electric cooperatives and the related affiliate payment structure.

Subaward agreements were executed with legally distinct ISP entities holding unique entity identifiers (UEIs) and responsible for performance under the Capital Projects Fund (CPF) award. In certain instances, affiliated parent entities processed invoice payments as part of established intercompany accounting practices. These arrangements reflected corporate structure and operational efficiencies rather than an intent to shift accountability or bypass program requirements.

ASBO notes that no questioned costs were identified and that project deliverables were completed in accordance with the terms of the award. The ISP entities remained responsible for reporting, certification, and compliance under the executed agreements.

ASBO recognizes, however, that clearer documentation of intercompany payment flows would strengthen audit traceability and reduce ambiguity regarding which legal entity incurred and paid specific costs.

To enhance documentation clarity, ASBO will require subrecipients with affiliated entities to maintain documented intercompany reconciliations where applicable and will update subaward templates to further clarify entity-level responsibility for payment, ownership, and record retention. Internal review procedures will also be reinforced to ensure alignment between invoicing practices and designated subrecipient entities.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-013**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
Pursuant to 31 CFR § 205.33, state recipients are required to minimize the time elapsing between drawdowns of award funds and outlays of award funds. Arkansas State Broadband Office (ASBO) procedures indicate the Agency should disburse funds within 15 days of drawdown from the U.S. Department of the Treasury.

Condition and Context:
ALA reviewed drawdowns from the U.S. Department of the Treasury to determine the funds were disbursed timely. Of 34 drawdowns, 19 exceeded the 15-day maximum processing time for disbursements.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
ASBO management did not ensure funds drawn down from the U.S. Department of the Treasury were paid to the subrecipient in accordance with Agency procedures.

Effect:
Failure to comply with federal regulations for minimizing time between the drawdown of funds from the U.S. Department of the Treasury and disbursement to the subrecipient may result in the denial of future requests for funds, suspension or termination of the federal award, or pursuit of other legal remedies.

Recommendation:
ALA staff recommend the Agency ensure drawdown of funds from the U.S. Department of the Treasury are disbursed to subrecipients within the 15-day maximum processing time in accordance with Agency procedures.

Views of Responsible Officials and Planned Corrective Action:
ASBO acknowledges the auditor's observation regarding the timing of disbursements following drawdowns from the U.S. Department of the Treasury.

ASBO procedures include a 15-day internal processing target intended to promote efficient payment processing. While 19 of 34 drawdowns exceeded this internal benchmark, the applicable federal standard under 31 CFR § 205.33 requires recipients to minimize the time between drawdown and disbursement. Additionally, under 2 CFR § 200.305(b)(3), when the reimbursement method is used, payment must be made within 30 calendar days after receipt of a proper payment request.

ASBO recognizes the importance of maintaining strong cash management controls and ensuring timely payment to subrecipients.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-013 (Continued)**

AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

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

The State of Arkansas is enhancing tracking, reconciliation, and workflow controls within its financial management processes to better monitor drawdown-to-disbursement timing. These measures are intended to strengthen timeliness and prevent recurrence.

Anticipated Completion Date: June 30, 2026

Contact Person:

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-014**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, and Earmarking**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.332(b)(2), a pass-through entity must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes all requirements of the subaward, including requirements imposed by federal statutes, regulations, and the terms and conditions of the federal award. Arkansas State Broadband Office (ASBO) procedures also require any special conditions to be disclosed in the grant agreement.

Condition and Context:
Federal guidelines do not require cost sharing or matching funds; however, ASBO procedures require a minimum match of 25%. The specific amount of matching required above can vary with each project. A proposed matching amount is submitted by each applicant for a project and evaluated as part of the award process. ASBO did not include the final required matching amount in the grant agreement.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
ASBO management did not include required matching amounts in the grant agreement.

Effect:
Failure to include all significant terms in the grant agreement could result in a subrecipient's noncompliance due to lack of knowledge and understanding of required responsibilities.

Recommendation:
ALA staff recommend the Agency include all significant terms (including required matching amounts) in the grant agreement.

Views of Responsible Officials and Planned Corrective Action:
ASBO acknowledges the auditor's observation regarding the inclusion of required matching amounts in the executed grant agreements.

The Capital Projects Fund (CPF) program does not require cost sharing or matching funds under federal guidance. However, the Arkansas State Broadband Office (ASBO) incorporated a minimum match expectation as part of its state-level program design and evaluation process. Proposed match commitments were submitted by applicants and evaluated during the award process.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-014 (Continued)**
AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Views of Responsible Officials and Planned Corrective Action (Continued):
ASBO recognizes that the final required match amount was not expressly stated in the executed grant agreement. While match expectations were documented during application review and award evaluation, ASBO agrees that explicitly including the finalized match requirement in the executed agreement would provide greater clarity and reduce ambiguity.

ASBO notes that no questioned costs were identified in connection with this finding.

ASBO will update its grant agreement templates to ensure that any state-imposed matching requirements are explicitly incorporated into the final executed agreement. This enhancement will ensure alignment between program evaluation criteria and formal award documentation going forward.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-015**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
All recipients of federal funds must complete financial, performance, and compliance reporting as required by the Grant Agreement, 2 CFR § 200.328 – 329, and as outlined in Part 2 of Coronavirus Capital Projects Fund Compliance and Reporting Guidance.

In accordance with Coronavirus Capital Projects Fund Compliance and Reporting Guidance, Capital Project Fund recipients are responsible for reporting on subawards in the Federal Subaward Reporting System (FSRS). A Project and Expenditure Report must be completed for each project included in an approved Program Plan. The Project and Expenditure Report provides information on projects funded, obligations, expenditures, project status, outputs, performance indicators, and other information.

Condition and Context:
ALA reviewed the Q2 2025 Project and Expenditure Report for five of the 20 projects to determine expenditure and obligation amounts used for matching requirements were accurately reported to the U.S. Department of the Treasury. ALA noted the cumulative obligations for two of the five projects contained errors. The cumulative obligations for one of the projects was overstated by $2,569,790 and understated by $574,066 for the other project.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
Arkansas State Broadband Office (ASBO) management did not adequately review amounts submitted to the U.S. Department of the Treasury for accuracy.

Effect:
Failure to accurately report project obligations and expenditures to the U.S. Department of the Treasury could result in noncompliance with federal laws and regulations.

Recommendation:
ALA staff recommend the Agency management ensure all amounts submitted on Project and Expenditure Reports are accurate.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number: **2025-015 (Continued)**

AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Views of Responsible Officials and Planned Corrective Action:

ASBO acknowledges the auditor's observation regarding cumulative obligation amounts reported for two projects in the Q2 2025 Project and Expenditure Report submitted to the U.S. Department of the Treasury.

The variances identified were the result of an administrative reporting error within a quarterly submission spreadsheet and did not reflect improper expenditures, questioned costs, or misuse of funds. The Agency identified the discrepancy during its internal review process and submitted corrected information to Treasury. By the time of audit review, the corrected reporting had already been provided.

This issue was isolated to a specific reporting period and did not impact the underlying financial integrity of the projects.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-016**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.332(e), a pass-through entity must monitor the activities of a subrecipient as necessary to ensure that the subrecipient complies with federal statutes, regulations, and the terms and conditions of the subaward.

As outlined in the Uniform Guidance at 2 CFR Part 200, Subpart E regarding Cost Principles, allowable costs must meet the following criteria: (1) be necessary, reasonable, and allocable for the performance of the federal award, (2) be accorded consistent treatment as either a direct cost or indirect cost, and (3) be adequately documented.

Condition and Context:
The broadband infrastructure grants are for the construction and deployment of broadband infrastructure projects designed to deliver, upon project completion, service that reliably meets or exceeds symmetrical download and upload speeds of 100 Mbps. When construction and deployment are completed, the subrecipient notifies the Arkansas State Broadband Office (ASBO) in writing. ASBO has contracted with a third-party vendor to perform a technical close-out, which involves field visits and the issuance of a letter to confirm the work has been completed in accordance with the grant agreement.

ALA reviewed 5 of 20 projects and noted that 1 project reviewed was not properly closed out. The project was completed in October 2024, and a technical close-out letter was issued in December 2024. In October 2025, the subrecipient requested permission to perform equipment upgrades to the network, and the third-party contractor rescinded the close-out letter, allowing additional expenses of $2,096,990 to be submitted for reimbursement. As indicated in the technical close-out letter issued in December 2024, these upgrades were not necessary for completion of the network in accordance with the grant agreement. Once the network has been completed, any further costs incurred are considered maintenance costs and are the responsibility of the subrecipient.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$2,096,990

Cause:
ASBO management did not ensure that only expenses necessary for performance of the federal award were included as allowable costs.

Effect:
Failure to properly close-out grants in compliance with Agency procedures could result in reimbursement of expenses that are unallowable.

Finding Number: **2025-016 (Continued)**
AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

Recommendation:
ALA staff recommend the Agency follow close-out procedures and ensure maintenance expenses incurred after the completion of the project are not included as allowable costs.

Views of Responsible Officials and Planned Corrective Action:
ASBO acknowledges the auditor's observation regarding the sequencing of the technical close-out letter and subsequent expenditures for one project.

ASBO respectfully clarifies that a Technical Close-Out Letter reflects that the primary network infrastructure has been constructed and service capability established. It does not necessarily signify final project completion for all eligible cost components under the grant agreement. Project completion for reporting purposes occurs upon final reporting to the U.S. Department of the Treasury.

In October 2025, the subrecipient requested approval to perform additional network equipment upgrades using remaining grant funds. ASBO obtained written confirmation from the U.S. Department of the Treasury Senior Federal Program Officer that the identified OLT upgrade constituted an eligible network component necessary to deliver service and was not maintenance. No additional grant funds were awarded for this work; the proposal involved remaining grant balances. It should be noted that as of the date of audit review, no expenses had been incurred related to the proposed upgrade.

As such, ASBO does not concur that the identified $2,096,990 represents ongoing maintenance costs or unallowable expenditures. In fact, all reimbursements to date include eligible network build-out costs incurred prior to "technical closeout" but financially processed after that date, or fiber-to-the-home (FTTH) drops. FTTH drops have been an allowable expense in the Arkansas CPF Program following technical closeout yet prior to reporting the project complete to U.S. Treasury.

The misclassification of these costs as maintenance appears to stem from an assumption that they were related to the proposed network upgrade, when in actuality, they were not.

To avoid ambiguity in future projects, ASBO will formalize procedures clarifying the distinction between technical close-out, formal project completion, and eligible use of remaining funds. Any Treasury-approved scope clarifications or post-close-out adjustments will be formally documented prior to reimbursement to ensure alignment between technical certification and financial reporting.

Anticipated Completion Date: June 30, 2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Commerce
For the Year Ended June 30, 2025

Finding Number:	**2025-017**
State/Educational Agency(s):	**Arkansas Department of Commerce – Arkansas Economic Development Commission**
Pass-Through Entity:	**Not applicable**
AL Number(s) and Program Title(s):	**21.029 – Coronavirus Capital Project Funds**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**CPFFN0186**
Federal Award Year(s):	**2022**
Compliance Requirement(s) Affected:	**Subrecipient Monitoring**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 2 CFR § 200.332(e), a pass-through entity must monitor the activities of a subrecipient as necessary to ensure that the subrecipient complies with federal statutes, regulations, and the terms and conditions of the subaward.

Condition and Context:
Arkansas State Broadband Office (ASBO) procedures require subrecipients to maintain an irrevocable standby letter of credit equal to 100% of the grant award amount disbursed. The irrevocable standby letter of credit must be accompanied by an opinion letter from the subrecipient's legal counsel stating the letter of credit and its proceeds will not be subject to a Chapter 11 bankruptcy proceeding. The letter of credit must remain in place until the project is completed. In lieu of a letter of credit, the subrecipient may furnish a performance bond in an amount equal to the grant award. ALA reviewed 5 of 20 projects to determine if the letter of credit or performance bond for the appropriate amount was properly maintained by the subrecipient. ALA noted that a letter of credit was not maintained for the required amount for 1 of the 5 projects reviewed.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
ASBO management did not adequately monitor subrecipients to ensure compliance with letter of credit requirements.

Effect:
Failure to properly monitor subrecipients could result in noncompliance with federal laws and regulations.

Recommendation:
ALA staff recommend the Agency ensure subrecipients maintain a letter of credit in accordance with ASBO requirements.

Views of Responsible Officials and Planned Corrective Action:
ASBO acknowledges the auditor's observation that, for one project reviewed, the required irrevocable standby letter of credit was not maintained at the full amount required under ASBO procedures.

ASBO recognizes that ongoing monitoring of letter of credit requirements is an important safeguard to ensure subrecipient compliance and protect program funds. No questioned costs were identified in connection with this matter.

ASBO has implemented enhanced monitoring procedures to verify and document that required letters of credit or performance bonds are maintained at the appropriate level throughout the project period. This includes periodic verification and documented review to ensure continued compliance with program requirements.

Finding Number: **2025-017 (Continued)**
AL Number(s) and Program Title(s): **21.029 – Coronavirus Capital Project Funds**

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

Anticipated Completion Date: June 30, 2026

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF VETERANS AFFAIRS
FOR THE YEAR ENDED JUNE 30, 2024

Finding 1:

On June 3, 2025, the Agency notified us that, in May 2024, four employees of the Fayetteville Veterans Home were believed to be clocked in but were not actually at work. After an investigation by the Agency, it was determined that the individuals were paid a total of $561 for 26.77 hours that were not actually worked. Following the investigation, the four individuals' employment was terminated. As of report date, the improper payments had not been recovered.

In addition, we reviewed three pay periods and determined these same individuals received unapproved overtime pay totaling $6,635 during the pay periods reviewed.

Recommendation:

We recommend the Agency pursue recoupment of lost funds totaling $561.

Agency Response:

A recoupment process has been initiated by sending a "Collection of Debt" letter to each of the terminated employees describing the number of hours and dollar amount paid giving them 60 days to respond. If no response is received and the funds are not paid, ADVA will opt to collect an overpayment of salary or wages through a setoff against a State Income Tax refund by the authority of Ark. Code Ann. § 26-36-301 et seq.

ADVA is following the process set by OPM as follows: "State agencies opting to collect an overpayment of salary or wages through a setoff against a State Income Tax refund must send the debtor a Debt Collection Letter notifying the debtor of its intent to intercept the debtor's tax refund. The debtor is granted thirty (30) days to give written notice requesting a hearing concerning the validity of the debt. Debtors requesting a hearing within the timeframe must be granted a hearing by the agency according to the procedures established under the Administrative Procedures Act."

In addition, ADVA conducted a review to determine whether any additional compensation was issued for time not worked during FY24 and concluded that no viable mechanism exists to substantiate or verify potential time theft retroactively. The initial discovery of time theft was possible because the Fayetteville Veterans Home Administrator had access to camera footage capturing time clock usage within the preceding 30 days. However, because the camera system automatically overwrites footage every 30 days, prior time frames cannot be reviewed. Although it is not possible to evaluate earlier pay periods, ADVA has implemented strengthened verification procedures to confirm daily worked hours for all staff to prevent recurrence of similar issues going forward.

Another step taken to prevent the possibility of a similar theft of time violation occurring, the Fayetteville Veterans Home time clock was relocated into a reception area with 24/7 camera monitoring. The Administrator and Assistant Administrator have viewing rights to the recorded camera footage. Further, an Employee Time Detail Report (ZCATS_EVALTIME) is generated Monday-Friday each week for the Administrator for verification of staff recorded time for the previous day, or three days covering a weekend, and checked against the schedule to confirm all recorded staff were working their assigned shifts. Any time record discrepancies are immediately corrected and verified under the Administrator's direction resulting in verified staff attendance. This process prevents any fictitious time record from being paid erroneously. In addition, the ADVA Chief Information Officer (CIO) is evaluating a similar 24/7 surveillance system for verification of time clock use at the North Little Rock Veterans Home with platform access rights to review recorded data by the Home Administrator.

All ADVA staff have received additional training on the ADVA Attendance Policy requiring pre-authorization for schedule overtime shifts and disciplinary measures for infractions; the Code of Ethics, which prohibits falsification of records or receipt of any unauthorized payment; the Theft and Anti-Fraud Policy prohibiting payment for unworked hours; and the Workplace Professionalism Policy defining accountability and corrective measures for policy violations.

Lastly, ADVA strongly disagrees with the decision to list the information stated in paragraph two of the Theft of Time Report Finding as a theft of time matter. The finding states “In addition, we reviewed three pay periods and determined these same individuals received unapproved overtime pay totaling $6,635 during the pay periods reviewed.” We see this finding to be one not of time theft, but of missing overtime pay authorization documentation. Accordingly, we recommend the entry be moved to Item Three of the Report Findings, Overtime Pay Not Approved/Documented.

Finding 2:
During our review of expenditures, we identified a duplicate payment to a vendor for temporary employment services. Inadequate controls over disbursements resulted in a payment of $963 for services provided in April that was paid on June 23, 2024, and then paid again on June 26, 2024, for the same invoice.

Recommendation:
We recommend the Agency strengthen controls over disbursements by implementing procedures designed to detect and prevent duplicate payments of the same invoice and/or for the same services provided. On May 21, 2025, the Agency contacted the vendor, confirmed the overpayment, and requested a refund, which was received.

Agency Response:
ADVA acknowledges insufficient knowledge by and training of Fiscal Division (FD) staff in FY24 and part of FY25 in this area during a period of significant FD personnel turnover. Since a change in FD leadership in November 2024, the new ADVA Chief Fiscal Officer (CFO) has conducted many one-on-one training sessions with all fiscal staff. ADVA FD also created and implemented multiple standard operating procedures to be followed to eliminate the risk of unwarranted disbursements and the prevention of duplicated payments from recurring. Lastly, to improve compliance and oversight, ADVA FD instituted the following changes: Two positions, instead of one, maintain the APlog daily; two positions, instead of one, maintain the ADVAfiscal email, where invoices are received to be logged; and a second position responsible for the use of an AASIS Zwarrant report daily to match paid warrants to the APLog has been added. The CFO reviews transactions at the end of every month to look for duplicates and variances in normal spending, if provided.

Finding 3:
According to the Agency’s Employee Handbook – General Guidelines for overtime, “Employees may not work overtime without first obtaining prior written authorization from their supervisor.“ Our review of 24 instances in which employees at the Fayetteville Veterans Home received overtime pay revealed that 20 instances were not properly approved.

Recommendation:
We recommend the Agency strengthen controls regarding overtime pay and ensure compliance with written policy.

Agency Response:
No additional completed ADVA Staff Authorization to Earn Overtime forms were identified/located for the three pay periods noted. Consequently, the overtime amounts recorded for these periods cannot be verified as pre-authorized due to the absence of the required documentation. This lack of supporting evidence to demonstrate compliance with ADVA’s overtime authorization procedures has been identified as unacceptable adherence to established process. Accordingly, the Fayetteville Veterans Home and ADVA management have since implemented corrective measures to ensure that all overtime requests are properly approved, communicated, and retained to provide full oversight and accountability going forward.

Although this finding occurred at the Fayetteville Veterans Home, ADVA has implemented strengthened overtime (OT) pay controls at both State Veterans Homes and for both ADVA state employees and contract agency staff.

The ADVA staff OT pay controls have been strengthened to include these additional steps: (a) All scheduled overtime must be approved in advance by the Home Administrator by completion of the ADVA Staff Authorization to Earn Overtime form containing signatures from the staff member and the Home Administrator and date signed, and (b) Approved ADVA Staff Authorization to Earn Overtime forms must be submitted weekly to the LTC Division Director by the following Monday. Submissions are reviewed in coordination with the CFO and senior leadership to monitor usage and ensure accountability. The LTC Division Director will scan approved ADVA Staff Authorization to Earn Overtime forms, store in a Home's "Overtime Authorizations" network folder and distribute to senior leadership, CFO, and the Human Resources (HR) Administrator for review and final processing.

All scheduled contract agency OT must be approved in advance, after every alternate means of staffing the shift with regular hours has been exhausted, via the ADVA Agency Contract Staff Authorization to Earn Overtime form. In the Administrator's absence, the Assistant Administrator or the Director of Nursing may approve the overtime initially. The ADVA Contract Agency Staff Authorization to Earn Overtime is then sent to the LTC Division Director for review before providing the form to the ADVA Chief of Staff/Secretary for final approval. Approved ADVA Contract Agency Staff Authorization to Earn Overtime forms will be returned to LTC Division Director for storage in a Home's "Overtime Authorizations" network folder. Once all approvals are completed, the overtime shift can be worked. In the event of an emergency late at night or on weekends or holidays, the Administrator, Assistant Administrator, or Director of Nursing will complete the ADVA Contract Agency Staff Authorization to Earn Overtime form at the first opportunity and then provide it to the LTC Division Director for review prior to him providing the form to the ADVA Chief of Staff/Secretary for final approval.

These processes have been implemented to ensure all OT for either ADVA or contract agency staff is authorized and provides an effective audit trail for oversight and review.

ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF PUBLIC SAFETY
FOR THE YEAR ENDED JUNE 30, 2024

Finding 1:
Ark. Code Ann. § 19-4-1102 states that the executive head of an agency is responsible for establishing procedures and controls to ensure accurate payment of obligations. Using data analytics, we identified a duplicate payment of $3,683 issued to a vendor providing toxicology services to the Arkansas State Crime Lab. The duplicate payment was issued within a day of the original payment in April 2024. The Agency was unaware of the duplicate payment, until notified by Arkansas Legislative Audit (ALA) during April 2025. After notifying the vendor, the Agency received and deposited recoupment of the duplicate payment in June 2025. The failure of the Agency to prevent or identify duplicate payments could result in the loss of state funds.

Recommendation:
We recommend the Agency strengthen internal controls over disbursements to detect and prevent duplicate payments of the same invoice or for the same services.

Agency Response:
DPS Shared Services has trained new employees on how to correctly key the invoice number into AASIS to allow the system to generate a duplicate payment notification.

Finding 2:
Ark. Code Ann. § 19-4-804 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. State Board of Finance Rule 2012-A states that all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized, and the collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit. During our review of collateral, we noted a deficiency of $2,593,335 in collateral covering one bank's account balances of $11,645,795 at June 30, 2024. The cause of the deficit of collateral was due to the bank reflecting a security as collateral that was not actually pledged to the Arkansas State Police by the third-party custodian. This issue was brought to the attention of the bank In August 2023; however, the correction was not made until August 27, 2024. In the absence of adequate collateral, these funds were at risk of loss had there been a failure of the depository institution.

Recommendation:
We recommend the Agency analyze deposits with financial institutions throughout the year to ensure compliance with State Board of Finance policy and Arkansas law.

Agency Response:
DPS Shared Services is verifying each month with the bank and the third-party custodian that collateral is pledged to the Arkansas State Police.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Public Safety
For the Year Ended June 30, 2025

Finding Number:	**2025-033**
State/Educational Agency(s):	**Arkansas Department of Public Safety – Division of Emergency Management**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**97.036 – Disaster Grants (Public Assistance)**
Federal Awarding Agency:	**U.S. Department of Homeland Security – Federal Emergency Management Agency**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2025**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
In accordance with Appendix A of 2 CFR § 170, direct recipients of grants or cooperative agreements are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System.

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

Condition and Context:
ALA staff searched information on the USAspending.gov website to determine whether the Agency is reporting subawards as required and discovered no subaward/contractor information is reported for Disaster Grants (Public Assistance) by the Arkansas Division of Emergency Management (ADEM). ADEM staff confirmed that no awards had been reported to FFATA system.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Cause:
The Agency did not follow internal policies and procedures to ensure that first-tier subawards of $30,000 or more are reported to the FSRS or the System for Award Management (SAM).

Effect:
The Agency is not in compliance with Appendix A of 2 CFR § 170 and did not report first-tier subawards. Failure to file Federal Funding Accountability and Transparency Act (FFATA) subaward reports could result in the reduction or termination of future funding.

Recommendation:
ALA staff recommend the Agency strengthen controls by providing training on FFATA reporting requirements to ensure first-tier subawards are reported as required.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Public Safety
For the Year Ended June 30, 2025

Finding Number: **2025-033 (Continued)**

AL Number(s) and Program Title(s): **97.036 – Disaster Grants (Public Assistance)**

Views of Responsible Officials and Planned Corrective Action:

Arkansas Division of Emergency Management (ADEM) Public Assistance (PA) staff will receive training on FFATA reporting requirements and will follow established Department of Public Safety guidelines to ensure first-tier subawards are reported as required. ADEM PA staff will also establish internal Standard Operating Procedures to ensure that consistent FFATA reporting is accomplished as required.

Anticipated Completion Date: 4/30/26

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ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF EDUCATION
FOR THE YEAR ENDED JUNE 30, 2025

Finding 1:
Educational Freedom Accounts (EFA) are state-funded accounts used to cover approved educational expenses, including private school tuition, curriculum, tutoring, etc.

During our review of 746 expenses totaling $305,000 from 52 EFA accounts, we identified 3 exceptions totaling $1,666 comprised of the following:

1. One expense of $216 with insufficient supporting documentation includes an invoice that is not itemized.
2. One expense of $42 was a duplicate payment for a service already reimbursed. The receipt was submitted twice, approved by a different reviewer, and not recognized as previously paid.
3. One EFA account's expenditures exceeded their allocation amount by $1,407 due to a duplicate account created by Student First that was not detected and combined with the approved account when transferred to the new vendor, Class Wallet, mid-year. The Agency has since strengthened controls during the application process to prevent this type of error.

Recommendation:
We recommend the Agency continue to strengthen controls regarding record retention and duplicate payment of invoices.

Agency Response:
The Agency acknowledges the audit finding and agrees with the recommendation to implement internal controls to ensure EFA students are included in a duplicate enrollment review process.

The Agency has already taken corrective action and is further formalizing controls to strengthen enrollment verification, payment review, and anomaly detection across the EFA program. As part of this effort, the Agency has implemented a new homeschool database within the e-school system that supports routine cross-checks of EFA homeschool students against public school enrollment rosters. This enhancement is intended to improve early detection of potential duplicate enrollments and reduce the risk of duplicate payments or improper funding.

Corrective Actions and Internal Control Enhancements

1. Duplicate Enrollment Review Process (New Control)

To address the audit recommendation directly, the Agency has established a process to identify potential duplicate enrollment across EFA and public-school records. Key control enhancements include:

- Homeschool roster integration within the e-school system: EFA homeschool students are now maintained in a structured database environment that can be compared against public school enrollment rosters.
- Nightly duplicate enrollment reviews: The system supports nightly reviews and assessments of potential duplicate enrollments between:
  - the public school roster, and
  - the EFA homeschool roster.
- Case review and resolution workflow: Flagged records will be reviewed to determine whether:
  - the student is incorrectly coded,
  - the student is lawfully participating on a part-time basis (if applicable under program rules), or
  - an improper duplicate enrollment exists, requiring follow-up and potential recoupment action.

This control is designed to move the Agency from periodic/manual detection to a more continuous monitoring approach.

2. Anomalous Activity Report (Expanded Monitoring Control)

In addition to enrollment matching, the Agency is implementing an Anomalous Activity Report to identify broader program risks and data/payment anomalies.

The report is designed to flag potential issues, including, but not limited to:

- Duplicate payments
- Duplicate enrollments
- Duplicate households/accounts
- Other anomalies involving EFA rosters and expense payments

This monitoring tool will support program staff in proactively identifying exceptions for review and documenting corrective action before issues compound.

3. Expense Documentation and Reimbursement Control Improvements

The audit identified one expense with insufficient supporting documentation (non-itemized invoice). In response, the Agency is strengthening reimbursement review controls to ensure adequate documentation before approval.

Actions include:

- Reinforcing documentation standards requiring itemized invoices/receipts for reimbursement requests
- Clarifying reviewer expectations and escalation procedures when documentation is incomplete
- Standardizing review checklists to improve consistency across staff and vendors
- Requiring additional documentation before payment approval when a submission is not sufficiently detailed

4. Duplicate Payment Control Improvements

The audit identified one duplicate reimbursement payment for a service already reimbursed. To address this risk, the Agency is strengthening controls through both process and system monitoring.

Actions include:

- Enhanced reviewer checks for previously reimbursed transactions
- Use of anomaly reporting to identify potential duplicate payments
- Documentation of review and resolution steps for flagged duplicate-payment cases
- Ongoing coordination with the program vendor to improve duplicate detection logic where applicable

5. Duplicate Account / Allocation Overrun Control Improvements

The audit identified one account that exceeded its allocation due to a duplicate account created by the prior vendor (Student First) and later merged during the transition to ClassWallet. The Agency notes this was an isolated case tied to a mid-year vendor transition and that no other instances of overspending beyond allocation were identified in the audit population.

The Agency has since strengthened application and account setup controls to prevent recurrence, including:

- Improved account identity verification during application processing
- Enhanced duplicate account checks before account activation/funding
- Additional validation during account transfer/transition processes
- Reconciliation controls to ensure account balances and allocations align to one approved student record

Anticipated Completion Date: Completed.

Finding 2:
According to Act 237 of the Regular Session of 2023 (the LEARNS Act), the Division of Elementary and Secondary Education shall administer the Arkansas Children's Educational Freedom Account (EFA) Program. EFAs are state-funded accounts used to cover approved educational expenses, including private school tuition, curriculum, tutoring, etc.

During our review of the Agency controls implemented in state fiscal year 2025, we noted that the Agency identified 19 students enrolled full-time in a public school in the 2024-2025 school year who spent EFA funds totaling $58,751 in fiscal year 2025. Of the 19 students, 16 were enrolled in an online open-enrollment public charter school, and 3 were enrolled in a public school district. The recoupment process has yet to be fully developed.

Recommendation:
We recommend the Agency finalize procedures for recoupment when a duplicate payment is identified.

Agency Response:
The Division acknowledges the audit finding and agrees that the recoupment process for duplicate enrollment cases must be fully formalized and documented.

As noted, the EFA program is administered pursuant to the LEARNS Act, and EFA funds are intended only for eligible students who are not enrolled full-time in a public school while participating in the EFA program. When duplicate enrollment is identified, the Agency's corrective action strategy is to first determine the cause of the discrepancy and then apply the appropriate recoupment action.

Corrective Action / Recoupment Strategy

The Agency will finalize and implement written procedures to address duplicate enrollment findings using the following process:

1. Verification and Root Cause Review
    - ADE will review each flagged case to determine whether:
        - the EFA student was incorrectly coded in the public school student information/public school database, or
        - the EFA homeschool student was legitimately taking courses at a public school on a part-time basis but was incorrectly classified as full-time.
    - This review will include validation of enrollment status, coding, and attendance classification using available state and local records.

2. EFA Family Recoupment (when full-time public enrollment is confirmed)
    - If ADE confirms that an EFA student was enrolled full-time in a public school while also receiving EFA funds, the student was not eligible to receive EFA funds for that period.
    - In those cases, the State will establish a repayment plan with the family to recover EFA funds disbursed during the period of ineligible participation.
    - The repayment process will include notice to the family, calculation of the amount owed, and documentation of repayment terms and monitoring.

3. ADM Funding Recoupment from Public Schools (when a part-time homeschool student was misclassified)
    - If ADE determines that a homeschool/EFA student was enrolled only on a part-time basis in a public school, but the school received ADM funding due to an incorrect full-time classification, ADE will recoup the improperly allocated public funds.
    - ADE will do so by reducing future ADM funding to the public school/district/charter, as applicable, to recover the amount overpaid.

4. Documentation and Controls

- ADE will finalize written procedures defining:
    - case identification and review steps,
    - roles and responsibilities,
    - required documentation,
    - recoupment decision criteria,
    - notice and repayment procedures,
    - coordination between EFA and public school finance/data teams, and
    - tracking and closure requirements.
- ADE will also strengthen cross-check controls and periodic duplicate enrollment reviews to identify and resolve discrepancies earlier.

Anticipated Completion Date: Completed.

Finding 3:

The Commission for Arkansas Public School Academic Facilities and Transportation Rule 3.26, governing the Academic Facilities and Partnership Program, defines "project cost" as utilizing specific funding factors established by the Division, which serve as the basis for the estimated state financial participation for partnership projects per square foot. In our testing of 7 of 62 projects, we noted that the Agency used an incorrect project cost factor for 1 recipient because of a formula error in the cost factor computation sheet, resulting in an undercalculation of $659,863. The Agency has subsequently strengthened the controls over computation sheets by restricting cell formulas to administrative access only. Additionally, as a result of our review, the Agency corrected the undercalculation and created an amendment with the appropriate amount of funds for the district.

Lack of effective management review of the cost factor computation sheet could cause the state financial participation calculation to be incorrect.

Recommendation:

We recommend the Division continue to monitor and strengthen the review process over the Project Cost component of the calculation.

Agency Response:

Management Response: The Arkansas Department of Education concurs with the finding. The 2123 partnership cycle spreadsheet with this entity had a formula error in the cost factor computation, resulting in an undercalculation of $659,863.00. It was discovered that one of the spreadsheets within the Division's program of requirement had been unlocked, allowing the formula to be accessible to anyone. The Division has implemented a new procedure allowing only administrators access to the program through the requirement of passwords.

An amendment was created to correct the state financial participation in the formula.

Anticipated Completion Date: Completed.

Finding 4:

Section P1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide requires the bonded disbursing officer of an agency to report any losses of state funds to the State Chief Fiscal Officer and to the Arkansas Legislative Audit (ALA). Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or property. A report shall be made within 5 business days of the date the employee learns of the loss.

Also, in accordance with the Department of Finance and Administration (DFA) Financial Management Guide section P1-19-4-1503, the executive head of each agency shall be held accountable for all state property under his or her control and shall be responsible for keeping and maintaining a record of all inventory.

The following issues were noted during the audit:

- During testing of 30 deletions, we discovered that the Division of Career and Technical Education was informed on April 11, 2025, that one laptop valued at $2,534 was stolen. The Agency notified law enforcement and the State Chief Fiscal Officer of the incident but did not report the theft to Arkansas Legislative Audit as required.

- During the capital asset observation testing of 75 items, the Arkansas School for the Deaf and Blind was unable to locate a backhoe attachment purchased in 2006 for $8,080. The Agency performed an investigation that could not determine whether the asset was lost, stolen, or sent to Marketing and Redistribution in a prior year. The Agency notified law enforcement, the State Chief Fiscal Officer and Arkansas Legislative Audit, after Agency staff were unable to locate the asset for audit.

This failure to report these losses/thefts timely and update the AASIS inventory listing in a timely manner caused the Agency to be out of compliance with Section P1-19-4-2004 and P1-19-4-1503 of the DFA Financial Management Guide.

Recommendation:
We recommend the Agency continue to monitor and safeguard assets to prevent further occurrences of loss/theft and comply with P1-19-4-2004 and review AASIS inventory listing and remove all capital assets that are no longer in use or were disposed in a prior fiscal year to comply with P1-19-4-1503. This will ensure that the Agency's capital asset equipment amounts in AASIS are accurately reported going forward.

Agency Response:
The Arkansas Department of Education concurs with the finding and agrees with the recommendation to continue to safeguard assets and review the AASIS inventory listing to remove all assets that are no longer in use or were disposed of in a prior fiscal year. The ADE Financial Policy and Procedures Manual has been updated to include specific verbiage requiring the notification to Arkansas Legislative Audit in writing within five business days of any incident involving a loss.

The Arkansas School for the Deaf and Blind is strengthening its procedures and internal control for tracking state property perpetually to maintain accurate asset records. As a part of this effort, the Agency will be completing a total physical inventory of all assets listed within the AASIS fixed asset listing twice in the upcoming year.

ASDB is committed to improving the internal review procedures to ensure property records remain current and complete going forward. ASDB is committed to complying with P1-19-4-1503.

Anticipated Completion Date: May 1, 2027

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number:	**2025-008**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**SLFRP3627**
Federal Award Year(s):	**2021**
Compliance Requirement(s) Affected:	**Allowable Costs / Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

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

Condition and Context:
ALA staff selected five payments to literacy coaching contractors who provide services under the Literacy Empowerment Accountability Readiness Networking and School Safety (LEARNS) Act to determine if sufficient, appropriate documentation was maintained to support that reimbursements were made for allowable literacy coaching expenses. ALA review revealed the following:

- Of the 32 schools that received literacy coaching services from a contractor, 3 were randomly selected for testing. The Agency did not have adequate supporting documentation, including a description of daily activities performed by the contracted coach (e.g., a daily log), for two of the three schools. Questioned costs for this contractor totaled $109,557.
- Of the 22 schools that received literacy coaching services from a different contractor, 2 were randomly selected for testing. The Agency did not have adequate supporting documentation, including a description of daily activities performed by the coach (e.g., a daily log), for either of the schools. Questioned costs for this contractor totaled $36,000.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
$145,557 – SLFRP3627

Cause:
Discussion with Arkansas Department of Education (ADE) management indicates they were unaware of uniform guidance documentation requirements for costs charged to federal programs. In addition, the Agency did not have controls in place to ensure a review of documentation supporting invoices was properly performed prior to issuing payments.

Effect:
Payments to literacy coaching contractors may have been issued without the contractor performing the contractual obligations.

Recommendation:
ALA staff recommend the Agency strengthen controls by providing training to Agency personnel approving disbursements to literacy coaching contractors, as well as to literacy coaching contractors, to ensure all costs are adequately documented.

Finding Number: **2025-008 (Continued)**

AL Number(s) and Program Title(s): **21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)**

Views of Responsible Officials and Planned Corrective Action:

During the audit, initial evidence was submitted, including monthly and daily logs from vendor coaches to verify coaching activities. Additional documentation, including daily logs obtained from vendors, is available for review. Adjustments and recommendations that have resulted from this audit will be incorporated into future processes and requirements for vendor coaches, to further strengthen our oversight and ensure ongoing adherence to required standards.

There are procedures put into place to monitor vendor adherence to scheduled coaching days, with vendors consistently held to a high standard and expectation to fully complete contracted days by requiring vendors to do the following:

- Submit monthly evidence of coaching activities that align with contracted days. The Division Received monthly summaries from vendors detailing coaching support, activities, and specific dates when coaching was provided.
- Conduct scheduled site visits with state content leaders
- Complete monthly walkthroughs with school leaders, with consistency of walkthrough data being outcomes-based and providing tangible evidence that coaching actions directly supported the improvement of instructional programs. Data is collected through Jot Form and displayed on an Air Table Dashboard. This has been maintained since 2023.
- Hold ongoing meetings with district staff to review outcomes and address improvement areas, ensuring fulfillment of literacy coaching contracts under Agency requirements

Transparency and compliance remain a priority. Required documentation will continue to be accessible to support any future reviews.

Anticipated Completion Date: Continuous.

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number:	**2025-009**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)**
Federal Awarding Agency:	**U.S. Department of the Treasury**
Federal Award Number(s):	**SLFRP3627**
Federal Award Year(s):	**2021**
Compliance Requirement(s) Affected:	**Procurement and Suspension and Debarment**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
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:
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 13 unique entity identifiers to determine if the Agency was in compliance with the requirement. The Agency failed to ensure two vendors, with agreements executed between September 2024 and October 2024, were registered with SAM prior to the Agency's issuance of subawards to them.

Statistically Valid Sample:
Not a statistically valid sample.

Questioned Costs:
None

Cause:
The Agency failed to adhere to documented internal control procedures and did not provide oversight to ensure vendors receiving federal funding were monitored to determine federal exclusion.

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 strengthen internal controls by developing, documenting, and establishing policies to ensure contracts and grant agreements are only issued to eligible entities.

Views of Responsible Officials and Planned Corrective Action:
During the audit, it was noted that for a federally funded contract exceeding $25,000, documentation was not maintained to demonstrate that the vendor was verified as not suspended or debarred through Sam.gov as required by ADE policy and federal regulation.

We acknowledge that the required verification was not documented. This occurrence was an oversight in our internal contract review process and a lack of standardized checklist to ensure verification was completed and retained.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number: **2025-009 (Continued)**

AL Number(s) and Program Title(s): **21.027 – COVID 19: Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)**

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

Upon identification of this finding, we have taken the following corrective action:

1. Immediate corrective action: We are working with the identified vendors to register in Sam.gov.
2. Process Improvement: Documentation of Sam.gov verification will be printed/saved and added to the contract file for all contracts using federal funds over $25,000.
3. Training: Relevant staff responsible for procurement and contract management have been trained in federal suspension and debarment requirements and ADE policy.

DESE is committed to full compliance with federal requirements and ADE policy. These corrective actions are designed to ensure that suspension and debarment verification is consistently performed and properly documented for all applicable federally funded contracts going forward.

Anticipated Completion Date: Completed.

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number:	**2025-018**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.575 – Child Care and Development Block Grant** **93.575 – COVID19: Child Care and Development Block Grant** **93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **(CCDF Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**2101ARCDC6; 2402ARCCDF; 2502ARCCDF**
Federal Award Year(s):	**2021, 2024, 2025**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 98.65(g), and as part of the and conditions of the grant award, states are required to complete and submit quarterly financial status reports (ACF-696) in a manner specified by Administration for Children and Families (ACF) for each fiscal year until funds are expended.

In addition, 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.

Condition and Context:
Multiple state agencies administer the CCDF Cluster. The Arkansas Department of Education (ADE) is responsible for more than 99% of cluster activities. ALA staff compared total expenditures reported for SFY 2025 by ADE on the ACF-696 reports with the total expenditures reported by ADE on its portion of the Schedule of Expenditures of Federal Awards (SEFA). The total expenditures reported by ADE on its ACF-696 reports for SFY 2025 was $14,561,147 less than the amount reported by ADE on its portion of the SEFA.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not ensure that staffing was adequate to meet the reporting requirements for this grant.

Effect:
Failure to accurately report grant expenditures could result in undetected noncompliance with program requirements and potential penalties being assessed by the awarding agency.

Recommendation:
ALA staff recommend the Agency ensure there is adequate staff to achieve full compliance with program reporting requirements.

Views of Responsible Officials and Planned Corrective Action:
DESE concurs with this finding. Staff turnover resulted in missed reporting on the ACF-696 reports. New procedures have been put into place for cross-training and quarterly reconciliations to prevent future expenditure reporting on the ACF-696 report from being missed.

Finding Number:	**2025-018 (Continued)**
AL Number(s) and Program Title(s):	**93.575 – Child Care and Development Block Grant** **93.575 – COVID19: Child Care and Development Block Grant** **93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **(CCDF Cluster)**

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

Anticipated Completion Date: Completed.

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number:	**2025-019**
State/Educational Agency(s):	**Arkansas Department of Education**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.575 – Child Care and Development Block Grant** **93.575 – COVID19: Child Care and Development Block Grant** **93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **(CCDF Cluster)**
Federal Awarding Agency:	**U.S. Department of Health and Human Services**
Federal Award Number(s):	**2101ARCDC6; 2402ARCCDF; 2502ARCCDF**
Federal Award Year(s):	**2021, 2024, 2025**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 98.65(g), and as part of the terms and conditions of the grant award, states are required to complete and submit quarterly financial status reports (ACF-696) in a manner specified by Administration for Children and Families (ACF) for each fiscal year until funds are expended. Those instructions state that those reports are due on the last day of the month following the end of the previous quarter.

Condition and Context:
ALA staff reviewed the submission dates for each of the quarterly reports with required submission dates during the 2025 state fiscal year as well as the reports due for the quarter ended June 30, 2025. Of the 8 required reports, 2 were not submitted timely. The reports for the quarters ended June 30, 2024, and September 30, 2024, for the 2024 grant were submitted on January 28, 2025, 89 and 181 days past their respective due dates.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency did not ensure that staffing was adequate to meet the reporting requirements for this grant.

Effect:
Failure to report grant expenditures timely could result in undetected noncompliance with program requirements and potential penalties assessed by the awarding agency.

Recommendation:
ALA staff recommend the Agency ensure that there is adequate staff to achieve full compliance with program reporting requirements.

Views of Responsible Officials and Planned Corrective Action:
DESE concurs with this finding. Staff turnover resulted in missing the reporting submission deadlines for the ACF-696 reports. New procedures have been put into place for cross-training and quarterly reconciliations to prevent future expenditure reporting on the ACF-696 report from being missed.

Anticipated Completion Date: Completed.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Education
For the Year Ended June 30, 2025

Finding Number:	**2025-019 (Continued)**
AL Number(s) and Program Title(s):	**93.575 – Child Care and Development Block Grant** **93.575 – COVID19: Child Care and Development Block Grant** **93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **(CCDF Cluster)**

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

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-003**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.646 - Summer Electronic Benefit Transfer Program for Children**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**246AR303N1175**
Federal Award Year(s):	**2024**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

Criteria:
The Summer Electronic Benefit Transfer Program for Children (Summer EBT/S-EBT) is subject to the requirements of 31 CFR Part 205, Subpart B, including that the State must minimize the time between the drawdown of federal funds from the federal government and the disbursement for federal program purposes. Further, the regulations state that the timing and amount of funds transferred must be as close as is administratively feasible to a state's actual cash outlay for direct program costs.

Additionally, 7 CFR § 292.21(6) states that the financial management systems for program funds in Summer EBT must provide controls that minimize the time between the receipt of federal funds from the United States Treasury and their disbursement for program costs. In the Letter of Credit system, the Summer EBT agency must make drawdowns from the U.S. Treasury as nearly as possible to the time of making the disbursements.

The U.S. Department of Agriculture (USDA) issued guidance that defined the federal share of expenditures as disbursements for direct charges related to Summer EBT benefits. This guidance further defined the federal share of unliquidated obligations as the value of benefits that have been issued to participants but for which no cash disbursements have been made. Based upon this guidance, expenditures or disbursements under the Summer EBT program are incurred when participants have used the issued benefits to purchase food at an approved retailer.

Initial guidance for state implementation, issued by the USDA on June 7, 2023, in Memo SEBT 01-2023, states that "at the point of redemption, the State will draw funds from the FNS-provided Summer EBT benefit grant through the associated Automated Standard Application for Payments (ASAP) account."

Condition and Context:
The Arkansas Department of Human Services (DHS) established the Summer EBT program through AASIS, the State's accounting system, to allow for the drawdown of federal funds and the recording of expenditures in the accounting system. From June 2024 through November 2024, the Agency initiated drawdowns of federal funds totaling $35,220,720 into a State Treasury fund. The funds were then transferred to a commercial bank account, and an expenditure was recorded for the Summer EBT program in AASIS. While reviewing the revenue and expenditure transactions, ALA discovered that DHS did not base the drawdowns on actual expenditures for Summer EBT benefits. Rather, the drawdowns were comprised of benefits that were approved to be issued on participants' EBT cards for the Summer 2024 operational period. Each of the 293,503 recipients, identified by DHS, for the Summer 2024 operational period was issued benefits of $120, resulting in $35,220,720 in funds drawn. Because expenditures were not based on participants' actual food purchases, federal funds were drawn in advance of program expenditures.

DHS contracted with a third-party vendor to manage the Summer EBT cards. DHS was responsible for drawing down funds from the federal awarding agency through the ASAP system and then transferring the funds to the commercial bank account used for the settlement of participants' food purchases. The third-party vendor made daily withdrawals from the bank account to cover card activity of participants' food purchases. Based on the agreement between DHS and the vendor, funds to cover the issuance amount loaded on each card were drawn and deposited in the bank account at the time the cards were loaded and issued to the participants, not as the expenditures occurred.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-003 (Continued)**

AL Number(s) and Program Title(s): **10.646 - Summer Electronic Benefit Transfer Program for Children**

Condition and Context (Continued):
Participants have 122 days to spend the Summer EBT benefits. After the 122 days, the benefits are expunged from the EBT cards. As of June 30, 2025, $30,214,545 in benefits has been used by participants on food purchases for the Summer 2024 operational period. Because 122 days had passed since benefit issuance, $5,006,175 was expunged from the cards, and the State was required to return these unused funds to the federal grantor. The State was unaware of the expunged balance until notified by auditors and, therefore, had not returned the funds to the federal grantor as of end of fieldwork.

Statistically Valid Sample:
Not applicable

Questioned Costs:
$5,006,175

Cause:
The Agency did not properly review the guidance for drawing funds for the Summer EBT program, causing the Agency to draw funds prior to incurring expenditures. Additionally, the Agency did not have adequate procedures in place to identify unused benefits, which were required to be returned to the federal awarding agency.

Effect:
DHS recorded program expenditures that were not supported, received federal funds in advance of program expenditures, and did not minimize the time between the drawdown of federal funds from the federal government and the disbursement for federal program purposes. In addition, the Agency failed to track the amount of issuances not used by the participants at the end of the allowable period and failed to return the expunged funds to the federal awarding agency.

Recommendation:
ALA staff recommend the Agency ensure recorded expenditures are supported by program expenditures, develop a method to minimize the time between the recognition of expenditures and the drawdown of federal funds, and ensure any excess funds drawn are returned to the federal awarding agency timely.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has updated its internal procedures to comply with FNS guidance that requires Summer EBT funds to be drawn down after expenditures are made. All funds expunged from EBT cards are in the process of being returned to FNS.

Anticipated Completion Date: 3/31/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-004**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.646 - Summer Electronic Benefit Transfer Program for Children**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**246AR303N1175 and 256AR303N1175**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
No applicable

Criteria:
Per 7 CFR § 292.6, children eligible for the Summer Electronic Benefit Transfer Program for Children (Summer EBT/S-EBT) include those who, at any time during the period of eligibility are:

- School-aged and categorically eligible,
- Enrolled in a National School Lunch Program (NSLP)/School Breakfast Program (SBP) participating school, and:
    - Categorically eligible;
    - Meet the requirement to receive free or reduced price meals as determined through an NSLP/SBP application;
    - Otherwise are determined eligible to receive a free or reduced priced meal; or
    - Determined eligible through a Summer EBT application.
- Enrolled in a special provisional school, and:
    - Categorically eligible;
    - Otherwise meets the requirements to receive free or reduced price meals, as determined through an NSLP/SBP application; or
    - Determined eligible through a Summer EBT application.

Categorically eligible means considered income eligible for Summer EBT, as applicable, based on documentation that a child is a member of a *household* and one or more children in that household are receiving assistance under *Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families,* or *Food Distribution Program on Indian Reservations,* or another means tested program, as approved by the Secretary. A *foster child, homeless child,* a *migrant child,* a *Head Start child,* and a *runaway child* are also categorically eligible. The terms “categorical eligibility” and “automatic eligibility” may be used synonymously.

Per 7 CFR § 292.14(a)(2), the State is required to complete a verification sample equal to 3% of all approved paper and electronic applications from February 1 through April 1. The Agency elected to use an alternative method for verification sample review, which was approved by the federal awarding agency in the Summer 2025 Plan for Operations and Management (POM). The alternative method modified the review period to all approved applications for the months of February, March, and April 2025.

Condition and Context:
ALA reviewed 40 children (from a population of 293,444) who received Summer EBT benefits for Summer 2024 and 40 children (from a population of 336,059) who received benefits for Summer 2025. The review was performed to ensure the child receiving the benefit was determined to be categorically eligible or eligible through a paper/electronic application. Our review resulted in the following instances of noncompliance and control deficiencies:

- In one instance for Summer 2024, a child was approved as both categorically eligible and through a paper/citizen portal application, resulting in a duplication of benefits issued to the recipient.
- In one instance for Summer 2025, the Agency was not able to provide ALA with the record used to determine eligibility. The issuance file indicated the child was categorically eligible through the National School Lunch Program. However, the Department of Education file provided to ALA identified the child as having full paid lunch status and, therefore, not a participant in the National School Lunch program.

Finding Number: **2025-004 (Continued)**
AL Number(s) and Program Title(s): **10.646 - Summer Electronic Benefit Transfer Program for Children**

Condition and Context (Continued):

- Additional data analytics performed on the issuance files for Summer 2024 and Summer 2025 identified potential duplication of benefits of $501,000 (4,175 recipients) for Summer 2024 and $609,120 (5,076 recipients) for Summer 2025.

Additionally, the Agency failed to meet the minimum verification sample requirements as defined at 7 CFR § 292.14(a)(2). When identifying the total approved paper/citizen portal applications to sample, the Quality Control Unit included all approved applications from February 2025 through May 7, 2025. Based on documentation provided by the Quality Control Unit, approved applications from this period totaled 1,384. The Agency was required to review 3%, or 41, of the approved applications; however, supporting documentation provided by the Agency demonstrated that only 25 approved applications (1.8% of the population) were reviewed.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
246AR303N1175 - $120

256AR303N1175 - $120

(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 failed to adequately implement internal controls to prevent and detect benefits issued to children who were not eligible for the Summer EBT program or the duplication of benefit issuances. Additionally, the Agency did not implement adequate controls to ensure that the Quality Control Unit met the requirement to review 3% of the approved applications.

Effect:
Summer EBT funds were issued to potentially ineligible children, and some children received a duplication of benefits.

Recommendation:
ALA staff recommend the Agency strengthen controls to ensure only eligible children receive Summer EBT benefits, benefits are issued to each eligible child only once, and documentation is maintained to support eligibility determinations. Additionally, ALA staff recommend the Agency strengthen controls to ensure the minimum verification sample requirements are met and documented.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs, in part, and disagrees, in part with this finding. The DCO ARIES team analyzed all potential duplicates for 2024 and 2025. DCO considers 59.1% of the records to not be duplicates, because the records have different SSN's and dates of birth. A total of 35.9% of cases have the same date of birth but different SSN's and are potential duplicates. DCO is in the process of reviewing these cases to determine if any system or process adjustments are needed to prevent potential duplicates in the future. The remaining potential duplicates identified by ALA have already been resolved or are being investigated. A refresher training will be conducted with staff who determine eligibility and issue benefits for the Summer EBT program before the program starts in 2026.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-004 (Continued)**

AL Number(s) and Program Title(s): **10.646 - Summer Electronic Benefit Transfer Program for Children**

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

DCO disagrees that it did not meet the minimum sample verification requirements. A sample of 3% of approved applications received were reviewed according to the 2025 Plan of Operational Management that was approved by FNS.

Anticipated Completion Date: 6/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-005**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.646 - Summer Electronic Benefit Transfer Program for Children**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**246AR303N1175**
Federal Award Year(s):	**2024**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

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

Per U.S. Department of Agriculture, Food and Nutrition Service (FNS) guidance for the Summer Electronic Benefit Transfer Program for Children (Summer EBT/S-EBT), issued on June 13, 2024, in Memo SEBT 04-2024, the Form SF-425 S-EBT report will provide FNS with the financial data necessary to monitor and closeout the Summer EBT benefit grant. The overarching concept of this financial status report is to document the approved total grant level and the value of Summer EBT benefit issuances as they move from issuances (unliquidated obligations) to redemptions (outlays), net of expungements and other de-obligations. Summer EBT benefit expungements should be reported within the bounds of the fiscal year of the summer operational period for which the benefits were intended. If S-EBT benefits are expunged after September 2024, the benefit expungement should be reported as a reduction of the federal share of expenditures on the September 2024 SF-425 S-EBT report.

Condition and Context:
The Agency's Division of Managerial Accounting staff prepare the required federal financial reports for the Summer EBT program.

ALA reviewed the annual SF-425 S-EBT report for federal fiscal year 2024 to ensure the Agency completed the form based on the federal awarding agency instructions and that the annual report included cumulative expenditures through September 30, 2024.

The amount reported on row 10e of the annual report should represent the sum of cash disbursements for direct charges, net any decreases due to Summer EBT benefit expungements and de-obligations. The Agency failed to reduce the report amount by Summer EBT benefit expungements. As a result, the total federal share of expenditures was overstated by $5,006,175.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Cause:
Agency staff did not adequately review instructions published by the federal awarding agency detailing reporting requirements or receive proper training on how to complete the required federal financial reports.

Effect:
Inaccurate data was submitted on the FNS-425 S-EBT annual financial report.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-005 (Continued)**

AL Number(s) and Program Title(s): **10.646 - Summer Electronic Benefit Transfer Program for Children**

Recommendation:
ALA staff recommend the Agency adequately train staff completing the federal reports to ensure correct information is reported. ALA staff also recommend the Agency strengthen controls over reporting to ensure that amounts reported are accurate, complete, and in compliance with federal reporting requirements.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has updated its internal procedures to comply with FNS guidance on completion of the FNS-425 S-EBT annual financial report. Staff have been trained on the updated procedures.

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-006**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**10.646 - Summer Electronic Benefit Transfer Program for Children**
Federal Awarding Agency:	**U.S. Department of Agriculture**
Federal Award Number(s):	**246AR303N1175**
Federal Award Year(s):	**2024**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Repeat Finding:
Not applicable

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

Additionally, in accordance with 7 CFR § 292.23, Summer Electronic Benefit Transfer Program for Children (Summer EBT/S-EBT) agencies must report participation and issuance monthly. These reports include the FNS-46 S-EBT Issuance Reconciliation Report and the FNS-388 S-EBT State Issuance and Participation Estimates Report.

Per the U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS), the Form FNS-46 S-EBT report is an issuance reconciliation report used to account for benefits issued during a report month. The report is also used to identify and report card expungements. An expungement is defined as the removal of Summer-EBT benefits from the EBT account to which they were issued. The funds loaded on the EBT card for the Summer EBT program are available for 122 days, as allowed by 7 CFR § 292.15(h).

Per FNS guidance issued June 13, 2024, in Memo SEBT 04-2024, to ensure the fiscal year integrity of the FY 2024 S-EBT benefit grant, Summer EBT benefits intended for the FY 2024 summer operational period, but issued after September 30, 2024, should be reported as September data on the FNS-46 S-EBT. In addition, Summer EBT benefit expungements should be reported within the bounds of the fiscal year of the summer operational period for which the benefits were intended. The S-EBT Agency should provide the final amount of federal fiscal year 2024 benefits issued (including benefit expungements) in September and any month after September within the September 2024 FNS-46 S-EBT Report. This approach will allow FNS to capture all financial activity related to FY 2024 S-EBT benefits within FY 2024 reports.

Condition and Context:
The Agency's Division of Managerial Accounting staff prepare the required federal financial reports for Summer EBT. The FNS-46 S-EBT Issuance Reconciliation Report is used to account for benefits issued during a report month.

ALA completed a reconciliation between the monthly FNS-46 S-EBT Financial Reports submitted for June 2024 – November 2024 and the benefit data obtained from DHS ARIES (Arkansas Integrated Eligibility System) relating to the 2024 Summer EBT program. Testing revealed the following discrepancies:

- The Agency failed to report correct monthly issuance totals for Summer 2024 issuances. Amounts reported on the FNS-46 S-EBT for June, July, August, September, October, and November 2024 do not trace to the ARIES Issuance file submitted to the third-party vendor for card upload. Additionally, the Agency failed to accurately identify and report card expungements on FNS-46 S-EBT reports submitted to the federal awarding agency for Summer 2024.
- Before the ARIES Issuance file was generated, the Agency manually accumulated information to complete the FNS-46 report. Total issuances reflected on the FNS-46 reports do not match the Agency's supporting documentation for five months (June, July, August, October, and November 2004).
- The Agency failed to combine activity after September 2024 in the September 2024 report, as instructed by USDA FNS. Instead, separate FNS-46 S-EBT reports were completed by the Agency for October and November 2024.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-006 (Continued)**

AL Number(s) and Program Title(s): **10.646 - Summer Electronic Benefit Transfer Program for Children**

Condition and Context (Continued):
The total Summer EBT issuances reported on the form FNS-46 S-EBT report for Summer 2024 were overstated by $1,848,000, and the total Summer EBT expungements reported on the form FNS-46 S-EBT report for Summer 2024 were understated by $5,003,859.

ALA reviewed documentation to determine that the FNS-46 S-EBT and FNS-388 reports were properly reviewed and approved prior to submission to the federal awarding agency for the six monthly reports submitted during state fiscal year 2025. In two instances (August 2024 and September 2024), the FNS-46 S-EBT report was completed, reviewed, and submitted by the same individual. Additionally, in one instance (June 2024), the Agency was not able to provide evidence of review of the FNS-388 report prior to submission.

Statistically Valid Sample:
Not Applicable

Questioned Costs:
None

Cause:
Agency staff did not receive proper training on how to complete the required federal financial reports. Additionally, the Agency failed to properly review the federal financial reports prior to submission.

Effect:
Inaccurate data was submitted on the FNS-46 S-EBT monthly federal financial reports for Summer 2024 issuances and Summer 2024 expungements.

Recommendation:
ALA staff recommend the Agency strengthen controls over reporting to ensure that amounts reported are accurate, complete, and properly supported by appropriate records to ensure compliance with federal laws and regulations. ALA staff also recommend the Agency continue to strengthen controls to ensure the monthly FNS-46 S-EBT and FNS-388 S-EBT reports are properly completed and reviewed prior to submission.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The agency has updated its internal procedures to comply with FNS guidance on completion of the FNS-46 S-EBT and FNS-388 S-EBT reports. All noted reports have been revised, if necessary, reviewed, and certified. Staff have been trained on the updated procedures.

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-020**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.658 – Title IV-E Foster Care**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2401ARFOST; 2501ARFOST**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 75.303, the auditee must establish and maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and terms and conditions of the federal award. This includes adequate procedures to ensure payments are made only on behalf of eligible children

Condition and Context:
Beginning April 4, 2020, the Agency developed a reconciliation report between the Children's Reporting and Information System (CHRIS) and KidCare titled "Child Care IV-E Reconciliation Report." The report is designed to identify payments where the "paid subcategory type" and the "CHRIS claimability Status" columns do not agree to the logic identified as Title IV-E eligible. Payments identified as not claimable for Title IV-E funding on the reconciliation report are reviewed, and a correcting entry is made in AASIS, the State's accounting system.

The Reconciliation Report includes daycare payments made utilizing Title IV-E funding on behalf of 109 foster children who were not eligible at the time for Title IV-E. Our review of the Reconciliation Report included verifying that funding corrections were made for a sample of 11 foster children. The following discrepancies were noted.

- Ten children for which daycare payments were identified as incorrectly paid using Title IV-E funds per the Reconciliation Report were not corrected. The total IV-E adjustment not made equaled $9,920.

Subsequent to the 2025 state fiscal year, the Agency updated the IV-E Reconciliation Report. The original Reconciliation Report did not include children who had exited foster care, and daycare services continued to be paid using Title IV-E funds. In July 2025 (SFY2026), an update was made to the Reconciliation Report to include daycare payments made for children after exiting care. The updated Reconciliation Report showed approximately $23,700 more in corrections needed for daycare services incorrectly paid using Title IV-E funds for the period July 1, 2024 through June 30, 2025. The Division of Children and Family Services (DCFS) was notified on August 7, 2025, of the additional corrections needed. No adjustments were made by DCFS to correct the noted errors.

ALA performed an additional test review a selection of daycare payments from the KidCare database made with Title IV-E foster care funds. The database included payments totaling $3,119,250 made on behalf of 817 foster children using Title IV-E funds. The ALA review included daycare payments made on behalf of 60 foster children. Each child's eligibility status was verified using CHRIS. The following discrepancies were noted:

- Seven children exited foster care, but daycare benefits totaling $5,244 were paid.

Statistically Valid Sample:
Not a statistically valid sample

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-020 (Continued)**

AL Number(s) and Program Title(s): **93.658 – Title IV-E Foster Care**

Questioned Costs:
2501ARFOST – $12,465
2401ARFOST – $ 2,699

(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:
Daycare payments are made with Title IV-E funds after a child has exited care due to a delay in updating eligibility status in CHRIS. When the revised Reconciliation Report (which was updated to include children who had exited care) was provided to DCFS noting additional IV-E overpayments, DCFS staff elected to not make corrections.

Effect:
Title IV-E foster care funds were used for unallowable activities.

Recommendation:
ALA staff recommend the Agency strengthen controls to ensure corrections are made for all payments identified on the Reconciliation Report as incorrectly paid with Title IV-E funds.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The reconciliation process will be revised to specify steps to identify clients that are eligible to receive Title IV-E funding and the process to update their IV-E status. The agency could not make the necessary corrections in AASIS when notified of the deficiency due to the expenses being posted in the prior fiscal year. All necessary adjustments will be made on the quarterly report for the period ending on 3/31/26.

Anticipated Completion Date: 4/30/26

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-021**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.658 – Title IV-E Foster Care**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2401ARFOST; 2501ARFOST**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
In accordance with 45 CFR § 75.400(a), the non-federal entity is responsible for the efficient and effective administration of the federal award through the application of sound management practices.

In addition, 45 CFR § 75.303(a) requires the State 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 federal award.

Also, 45 CFR § 75.326 states when procuring property and services under a federal award, a state must follow the same policies and procedures it uses for procurements from its non-federal funds.

Lastly, Chapter 604 of the Arkansas Department of Human Services Administrative Procedures Manual states that during the term of the contract, the division/office shall monitor and complete sufficient performance evaluation(s) to determine if the contractor's performance is satisfactory or unsatisfactory.

Condition and Context:
The Foster Care Title IV-E program provides federal matching funds for maintenance assistance payments to provide safe and stable out-of-home care to eligible children placed in qualifying foster care settings. The Department has entered into contracts with various vendors to provide many of the foster care settings. Placement contracts represent a direct federal cost of $6,756,399, which represents 16.8% of total Title IV-E expenditures for state fiscal year 2025. These contracts include Therapeutic Foster Care, Private License Placement Agencies (including Specialized), Qualified Residential Treatment, and Supervised Independent Living. These foster care settings include (but are not limited to) the following financial contract deliverables;

- Specialized Private License Placement Agency & Private License Placement Agency: The contractor must provide a minimum percentage of the monthly contract payment to the foster parents.
- Therapeutic Foster Care: The contractor must provide a minimum percentage of the monthly contract payment to the foster parents.
- Qualified Residential Treatment Facility: Foster Care board payments (clothing and personal needs) paid to the contractor for each child shall be used exclusively for that client's needs, with monthly documentation detailing the use of the funds for each client.
- Supervised Independent Living: Contractor must provide young adults a monthly stipend of $400.

Discussion with Department staff concerning how the Department monitors the contracts to ensure contractors are performing satisfactorily revealed that while the Department has procedures in place to monitor the compliance of minimum licensing standards and contract deliverables regarding the immediate care of the children in foster care, they do not have adequate procedures in place to monitor the financial deliverables required. The Agency relies on a contractor self-certification of compliance and on complaints to trigger additional monitoring.

Statistically Valid Sample:
Not applicable

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-021 (Continued)**

AL Number(s) and Program Title(s): **93.658 – Title IV-E Foster Care**

Questioned Costs:
None

Cause:
The Department did not establish adequate controls over the monitoring of the financial deliverables/contractor's performance for the placement contracts.

Effect:
Failure to establish appropriate procedures for internal controls limits the Agency's ability to adequately monitor the program for possible improper payments and noncompliance. Contractors' performance of the contract may be unsatisfactory. Funds received by contractors could be used for unallowed purposes. Additionally, foster parents paid through a placement contract may not receive the full board payment as required by the contract, resulting in a lower number of available homes, and foster children who are entitled to funds as specified in the contract may not be receiving the appropriate amount to prepare them to live independently. Lastly, contractors' noncompliance with these financial deliverables could lead to adverse publicity and could affect future funding.

Recommendation:
ALA staff recommend the Agency establish, and document controls related to monitoring the performance of contract deliverables, specifically the financial deliverables.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. DCFS will update its internal controls to require monthly review of contractor financial deliverables.

Anticipated Completion Date: 4/30/26

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-022**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Applicable**
AL Number(s) and Program Title(s):	**93.658 – Title IV-E Foster Care**
Federal Awarding Agency:	**U.S. Department of Human Services**
Federal Award Number(s):	**2401ARFOST; 2501ARFOST**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
In accordance with 42 USC § 672, foster care maintenance payments may be made only on behalf of a child who is in a licensed foster family home or child-care institution. Licensing requirements are outlined in the Child Welfare Agency Licensing Act (Ark. Code Ann. § 9-28-401 et seq.).

The foster family home provider must have satisfactorily met a (1) criminal records check, including (2) fingerprint-based checks of national crime information databases (FBI Check - "Non-State Criminal Record), with respect to prospective foster and adoptive parents (42 USC 671(a)(20)(A)). The State of Arkansas extended these requirements to all adult household members in foster family homes per the Child Welfare Agency Licensing Act (Ark. Code Ann. §§ 9-28-409(b)(1)(E) and 9-28-409(c)(1)(E)).

The foster family home provider must satisfactorily have met a child abuse and neglect registry check on prospective foster and adoptive parents and any other adult or child 14 years and older living in any home, as outlined in 42 USC § 671 (a)(20)(B) as well as Ark. Code Ann. §§ 9-28-409(a)(1)(C) and 9-28-409(b)(2).

Condition and Context:
ALA selected 60 foster children from a population of 2,021 foster children for which as least one Title IV-E board payment was made during the state fiscal year. The 60 children selected were placed in various foster resource homes during the year, which included 81 foster family homes and 7 child-care institutions. The official record of child welfare information is maintained by the Division of Children and Family Services (DCFS) in the Children's Reporting and Information System (CHRIS), the automated case management tool. ALA's review of the required background checks for all appropriate household members in the 81 foster family homes and 7 child-care institutions resulted in the following deficiencies:

- For one provider home, DCFS documented in CHRIS that a child maltreatment central registry check for both foster parents was run on October 10, 2023. However, per the Central Registry Unit, a Child Maltreatment Central Registry check for the two individuals was never performed. Title IV-E board payments were claimed from April 9, 2024 through December 18, 2024, on three children who were placed in the home. Title IV-E payments made on behalf of the foster care children totaled $16,860.
- For one provider home, DCFS documented in CHRIS that a child maltreatment central registry check for both foster parents was run on June 15, 2023. However, per the Central Registry Unit, a Child Maltreatment Central Registry check for the two individuals was never performed. Title IV-E board payments were claimed from January 1, 2024 through November 1, 2024 on three children who were placed in the home. Title IV-E payments made on behalf of the foster care children totaled $17,526.
- For one provider home, DCFS documented in CHRIS that a state criminal background check for a provider household member was run on August 22, 2024. However, per the Arkansas State Police system, a state criminal background check was never run for the individual. One foster care child was placed in the home during the time the household was not in compliance. Title IV-E payments made on behalf of the foster care child totaled $1,916.

Statistically Valid Sample:
Not a statistically valid sample

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-022 (Continued)**

AL Number(s) and Program Title(s): **93.658 – Title IV-E Foster Care**

Questioned Costs:
2401ARFOST maintenance – $28,194
2401ARFOST administrative – $658
2501ARFOST maintenance – $7,450

Cause:
Staff failed to ensure that all required checks had been completed. Staff also documented in CHRIS, the Agency's official record, that the required background checks were completed when no check was processed. The CHRIS system allowed erroneous data to be entered without proper support.

Effect:
Title IV-E foster care funds were paid to foster family home providers that did not meet all requirements to be fully licensed.

Recommendation:
ALA recommends the Agency follow compliance regulations to ensure background check requirements are met for all individuals residing in the resource home. ALA also recommends the Agency strengthen controls to ensure the information recorded in CHRIS is accurate.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. DCFS will conduct a review to determine if additional controls are needed to ensure that foster homes complete all required checks. All improper Title IV-E payments will be returned on the next CB-496 quarterly report.

Anticipated Completion Date: 4/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-023**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**Not Application**
AL Number(s) and Program Title(s):	**93.658 – Foster Care Title IV-E**
Federal Awarding Agency:	**US Department of Health and Human Services**
Federal Award Number(s):	**2101ARFCGP**
Federal Award Year(s):	**2021**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not Applicable

Criteria:
In accordance with Appendix A of 2 CFR § 170, direct recipients of grants or cooperative agreements are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System.

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

Condition and Context:
The Arkansas Division of Children and Family Services entered into a sub-grant agreement with one subrecipient for the period November 18, 2022 through June 30, 2026, with a total award of $2,295,558. ALA staff searched information on the SAM.gov and USASpending.gov websites to determine if the Agency was reporting subawards as required and discovered no subaward information was reported for the one subaward administered for the Foster Care Program.

Statistically Valid Sample:
Not applicable

Questioned Costs:
None

Cause:
The Agency did not have controls in place to ensure that first-tier subawards of $30,000 or more were reported to SAM.gov.

Effect:
The Agency was not in compliance with Appendix A of 2 CFR § 170. Failure to file Federal Funding Accountability and Transparency Act Subaward reports could result in the reduction or termination of future funding

Recommendation:
ALA staff recommend the Agency establish and implement control procedures to ensure first-tier subawards are reported as required.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. DCFS will develop procedures and training to identify and report subgrant awards.

Anticipated Completion Date: 4/30/2026

Finding Number: **2025-023 (Continued)**
AL Number(s) and Program Title(s): **93.658 – Foster Care Title IV-E**

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

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-024**
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):	**05-2405AR5021**
Federal Award Year(s):	**2024**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed – Managed Care (PASSE)**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
The Provider-Led Arkansas Shared Savings Entity (PASSE) program transitioned to a full-risk Managed Care Organization (MCO) model on March 1, 2019. The program covers services for behavioral health (BH) recipients and developmentally disabled (DD) recipients. To receive services through PASSE, an individual must have an independent assessment (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 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.

Section 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 beginning March 17, 2020. This flexibility ended when the public health emergency 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 one BH recipient as detailed below:

- Sample item 16: The IA provided was dated November 20, 2023, and no other IA completed prior to that was provided. Payments for this recipient were made for dates of service from September 1, 2023, through October 29, 2023, with no IA. Questioned costs for these dates of service totaled $319.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-024 (Continued)**

ALN Number(s) and Program Title(s): **93.767 – Children's Health Insurance Program**

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Federal - $232
State - $87

(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 questions 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:
Agency personnel completed a desk review instead of an IA for the dates of service range in question for sample item 16. A desk review would have been allowed in accordance with flexibilities allowed under Medicaid State Plan Amendment 22-0016 if the recipient was a Medicaid recipient. However, this recipient was a CHIP recipient, and there was no such amendment in the CHIP State Plan.

Effect:
Gaps were revealed in the performance of the required IAs. 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 independent assessments to be performed every twelve months for PASSE members.

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-025**
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):	**05-2305AR5021 and 05-2405AR5021**
Federal Award Year(s):	**2023 and 2024**
Compliance Requirement(s) Affected:	**Eligibility**
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.

The Agency is responsible for determining Children's Health Insurance Program (CHIP) recipients meet the eligibility criteria as specified in its approved State Plan. Eligibility requirements for the CHIP program are outlined in the Arkansas Medical Services (MS) Manual. The MS 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 (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.
2. 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.
3. CHIPRA (Children's Health Insurance Program Reauthorization Act) recipients can be enrolled in any recipient aid category if eligibility requirements are met. CHIPRA includes all children up to age 19 (end of birth month) and pregnant women that fall under lawfully residing qualified alien status.

Condition and Context:
ALA selected 60 CHIP and MCHIP identification numbers to determine whether the State properly followed eligibility rules when determinations/redeterminations of benefits were made.

ALA review revealed one instance in which an ARKids B recipient was improperly determined eligible when the maximum allowed household income was exceeded. The recipient's coverage should have been terminated effective November 1, 2023. Claims payments totaling $2,128 were paid for dates of service from July 1, 2024 through December 31, 2024. The federal and state portions of these payments totaled $1,702 and $426, respectively. Questioned costs paid from each grant award was determined based on date claim status for header and detail claims and date payment issued for financial capitation claims.

Statistically Valid Sample:
Not a statistically valid sample.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-025 (Continued)**

AL Number(s) and Program Title(s): **93.767 – Children's Health Insurance Program**

Questioned Costs:
Federal − $1,702

- $67 – for award 05-2305AR5021
- $1,635 – for award 05-2405AR5021

State - $426

Cause:
The caseworker erroneously relied on tax return information from 2020, instead of the recipient's most recent tax return data, during the annual eligibility redetermination.

Effect:
Failure to properly determine and close CHIP coverage resulted in improper payments.

Recommendation:
ALA staff recommend the Agency design and implement internal controls over compliance to ensure recipient files are up to date and eligibility determinations were determined appropriately.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. The error was caused by an eligibility system defect that was corrected in April 2024.

Anticipated Completion Date: Complete

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-026**
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):	**05-2405AR5021**
Federal Award Year(s):	**2024**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee for Service)**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year finding **2024-025**.

Criteria:
According to the Arkansas Medicaid Provider Manual 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. Section 141.100 of the Arkansas Medicaid Provider Manual states that revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. In accordance with 42 CFR § 455.450, screening activities vary depending on the risk category of the provider as follows:

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

Condition and Context
From a population of 6,525 providers, ALA staff reviewed files of 41 providers to ensure sufficient, appropriate evidence was provided to support the determination of eligibility, including compliance with revalidation requirements. ALA review revealed deficiencies with three of the provider files as follows:

Moderate-risk category:

- Sample item 27: The provider failed to provide documentation of a site visit that was due January 30, 2025. As a result, amounts paid to the provider with dates of service from January 30 through June 30, 2025, are considered questioned costs. ***Questioned costs totaled $112 (federal) and $28 (state).***

Finding Number: **2025-026 (Continued)**
AL Number(s) and Program Title(s): **93.767 – Children's Health Insurance Program**

Condition and Context (Continued)

Limited-risk category:

- Sample item 30: The provider's revalidation was due by March 23, 2025, but was not completed until March 31, 2025. As a result, amounts paid to the provider with dates of service from March 23-30, 2025, are considered questioned costs. ***Questioned costs totaled $169 (federal) and $43 (state).***
- Sample item 35: The provider was terminated on October 25, 2024, after failing to revalidate by their due date of October 2, 2024. The provider re-enrolled on January 23, 2025, with an effective date of October 26, 2024. As a result, amounts paid to the provider with dates of service from October 2-25, 2024, are considered questioned costs. ***Questioned costs totaled $1,007 (federal) and $255 (state).***

Statistically Valid Sample:
Not statistically valid sample.

Questioned Costs:
Federal – $1,288
State – $326

Cause:
The Agency has 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 2025.

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 this finding. For Sample Item 27, a site visit has been completed for the provider. The process used for completion of site visits has been updated to address the cause for the delayed site visit. For Sample Items 30 and 35, DMS is currently developing system upgrades that will establish a revalidation date that is 60 days prior to the revalidation expiration date and auto-terminate providers at the time of their revalidation expiration date if they have not successfully completed the revalidation process.

Anticipated Completion Date: 6/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-027**
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):	**05-2305AR5021; 05-2405AR5021**
Federal Award Year(s):	**2023 and 2024**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable.

Criteria:
According to the Arkansas Medicaid Provider Manual 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. Section 141.100 of the Arkansas Medicaid Provider Manual states that revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. In accordance with 42 CFR § 455.450, screening activities vary depending on the risk category of the provider as follows:

- The limited-risk category includes database checks.
- The moderate-risk category includes those required for limited-risk plus site visits.
- The high-risk category includes those required for moderate-risk 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 selected 40 provider files for review from a population of 2,297. The selected providers participated in the Provider-Led Arkansas Shared Savings Entity, or PASSE, managed care program. ALA review revealed deficiencies with five of the provider files as follows:

Moderate-risk category:

- Sample item 28: The provider failed to revalidate timely. Revalidation was due by October 14, 2024, but was not completed until November 5, 2024. ***Ineligible costs totaled $8,204.***
- Sample item 30: The Agency failed to provide documentation of a site visit that was due August 15, 2024. ***Ineligible costs totaled $2,609.***

Finding Number: **2025-027 (Continued)**
AL Number(s) and Program Title(s): **93.767 – Children's Health Insurance Program**

Condition and Context (Continued):

Limited-risk category:

- Sample item 8: The provider failed to revalidate timely. Revalidation was due by December 17, 2024, but was not completed until January 17, 2025. ***Ineligible costs totaled $855.***
- Sample item 11: The provider failed to revalidate timely. Revalidation was due by October 7, 2024, but was not completed until December 6, 2024. ***Ineligible costs totaled $197.***
- Sample item 12: The Agency failed to provide W-9 dated prior to October 3, 2024. ***Ineligible costs totaled $282.***

Ineligible costs identified above totaled $12,147.

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, upon historical costs data. Accordingly, the failure to remove unallowable cost data from the amounts utilized by the actuary would lead to overinflated future rates, which will be directly paid by the Agency.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
None

Cause:
The Agency has 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 2025.

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 required 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 with this finding. For Sample Items 8, 11, and 28, DMS is currently developing system upgrades that will establish a revalidation date that is 60 days prior to the revalidation expiration date and auto-terminate providers at the time of their revalidation expiration date if they have not successfully completed the revalidation process.

For Sample Item 30, a site visit has been completed for the provider. The process used for completion of site visits has been updated to address the cause for the delayed site visit.

For Sample Item 12, DMS has implemented a system change to electronically collect information contained on the W-9 form which will eliminate the need for provider to submit the form. DHS is in the process of promulgating this policy change.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-027 (Continued)**

AL Number(s) and Program Title(s): **93.767 – Children's Health Insurance Program**

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

Anticipated Completion Date: 6/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-028**
State/Educational Agency(s):	**Arkansas Department of Human Services**
Pass-Through Entity:	**N/A**
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):	**05-2405AR5MAP; 05-2505AR5MAP**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year finding **2024-027**.

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 selected 60 incarcerated juveniles with Medicaid claims activity to determine whether the State is properly suspending a juvenile's benefit coverage when the juvenile is held in a public institution and 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 and reinstate benefits for 8 incarcerated juveniles. As a result, payments totaling $81,972 were made for dates of service within the incarceration periods for 7 juveniles. The federal and state portions of these payments totaled $58,557 and $23,415, respectively.
- The Agency failed to appropriately suspend Medicaid benefits for 7 incarcerated juveniles in DYS custody. As a result, payments totaling $80,655 were made for dates of service within the juveniles' incarceration periods. The federal and state portions of these payments totaled $57,455 and $23,200, respectively.

State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number: **2025-028 (Continued)**

AL Number(s) and Program Title(s): **93.778 – Medical Assistance Program (Medicaid Cluster)**

Condition and Context (Continued):

- Although the Agency appropriately suspended and reinstated benefits for 6 incarcerated juveniles, payments totaling $14,047 were made for dates of service within the juveniles' incarceration periods. The federal and state portions of these payments totaled $10,023 and $4,024, respectively.

Statistically Valid Sample:
Not statistically valid sample.

Questioned Costs:
Federal – $126,035

- $29,254 for award 05-2405AR5MAP
- $96,781 for award 05-2505AR5MAP

State – $50,639

Cause:
The Agency failed to properly monitor Medicaid eligibility for juveniles in DYS custody. Suspensions of benefits were not always entered timely 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 they are moved to private facilities or released from DYS custody, based on guidance set forth in the Medical Service Policy Manual and in compliance with federal regulations.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. 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, which make up 95% of the total questioned costs for this finding, were reported timely to SSA by the agency. All payments noted as questioned costs were capitated payments which will be recouped through an automatic reconciliation process.

Anticipated Completion Date: 6/30/26

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-029**
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):	**05-2405AR5MAP; 05-2505AR5MAP**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

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

Condition and Context:
The Agency has established system controls to identify Medicaid recipients who are no longer eligible for programs due to death. To identify unreported deceased recipients, monthly recipient data is matched to Arkansas Department of Health (ADH) vital records data. Results of recipients matched to death records are uploaded to Arkansas Integrated Eligibility System (ARIES), where an ARIES task is created to alert the Division of County Operations (DCO) that the recipient may be deceased. DCO staff are to complete the task by determining whether the recipient is actually deceased, entering the date of death to the case file, and closing any open aid segments. Once the information is updated in ARIES and flows to the Medicaid Management Information System (MMIS), a retrospective review is performed to identify claims or capitation payments that were paid after the date of death for recoupment.

Using data analytics, ALA compared a list of deceased individuals, obtained from ADH, to payment detail to identify recipients who had claims or capitation payments paid or adjusted in state fiscal year 2025 with dates of service after the date of death. To be included in the match results, the recipients' social security numbers, dates of birth, and last names all had to match.

ALA removed any subsequent recoupments reflected in the MMIS system prior to audit work on December 16, 2025, and calculated $404,857 remaining amounts paid on behalf of 891 deceased recipients.

Information included in the MMIS system that was utilized in the initial match indicated $23,282 was paid on behalf of 68 recipients where there *was* a date of death for the recipient in the MMIS system and $381,575 was paid on behalf of 823 recipients where there was *not* a date of death in the MMIS system. Of the 68 recipients with a date of death in the MMIS system, 57 had a date of death that did not match the date of death per the ADH listing.

Of the $404,857 paid on behalf of deceased recipients, $402,599 was related to financial capitation payments. Further review of the financial capitation payments revealed that $305,454 (76%) was applicable to the ARHome program, $60,635 (15%) was applicable to the Provider-Led Arkansas Shared Savings Entity (PASSE) program, and $36,510 (9%) was related to various other programs but primarily attributed to the Non-Emergency Transportation (NET) program and Dental Managed Care.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Federal – $346,165
- $21,188 for award 05-2405AR5MAP
- $324,977 for award 05-2505AR5MAP

State – $58,692

Finding Number:	**2025-029 (Continued)**
ALN Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**

Cause:
The Agency indicated in a response, dated November 30, 2025, that it was performing additional research related to the recipients included in the match results. Per the Agency, reasons a date of death was not included in the MMIS system for deceased recipients at the time the match was performed include the following:

- ARIES did not receive the ADH date of death.
- ARIES received the ADH date of death, but it was not added to ARIES when the worker competed the task.
- ARIES received the ADH date of death, but the case was already closed.
- Some SSI cases are either currently open or remained open after the ADH date of death.
- Some beneficiaries' eligibility was closed in the legacy eligibility systems but remained open in MMIS.

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

Effect:
Claims and capitation payments were made on behalf of deceased recipients who were not eligible for those payments.

Recommendation:
ALA staff recommend the Agency review and strengthen controls to ensure recipient files are updated timely when a recipient dies so that claims and financial capitation payments for dates of service after the date of death are not paid.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. For cases that included a date of death in MMIS, most deficiencies can be attributed to case worker error which is being addressed through continued worker education and training. A small number of deficiencies can be attributed to a variety of system errors which are in the process of being corrected. Recoupments of overpayments are also being processed.

For cases with no date of death in MMIS, almost half were the result of the eligibility system not receiving the date of death via the monthly match to the Arkansas Department of Health (ADH) vital records data. DHS will work with ADH to identity date of death for those cases and identify any corrective action needed to the match process. The remaining deficiencies can be attributed to a variety of system errors which are in the process of being corrected and worker errors which is being addressed through worker education and training. Recoupments will be processed through both automatic reconciliation and manual processes.

Anticipated Completion Date: 6/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-030**
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):	**05-2405AR5MAP; 05-2505AR5MAP**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
Not applicable

Criteria:
The Agency is responsible for determining Medicaid recipients meet the eligibility criteria as specified in its approved State Plan. Eligibility requirements for Medicaid are outlined in the Arkansas Medical Services Manual. The Manual contains specific Medicaid policies and procedures that exist in addition to the approved State Plan.

According to Section E-100 of the Manual, individuals receiving Medicaid Benefits must have a financial eligibility determination made, which includes an income test. Section G-111 of the Manual states that income is an eligibility factor that requires verification.

It is the State's responsibility to ensure that payments are only made for eligible Medicaid recipients and that any changes to a recipient's eligibility, including those related to income, be updated timely. According to Section I-I00 of the Manual, individuals are required to report certain changes, including those related to income, within 10 days of the date the change occurred. Eligibility is redetermined when a change is reported.

Condition and Context:
The Agency notified ALA that they were performing an internal review of their employees receiving Medicaid benefits and, although the review was still on-going, had identified some individuals who were not eligible. As a result, ALA chose to perform a review of all State employees.

Using data analytics, ALA compared a list obtained from the Arkansas Administrative Statewide Information System (AASIS) of Arkansas state employees who were employed throughout state fiscal year 2025 to Medicaid payment detail to identify recipients who had claims or capitation payments paid or adjusted in state fiscal year 2025. To be included in the match results the recipients' social security numbers, dates of birth and last names all had to match.

Using a risk-based approach, ALA selected 54 individuals from the matches for further review to determine the following:

- The state employee properly reported his or her state income timely.
- The state employee was income eligible based upon his or her state salary, household size, and eligibility segment to which payments were coded.
- If the state employee was an employee of the Department of Human Services, he or she was included in the Agency's review of its employees receiving benefits.

Of the 54 individuals tested, ALA identified deficiencies for 46 state employees, with overall questioned costs of $221,912 related to 40 individuals determined ineligible, as follows:

- Although five individuals properly reported their income timely, these individuals were income ineligible. The questioned costs for ineligible dates of service for these five individuals totaled $40,322 ($32,991 federal and $7,331 State). All cases have since been closed.
- There were 35 individuals who did not report their income or did not report their income timely, and all were income ineligible. The questioned costs for ineligible dates of service for these 35 individuals totaled $181,590 ($156,134 federal and $25,456 State). Twenty-eight cases were closed as of the date of fieldwork, and six cases were scheduled to be closed as of January 31, 2026.

Finding Number: **2025-030 (Continued)**

ALN Number(s) and Program Title(s): **93.778 – Medical Assistance Program (Medicaid Cluster)**

Condition and Context (Continued):

- Six individuals tested ultimately were income eligible but did not report their income or did not report their income timely.
- Of the 13 individuals tested who were DHS employees, the Agency had reviewed 11 of these individuals but failed to include two of them in its internal review of employees as of the date of fieldwork. The Agency intends to review the two omitted individuals.

For the 40 recipients deemed income ineligible noted above, 20 with a questioned cost amount of $57,075 ($40,771 federal and $16,304 State) were related to the Parent, Caretaker, Relative eligibility category and 20 with a questioned cost amount of $164,837 ($148,354 federal and $16,483 State) were related to the Adult Expansion eligibility category.

Statistically Valid Sample:
Not a statistically valid sample

Questioned Costs:
Federal − $189,125

- $52,616 for award 05-2405AR5MAP
- $136,509 for award 05-2505AR5MAP

State − $32,787

Cause:
The Agency indicated that for the five individuals who properly reported their income but were income ineligible, one was the result of a system error, and the remaining four were related to worker error. In addition, for the 35 individuals who were income ineligible and had either not reported their income or did not report their income timely, two were related to worker error, and the Agency is researching why the income verification notification did not deploy in the system for the remaining 33.

Effect:
Payments were made on behalf of recipients who were not eligible for those payments.

Recommendation:
ALA staff recommend the Agency review and strengthen controls to ensure that system controls are properly functioning and workers are adequately trained to ensure that payments are not made on behalf of ineligible recipients.

Views of Responsible Officials and Planned Corrective Action:
DHS concurs with this finding. DCO will continue periodic matching and review of state employees with public assistance programs administered by the agency. Appropriate disciplinary action will continue to be taken by the agency on its own employees based on the outcome of case reviews. The agency will explore the addition of systematic data matching to ensure that salaries of state employees are properly reflected in the eligibility determination and benefit calculation for public assistance benefits. For additional controls, the agency has incorporated a notice into the hiring process regarding reporting all changes in household circumstance and annual communications to all staff regarding their reporting obligations.

Anticipated Completion Date: 6/30/26

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-031**
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):	**05-2405AR5MAP; 05-2505AR5MAP**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Fee for Service)**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year finding **2024-031**.

Criteria:
According to the Arkansas Medicaid Provider Manual 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. Section 141.100 of the Arkansas Medicaid Provider Manual states that revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. In accordance with 42 CFR § 455.450, screening activities vary depending on the risk category of the provider as follows:

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

Condition and Context:
From a population of 11,634, ALA staff reviewed files of 41 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 four of the provider files as follows:

Limited-risk category:

- Sample item 13: The provider's revalidation was due by October 14, 2024, but was not completed until October 15, 2024. As a result, amounts paid to the provider with a date of service of October 14, 2024, are considered questioned costs. ***Questioned costs totaled $2,550 (federal) and $1,035 (state).***
- Sample item 31: The provider's revalidation was due by November 15, 2024, but was not completed. As a result, amounts paid to the provider with dates of service from November 15, 2024 through June 30, 2025, are considered questioned costs. ***Questioned costs totaled $1,928,915 (federal) and $782,520 (state).***

Finding Number: **2025-031 (Continued)**

AL Number(s) and Program Title(s): **93.778 – Medical Assistance Program (Medicaid Cluster)**

Condition and Context (Continued):

Limited-risk category (Continued):

- Sample item 35: The provider's revalidation was due by June 24, 2024, but was not completed. As a result, amounts paid to the provider with dates of service from June 24, 2024 through June 30, 2025, are considered questioned costs. ***Questioned costs totaled $35,714 (federal) and $14,373 (state).***
- Sample item 40: The provider's revalidation was due by November 14, 2024, but was not completed until December 4, 2024. In addition, the Agency failed to provide documentation of provider's certification covering July 7, 2024 through November 14, 2024. As a result, amounts paid to the provider with dates of service from July 7, 2024 through December 3, 2024, are considered questioned costs. ***Questioned costs totaled $17,932 (federal) and $7,110 (state).***

Statistically Valid Sample:
Not statistically valid sample

Questioned Costs:
Federal – $1,985,111
- $16,674 for award 05-2405AR5MAP
- $1,968,437 for award 05-2505AR5MAP

State – $805,038

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 2025.

In addition, the Agency implemented a system update, effective June 27, 2023, that no longer required revalidation for providers of Early Intervention Day Treatment and Adult Developmental Day Treatment services but was unable to provide any authoritative guidance to support the update. This system update resulted in the deficiency reported for sample item 31 above.

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 this finding. For Sample Item 13, DMS is currently developing system upgrades that will establish a revalidation date that is 60 days prior to the revalidation expiration date and auto-terminate providers at the time of their revalidation expiration date if they have not successfully completed the revalidation process.

For Sample Items 31, 35, and 40, DMS is currently developing a system change to reinstitute revalidation requirements for Early Intervention Day Treatment and Adult Developmental Day Treatment providers.

Finding Number:	**2025-031 (Continued)**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**

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

Anticipated Completion Date: 6/30/2026

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State of Arkansas
Schedule of Findings and Questioned Costs
Arkansas Department of Human Services
For the Year Ended June 30, 2025

Finding Number:	**2025-032**
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):	**05-2405AR5MAP; 05-2505AR5MAP**
Federal Award Year(s):	**2024 and 2025**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Provider Eligibility (Managed Care Organizations)**
Type of Finding:	**Noncompliance and Significant Deficiency**

Repeat Finding:
A similar issue was reported in prior-year finding **2024-032**.

Criteria:
According to the Arkansas Medicaid Provider Manual 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. Section 141.100 of the Arkansas Medicaid Provider Manual states that revalidation includes a new application; satisfactory completion of screening activities; and if applicable, fee payment. In accordance with 42 CFR § 455.450, screening activities vary depending on the risk category of the provider as follows:

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

Condition and Context:
To determine if Managed Care Network providers met all necessary criteria to participate in the Medicaid program, ALA selected 40 provider files for review from a population of 5,605. The selected providers participated in the Provider-Led Arkansas Shared Savings Entity, or PASSE, managed care program. ALA review revealed deficiencies with seven of the provider files as follows:

Moderate-risk category:

- Sample item 16: The provider failed to revalidate timely. Revalidation was due by November 5, 2024, but was not completed until December 20, 2024. In addition, a site visit, also due by November 5, 2024, was not performed or verified until December 20, 2024. ***Ineligible costs totaled $1,559***.

Finding Number: **2025-032 (Continued)**

AL Number(s) and Program Title(s): **93.778 – Medical Assistance Program (Medicaid Cluster)**

Condition and Context (Continued):

Moderate-risk category (Continued):

- Sample item 37: The provider failed to revalidate timely. Revalidation was due by November 21, 2024, but was not completed until December 10, 2024. ***Ineligible costs totaled $1,845.***

Limited-risk category:

- Sample item 3: The provider failed to revalidate timely. Revalidation was due by July 22, 2024, but was not completed until August 5, 2024. ***Ineligible costs totaled $129.***
- Sample item 5: The provider was terminated on October 25, 2024, after failing to revalidate by the due date of September 25, 2016. The provider re-enrolled on March 31, 2025. ***Ineligible costs totaled $182.***
- Sample item 24: The provider failed to revalidate timely. Revalidation was due by November 12, 2023, but was not performed. ***Ineligible costs totaled $272,174.***
- Sample item 30: The provider failed to revalidate timely. Revalidation was due by January 7, 2025, but was not completed until March 24, 2025. ***Ineligible costs totaled $11,356.***
- Sample item 40: The provider failed to revalidate timely. Revalidation was due by April 9, 2025, but was not completed until April 22, 2025. ***Ineligible costs totaled $641,247.***

Ineligible costs identified above totaled $928,492.

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

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

Statistically Valid Sample:
Not statistically valid sample

Questioned Costs:
None

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 2025.

In addition, the Agency implemented a system update, effective June 27, 2023, that no longer required revalidation for providers of Early Intervention Day Treatment and Adult Developmental Day Treatment services but was unable to provide any authoritative guidance to support the update. This system update resulted in the deficiency reported for sample item 24 above.

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 required revalidations are performed timely and required enrollment documentation is maintained to support provider eligibility.

Finding Number:	**2025-032 (Continued)**
AL Number(s) and Program Title(s):	**93.778 – Medical Assistance Program (Medicaid Cluster)**

Views of Responsible Officials and Planned Corrective Action:

DHS concurs with this finding. For Sample Items 3, 5, 30, 37, and 40, DMS is currently developing system upgrades that will establish a revalidation date that is 60 days prior to the revalidation expiration date and auto-terminate providers at the time of their revalidation expiration date if they have not successfully completed the revalidation process.

For Sample Item 24, DMS is currently developing a system change to reinstitute revalidation requirements for Early Intervention Day Treatment and Adult Developmental Day Treatment providers.

Anticipated Completion Date: 6/30/2026

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