

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

Finding 1:

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

Recommendation:

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

Agency Response:

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

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

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

Finding 2:

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

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

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

Recommendation:

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

Agency Response:

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

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

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF FINANCE AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2022**

Finding:

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

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

Recommendation:

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

Agency Response:

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

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
DEPARTMENT OF FINANCE AND ADMINISTRATION – OFFICE OF THE ARKANSAS LOTTERY
FOR THE YEAR ENDED JUNE 30, 2023**

Finding:

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

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

Recommendation:

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

Agency Response:

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

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

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

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

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

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

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

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

Repeat Finding:
Not applicable

Criteria:

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

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

Condition and Context:

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

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

Statistically Valid Sample:

Not a statistically valid sample

Questioned Costs:

\$ 502,219

Cause:

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

Effect:

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

Recommendation:

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

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

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

Views of Responsible Officials and Planned Corrective Action:

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

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

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

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