

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED
JUNE 30, 2003

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

**Corrective Action Plan for Federal Award Findings and Questioned Costs
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**STATE OF ARKANSAS
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FINDING COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER:	03-01
STATE/EDUCATIONAL AGENCY:	All State Agencies
CFDA NUMBER:	All Federal Programs
QUESTIONED COSTS:	None

REPORTING - On July 1, 2001, the State implemented the Arkansas Administrative Statewide Information System (AASIS) as the official accounting system for State government. From the early stages of planning, design and implementation, AASIS was intended to provide for a centralized accounting of all federal awards, including the necessary program accountability for federal award revenues and expenditures. If AASIS was utilized as planned, management of the State could produce the Schedule of Expenditures of Federal Awards (the Schedule) and ensure that the Schedule was based upon information contained within the State's official accounting system. Currently, the Chief Fiscal Officer of the State does not mandate that Agencies use AASIS as the primary federal award accounting system to provide for an accounting of federal program revenues and expenditures. As a result, most agencies are accounting for federal program transactions using various alternative methods. The Schedule is prepared by requiring each Agency to complete an information data form for each federal award. This information is compiled and the Schedule is produced. Under this method, federal program expenditures frequently do not reconcile to AASIS and data on several programs was initially omitted by the Agencies. The failure to maintain an accurate centralized accounting of federal programs within the State's accounting system could lead to errors and inconsistencies in federal award financial reporting.

We recommend the Chief Fiscal Officer of the State develop AASIS as the primary federal award accounting system and ensure that all state Agencies are effectively utilizing AASIS in order to accurately prepare the Schedule of Expenditures and Federal Awards.

RESPONSE-

AASIS is the primary recording vehicle for federal award accounting. To track and record federal awards, state agencies are instructed to assign Work Breakdown Structure (WBS) elements to the funds. According to DFA- Policy and Procedure WBS elements are to be used for all federal grant accounting. DFA is developing a procedure to insure that all state agencies are effectively utilizing AASIS in order to accurately prepare the Schedule of Expenditures and Federal Awards.

**STATE OF ARKANSAS
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FINDING COVERING MORE THAN ONE FEDERAL AGENCY**

FINDING NUMBER: 03-710-01
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: All Federal Programs
QUESTIONED COSTS: None

ACTIVITIES ALLOWED OR UNALLOWED – The cost allocation system used by the Department of Human Services to allocate expenditures to the various federal programs was not reconciled to the Arkansas Administrative Statewide Information System (AASIS). This is an internal weakness that could contribute to federal expenditures being incorrectly reported. Reasonable assurance does not exist to conclude that allowed expenditures were reported to the correct federal programs.

We recommend the Agency reconcile all expenditures used in the cost allocation system to AASIS, the State's official accounting system.

RESPONSE-

DHS will change the method and source for extracting expenditures from the Arkansas Administrative Statewide Accounting System (AASIS). We will start extracting expenditure data from the Funds Management (Cash basis) side of AASIS utilizing data from ZWARR_DETAIL table, which will make it possible to reconcile expenditures used in the Cost Allocation System to AASIS.

The changeover to the new method will be implemented on July 1, 2004. We have selected this date since this would be the date it will be easiest to ensure we do not allocate the same expense twice.

The total expenditures for the quarter ending September 30, 2004 will be extracted from both sources and accounting will analyze any differences between the two extracts. We will check and remove any expenditure from the new method that was expensed in the previous quarter.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE

FINDING NUMBER:	03-645-01
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Health
CFDA NUMBER:	10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
QUESTIONED COSTS:	None

ALLOWABLE COSTS/COST PRINCIPLES - The Agency failed to allocate payroll costs using an approved cost allocation plan. This was the result of the Agency's inability to interface their current cost allocation system with the Arkansas Administrative Statewide Information System (AASIS). Failure to allocate costs properly has led to inaccurate reporting of grant expenditures to the federal cognizant agency and could result in misuse or misappropriation of federal monies.

Management should implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

RESPONSE-

A revised timeline for agency assessment and implementation of corrective action on this item has been established. The original timeframe for corrective action (based on a similar FY 2002 finding) was far too aggressive given current administrative resources as well as other day-to-day grants management and agency compliance responsibilities.

Neither the Department of Health nor the U.S. Department of Health and Human Services (HHS) Division of Cost Allocation in Dallas have been successful in locating a copy of the agency's prior cost allocation plan. Available historical and anecdotal documentation of the agency's prior cost allocation processes has been compiled in order to establish a packet of past practices for review and comment on by an agency internal cost allocation working group. Health Department finance officials have also requested and received supplemental written guidance from the HHS Division of Cost Allocation in Dallas and USDA WIC regarding recommended and prescribed methodologies for designing and implementing cost allocation plans. These documents will be reviewed to determine which components of our current plan may be updated and improved upon.

Following this review, the internal working group will solicit guidance from additional individuals from various program, accounting and information technology disciplines for purposes of identifying, evaluating and addressing AASIS interface concerns. The working group will include, as needed, outside authorities with familiarity in cost allocation issues. These authorities include, but are not limited to, the Department of Finance and Administration (DF&A) Office of Accounting, DF&A Office of Intergovernmental Services; the lead agency responsible for the Statewide Central Service Cost Allocation Plan, the AASIS Support Center, the Department of Information Services, the Department of Human Services, Office of Managerial Accounting, and potential private independent contractors.

The working group will identify and evaluate all known interface concerns and communicate said concerns to the HHS Division of Cost Allocation, and will develop a comprehensive plan for modifying and interfacing the current cost allocation plan with AASIS in careful coordination with the HHS Division of Cost Allocation. The plan will be thoroughly tested from an information technology standpoint prior to formal deployment.

Health Department Finance officials have contacted their counterparts at the Arkansas Department of Human Services, as recommended by the Division of Cost Allocation, for purposes of scheduling a review of the progress they have made in updating and interfacing their plan to work within the AASIS environment. While the DHS cost allocation model differs from the Health Department's, there are some anticipated learning opportunities given that DHS has been actively pursuing the issue of interfacing with AASIS since July of 2001.

**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER:	03-645-02
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Health
CFDA NUMBER:	10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
QUESTIONED COSTS:	\$81,000

ACTIVITIES ALLOWED OR UNALLOWED - The test of transfers for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) revealed management was not following the federal requirements contained in Title 7, CFR 246.16(f), which state that funds allocated for food must be expended to purchase supplemental foods for participants or to redeem food instruments for that purpose. Funds allocated for food costs of \$81,000 were transferred from the federal year 2002 food account (FHD8400) to the federal year 2001 Nutrition Services and Administrative (NSA) account (FHD1200) without meeting the exceptions permissible under the supplement for food costs converted to NSA costs. The agency's failure to implement program requirements could result in sanctions taken by the Food and Nutrition Service (FNS).

We recommend management comply with applicable federal program requirements.

RESPONSE-

Management will seek guidance from the U.S. Department of Agriculture regarding any potential liability for funds transferred inconsistent with prescribed federal requirements, and will research and correct said transfers accordingly by April 30, 2004. Additionally, management will evaluate and ensure that the Department's internal control environment with respect to transfers from one federal funding period to another is consistent with prescribed federal requirements.

Specific action includes the development and adoption of formal internal written procedures by April 15, 2004, to reasonably assure that transfers from one funding period to another are consistent with prescribed federal requirements. These procedures will be established jointly between the WIC Program Office and Financial Management, and in coordination with the Health Department's Office of Internal Audit. Training on these procedures for key staff, as well as cross training for back-up staff will be completed by April 30, 2004.

Additionally, supervisory review and testing of future transfers will be performed prior to posting of said transfers.

**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-645-03
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
QUESTIONED COSTS: \$640,559

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - The test of transfers for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) revealed management was not following federal requirements, which stipulates a set amount of monies be utilized for the spend-forward option. The spend-forward option allows a state agency to spend Nutrition Services and Administrative (NSA) funds up to an amount equal to one percent of its total WIC formula grant for NSA costs of the following Federal fiscal year. For the 2003 Federal fiscal year the one percent (1%) maximum amount allowable for transfer was \$131,441, however the agency made two (2) transfers totaling \$772,000 between grant years thereby exceeding the one percent (1%) limit by \$640,559. The agency's failure to implement program requirements could result in sanctions taken by the Food and Nutrition Service (FNS).

We recommend management comply with federal program requirements.

RESPONSE-

Management will seek guidance from the U.S. Department of Agriculture regarding any potential liability for funds transferred inconsistent with prescribed federal requirements, and will research and correct said transfers accordingly by April 30, 2004. Additionally, management will evaluate and ensure that the Department's internal control environment with respect to transfers from one federal funding period to another is consistent with prescribed federal requirements.

Specific action includes the development and adoption of formal internal written procedures by April 15, 2004, to reasonably assure that transfers from one funding period to another are consistent with prescribed federal requirements. These procedures will be established jointly between the WIC Program Office and Financial Management, and in coordination with the Health Department's Office of Internal Audit. Training on these procedures for key staff, as well as cross training for back-up staff will be completed by April 30, 2004.

Additionally, supervisory review and testing of future transfers will be performed prior to posting of said transfers.

FINDING NUMBER: 03-645-04
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
QUESTIONED COSTS: None

ELIGIBILITY AND SPECIAL TESTS AND PROVISIONS – Management did not follow program guidelines related to food instrument issuance and safeguarding. Our testing of five (5) of the ninety-four (94) local health units revealed twelve (12) instances that reflected inadequate internal controls over food instruments. These conditions indicate a weakness in the ability to properly safeguard assets, which could lead to the misuse and misappropriation of those assets.

We recommend management provide appropriate supervision to monitor internal controls concerning inventory compliance with Federal guidelines and provide additional training to employees at local health units.

RESPONSE-

The WIC Program has initiated a Corrective Action Plan. WIC Central Office staff are currently educating and training clerical staff in the local health units on the proper procedures for food instrument security and issuance. Training sessions have been held in Forrest City, Monticello, Newport, and Jonesboro. Approximately 160 clerical staff have been involved in the training sessions. Additional sessions are scheduled in March 2004 in North Little Rock and Arkadelphia, with other cites to be determined at a later date.

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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-02
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.551 – Food Stamps
10.561 – State Administrative Matching Grants for Food Stamp
Program
(Food Stamp Cluster)
QUESTIONED COSTS: None

CASH MANAGEMENT - The Agency failed to comply with the CMIA agreement administrative draw procedures which requires that administrative draws be based on the current quarter's administrative grant divided by the number of payrolls processed during the period. The first draw of the following quarter is then adjusted to reflect any increase/decrease that may occur in the administrative expenses during the course of operations of the program during the quarter. The Agency based federal draws on estimated expenditures from a draw schedule that has not been updated since fiscal year 2002. In addition, the Agency failed to reconcile the estimated administrative expenses to the Agency's accounting records and make the necessary adjustments on a quarterly basis as required by the CMIA agreement.

We recommend the Agency establish adequate internal controls and procedures to ensure compliance with the CMIA agreement.

RESPONSE:

During SFY 2003 several conditions made it difficult to follow the CMIA agreement for administrative draw. First, the Food Stamps Grant was combined into one grant that covers both payroll and contracted services, so dividing the grant by the number of payrolls is not an accurate representation of the true payroll amounts. Also, through much of the year the federal program was operating on a continuing resolution, which does not issue the grant at the start of the quarter but grants funds for shorter time periods. A reconciliation of estimated and actual expenses was and is performed each quarter, but since the Department's cost allocation report is not completed until the end of the month after the quarter's end, adjustments cannot be processed on the first draw in the new quarter.

The estimated expenses basis will be updated to reflect current expenses. However, this program is no longer under the CMIA agreement.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-03
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.551 – Food Stamps
(Food Stamp Cluster)
QUESTIONED COSTS: \$ 6,013

ELIGIBILITY – Of forty (40) food stamp client case files selected for testing in Jefferson County, seven (7) files did not contain adequate documentation such as proof of identity, residency, liquid resources, and income. The purpose of the review was to ensure that there is adequate information in the client case file to determine eligibility and the respective benefit amount. The lack of documentation resulted in questioned costs totaling \$6,013.

We recommend the Agency establish procedures to ensure that client case files are properly maintained.

RESPONSE -

The accuracy of eligibility determinations is routinely calculated based on a quality control review process established by the USDA Food and Nutrition Service. A statistically valid sample of cases throughout the state are reviewed for accuracy with re-reviews conducted by FNS. The State must meet or exceed accuracy targets to avoid fiscal penalties. Arkansas has won an outstanding achievement award for eligibility accuracy for 8 of the last 9 years qualifying the State for over \$24 million in enhanced federal funding. The finding for this audit item is not based on a statistically valid sample and is therefore not representative of eligibility determinations throughout the state. The agency will, however, be implementing a Corrective Action Plan in the Jefferson County DHS Office in response to this review of 40 cases.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-04
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.551 – Food Stamps
10.561 – State Administrative Matching Grants for Food Stamp
Program
(Food Stamp Cluster)
QUESTIONED COSTS: None

PERIOD OF AVAILABILITY OF FEDERAL FUNDS – Due to the Agency's failure to establish adequate internal controls to separately identify federal grant awards, disbursement activity could not be identified to specific grant awards. As a result, we were unable to determine if an obligation for a disbursement was within the period of availability parameters. Therefore, compliance with period of availability could not be determined.

We recommend the Agency establish proper internal control procedures to separately identify all federal grant awards.

RESPONSE-

The Agency is working with the Division of Legislative Audit to develop a system that will provide the information the Department and its divisions need to accurately track federal funds by fiscal year.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-05
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.553 – School Breakfast Program
10.555 – National School Lunch Program
10.556 – Special Milk Program for Children
10.559 – Summer Food Service Program for Children
QUESTIONED COSTS: None

EXPENDITURE RECONCILIATIONS - The Agency did not adequately reconcile expenditures reported on the Special Nutrition System with expenditures reported by the official state accounting system, Arkansas Accounting Statewide Information System (AASIS). Failure to reconcile expenditures reported from the Special Nutrition System to AASIS could lead to inaccurate expenditures reports to United States Department of Agriculture, Food Nutrition Services (USDA, FNS).

We recommend the Agency reconcile Special Nutrition System expenditures to AASIS expenditures to ensure accurate reporting and provide better program accountability.

Response - The Department's reconciliation processes and forms are being revised to ensure that expenditure reports to USDA, FNS continue to be accurate. The revised processes include monthly reconciliation of expenditures reported from the Special Nutrition System and expenditures reported from AASIS.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-06
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.553 – School Breakfast Program
10.555 – National School Lunch Program
10.556 – Special Milk Program for Children
10.559 – Summer Food Service Program for Children
QUESTIONED COSTS: None

INADEQUATE INTERNAL CONTROLS - Payment approval reports generated in the Special Nutrition System for cash draws fail to provide claim amounts by meal and program type: breakfast, lunch and milk. Supporting documentation for adjustments to the payment approval report in the cash draw request is not maintained.

We recommend the Agency establish procedures to ensure that the payment approval report accurately reflects claim amounts by meal and program type and supporting documentation is maintained for changes to cash draw requests.

RESPONSE-

The Division of Child Care and Early Childhood Education, working with Northrop Grumman Information Technology (NGIT), the Department's information technology contractor, has determined that the identified data elements necessary to reconcile and account for claim amounts by meals and program type currently is collected and resides in the existing Special Nutrition Program's data base. The Division will work with NGIT who designed and built the system to develop management reports using existing ad hoc reporting software available to the Division. These reports will document the required data element and be kept on electronic and hard copy file in order to provide supporting documentation of program claim.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-07
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.553 – School Breakfast Program
10.555 – National School Lunch Program
10.556 – Special Milk Program for Children
10.559 – Summer Food Service Program for Children
QUESTIONED COSTS: None

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - Due to the Agency's failure to establish adequate internal controls to separately identify federal grant awards, disbursement activity could not be identified to specific grant awards. As a result, we were unable to determine an obligation for the disbursement was within the period of availability parameters.

We recommend the Agency establish proper internal control procedures to separately identify all federal grant awards.

RESPONSE-

The Agency is working with the Division of Legislative Audit to develop a system that will provide the information each division needs to accurately track federal fiscal year funds and also will allow Legislative Auditors to obtain information from AASIS that is necessary to perform audits.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF AGRICULTURE (Continued)**

FINDING NUMBER: 03-710-08
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.553 – School Breakfast Program
10.555 – National School Lunch Program
10.556 – Special Milk Program for Children
10.559 – Summer Food Service Program for Children
QUESTIONED COSTS: None

REPORTING - The Agency is not performing adequate reconciliations between the cost allocation system and the Child Nutrition Financial Reports. The Agency's reconciliations are incomplete and do not adequately explain reconciling items between the two reports. An adequate number of qualified personnel are not assigned to performing these reconciliation responsibilities.

We recommend that the Agency establish and implement adequate reconciliation procedures to properly account for federal expenditures reported in the cost allocation system to the federal expenditures reported in the Child Nutrition Financial Reports submitted to the United States Department of Agriculture, Food Nutrition Service (USDA, FNS). In addition, an adequate number of qualified personnel should be allocated to perform these responsibilities.

RESPONSE-

The Agency has revised its procedures for cost allocation system to Child Nutrition Financial Reports reconciliation to include proper explanation of reconciling items.

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**STATE OF ARKANSAS
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U.S. DEPARTMENT OF THE INTERIOR

FINDING NUMBER: 03-080-01
STATE/EDUCATIONAL AGENCY: Arkansas Game and Fish Commission
CFDA NUMBER: 15.611 - Wildlife Restoration
(Fish and Wildlife Cluster)
QUESTIONED COSTS: \$56,526

PROGRAM INCOME - The Agency did not establish adequate procedures to ensure that program income is deducted from program expenditures prior to requesting federal reimbursement. The Wildlife Restoration program provides reimbursement for 75% of the expenditures for an approved project. The Agency did not reduce expenditures for program income totaling \$75,368 resulting in excess federal reimbursement of \$56,526.

We recommend the Agency strengthen internal controls to ensure that program income is detected and deducted from program outlay before being charged to the federal award.

RESPONSE-

The program income from this finding was offset against a reimbursement request processed in December 2003. Program income is now calculated, double-checked and offset against reimbursement on a monthly basis.

U.S. DEPARTMENT OF JUSTICE

FINDING NUMBER: 03-610-01
STATE/EDUCATIONAL AGENCY: Arkansas Department of Finance and Administration
CFDA NUMBER: 16.579 - Byrne Formula Grant Program
QUESTIONED COSTS: None

REPORTING - Financial Status Reports (SF-269A) were not being properly completed. The Agency was reporting expenditures of the subrecipients, and not the Agency's expenditures of federal awards. Therefore, the Financial Status Reports were not being reconciled to expenditures reflected in the underlying records of the State's accounting system.

We recommend the Agency report expenditures that are supported by the State's accounting system or obtain written approval from the federal awarding agencies to report only subrecipient expenditures.

RESPONSE-

The Agency is reporting expenditures of federal awards that are supported by the State's accounting system.

**STATE OF ARKANSAS
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U.S. DEPARTMENT OF EDUCATION**

FINDING NUMBER: 03-160-01
STATE/EDUCATIONAL AGENCY: University of Arkansas at Pine Bluff
CFDA NUMBER: 84.007 – Federal Supplemental Educational Opportunity Grants
84.032 – Federal Family Education Loans
84.033 – Federal Work-Study Program
84.038 – Federal Perkins Loan Program_Federal Capital Contributions
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans (Student Financial Assistance Cluster)
QUESTIONED COSTS: None

COHORT DEFAULT RATE – The University, again, did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 44.44% exceeded the allowable rate of 25%.

We again recommend the University establish procedures to lower the University's cohort default rate to an acceptable level.

RESPONSE-

We concur with the finding and will continue working with the current collection agency that is assisting us with borrowers who have defaulted. We were able to reduce the cohort default rate of 59.61% at 6-30-02 to 44.44% at 6-30-03.

FINDING NUMBER: 03-500-01
STATE/EDUCATIONAL AGENCY: Arkansas Department of Education
CFDA NUMBER: 84.367 - Improving Teacher Quality State Grants
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency failed to establish adequate controls to monitor the timing and amounts of grant award disbursements to local educational agencies. According to program requirements, when advance payment procedures are used by the federal awarding agency, the recipient agency (state educational agency) must establish similar procedures for the subrecipients (local educational agencies). These procedures require the local educational agency to expend award amounts within a reasonable period of time. We selected a sample of fifteen (15) local educational agencies that received grants totaling \$2,090,951. Eighteen percent (18%) or \$377,610 of the total grants awarded had not been expended by June 30, 2003, which revealed the local educational agencies received additional grant award disbursements before previous grant awards were expended.

We recommend the Agency strengthen internal controls by implementing procedures to monitor unexpended grant awards.

RESPONSE-

The Arkansas Department of Education (ADE) has worked to establish adequate internal controls to monitor the timing and amounts of grant awards to local educational agencies by informing program managers of the finding. Program managers are now instructed to require reporting of expenditures of federal funds prior to the release of additional grant funds.

**STATE OF ARKANSAS
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U.S. DEPARTMENT OF EDUCATION (Continued)**

FINDING NUMBER: 03-500-02
STATE/EDUCATIONAL AGENCY: Arkansas Department of Education
CFDA NUMBER: 84.367 - Improving Teacher Quality State Grants
QUESTIONED COSTS: None

ELIGIBILITY – The Agency used an incorrect formula to calculate the allocation of subgrants to school districts. As a result, one hundred eighty one (181) school districts were overpaid by amounts ranging from \$16 to \$20,958 and one hundred and twenty nine (129) school districts were underpaid by amounts ranging from \$10 to \$67,054.

We recommend the Agency strengthen internal controls by implementing policies and procedures to ensure the correct formula is used to calculate the allocation to school districts. The Agency has contacted the U.S. Department of Education for guidance in correcting the distribution.

RESPONSE-

The ADE has taken corrective action related to the use of an incorrect formula in the calculation. The ADE found during the analysis of the finding that several states had made a similar error. The ADE contacted Title II-A officials in Washington and determined that they agreed to allow states had also made the same error in their 2002-03 distributions to make error corrections during the 2004-05 grant cycle.

The ADE is currently preparing a memorandum to the affected school districts notifying them of the correction procedures. Documentation indicating the corrected distribution will be maintained for audit purposes to verify that the corrections have been made.

FINDING NUMBER: 03-500-03
STATE/EDUCATIONAL AGENCY: Arkansas Department of Education
CFDA NUMBER: 84.367 - Improving Teacher Quality State Grants
QUESTIONED COSTS: \$13,763

MATCHING, LEVEL OF EFFORT, EARMARKING – The Agency failed to disburse \$13,763 of available State funds for the Smart Start program prior to supplementing the program with federal funds. According to program requirements, the Agency may use federal funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the federal funds, be made available from non-federal sources.

We recommend the Agency strengthen internal controls by implementing policies and procedures that ensure compliance with level of effort requirements. In addition, the Agency should contact the U.S. Department of Education for guidance in correcting the problem noted above.

RESPONSE-

Although the ADE does not agree with the finding because neither the state or federal government mandates the state Smart Start program, the ADE has strengthened internal controls over the use of federal funds used in conjunction with an optional state activity. The Finance Office has notified staff to ensure 100% of state funding is used prior to shifting program expenditures to federal funds.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF EDUCATION (Continued)**

FINDING NUMBER: 03-520-01
STATE AGENCY: Department of Workforce Education – Arkansas Rehabilitation Services
CFDA NUMBER: 84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States
QUESTIONED COSTS: \$4,218

ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES – Client case files support vocational rehabilitation services aid provided by the Agency. Sixty-eight (68) case files located in six (6) local offices throughout the State were selected for audit testing. As noted in previous reviews, there was a lack of documentation supporting payments made on behalf of clients in the case files. Of the sixty-eight (68) cases reviewed, twenty (20) files did not contain invoices to support the authorization for payment and thirty (30) case narratives were not updated at least every 90 days.

During the Agency's follow up of client case file deficiencies noted in the previous audit, an employee, Ms. Carla Becker, was placed on probation. As a response to her probation, she resigned her position with the Agency. Subsequently, the Agency implemented a new procedure of conducting a comprehensive review of counselors' files upon their termination or transfer to another area within the Agency. The Agency's review of Ms. Becker's files noted misuse of funds, and the matter was reported to the Arkansas State Police and United States Attorney's Office in August 2003. Upon completion of the Arkansas State Police investigation, Ms. Becker has been formally charged in the District Court of Independence County, Arkansas with three (3) felony counts of theft of public benefits totaling \$1,885 and five (5) misdemeanor counts of theft of public benefits for \$614. She was also charged with twenty (20) misdemeanor counts of falsifying business records for an additional \$1,718. The total amount for all charges is \$4,217. Bond was set at \$3,000, which was met by Ms. Becker on January 30, 2004.

We recommend the enforcement of the Agency's procedures by supervisory staff upon the counselors regarding the maintenance of proper documentation in client case files.

RESPONSE-

Item 1: The Single Statewide Audit report notes that sixty-eight (68) client case files were selected from among six (6) local offices for audit testing. The report identified twenty (20) files lacking invoices to support an authorization for payment and also thirty (30) case files in which case narrative were not updated at least every ninety days.

Agency Action: Although some of the authorizations amount the 30 identified by the auditor s were for purchases not within the scope of agency policy, the managers and counselors have been directed to secure the appropriate documents for the files as needed. Those cases identified as lacking an updated narrative were reviewed and updated by the appropriate manager/counselor.

Item 2: The agency had previously provided to the audit team our report of findings of case deficiencies among several cases of a counselor who had resigned from the agency. The agency also referred the reports and the information collected by our internal investigation to the State Police Criminal Investigations unit. The State Police investigation resulted in formal charges against Ms. Carla Becker of Independence County with three (3) felony counts of theft of public benefits totaling \$1,885.00, and five (5) misdemeanor counts of theft of public benefits totaling \$614.00. Ms. Becker was also charged with twenty (2) misdemeanor counts of falsifying business records for an amount of \$1,718.00 Ms. Becker was arrested and is currently on \$3000.00 bond pending trial.

Agency Action: The agency has implemented additional activities by the ARS Quality Assurance Team that will enhance discovery should any similar acts be initiated by any other counselors in the future.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

FINDING NUMBER: 03-645-05
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.959 – Block Grants for Prevention and Treatment of Substance Abuse
QUESTIONED COSTS: \$350,571

LEVEL OF EFFORT– Management did not meet the non-Federal expenditure level of effort by \$350,571 for the 2001 grant year as required by the Block Grant for Prevention and Treatment of Substance Abuse grant agreement and 45 CFR 96.134. The inability to maintain the required level of effort could result in loss of federal funds.

We recommend the Agency strengthen internal controls to ensure that all level of effort expenditures required by the laws, regulations, and provisions of the grant are properly budgeted and maintained.

RESPONSE-

The Office of Alcohol and Drug Abuse Prevention (ADAP) is fully aware of its failure to comply with the Maintenance of Effort (MOE) requirement for State Fiscal Year (SFY) 2003.

Due to the sudden and dramatic drop in tax revenue and an increase in unemployment in 2002, State General Revenue was significantly reduced to State Agencies. Due to that fact, during the budgeting process for SFY 2003, state revenues for the ADAP Program within the Department of Health were reduced by \$359,591. This dollar figure was a prorated amount that was spread throughout the entire agency and based on the percentage of agency state general revenue budgeted in a particular program area.

Program staff will be vigilant in the future in advocacy regarding this issue. If issues arise, discussion will occur with the federal project officer to address this issue during the funding period.

FINDING NUMBER: 03-645-06
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.959 – Block Grants for Prevention and Treatment of Substance Abuse
QUESTIONED COSTS: \$162,095

EARMARKING – The Agency failed to expend federal funds for the Primary Prevention Program in accordance with provisions of the block grant agreement and 45 CFR 96.124. Management failed to meet the twenty percent (20%) earmarking requirement by \$162,095 for the 2001 grant year. The inability to maintain the earmarking requirement could result in loss of federal funds.

We recommend the Agency strengthen internal controls to ensure that all earmarking requirements required by the laws, regulations, and provisions of the grant are properly budgeted and maintained.

RESPONSE-

The State of Arkansas/the Office of Alcohol and Drug Abuse Prevention did not meet the 20% SAPT Block Grant expenditure requirement for Primary Prevention. The unspent funds came from underutilized budgets of community-based prevention grantees and, as such, have several restrictions that include: (1) monies are limited to one time costs that have to be expended by the end of the FFY, and (2) the use and award of these monies must comply with State policies and regulations. Because this was a large amount of funds (\$162,095), ADAP wanted to use them to support a meaningful one-time effort that we normally could not afford. A written plan to support efforts of Prevention Resource Centers was developed but required a level of coordination with other state efforts that prevented implementation during the appropriate period.

The execution of internal controls by management to oversee approved grant awards, track grantees utilization of funds and provide monthly expenditure reports to the Alcohol and Drug Abuse Coordinating Council will be strictly adhered to and enforcement charged to the duties of the ADAP Director. Cut off dates for starting new initiatives with unspent funds will be avoided at all cost unless sufficient time exists to reallocate the funds within the appropriate fiscal year.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-645-07
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.959 – Block Grants for Prevention and Treatment of Substance Abuse
QUESTIONED COSTS: None

REPORTING – Management did not file the SF-269A Financial Status Report as required by the grant agreement. The SF-269A report is prepared annually to report obligations and expenditures of block grant funds. Failure to maintain federal reports and adequate support documentation could lead to misrepresentation and disallowance of federal expenditures.

We recommend management implement policies and procedures necessary to maintain all records necessary for audit and management purposes to support and substantiate all required federal reports.

RESPONSE-

Specific action includes completion and submission of the above referenced SF-269A Financial Status Report in coordination with program staff by April 30, 2004. This report was originally due on December 31, 2002.

At the beginning of each month, Financial Management staff cross-reference active files with the recently developed grants management database to ensure that required reports for the month are properly identified and reported on consistent with grantor funding requirements. Supervisory review and testing of this process is performed monthly.

Management has developed and established a file review procedures checklist (*copy enclosed*) for grant financial reporting and file closeout. This form is utilized for each federal financial assistance program to ensure that a proper central system of record is maintained, and to ensure all records necessary for audit and management purposes are available to support and substantiate all required federal reports.

FINDING NUMBER: 03-645-08
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Medicaid Cluster)
QUESTIONED COSTS: None

REPORTING – The Agency failed to report cash transactions totaling \$256,627 on the PMS-272 Quarterly Cash Transactions Reports during the 2003 fiscal year.

We recommend the Agency establish internal controls to ensure accurate reporting to the federal awarding agency.

RESPONSE-

Financial Management recognized and was correcting this omission prior to independent auditor identification. Specific action included completion and submission of the above referenced PMS-272 Quarterly Cash Transactions Reports for all identified FY 2003 cash activities (for the above referenced program) as of February 16, 2004.

At the end of each reporting quarter, Financial Management staff cross-reference active files with the recently developed grants management database to ensure that required reports for the quarter are properly identified and reported on consistent with grantor funding requirements.

Supervisory review and testing of this process is performed quarterly.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-09
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$85,225

ALLOWABLE COSTS/COST PRINCIPLES – Accurate data is not being maintained on current job duties and positions for TANF employees. From a total of thirty-three (33) employees tested, the Agency incorrectly coded three (3) employees' entire payrolls totaling \$85,225 to the TANF program. Because these employees worked on numerous programs, salaries for the employees should have been allocated through the Agency's cost allocation system.

We recommend the Agency implement adequate internal controls and procedures to track and update current job duties, positions and personnel coding within AASIS.

RESPONSE-

The Agency has submitted corrections for the three salary expenditures cited in the review that were inappropriately direct charged to the TANF Program. A Position Control Report is generated and distributed to managers to identify all positions that are direct charged to a program. Managers will be reminded to review and correct program codes (internal orders) as necessary so that salaries are correctly allocated.

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FINDING NUMBER: 03-710-10
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$73,926

ALLOWABLE COSTS/COST PRINCIPLES - Eighty (80) client case files located in five (5) counties were selected from supportive services payments reported in the WISE system to determine whether the payment was an allowable cost in accordance with the Agency's TEA Manual. Five (5) of the client case files could not be located during our county office visits.

Our examination also revealed the following discrepancies:

- In Miller County, six (6) clients received assistance totaling \$3,329 for dental services. Federal regulations prohibit funds from being used to provide medical services other than pre-pregnancy family planning services.
- In three (3) of the five (5) county offices selected for review, twenty-three (23) transportation payments totaling \$15,127, individually exceeded the \$200 maximum without documented approval from the County Administrator. In addition, supporting documentation for twenty (20) transportation payments totaling \$8,364 could not be located in the client case files. Also, five (5) transportation payments totaling \$7,535 were made after a client's case was closed.
- In Mississippi County, seven (7) vehicle down payments totaling \$17,500 were made on behalf of clients without supporting documentation that the client met the work requirements or was granted an exception by

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

- the Area Director. According to State policy, a client must be currently employed for sixty (60) days at the same job before vehicle down payment assistance can be granted.
- In three (3) of the five (5) counties selected for review, vehicle repairs in excess of the \$1,000 per vehicle maximum were paid to or on the behalf of fifteen (15) clients resulting in questioned costs of \$8,677.
- In four (4) of the five (5) counties selected for review, supporting documentation could not be located in twelve (12) client case files for vehicle repairs totaling \$13,394. In addition, a note in one (1) client case file revealed the client did not own a vehicle.

We recommend the Agency strengthen employee training and establish monitoring procedures to ensure compliance with existing policies.

RESPONSE-

Finding Inaccuracies:

The Agency obtained from the auditors the lists of specific case files mentioned in the five bullet point items above, reviewed those case files, and found inaccuracies in the finding. Those inaccuracies are listed below in the same order as the bullet points within the finding.

- Over \$1,500 of the expenditures were for dentures, which are not considered to be a "medical expense".
- Agency review of the case records cited for exceeding the \$200 maximum for transportation payments revealed an Acting County Administrator approved expenditures greater than \$200 on all but one of these cases. Agency review also revealed documentation was in case records on all but \$6,836 of expenditures.
- All but two of these clients had been employed for 60 days.
- Two cases had expenses totaling \$855.66 and did not exceed the \$1000 per vehicle maximum.
- Three of the twelve case files did contain documentation of the car repairs totaling \$2,422.70.

Agency Response:

The audit of TEA cases included in this series of findings was not based on a statistically valid statewide sample. As a result, it cannot be concluded that the findings are representative of overall performance in the TEA Program. A Corrective Action Plan will be developed to deal with these deficiencies that includes additional monitoring of TEA case records. The Agency is creating a new TEA Training Unit for new and current staff to strengthen the policy knowledge of staff. The Agency has also identified two additional positions to provide increased monitoring of the TEA Program.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-11
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency failed to prepare a draw schedule of payroll/administrative costs according to the Cash Management Improvement Act (CMIA) agreement. The Agency's schedule for federal draws of payroll/administrative costs has not been updated since October 2000. The CMIA agreement requires that administrative draws be based on the current quarter's administrative grant divided by the number of payrolls processed during the period. The first draw of the following quarter is then adjusted to reflect any increase/decrease that may occur in the actual administrative expenses during the course of operations of the program during the quarter. The Agency failed to reconcile the administrative expenses to the Agency's accounting records and make the necessary adjustments on a quarterly basis as required by the CMIA agreement.

In addition, the Agency's inadequate internal controls regarding bank account activity and the recording of transfers revealed the following deficiencies:

- The Agency's failure to perform a reconciliation between actual expenditures for cash assistance benefits and the funds drawn for those benefits resulted in an overdraw of federal funds in the amount of \$1,526,188.
- The Agency's internal policy is to minimize the cash balance in the Electronic Benefits Transfer (EBT) bank account. During fiscal year 2002, the average month ending cash balance increased by \$627,921. In an attempt to reduce the EBT bank account cash balance, the Agency did not draw \$5,524,499 of federal funds to which the Agency was entitled in fiscal year 2003. However, for the 2003 fiscal year, the average month ending cash balance increased by \$833,290.

Upon further review of the EBT bank account it was noted that state and federal funds are commingled in the EBT bank account. Therefore, without proper segregation of state and federal funds, a determination cannot be made as to the proper utilization of these funds.

- The Agency failed to return interest totaling \$58,787, which was earned on federal deposits on three (3) bank accounts.
- The Agency is not performing a reconciliation between the disbursements recorded in the WISE database with the disbursements recorded in the WISE checking account. An unreconciled difference of \$315,624 exists for the year ended June 30, 2003. Without the reconciliation, inappropriate disbursements could be made and not detected in a timely manner.
- The Agency incorrectly coded and recorded a \$6,000,000 transfer from the Child Care and Development Block Grant as revenue in AASIS.

We recommend the Agency establish adequate internal controls and procedures for implementing required cash management policies. In addition, the Agency should establish reconciliation procedures to provide assurance that federal funds represented in Agency bank accounts are adequately safeguarded.

RESPONSE

Agency Response:

- Regarding cash assistance expenditures to funds draws reconciliation:
The Agency will identify the correct amounts that should have been and make the adjustments necessary to correct the overdraw of Federal funds.
- Regarding EBT bank account:
The Agency will perform Daily and Monthly Reconciliations on this account, which will help identify errors and maintain a sufficient account balance. The issue of commingled Federal and state funds issue will require additional study. Any needed procedures will be developed for implementation.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

- Regarding interest earned on federal funds:
The Agency has notified and provided to the Arkansas Department of Finance and Administration (DFA) the interest liability due the Federal Government for state fiscal year 2003. The Agency has worked with DFA to transmit to the U. S. Treasury, payment due. Payment will be made on March 31, 2004 as required by the Treasury.
- Regarding the WISE system and checking account:
The Division of Administrative Services' Banking Operations and Accounts Payable Units are working with the Division of County Operations to reconcile the system with the bank account and to develop procedures to ensure the WISE database and checking account are reconciled regularly.
- Regarding the incorrect coding:
When CCDF and SSBG funds are authorized to be transferred by TANF, the practice has been to draw the funds and code the draw as a deposit directly to the specific divisions. Change in procedures have been made and funds will be drawn and deposited to the correct division as revenue and a transfer document created for Intra-agency transfers.

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FINDING NUMBER:	03-710-12
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	Unknown

ELIGIBILITY – One hundred sixty (160) client case files covering five (5) counties were selected for review from cash assistance payments reported in the ACES system to determine whether clients were eligible to receive benefit payments in accordance with the Agency's TEA Manual. Thirteen (13) of these client case files could not be located during our county office visits.

Our examination revealed the following discrepancies:

- Nineteen (19) client case files did not contain adequate documentation to verify kinship between a minor child and the case head, as required by the Agency's TEA manual.
- Twenty-five (25) client case files did not contain a Declaration of U.S. Citizenship or Satisfactory Immigration Status form (DCO-9), which is required by the Agency's TEA manual.
- TEA cash assistance was provided to 14,347 adults during the year ended June 30, 2003. A list containing one hundred forty (140) of these adults was provided to the Arkansas State Police to check for convictions classified as a felony. The check revealed twenty-four (24) of the one hundred forty (140) adults or seventeen percent (17%) had convictions classified as a felony. According to program guidelines, the State may not provide assistance to any individual who is convicted under federal or State law of any offense which is classified as a felony involving the distribution or manufacturing of a controlled substance. From the information provided from the Arkansas State Police, we were unable to determine if the felony convictions involved would deem the clients ineligible to participate in the program. We feel the Agency should implement policies and procedures to provide assurance that only eligible clients receive benefits.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER:	03-710-12 (Continued)
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	Unknown

During the review of client case files and discussions with county office employees, it was determined the only Agency procedure for verifying felony status is obtained through a "yes/no" checkbox question on the TANF application or Client Declaration Statement. Although the checkbox question is adequate to meet legal requirements, we believe additional procedures should be performed to verify the client's response. Our review also noted ten (10) of the one hundred sixty (160) checkboxes were left blank and the Agency did not investigate further.

Clients are also required by policy to state in writing if they or any member of their household have been convicted of a felony involving a controlled substance. No such statements were found in any of the one hundred sixty (160) client case files reviewed.

- Four (4) client case files did not contain a complete application. An application is required when a request for assistance is made.
- Fifteen (15) client case files did not contain a personal responsibility agreement, which details the responsibilities the client must comply with while receiving cash assistance.

The personal responsibility agreement also requires the adult caretaker or minor parent to ensure that school-age children attend school regularly. In twenty-two (22) client case files, no statement or verification that school-age children were attending school could be located.

In addition, the agreement requires preschool children receive the necessary immunizations. Proof of immunization must be requested prior to the approval of a client's application. During our review, seventeen (17) client case files did not contain proof of current immunization records.

- Eighteen (18) payee-only client case files did not contain adequate documentation confirming yearly evaluations were performed.
- All adult clients receiving cash assistance, not exempt or deferred from work activities, are required to complete employment and educational assessments. These assessments assist the caseworker in determining the client's level of training and/or education for placement in the work force. Our examination revealed the following: 1) thirty-five (35) client case files did not contain results of a Test of Basic Adult Education (TABE), 2) twenty-seven (27) client case files did not contain documentation that the Learning Disability Screening was conducted, and 3) nine (9) client case files did not contain verification of a completed TEA Skills, Employability and Intake Assessment (DCO-1402).
- Eleven (11) client case files did not contain a required employment plan. The employment plan is developed by the caseworker and the client and contains detailed instructions to assist the client in obtaining and retaining employment.
- Two (2) ineligible clients were approved and received cash assistance although supporting documentation clearly stated the clients' incomes exceeded the income limit established in the TEA Manual. According to TEA state policy, a client meets the income requirement if their monthly income does not exceed \$223 per month. Only eighty percent (80%) of a client's eligible income is required to be included in the budget when making this determination.

We recommend the Agency review existing policies and procedures with appropriate personnel to ensure compliance with the eligibility requirements of the TANF program. In addition, we recommend the Agency strengthen record retention practices in place in the county offices.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-12 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE-
Finding Inaccuracies:

The Agency obtained from the auditors the lists of specific client case files mentioned in the nine bullet point items above, reviewed those case files, and found inaccuracies in the finding. Those inaccuracies and in some cases the agency response to specific bullet points are listed below in the same order as the bullet points within the finding.

- Agency review revealed birth certificates in two of the 19 files as verification of kinship.
- Agency review revealed the DCO-9, the Declaration of U.S. Citizenship or Satisfactory Immigration Status form, in two of the files.
- When Federal TANF regulations were issued, States were given an option regarding the felony drug conviction requirement. Interested parties, including members of the Arkansas State Legislature, made a conscious decision that although the TEA population would likely contain members that potentially were or had been drug users, in order to impact the lives of the TEA parent(s) and children, this group of citizens would be eligible to be in receipt of cash assistance and supportive services. As a consequence, Arkansas "opted" out of this requirement and developed a State Plan, which is approved by the Arkansas Transitional Employment Board, and TEA Program policy, which is approved by a committee of the Arkansas State Legislature, that allowed this population to be served.

The Agency has provided numerous documents and federal regulations to Legislative Audit regarding this issue. The issue of whether a check box is used to indicate a felony conviction is not relevant to this discussion because the client indicates "yes or no" to a question about felony convictions and the distribution of drugs and signs the application under penalty of perjury. Both the State and Federal regulations call for a client statement as adequate confirmation of felony drug convictions.

The real issue seems to lie in the opinion of Legislative Audit that another public policy, one different from the one approved by the Arkansas State Legislature and the Federal government, should be adopted. The basis for this recommendation is a record check by the Arkansas State Police about which even Legislative Audit states, "From the information provided from the Arkansas State Police, we were unable to determine if the felony convictions involved would deem the clients ineligible to participate in the program."

The Agency considers this finding to be inaccurate and the recommended process would only serve to increase administrative costs and delay the provision of services to the most needy citizens in our State. We once again request the removal of any finding other than failure to check the yes/no box from the audit report.

The Agency will insure that the four cases in question contain a completed, signed application form.

- Agency review revealed either a Personal Responsibility Agreement or DCO-216 with client's signature in the case record for all clients.

Agency review revealed school attendance verification in three of the 22 files.

Agency review revealed verification of immunization in three of the 17 files.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-12 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE (Continued)

- Agency review revealed yearly evaluation was conducted on four of the 18 files.
- 1) Agency review revealed that of the thirty-five client case files one case had the TABE score, one case was a minor parent, one was a child-only case (neither require TABE testing) and three cases were open less than one month.
2) Agency review revealed that of the twenty-seven client case files one case was a child-only case and two others were minor parent cases that do not require an LD screening.
3) Agency review revealed that of the nine client case files one case was a child-only case that did not require a DCO-1402.
- Agency review revealed that of the eleven client case files two cases were child-only cases where no employment plan is required.
- Agency review revealed that one of these two cases was a child-only case and the income of the adult is disregarded.

Agency Response:

The audit of TEA cases included in this series of findings was not based on a statistically valid statewide sample. As a result, it cannot be concluded that the findings are representative of overall performance in the TEA Program. A Corrective Action Plan will be developed to deal with these deficiencies that includes additional monitoring of TEA case records. The Agency is creating a new TEA Training Unit for new and current TEA case managers, supervisors, and Program Support Specialists to strengthen the policy knowledge of staff. This training will specifically address the findings in this audit, as well as provide supervisors with additional guidance on monitoring TEA case records. The Agency has also identified two additional positions to provide increased monitoring of the TEA Program.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER: 03-710-13
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: None

PERIOD OF AVAILABILITY OF FEDERAL FUNDS – Due to the Agency's failure to establish adequate internal controls to separately identify federal grant awards, disbursement activity could not be identified to specific grant awards. As a result, we were unable to determine if an obligation for a disbursement was within the period of availability parameters. Therefore, compliance with period of availability could not be determined.

We recommend the Agency establish proper internal control procedures to separately identify all federal grant awards.

RESPONSE-

The Agency is working with the Division of Legislative Audit to develop a system that will provide the information each division needs to accurately track federal fiscal year funds and also will allow Legislative Auditors to obtain information from AASIS that is necessary to perform audits.

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FINDING NUMBER: 03-710-14
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

REPORTING – The Agency again failed to reconcile federal expenditures per cost allocation with the TANF Financial Reports submitted to the United States Department of Health and Human Services (USDHHS) for the first quarter of the state fiscal year 2003.

In addition, estimated expenditures were reported on the quarterly reports for the fiscal year 2002 and the first quarter of fiscal year 2003 due to problems with the statewide conversion to the Arkansas Accounting Statewide Information System (AASIS). Although approval was obtained from the federal authorities to estimate federal expenditures at the time the reports were completed, no adjustments have been made to reflect actual expenditures.

Failure to reconcile the expenditures and update estimates to the actual expenditures results in the misstatement of expenditures reported to USDHHS.

We recommend the Agency complete a reconciliation between cost allocation and TANF financial reports for state fiscal year 2002 and first quarter of state fiscal year 2003. In addition, the quarterly reports should be updated to reflect actual expenditures.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-14 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE-

It should be noted that in SFY 2001 the Agency began using a new financial system called AASIS. We anticipated conversion problems in implementing a financial system of this magnitude. As a result, the State advised the ACF regional office and sought permission to report available expenditures for the first quarter of SFY 2002 and make the necessary corrections as soon as possible. Since that time, the State has been reporting expenditures based on financial data captured both internal and external to AASIS. Staff have initiated the TANF reconciliation process, and if necessary, corrected federal reports for any impacted quarters will be submitted.

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FINDING NUMBER: 03-710-15
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

SPECIAL TESTS AND PROVISIONS - CHILD SUPPORT NON-COOPERATION – The Office of Child Support Enforcement (OCSE) notifies the Agency of client non-cooperation with program requirements concerning child support through the use of an OCSE-1650 notification form. A review of an OCSE-1650 listing for the year ended June 30, 2003 for the five (5) counties selected for testing revealed ninety-three (93) client cases were not sanctioned as required.

According to Arkansas law, child support rights are automatically assigned to the Department of Human Services when an individual accepts TANF assistance. Clients are required to cooperate with OCSE in seeking child support payments and/or establishing paternity. Failure to properly sanction cases involving non-cooperation with program requirements is the result of poor case management, which could result in an overpayment of cash assistance benefits to non-cooperative clients.

We recommend the Agency establish procedures to monitor the OCSE-1650 notifications and adhere to established sanction policies concerning child support non-cooperation.

RESPONSE-

It was determined that in some situations, county office staff had misinterpreted TEA policy relating to child-only cases and had not applied the sanction for non-cooperation as a result. A policy clarification was issued to all county offices on January 9, 2004 re-emphasizing the child support requirement in TEA child-only cases. Additional action is being pursued with the OCSE regarding other sanction notifications so that OCSE-1650's can be received and monitored in a central location. We are also pursuing the feasibility of applying OCSE non-cooperation sanctions through a system update rather than caseworkers having to apply them. The state is currently in the process of submitting a corrective compliance plan to ACF.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-15 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE (Continued)-

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FINDING NUMBER: 03-710-16
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

SPECIAL TESTS AND PROVISIONS – CHILD SUPPORT INFORMATION PROVIDED TO DHS – Monthly information in the form of an electronic file is sent from the Office of Child Support Enforcement (OCSE) to the Agency concerning changes in child support payments. The information contained in the electronic file is not being effectively utilized by the Agency to properly maintain data, which determines client eligibility. Eligibility has to be reevaluated when a client's income increases. If the information from OCSE is not effectively utilized, clients could continue to receive TANF assistance when they are no longer eligible.

We recommend the Agency develop procedures to efficiently disburse the information from OSCE concerning child support payments to the appropriate personnel in a timely manner.

RESPONSE-

Procedures are being developed to electronically distribute the child support income information received from OCSE to county offices. Once distributed, then monitoring procedures will be established to ensure the information is reviewed and acted upon if applicable.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER: 03-710-17
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$2,900

SPECIAL TESTS AND PROVISIONS – EXCESS VEHICLE DOWN PAYMENT ASSISTANCE – A review of all supportive services payments reported in the WISE system in fiscal year 2003 revealed questioned costs of \$2,900. Agency policy states that assistance with the down payment on a vehicle will not exceed 75% of the purchase price, up to a lifetime maximum of \$2,500. Two (2) clients received down payment assistance in excess of the lifetime maximum.

We again recommend the Agency develop procedures to ensure adherence to policy regarding the lifetime maximum amount for vehicle down payment assistance.

RESPONSE-

An edit to the supportive services payment system (WISE) has been implemented that will prevent a worker from authorizing a vehicle down payment that would result in payment(s) exceeding the \$2500 lifetime maximum.

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FINDING NUMBER: 03-710-18
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

SPECIAL TESTS AND PROVISIONS – WORK ACTIVITY NON-COMPLIANCE – According to State regulations for TANF, all able-bodied adult family members receiving cash assistance are required to work or participate in job search activities. If a client refuses to cooperate with these requirements, their benefits will be sanctioned by twenty-five (25%). Our review of one hundred sixty (160) client case files revealed the following:

- Thirteen (13) clients were not in compliance with work requirements and no sanction was being applied.
- Fifteen (15) client case files lacked adequate documentation preventing a determination from being made on whether the clients were in compliance with the work requirement or job search activities.

Failure to properly sanction cases involving non-cooperation with program requirements is the result of poor case management. In addition, an overpayment of cash assistance benefits to non-cooperative clients could occur.

We recommend the Agency properly monitor client case files for non-compliance regarding work requirements or job search activities and apply the necessary sanctions when applicable.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-18 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE-

Finding Inaccuracies:

The Agency obtained from the auditors the lists of specific case files mentioned in the two bullet point items above, reviewed those case files, and found inaccuracies in the finding. Those inaccuracies are listed below in the same order as the bullet points within the finding.

- Agency review revealed one case of the thirteen was sanctioned.
- Agency review revealed two of the fifteen cases were child-only cases and not subject to sanctions for failure to meet work activities and three of the fifteen cases had documentation of compliance.

Agency Response:

The Arkansas TEA Program has a progressive sanction process for cases that fail to comply with program requirements. In June 2003, over 16% of the Time Limited cases were in a sanction status. The audit of TEA cases included in this series of findings was not based on a statistically valid statewide sample. As a result, it cannot be concluded that the findings are representative of overall performance in the TEA Program.

A Corrective Action Plan will be developed to deal with these deficiencies that includes additional monitoring of TEA case records. The Agency is creating a new TEA Training Unit for new and current staff to strengthen the policy knowledge of staff. The Agency has also identified two additional positions to provide increased monitoring of the TEA Program.

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FINDING NUMBER: 03-710-19
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

SPECIAL TESTS AND PROVISIONS – INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS) – Fourteen (14) client case files of the one hundred sixty (160) cases tested did not contain supporting documentation regarding verification of income. According to federal regulations, each state is required to participate in the IEVS to coordinate data exchanges with other federally assisted benefit programs, as well as, request and use income and benefit information when making eligibility determinations.

We recommend the Agency establish procedures to ensure income is properly verified and clearly documented in client case files.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-19 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: Unknown

RESPONSE-

The Agency does not consider this finding a failure to comply with IEVS Requirements, but rather a lack of documentation in the case file. It is the Division's policy to do a check of WESD screens at application or at re-evaluation. Policy does not require that copies of the WESD screen are printed and filed in the case record. Determination of income eligibility will be checked during the second party review process. A Corrective Action Plan is being developed in response to these deficiencies.

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FINDING NUMBER: 03-710-20
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.575 – Child Care and Development Block Grant
93.596 – Child Care Mandatory and Matching Funds of the Child
Care and Development Fund
(Child Care Cluster)
QUESTIONED COSTS: \$208,793

ALLOWABLE COSTS/COST PRINCIPLES – Between July 1, 2003 and December 19, 2003, the Division of Child Care and Early Childhood Education identified twenty-one (21) cases of possible provider fraud totaling \$89,150 and seventy-four (74) cases of possible client fraud totaling \$119,642. According to Agency staff, these instances predominately occurred during fiscal year 2003 and the subsequent period. These cases have been turned over to the Agency's Office of Chief Counsel for further investigation.

We recommend the Agency continue to strengthen internal controls and implement policies and procedures necessary to identify fraudulent activity within the program.

RESPONSE-

The Division of Child Care and Early Childhood Education continues to aggressively pursue provider and client fraudulent activity. We have changed our procedures to emphasize the timely and streamline processing of referrals within the division before submitting them to the Office of Chief Counsel for further action. We have undertaken an ambitious program to start the development of a centralized fraud database that will consist of a data warehouse with the capability to conduct extensive data mining and benchmarking analysis. These efforts overall will considerably strengthen the division's response to fraudulent activity by moving it toward a more proactive, preventive response vice that of a reactionary response.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-20 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.575 – Child Care and Development Block Grant
93.596 – Child Care Mandatory and Matching Funds of the Child
Care and Development Fund
(Child Care Cluster)
QUESTIONED COSTS: \$208,793

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FINDING NUMBER: 03-710-21
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.575 – Child Care and Development Block Grant
93.596 – Child Care Mandatory and Matching Funds of the Child
Care and Development Fund
(Child Care Cluster)
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency again failed to follow the prescribed cash management procedures for draws representing administrative costs as set forth in the CMIA agreement. In addition, the Agency failed to retain adequate documentation supporting the draws for both payroll and direct program expenditures. The Agency's failure to follow the CMIA and failure to retain documentation contributed to the overdraw of federal funds totaling \$9,307,844, an increase of \$4,030,994 from the prior year.

We again recommend the Agency strengthen internal controls by implementing policies and procedures that ensure compliance with the CMIA agreement. In addition, the Agency should contact the federal awarding agency to determine the amount of interest liability due the federal government.

RESPONSE-

The CMIA has been updated and correct draw procedures will be followed. Additionally, the Agency will obtain any available specifics on the error from the auditors and make any necessary adjustments needed to return interest due the federal government.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER: 03-710-22
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.658 – Foster Care_Title IV-E
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency failed to comply with the CMIA agreement administrative and payroll expenditures draw procedures. The CMIA agreement requires that administrative draws be based on the current quarter's administrative grant divided by the number of payrolls processed during the period. The first draw of the following quarter is then adjusted to reflect any increase/decrease that may occur in the administrative expenses during the course of the operations of the program during the quarter. The Agency based all draws on quarterly expenditures and average quarterly expenditures.

We recommend the Agency establish internal controls to ensure draw procedures are performed in accordance with the requirements of the CMIA agreement. Additionally, we recommend the Agency properly train employees to perform the required draw procedures.

RESPONSE-

The CMIA agreement has been updated and draws will be performed according to the delayed draw schedule.

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FINDING NUMBER: 03-710-23
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.658 – Foster Care_Title IV-E
QUESTIONED COSTS: \$2,703

ELIGIBILITY – Our review of thirty (30) foster children's eligibility files revealed that five (5) eligibility files did not contain adequate documentation, including court orders and eligibility re-determinations. Questioned costs totaling \$2,703 are reported due to the inadequate documentation.

We recommend the Agency implement internal controls to ensure procedures are in place to provide for the proper maintenance of Foster Care eligibility files and that all required data for eligibility determination is included in the files.

RESPONSE-

In review of the finding, the CHRIS application was modified effective September 2003 to select cases for re-determination annually based on the anniversary date that a child enters foster care. CHRIS generates a re-determination tickler for the foster care caseworker a month prior to the re-determination due date. In addition to ticklers, DHS has implemented two new online reports that may be used by field and management staff to identify cases that are due and overdue for re-evaluation. The reports were available in March 2004.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-23 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.658 – Foster Care_Title IV-E
QUESTIONED COSTS: \$2,703

The first report, Medicaid/IV-E Re-determination Overdue, lists all cases for which a re-determination is overdue. The report lists each overdue re-determination by area, by county, and by caseworker.

The second report, Medicaid/IV-E Re-determination Due Within 30 days, lists all cases for which a re-determination will be due in the next 30 days. The report lists each overdue re-determination by area, by county, and by caseworker. The report lists the cases for which CHRIS has set a re-determination tickler.

Area Managers were advised of these reports and their availability during the March 2004 Area Manager's meeting.

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FINDING NUMBER: 03-710-24
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.658 – Foster Care_Title IV-E
QUESTIONED COSTS: None

ELIGIBILITY – Supporting documentation for a criminal records check for thirty (30) of the forty (40) foster family homes represented in our examination could not be provided. The Agency is required to perform a criminal records check on foster home providers to determine if the provider satisfactorily meets all necessary requirements. A criminal records check must be performed on all individuals aged fourteen (14) and older living in the foster home. Each county provides the Agency with a listing of individuals requiring a criminal records check. The Agency is required to forward this listing to the Arkansas State Police where the criminal records check is performed. When the Agency receives notice from the Arkansas State Police stating the results, the Agency informs the county by letter. The Agency destroys the documentation received from the Arkansas State Police after one year. Due to this practice, the Agency was unable to supply documentation verifying that individuals met the criminal records check. We recommend the Agency keep all records from the Arkansas State Police concerning a foster parent/family member's criminal records check. All supporting documentation should be retained until updated.

RESPONSE-

In review of this finding, the Child Welfare Agency Licensing staff in their current review of the foster charts will review the chart to ensure that the criminal record check is on the chart. The licensing staff will identify any deficiencies and if any are found, provide a list to the Area Manager for corrective action.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-25
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.658 – Foster Care_Title IV-E
QUESTIONED COSTS: None

REPORTING – The Agency failed to perform a reconciliation of federal expenditures per cost allocation and the PMS 272A reports submitted to the United States Department of Health and Human Services (USDHHS). As a result, the PMS 272A's reported expenditures exceeded the actual expenditures reported in cost allocation by \$6,913,157.

The Agency also failed to perform reconciliations between cost allocation and AASIS. As a result, program expenditures reported in AASIS exceeded expenditures reported in cost allocation by \$1,160,536.

In addition, the Agency did not prepare a reconciliation between AASIS and the Children's Information and Reporting System (CHRIS). Disbursements representing board payments reported in AASIS were \$349,529 less than those reported in CHRIS.

We recommend the Agency prepare reconciliations to ensure the amounts reported to the federal awarding agency are accurate and based upon information contained within the State's accounting system.

RESPONSE-

A spreadsheet has been developed that reconciles the payments created by CHRIS to the final warrant amounts processed by AASIS. In reviewing this spreadsheet, the differences mentioned in the finding were identified as voided warrants and in some instances the re-issuance of those voided payments in subsequent periods. The worksheet will be ongoing and variances will be researched and the necessary corrective action will be taken as variances are identified.

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FINDING NUMBER: 03-710-26
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: \$110,526

ALLOWABLE COSTS/COST PRINCIPLES – Accurate data is not being maintained on current job duties and positions for Medicaid employees. From a total of forty-two (42) employees tested, the Agency incorrectly coded seven (7) employees' entire payrolls totaling \$110,526 to the Medicaid program. Because these employees worked on numerous programs, salaries for the employees should have been allocated through the Agency's cost allocation system.

We recommend the Agency implement adequate internal controls and procedures to track and update current job duties, positions and personnel coding within AASIS.

RESPONSE-

The Agency has submitted corrections to appropriately charge salaries to the correct Federal Agency/Agencies. In addition, each month the Position Control Report that is distributed will identify all

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-26 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: \$110,526

positions that are direct charged. Managers will be reminded to review and correct internal orders so that salaries are correctly allocated.

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FINDING NUMBER: 03-710-27
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency failed to comply with the terms and conditions of the Cash Management Improvement Act (CMIA) agreement between the State of Arkansas and the United States Treasury regarding the draw procedures for payroll and administrative costs. According to the CMIA agreement, payroll costs are to be drawn using the Modified Pre-issuance funding technique which requires the State to request federal funds so that they are deposited not more than three business days prior to the day on which the related expenditure is recorded in the appropriate State Grantee's Reporting System and not later than the day the related payment is issued by the State. Also according to the CMIA agreement, administrative costs are to be drawn based on the current quarter's administrative grant divided by the number of payrolls processed during the period. The first draw of the following quarter is then adjusted to reflect any increase/decrease that may occur in the administrative expenses during the course of operation of the program during the quarter. The Agency is currently using the prescribed payroll method to draw administrative costs and the administrative method to draw payroll costs.

We again recommend the Agency establish adequate internal control procedures for implementing the requirements of the CMIA agreement.

RESPONSE-

The agency is currently drawing payroll costs based on the CMIA agreement provisions and the Medicaid Intermediary contractor, Electronic Data Systems, costs based on actual costs.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-28
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

ELIGIBILITY - The results of testing of one hundred sixty (160) recipients for the proper determination of eligibility revealed the following deficiencies:

- Eighteen (18) client case files could not be located by county office personnel.
- Fifteen (15) client case files did not contain an Assignment of Rights to Medical Support/Third Party Liability form, which authorizes the release of medical information to the Agency or other third parties.
- Fourteen (14) client case files did not contain a Cooperation in Child Support Enforcement form which is required to establish paternity and obtain medical support for each child who has a parent absent from the home.
- A review of the Agency's ACES database revealed an "800" number in use instead of an actual social security number for three (3) clients.
- Fourteen (14) client case files did not contain sufficient documentation such as application forms, AR Kids re-evaluation forms, citizenship forms, copies of birth certificates and social security cards preventing a determination from being made as to the eligibility of those clients.

We recommend the Agency review and strengthen the record retention practices in place in the county offices.

RESPONSE-

A Corrective Action Plan will be developed to deal with these deficiencies that includes additional monitoring of Medicaid case records. The Agency is creating an enhanced Training Unit for new and current staff to strengthen the policy knowledge of Medicaid staff. Additionally, the Agency will develop a Corrective Action Plan regarding missing files and will insure that a second party review occurs.

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FINDING NUMBER: 03-710-29
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

PROCUREMENT, SUSPENSION AND DEBARMENT – Each month, Electronic Data Systems (EDS) provides the Medicaid Field Audit Unit (MFAU) with an electronic file containing a list of providers that have been excluded from participating in the Medicaid program. MFAU is responsible for investigating matches that arise between excluded providers and Medicaid payments to determine if payments are being made to providers that should be excluded. During our review, it was noted that MFAU is not able to open the electronic file and does not obtain the EDS information in another useable format. As a result, MFAU is prevented from investigating Medicaid payments made to excluded providers.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-29 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

We recommend the MFAU coordinate with EDS to obtain the provider information in a readable format to expedite the investigation of potential excluded providers that may be participating in the Medicaid program.

RESPONSE-

A Memorandum of Understanding has been completed and signed by the Department and the Attorney Generals Office. There are quarterly meetings with MFCU and staff from Field Audit, Utilization Review, and Pharmacy to discuss issues and referrals. A referral sheet has been developed for suspected fraud. Agency staff have attended one (1) training session performed by MFCU on how to better identify fraud and another is scheduled for March.

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FINDING NUMBER: 03-710-30
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

REPORTING – The Agency again failed to reconcile the CMS-64 Quarterly Statement of Expenditures with the supporting accounting data. As a result, the CMS-64 report reflects expenditures exceeding those reported in the Agency's accounting records by \$1,854,789. Failure to reconcile reports results in the misstatement of expenditures to USDHHS.

We again recommend the Agency take steps to ensure that employees responsible for federal grant accounting reconcile the federal reports to supporting documentation in a timely manner.

RESPONSE-

Processes have been revised and reconciliations of CMS-64 are completed and supporting accounting data maintained.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-31
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

SPECIAL TESTS AND PROVISIONS – ADP RISK ANALYSIS AND SYSTEM SECURITY REVIEW – The Agency's periodic ADP risk analysis and system security reviews continue to fail to adequately address the physical and data security operating procedures. The review currently in place addresses whether the system has the operating elements required by the contract but does not address the security needs of the system.

We continue to recommend the Agency design an ADP risk analysis and system security review to adequately address the physical and data security operating procedures.

RESPONSE-

This has been included in the RFP for the fiscal agent that is currently in the procurement stage. The contract will be effective beginning July 2004.

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FINDING NUMBER: 03-710-32
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

SPECIAL TESTS AND PROVISIONS – ADP RISK ANALYSIS AND SYSTEM SECURITY REVIEW – The Agency contracts with Electronic Data Systems (EDS) to process payments to providers of Medicaid services and operate the Medicaid Management Information System (MMIS) for the State of Arkansas. This program is highly dependant on extensive and complex computer systems that include internal controls for ensuring the proper payment of Medicaid benefits. A Statement on Auditing Standards (SAS) 70 *Service Organizations* examination signifies that a service organization has had its control objectives and control activities examined by an independent auditing firm. A formal report including the auditor's opinion ("Service Auditor's Report") is issued to the service organization at the conclusion of a SAS 70 examination. For the year ended June 30, 2003, a SAS 70 was issued on EDS. However, it did not include testing related to the Arkansas Medicaid program. Without such an examination, only minimal reliance can be placed on the internal controls within MMIS.

We recommend the Agency ensure proper controls are in place by requiring an annual SAS 70 examination on the MMIS.

RESPONSE-

This has been included in the RFP for the fiscal agent that is currently in the procurement stage. The contract will be effective beginning July 2004.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-32
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

Contact Person:

Teresa Hursey, Medicaid CFO
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FINDING NUMBER: 03-710-33
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

SPECIAL TESTS AND PROVISIONS – PAYMENTS FOR SERVICES AFTER DATE OF DEATH – The Agency has implemented a process of electronically matching social security numbers of Medicaid recipients with social security numbers of persons with a date of death recorded in the Arkansas Department of Health's vital statistics database. The Agency provides the exception listing of matched records to each county office. The county office staff is responsible for recording the date of death in the Arkansas Client Eligibility System (ACES). A test of twenty-eight (28) matched records revealed twenty (20) client records did not have a date of death enter into ACES and eight (8) dates of death were entered incorrectly. The Medicaid Management Information System (MMIS) uses eligibility data in ACES to determine if the client is eligible for services.

The lack of due care with respect to the entry of dates of death into ACES and data entry errors regarding names and social security numbers could result in the misappropriation of Medicaid funds.

We recommend the Agency review policies and procedures with appropriate county office personnel to ensure dates of death are accurately recorded.

RESPONSE-

It appears that this is a systems issue rather than inaccurate data entry by caseworkers. We are researching the system interfaces to determine the source data field for the date of death transmitted to the MMIS system. Depending on the outcome of that research, we will revise the system interface, issue revised instructions to the counties, or implement a combination of those two actions.

Contact Person:

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)**

FINDING NUMBER: 03-710-34
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: \$74,008

SYSTEM INTERNAL CONTROLS – Using computer assisted analysis techniques we discovered ninety-seven (97) transactions, totaling \$74,008, where Medicaid services were paid for a date of service after the date of death recorded in the Agency's Medicaid Management Information System (MMIS). The failure of the system to prevent these payments could result in the misappropriation of Medicaid funds.

We recommend the Agency make necessary programming changes to MMIS to prevent payments for Medicaid services where the date of service is after the date of death recorded in MMIS.

RESPONSE-

The Agency will need to review the actual error payments to determine the cause of the error. It is very likely that these could be keying errors resulting from the change in the year. This is a common error in January and results in making all claims for the prior year ineligible.

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**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS**

U.S DEPARTMENT OF EDUCATION

FINDING NUMBER:	03-150-06
STATE/EDUCATIONAL AGENCY:	University of Arkansas for Medical Sciences
CFDA NUMBER:	Various – Student Financial Aid Cluster
QUESTIONED COSTS:	Unknown

UNEARNED FEDERAL FAMILY EDUCATION LOAN (FFEL) FUNDS - In a test of eight (8) students who had withdrawn from school, the unearned FFEL loan proceeds for three (3) students were not refunded to lenders within thirty (30) days. In two (2) of the student cases, there was an initial refund within the time limit. However, other amounts were later discovered to have been originally omitted from the refund and were remitted after the allotted time period. In the remaining student case, the entire refund was outside the thirty (30) day time period.

We recommend UAMS determine what event triggers recognition that a student has withdrawn and develop procedures for each department to follow to facilitate refund of loan proceeds to lenders within the time frame.

RESPONSE-

The Student Financial Aid Offices will review their policies and procedures to facilitate accurate refund of loan proceeds to lenders within the appropriate time frame.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

FINDING NUMBER: 03-395-01
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
CFDA NUMBER: 14.239 – HOME Investment Partnerships Program
14.195 – Section 8 Housing Assistance Payments Program_Special Allocations
QUESTIONED COSTS: None

INADEQUATE INTERNAL CONTROL - During the course of the audit, we noted that the internal control for payroll was insufficient in that two (2) part-time employees (occupying one (1) full-time position) have conflicting duties due to a lack of segregation of duties. Although the Authority has only one (1) full-time payroll position, segregation of accounting duties is an essential element of effective internal control, involving the separation of custody of assets from related recording and monitoring of transactions. Segregation of conflicting duties within the payroll department may be difficult because of the limited number of personnel. However, there are compensating controls management could implement to reduce the possibility of errors or fraud going undetected in the normal course of business.

We recommend limiting, to the extent possible, performance of incompatible duties by individuals.

RESPONSE-

Management agrees to review the Authority's payroll duties and implement compensating controls where possible.

FINDING NUMBER: 03-395-02
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
CFDA NUMBER: 14.239 – HOME Investment Partnerships Program
14.195 – Section 8 Housing Assistance Payments Program_Special Allocations
QUESTIONED COSTS: None

INADEQUATE INTERNAL CONTROL - A segregation of duties issue exists due to the same individual who sets up new projects in the HUD IDIS system, also has the ability to request federal cash draw downs from the system.

We recommend the same individual not be assigned the tasks of setting up new projects and requesting federal cash draws.

RESPONSE-

The HOME staff person in question was never assigned the tasks of performing both setup and drawdown functions. The employee was authorized to perform both functions due to limited staff availability and HUD's discontinuance of IDIS training. The employee in question performed both tasks only on an as as-needed basis. Actions have been taken to ensure that the setup and drawdown functions are performed by separate personnel.

FINDING NUMBER: 03-395-03
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
CFDA NUMBER: 14.239 – HOME Investment Partnerships Program
QUESTIONED COSTS: None

SUBRECIPIENT MONITORING - Single Audit reports for subrecipients receiving \$300,000 in federal awards from ADFA are not being obtained and reviewed in a timely manner by HOME personnel. Monitoring responsibilities should include a documented review of all subrecipient Single Audits each year. In addition, one (1) project test for subrecipient monitoring lacked documentation demonstrating that follow-up procedures had been conducted related to previous monitoring findings noted by ADFA personnel.

We recommend that all Single Audit reports be obtained and reviewed to help ensure instances of noncompliance are addressed in a timely manner and controls be implemented to ensure formal monitoring procedures are developed, conducted, documented and retained in the individual project files.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)**

FINDING NUMBER: 03-395-03 (Continued)
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
CFDA NUMBER: 14.239 – HOME Investment Partnerships Program
QUESTIONED COSTS: None

RESPONSE-

The HOME Program has an established procedure in place to determine if an A-133 audit is required of its subrecipients. The adopted procedures have been reviewed and accepted by BKD. HOME staff currently has procedures in place to notify any subrecipient of its timely audit submission responsibilities, and any failure to adhere to the audit submission requirements would be considered prior to any further HOME allocation action. The HOME department will obtain and review the A-133 audits for any non-compliance with HOME requirements. If the A-133 audit reveals non-compliance with HOME requirements, the HOME department will follow up with the subrecipient to ensure any identified deficiencies are resolved.

FINDING NUMBER: 03-395-04
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
CFDA NUMBER: 14.195 – Section 8 Housing Assistance Payments Program_Special Allocations
QUESTIONED COSTS: None

SUBRECIPIENT MONITORING - One (1) project tested for subrecipient monitoring lacked documentation demonstrating that follow-up procedures had been conducted related to previous monitoring findings noted by ADFA personnel. In addition, monitoring procedures are not formalized and/or not documented and retained in a manner prescribed by federal guidelines.

We recommend that controls be implemented to ensure formal monitoring procedures are developed, conducted, documented and retained in the individual project files.

RESPONSE-

Staff have been instructed to monitor the status of actions to address identified deficiencies at 30-day intervals to ensure deficiencies are resolved.

A formalized procedures manual is being developed to ensure that all federal guidelines are satisfied.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
U.S. ENVIRONMENTAL PROTECTION AGENCY**

FINDING NUMBER: 03-395/455-01
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
Arkansas Soil and Water Conservation Commission
CFDA NUMBER: 66.468 – Capitalization Grants for Drinking Water State Revolving
Funds
QUESTIONED COSTS: None

CASH MANAGEMENT- Federal grant receipts were not disbursed within three (3) days as required by federal guidelines. However, grant receipts were later disbursed in a manner consistent with the initial draw request.

We recommend that care should be taken to ensure all federal cash receipts are disbursed within three (3) days to prevent noncompliance with federal guidelines.

RESPONSE-

The Arkansas Soil and Water Conservation Commission ("ASWCC") initiates the disbursement requests and requests the cash draw from the Environmental Protection Agency via ACH. The disbursement requests are then forwarded to the Arkansas Development Finance Authority ("ADFA") with an expected deposit date. Upon ADFA's verification of the date and the amount of the funds deposited with the program's trustee, ADFA begins the process of properly disbursing the funds. Since the cash draw is deposited via ACH, the bank posts these deposits in a nightly batch process therefore; the next business day is when funds can be verified. ADFA reviews the disbursement request by verifying the cities' remaining amount of funds to be drawn, recalculates amounts and confirms funding sources. Once all requests are verified, the checks are disbursed.

Both ASWCC and ADFA have agreed to improve communication regarding grant receipts and disbursements to ensure the three-day Federal guideline is being met.

Person responsible – ASWCC Chief, Water Development Division and ADFA Vice President for Finance and Administration.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 03-150-03
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various - Research and Development Cluster
93.600 – Head Start
QUESTIONED COSTS: Unknown

COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS - UAMS implemented SAP on July 1, 2001. Since implementation of SAP, management has not finished developing a process for obtaining and maintaining the required personnel activity reports. As a result, required reports were not maintained during the year ended June 30, 2003. In response, we independently confirmed with a sample of employees the allocation of their time and effort charged to federal awards during the year. All employees confirmed with the actual allocation percentages used to allocate their time and effort among projects, including federal awards, without exception.

We recommend UAMS continue developing a process to obtain and maintain the required personnel activity reports. UAMS should expedite the development and implementation of the new process as soon as feasible. In addition, UAMS should consider how to meet the requirement prior to implementation of the new process.

RESPONSE-

UAMS, as an institution that uses the Plan-Confirmation procedure for effort certification as described in OMB Circular A-21, Section J.8, is only obligated to obtain annual certifications of effort expended on grants.

A time and effort certification process was implemented in mid-fiscal 2003. Certifications for the period ending December 31, 2002, were prepared, distributed and certified in the Spring of 2003. Certification for the period ending June 30, 2003, could not be completed until after the payroll for the period ending June 30, 2003, was posted. As anticipated, the certification process for this period was completed, on schedule, in September 2003. The effort certification for Fall of 2003 which ended December 31, 2003, is on schedule with anticipated completion date of April 1, 2004.

FINDING NUMBER: 03-150-04
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various - Research and Development Cluster
93.600 – Head Start
QUESTIONED COSTS: Unknown

SUBRECIPIENT MONITORING - Written procedures and adequate training of personnel in the area of subrecipient monitoring does not exist to ensure that subrecipients are appropriately monitored. As a result, there is a possibility that funds disbursed to subrecipients may not be expended in accordance with requirements of federal programs.

We recommend UAMS develop appropriate policies and procedures to monitor subrecipients receiving federal funds.

RESPONSE-

The Policies and Procedures Committee, formed in June 2003 for the specific purpose of reviewing and developing grant administration procedures, has implemented six new/revised policies including Grants Training and Professional Development, Expenditure Control, Budget Control, Close-Out, Indirect Cost Recovery, and Grant Administration Responsibilities. Policies currently being developed are Cost Sharing, Subrecipient Monitoring and Effort Reporting. The Committee has developed a comprehensive procedure manual to be distributed campus wide by March 31, 2004.

In conjunction with the Office of Research and Sponsored Programs (ORSP), Grants Accounting will ensure adequate training of personnel is provided in the area of subrecipient monitoring.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 03-150-05
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various - Research and Development Cluster
QUESTIONED COSTS: \$496,490

PERIOD OF AVAILABILITY – During a review of transfers, we noted three (3) expenditure transfers occurring after the end of the grant period. The transfers originated from fiscal year 2001 grants having deficit balances to grants with surplus balances in fiscal year 2003. The transfers were made without sufficient supporting documentation and there is no evidence that the transfers were appropriate. Transferring lump sums between grants without appropriate supporting documentation or evidence that the transfer is valid can distort the amount of grant expenditures reported and can result in costs charged to grants that are not allowed.

We recommend UAMS monitor transfer activity between grants to ensure that deficits in grant accounts are not transferred to other grants with surpluses.

RESPONSE-

The Policies and Procedures Committee, formed in June 2003, for the specific purpose of reviewing and developing grant administration procedures, has implemented six new/revised policies including Grants Training and Professional Development, Expenditure Control, Budget Control, Close Out, Indirect Cost Recovery, and Grant Administration Responsibilities. Policies currently being developed are Cost Sharing, Subrecipient Monitoring and Effort Reporting. The Committee has developed a comprehensive procedure manual to be distributed campus wide by March 31, 2004. All of the above mentioned policies have been implemented. Training on the procedures was started in August 2003 and is ongoing.

In association with the Expenditure Control Policy, a cost transfer procedure has been developed that prohibits lump-sum transfers to or from grant funds for the purpose of reducing a deficit and/or surplus. According to procedure, Grants Accounting will review each transfer to ensure the proper documentation and justification exists. Two cost transfer workshops were conducted in December 2003, outlining these procedures.

FINDING NUMBER: 03-150-07
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
QUESTIONED COSTS: Unknown

ELIGIBILITY – UAMS did not document the monitoring of all eligibility requirements for principal investigators or other charging time to grants. In a test of twenty-three (23) research grants, certain requirements, including staff safety training, statements of conflicts of interest, and certifications of the Human Research Advisory Committee, were not consistently documented.

We recommend UAMS develop procedures to ensure the eligibility requirements of principal investigators have been verified.

RESPONSE-

The ORSP is currently responsible for checking all compliance elements as required by OMB Circular A-110. To enhance the documentation process an electronic compliance checklist is being developed in conjunction with the implementation of a new module in the Automated Research Information Administrator (ARIA) system. ORSP will perform the checklist with each submitting grant. This electronic grants management system is slated for implementation in the beginning of fiscal 2005. The Grants Policy and Procedures Committee will be responsible for overseeing the development of the checklist. Until the automated system is implemented, the ORSP office will track these items using a paper checklist.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 03-150-08
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
93.600 – Head Start
QUESTIONED COSTS: Unknown

PROCUREMENT, SUSPENSION AND DEBARMENT - UAMS failed to establish procedures to verify that principal investigators or vendors are not debarred or prohibited. Written procedures and adequate training of personnel in the area of subrecipient monitoring do not exist to ensure that proper certifications are requested prior to the signing of contracts with the subrecipients. There is a possibility that grants could be rendered ineligible due to a debarred principal investigator or that funds may be disbursed to vendors or subrecipients who are not eligible to receive funding under federal grants.

We recommend UAMS develop procedures to ensure required certifications are received on a timely basis.

RESPONSE-

Since August 2003, UAMS has begun checking all employees on a monthly basis to be sure that none are debarred from doing work with the federal or state government. We believe this system is more likely to prevent a debarred researcher or other employee from submitting, receiving or working on a federal or state sponsored project since these checks will be done more frequently than just at the time of application or award.

The ORSP is currently requesting the certifications from all subrecipients. A procedure is being developed to ensure these certifications are received.

FINDING NUMBER: 03-150-09
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
93.600 – Head Start
QUESTIONED COSTS: Unknown

REPORTING - In a sample of ten (10) research and development grants for which an FSR was due, eight (8) were filed late and two (2) were not filed. In a sample of six (6) Head Start grants for which a FSR was due, four (4) were filed late and two (2) were not filed.

We recommend UAMS consider whether staffing levels in the grants accounting department are adequate to prepare required reports in a timely manner.

RESPONSE-

Since May 2003, four new staff accountants and one accounting tech have been hired. In addition, two assistant directors with over 20 years experience in Grants Accounting have been hired to assist in the training and to provide oversight to all staff in the grants Accounting office. Over 150 financial status reports have been completed since May 1, 2003. Some of these were for internal monitoring of budget years only but many were submitted to the funding agencies. A report is prepared weekly that monitors the progress of the submission of these reports and close out of grant budget periods. It is anticipated that all reports will be completed prior to June 30, 2004.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 03-150-10
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
93.600 – Head Start
QUESTIONED COSTS: Unknown

SPECIAL TESTS AND PROVISIONS - UAMS has inadequate procedures for accruing for subrecipient invoices to mitigate the delay in receiving original documentation. Subrecipient invoices were not received timely and as a result were not recorded timely to grants. As a result, amounts charged to federal grants may be understated.

We recommend UAMS develop a method for accruing subrecipient invoices.

RESPONSE-

UAMS instructs the subrecipient, within the terms of the agreement, to invoice in a timely manner. Purchase orders are issued by UAMS for the amount of the subcontracts. These purchase orders commit (encumber) the funds, but do not create accruals in the financial records.

FINDING NUMBER: 03-150-11
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: 93.600 – Head Start
QUESTIONED COSTS: Unknown

SPECIAL TEST AND PROVISIONS - Criminal background checks are required for all employees prior to hire. Out of the twenty-five (25) employees tested, six (6) of the employees' background checks had not been received. Head Start hires employees on a temporary basis, pending receipt of the background check. However, if the background check is delayed past 90 days, the employee will become a permanent employee even without receiving the required background check. Employees with an unknown criminal record could be hired to work in the Head Start program.

We recommend UAMS develop a plan for expediting the receipt of criminal background checks on all Head Start employees.

RESPONSE-

Management agrees with the recommendation. Criminal background checks are requested for all potential employees. We will investigate other sources of the background checks that will ensure no employees are hired until the background checks have been received.

FINDING NUMBER: 03-150-12
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
Various – Various non-Major programs
QUESTIONED COSTS: \$11,362

COST ALLOCATION - Due to backlog of processing activities relating to closing out existing grants and establishing new grants, time and effort adjustments are not occurring timely. In effect, costs are being temporarily recorded to improper grants and grant years and not timely transferred to the correct grant and period. Upon the close of a grant year, allocated time and effort continue to be charged to the existing grant until the next grant is set up in the accounting system. At the time the FSR is prepared, all expenditures for the prior grant year, including time and effort are reviewed and adjusting journal entries prepared to properly state the affected accounts. However, due to the delay in preparing FSR's for certain grants, several grants continue to have excessive time and effort allocated to them in error.

**STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER:	03-150-12 (Continued)
STATE/EDUCATIONAL AGENCY:	University of Arkansas for Medical Sciences
CFDA NUMBER:	Various – Research and Development Cluster
	Various – Various non-Major programs
QUESTIONED COSTS:	\$11,362

We recommend UAMS implement procedures to expedite the establishment of new accounts for subsequent grant years.

RESPONSE-

As a part of the new policy and procedure manual, we have established an "advance account setup" procedure, by which a continuation account can be requested prior to receipt of the continuation award. If an award document is not received prior to the beginning date of a project, and the investigator has expenses that need to post to the account, a new project account can be requested. The investigator certifies that the new award is anticipated, and should it not be received, the investigator's department will absorb the expenses. This process allows the expenses to accumulate in an appropriate account while waiting for the actual award document. Once the award is received, the account will no longer be considered an advanced account, but will instead become the permanent account for that award.

April 19, 2004

Ann Russo
Office of Audit Resolution and Cost Policy
Department of Health and Human Services
Room 517D, Humphrey Building
200 Independence Avenue, S. W.
Washington, DC 20201

Dear Ms. Russo:

This letter is in response to the recommendations of KPMG's report dated February 14, 2003 on the Financial Portion of the Statewide Single Audit Report for the FY 2002.

Recommendation Code 055926100, 20922100, 299913100, 20922100, and 20927100

KPMG -We recommend procedures be developed and implemented to ensure 1) sufficient personnel have a basic financial accounting understanding at all critical levels of the organization, 2) financial reports are accurate and reliable, 3) adequate monitoring of all financial activity, 4) all business transactions are recorded properly, and 5) access to the Arkansas Accounting Statewide Information System (AASIS) is restricted.

State of Arkansas

Item # 1 Weakness: Sufficient personnel have a basic financial accounting understanding at all critical levels of the organization.

Item # 1 Corrective Action: Hire additional accounting staff. Train current agency staff.

The Department of Finance and Administration – Office of Accounting (DFA[^]-OA) received permission from the General Assembly to add eight additional staff members to the CAFR Section during the fall of 2003. All candidates must either be Certified Public Accountants or be eligible to set for the exam. Additionally, fifteen (15) key State agencies have been identified as needing to increase their accounting staff during the budgetary process for the FY2005. This recommendation will be made to the CFO of the

^ = DELETE SPACE

agency with copy to the agency director. It is recommended that only Certified Public Accountants be hired.

As of April 15, 2004, the eight (8) additional positions provided DFA-OA have been filled. Five of the additional staff members have been assigned to the various agencies as a "business analyst". The Department of Human Services hired a Certified Public Accountant into their financial management section on or about December 1, 2003. Two of the remaining fourteen (14) key State agencies are actively seeking qualified candidates, the remainder are awaiting legislative approval..

Item # 2 Weakness: Financial reports are accurate and reliable.

Item # 2 Corrective Action: 1) Revise the State of Arkansas Policy and Procedure Manual, 2) Identify specific business processes in key agencies with complex accounting issues and devise a monitoring plan at both the agency and DFA-OA level, 3) Revise the year end closing process to include review of year end supporting documentation from the agency records by DFA-OA staff.

A revised State of Arkansas Policy and Procedure manual has been drafted and is under review by a "focus" group of State agency personnel and Legislative Audit staff.

The DFA-OA has identified specific business processes within the key State Agencies that require periodic monitoring to ensure proper recording of complex accounting transactions. Each State agency has a DFA-OA business analysis assigned to their agency as a liaison and training officer. Specific training programs in fund accounting and financial reporting will be developed by January 1, 2005 for classroom instruction to agency personnel as necessary.

The year-end process of adjusting final amounts reported in the agency's trial balances has been modified. Agencies are to record final adjusting entries by July 30, XX each year, forward supporting documentation and related calculations of the entries to the DFA-OA for review and correction. Additionally, DFA-OA personnel review all bank reconciliations on a monthly basis to ensure all financial transactions involving cash are recorded in a timely manner.

Item # 3 Weakness: Adequate monitoring of all financial activity.

Item #3 Corrective Action : 1) Hire additional qualified personnel in key State agencies, 2) Develop the DFA-OA "accounting analyst" role to review complex accounting issues with agency personnel, 3) DFA-OA business analyst review monthly trial balances of key State agencies, 4) DFA-OA provide accounting training to agency personnel.

The Department of Human Services and The Department of Health have added Certified Public Accountants with governmental accounting backgrounds to their staff. Additionally, thirteen agencies are in various stages of recruiting CFOs with accounting backgrounds.

DFA-OA has filled all business analyst positions and will begin training of this staff on May 6, 2004

Monthly review checklists and questionnaires for use by the DFA-OA business analyst are being developed. The generic listing will then be customized to the individual agency as indicated from recent audit findings.

Training programs are being held from May 6, 2004 through May 24, 2004 for DFA-OA accounting personnel and selected agency personnel. Additional training will be conducted periodically by DFA-OA staff for agency personnel.

Item #4 Weakness: All business transactions are recorded properly

Item #4 Corrective Action: 1) Agency personnel will be trained in business review and analytical procedures to identify incorrect postings of financial transactions, 2) DFA-OA business analyst will review agency trial balances monthly and perform hands on training.

Training materials for agency personnel will be constructed from the documentation reviewed in the May 6, 2004 through May 24, 2004 DFA-OA training. Courses will be offered to agency personnel.

DFA-OA has begun training of the recent additions to its staff, much of this training will be supplemented by them assisting in the preparation of the FY2004 CAFR from August 1, 2004 through November 30, 2004.

Item #5 Weakness: Access to the Arkansas Accounting Statewide Information System (AASIS) is restricted

Item #5 Corrective Action: 1) Access be restricted to AASIS Support Center staff, 2) Agency personnel restricted to roles which allow for proper internal controls, 3) The internal control features of the interface files be strengthen.

The AASIS Support Center staff security roles have been reduced. Consulting All has been removed from all personnel. It is implemented on a case by case basis with approval of the Administrator of DFA-OA and AASIS Support Center Director only.

Agency security roles have been revised. Agencies with adequate staff have revised their roles to not allow any known internal control conflicts within their agency. Agencies with inadequate staff to allow role mapping within AASIS to effect proper internal

control will be utilizing mitigating controls to allow for proper internal control. Additional security role changes are being tested.

AASIS Support Center is currently testing improved security restrictions on inbound interface files from various state agencies.

Recommendation Code 299913101

See response to recommendation code 055926100 item #2.

Recommendation Code 220202100

Weakness: We recommend procedures be strengthened to ensure assets are properly inventoried, supported by adequate documentation, and reconciled to the general ledger in a timely manner.

Corrective Action: 1) Issue revised accounting policy and procedure manual, 2) Use the AASIS integrated asset module for recording and tracking assets, 3) Reconcile beginning balances of assets as of July 1, 2001, 4) Provide agency training on fixed assets and CWIP procedures.

The accounting policy and procedure manual is being reviewed by various parties prior to issuance. Several authoritative communications from the DFA-OA have been made detailing corrective actions to be taken by agency personnel and DFA-OA to strengthen the accounting and reporting of fixed assets.

All AASIS user agencies have been instructed to use the fixed asset module with AASIS for recording all purchases of fixed assets. Additional training is being provided by DFA-OA and AASIS Support Center staff.

Asset balances maintained in three different ways are being reconciled to balances used for the CAFR for FY2002 by DFA-OA staff with assistance of agency personnel and Legislative Audit workpapers.