



STATE OF ARKANSAS
**Department of Finance
and Administration**

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March 31, 2005

Charles L. Robinson, CPA, CFE
Legislative Auditor
Division of Legislative Audit
172 State Capitol
Little Rock, AR 72201

Re: Corrective Action Plan FY2004

Dear Mr. Robinson:

I have compiled the individual agency responses to the Statewide Single Audit Findings for the FY2004 into the Corrective Action Plan, which is attached. Where appropriate, the agency has listed a point of contact for each individual finding and response. For those responses which do not have a point of contact, I should be contacted concerning questions or concerns.

If you have any questions or need further information, please contact me at 501-682-1515.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Louthian".

Paul S. Louthian, CPA
Administrator

cc: Richard A. Weiss, Director

Attachment

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

CORRECTIVE ACTION PLAN

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER: 04-01
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 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 of Federal Awards.

AGENCY RESPONSE:

Work will begin on the design of the reporting structure to be used within AASIS in the fall of FY2006. This will require that legacy systems with certain State agencies, colleges and universities be configured to report certain information currently not maintained in their systems. Implementation of the reporting from AASIS will begin with FY2007.

FINDING NUMBER: 04-645-01
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
93.268 – Immunization Grants
93.283 – Centers for Disease Control and Prevention_ Investigations and Technical Assistance
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 lead to inaccurate reporting of grant expenditures to the federal cognizant agency and possible misuse or misappropriation of federal monies.

We recommend the Agency implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

AGENCY RESPONSE:

In September of 2004 a Time Allocation Team was appointed to develop a cost allocation plan. All coding changes related to the installation of the program provided by the Department of Human Services have been finalized, and we are on target for implementation of a pilot project at four of our locations in April, 2005. We are planning a full implementation beginning in July, 2005.

FINDING NUMBER:	04-710-01
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	10.551 – Food Stamps (Food Stamp Cluster) 93.558 – Temporary Assistance for Needy Families 93.778 – Medical Assistance Program (Medicaid Cluster)
QUESTIONED COSTS:	None

ACCESS SECURITY CONTROLS – Terminated employees were noted as active on Arkansas' Networked System for Welfare Eligibility and Reporting (ANSWER) application security master. ANSWER is an Agency database used to maintain client information. Four (4) terminated Department of Human Services (DHS) employees' had network access removed but still had active access to the ANSWER application.

We recommend the Agency strengthen controls over the removal of employee access to the DHS network and establish procedures to ensure access to Agency subsystems is also removed for terminated employees.

Thirteen (13) of eighty-one (81) non-DHS employees were noted on the active security master.

We recommend the Security Administrator establish a process to periodically review all non-DHS user accounts to ensure only authorized individuals have the ability to access applications.

External Internet protocol port scans discovered vulnerabilities/exploits available that could allow a remote user to connect to a machine and exploit these vulnerabilities for malicious use. Our scans resulted in the enumeration of two (2) user ID's and passwords that could be used to gain or expand unauthorized access to the system.

We recommend the Agency review all allocated Internet protocols for vulnerabilities and block or disable any ports not deemed secure or that pose potential risk.

AGENCY RESPONSE:

DHS has instituted a daily process to determine the following changes on any employee:

- 1) Hired
- 2) Terminated
- 3) Changed Position
- 4) Transferred Division
- 5) Transferred Location

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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

This listing is sent to DHS network administrators as well as security administrators for all DHS subsystems so they can remove terminated employees on a timely basis.

Unfortunately, for non-DHS employees who have network accounts, we do not have access to personnel change activity. In order to minimize our risks on these users, we have instituted a procedure to delete any non-DHS account that has not had any activity within the last 90 days. We are also adding language to vendor contracts stating we should be notified within five (5) days of personnel changes. While this might help in a few cases, this cannot be counted upon to keep our user tables accurate. A review of non-DHS network users is also one of the items in our monthly security review.

DHS has deployed firewalls at all locations that only permit traffic from the state network. (170.94.xxx.xxx). The external protocol port scan that allowed a remote user to connect was actually run from the state network and therefore was not blocked. We are in the process of deploying VPN over all data circuits (95 of 107 circuits encrypted as of 3-11-2005) and will close any ports causing vulnerability within the next month.

DHS has also contracted for a consultant to design a quarantine system to insure that any remote user attempting to access the DHS network will be in compliance with all DHS policies before being allowed access to the full network. DHS is also testing whether disabling of NetBios will negatively affect DHS employees' ability to do their jobs. Once we are satisfied this move will have no negative impact, group policy will be implemented to close this gap.

DCO is now receiving a daily file from the Office of Systems and Technologies that advises of DHS employees who have terminated employment. This file is processed by security staff daily and access to ANSWER, mainframe, and the EPPIC system is terminated immediately.

DCO is also in the process of hiring a staff person in the Systems Unit whose duties will include coordination of system security activities for DCO.

Anticipated Completion Date:

June 2005 – Quarantine solution deployed.

All other action is complete.

Contact Persons:

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**STATE OF ARKANSAS
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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: 04-710-02
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.551 – Food Stamps
(Food Stamp Cluster)
93.558 – Temporary Assistance for Needy Families
93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

DATA INTEGRITY CONTROLS – Social security numbers are not being validated in a timely manner within ANSWER. Individuals can apply for federal assistance without possessing a social security number. However, they are required to obtain a social security number in a reasonable amount of time. During the interim, a temporary number known as a PUSED0 number is used. Once the individual receives a social security number, it is required to be provided to the caseworker for entry and validation in the system. An examination of client benefit data using computer-assisted techniques revealed 15,293 PUSED0 numbers ninety (90) days or older.

We recommend the Agency establish procedures requiring caseworkers to verify an applicant's social security number in a timely manner as well as resolve mismatches received from the Social Security Administration involving invalid social security numbers. We also recommend the caseworkers have access to an on-line real time system to validate social security number information.

AGENCY RESPONSE:

DHS is in the process of implementing the Social Security Administration's State On-line Query (SOLQ) application. This will allow immediate querying to see if SSN is valid rather than submitting in a nightly batch. In order to prevent placing an increased burden on application processing staff, the Agency will revise its SSN enumeration process to automate submission and resubmission of Pseudo numbers on routine schedule.

Anticipated Completion Date:

December 2005 – implementation of SOLQ.

October 2005 – Revise SSN Enumeration Process.

Contact Persons:

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**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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U.S. DEPARTMENT OF AGRICULTURE

FINDING NUMBER: 04-645-02
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 – The Agency did not follow program guidelines related to client eligibility and food instrument issuance. Our testing of five (5) of the ninety-five (95) local health units revealed ten (10) instances that reflected inadequate internal controls over food instrument issuance and lack of documentation to support client eligibility. These conditions indicate a weakness in the ability to properly safeguard assets and ensure program eligibility, which could lead to the misuse and misappropriation of those assets.

We recommend the Agency provide additional training and supervision to employees at local health units and establish procedures to ensure client records are properly maintained.

AGENCY RESPONSE:

We agree with the recommendation for additional training and supervisory review of records to ensure they are properly maintained. We plan to provide training for Local Health Unit (LHU) colleagues on eligibility assessment and accountability for participant records and food instruments by January 1, 2006 and to administer periodic training thereafter in that regard. Included in that training will be instructions regarding our procedures for tracking a patient record that is transferred to another LHU following relocation by the patient.

FINDING NUMBER: 04-710-03
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 10.558 – Child and Adult Care Food Program
QUESTIONED COSTS: \$23,187

ALLOWABLE COSTS/COST PRINCIPLES – Accurate data is not being maintained on current job duties and positions for Child and Adult Care Food Program (CACFP) employees. Eight (8) employees salaries were directly charged to CACFP. Audit testing revealed the Agency incorrectly coded one (1) employee's salary totaling \$23,187 to CACFP that should have been processed through the 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.

AGENCY RESPONSE:

The State Agency concurs with the finding of \$23,187.00. The Child and Adult Care Food Program (CACFP) employee personnel documentation has been corrected. The State agency position control run is being reviewed by assigned staff to ensure coding reflect current job duties, positions and personnel coding within AASIS. The State Agency is also ensuring that other grant areas and employees in addition to CACFP Staff are being properly coded. The assigned staff will maintain correct coding and the division personnel specialist will review all personnel changes for proper coding.

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U.S. DEPARTMENT OF AGRICULTURE (Continued)

Anticipated Completion Date:

Completed

Contact Person:

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U.S. DEPARTMENT OF EDUCATION

FINDING NUMBER: 04-160-01
STATE/EDUCATIONAL AGENCY: University of Arkansas at Pine Bluff
CFDA NUMBER: 84.038 – Federal Perkins Loan Program_Federal Capital Contributions
(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 50.44% 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.

AGENCY RESPONSE:

We concur with the finding and have executed contracts with credit services to assist us with borrowers who have defaulted. At 12-31-04 the default rate was 3 5.61%.

FINDING NUMBER: 04-520-01
STATE/EDUCATIONAL AGENCY: Department of Workforce Education – Arkansas Rehabilitation Services
CFDA NUMBER: 84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States
QUESTIONED COSTS: None

ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES – Client case files support vocational rehabilitation services and aid provided by the Agency. Sixty (60) case files located in six (6) local offices throughout the State were selected for review. The following deficiencies identified during our review were also identified in prior years:

- Eighteen (18) of the files did not contain invoices to support the authorization for payment.
- Twenty-eight (28) case narratives were not updated at least every 90 days.
- Counselors are required to seek three (3) bids on purchases over \$1,000 and receive approval from the Chief of Field Services. There were six (6) files with purchases over \$1,000 that did not contain the appropriate approvals or bids.
- Program regulations require that a title agreement must be filed to document that title to any tools or equipment purchased for a client will remain with the Agency until the client has been rehabilitated. Fourteen (14) files with tool or equipment purchases did not contain the title agreement.
- Seven (7) files were closed as "Rehabilitated" when the employment achieved did not benefit from Vocational Rehabilitation services.
- Three (3) files were considered possible conflicts of interest. One (1) of these files, a counselor's spouse, could not be located for review. Payments for services on behalf of the client/spouse totaled \$195.

We recommend the Agency continue to develop procedures to ensure compliance with program regulations and improve the quality of documentation contained in client case files

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

AGENCY RESPONSE:

Legislative Audit staff provided the Agency a listing of the cases identified. The cases have been reviewed, corrections and adjustments made where appropriately applicable within agency policy. The Agency continues progress with the Quality Assurance Team in conducting statewide case reviews.

FINDING NUMBER: 04-520-02
STATE/EDUCATIONAL AGENCY: Department of Workforce Education – Arkansas Rehabilitation Services
CFDA NUMBER: 84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States
QUESTIONED COSTS: \$5,341

ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES – A review of case files in the West Memphis office revealed Ms. Chelsea Brown, a former counselor, was responsible for misuse of funds totaling \$5,341. Ms. Brown resigned from the Agency, and moved out-of-state prior to the discovery of the misuse of funds. Three (3) payments were inappropriately made to Ms. Brown's family members on behalf of two (2) clients, and an additional three (3) payments were inappropriately made for products for three (3) other clients. All five (5) clients subsequently denied receiving the products or services. This matter was reported to the Prosecuting Attorney on April 19, 2004 and to Arkansas State Police on June 8, 2004.

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

AGENCY RESPONSE:

Upon notification in early 2004 of auditing concerns regarding this singular finding, the Agency notified Legislative Audit of intent to initiate an internal review of the caseload and the cases in question, but at the request of Legislative Audit Staff deferred. Legislative Audit staff referred this matter to the Prosecuting Attorney and State Police. Audit Staff has informed us that the Prosecuting Attorney declined to pursue the matter.

The Agency has enacted several policy and procedures in August, 2004, and adopted more stringent procedures statewide for administrative review and supervisory approval of authorized services.

FINDING NUMBER: 04-520-03
STATE/EDUCATIONAL AGENCY: Department of Workforce Education – Arkansas Rehabilitation Services
CFDA NUMBER: 84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States
QUESTIONED COSTS: None

REPORTING – The Agency must submit client service data to U. S. Department of Education - Rehabilitation Services Administration (USDOE – RSA). This data is used by RSA to identify deficiencies in the program and ensure that the Agency has complied with required performance indicators. One of these performance indicators is the percentage of cases closed where the client was not successfully rehabilitated (status 28). In March 2004, the Chief of Field Services sent a memo to all District Managers

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U.S. DEPARTMENT OF EDUCATION (Continued)

that prohibited counselors from closing cases to status 28. Two (2) out of sixty (60) files selected for review were not appropriately closed as a result of this memo. The number and type of case closures reported to RSA under these circumstances do not fairly present the Agency's operations. Submittal of inaccurate and incomplete information to RSA may prevent the identification of deficiencies in the program and Agency operations that effect client services.

We recommend the Agency develop procedures to ensure that all information submitted to Rehabilitation Services Administration is fairly presented, accurate and complete.

AGENCY RESPONSE:

The Agency has addressed the March 2004 missive of the Chief of Field Services. Through the implementation of an internal Advisory Committee of counselors, the Agency is addressing the pariah of 28 closures. The Agency has enacted procedures to ensure that all information and data submitted to Rehabilitation Services Administration is collected accurately, completely, and fairly presented in annual reports.

FINDING NUMBER:	04-710-04
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States
QUESTIONED COSTS:	None

MATCHING, LEVEL OF EFFORT, EARMARKING – The State failed to meet the level of effort requirement for the federal fiscal year ended September 30, 2003. Federal regulations require the State maintain total expenditures from non-federal sources at a level not less than total expenditures for the fiscal year two years prior to the previous fiscal year. Each Agency of the State is individually analyzed by the U. S. Department of Education to determine level of effort compliance and an Agency determined to be out of compliance is penalized dollar for dollar. The Arkansas Department of Human Services – Services for the Blind was not in compliance with level or effort requirements and was penalized \$2,053.

We recommend the Agency develop procedures to ensure all federal requirements related to level of effort are satisfied.

AGENCY RESPONSE:

DSB will adjust its expenditure of general revenue to meet the Maintenance of Effort (MOE) by the end of each federal fiscal year. This will ensure all federal requirements related to level of effort are satisfied, and will automatically elevate MOE by an amount equal to the non-federal share of Cost Allocation for quarter 1 of each state fiscal year.

Anticipated Completion Date:

Completed

Contact Person:

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 04-645-03
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.268 – Immunization Grants
QUESTIONED COSTS: None

ALLOWABLE COSTS/COST PRINCIPLES – Competitive bids were not solicited during the procurement of preprinted immunization folders costing \$11,539 in violation of Ark. Code Ann. 19-11-234.

We recommend management implement policies and procedures necessary to ensure that State Purchasing Laws are followed.

AGENCY RESPONSE:

We require competitive bids on purchases of this amount in accordance with DFA policy. In this instance the requisitioner and approver relied on quotes from a previous purchase six months prior of the same commodity. They made the purchase without bids since the price was the same rate that was low bid on the earlier purchase. However, we acknowledge that we still should have obtained competitive bids per the policy.

FINDING NUMBER: 04-645-04
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.268 – Immunization Grants
QUESTIONED COSTS: None

CASH MANAGEMENT – The Agency is drawing federal monies on one letter of credit without maintaining the records necessary to identify federal draws to the corresponding grants.

We recommend the Agency properly identify federal draws to individual grants by reconciling between the total amounts drawn and the amounts calculated to be drawn per grant.

AGENCY RESPONSE:

We agree that improved processes are needed to accurately report federal monies drawn down by the grants for which they apply. In some instances more than one grant's disbursements have been charged against one fund and this structure has contributed to errors in the reporting process. We are currently in the process of implementing changes to these processes with the assistance of DFA AASIS and Office of Accounting personnel who are familiar with a proven grant accounting methodology. We plan to reconcile Financial Status Reports of disbursements with those reported on the Federal Payment Management System and ensure appropriate personnel are properly trained in this process.

FINDING NUMBER: 04-645-05
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.268 – Immunization Grants
QUESTIONED COSTS: None

REPORTING – The agency failed to report expenditures totaling \$110,273 on the SFC-272 Quarterly Federal Cash Transaction Reports for the 2004 fiscal year.

We recommend that the Agency implement additional review procedures to ensure accurate reporting to the federal awarding agency.

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

AGENCY RESPONSE:

We are currently in the process of implementing changes in these processes with the assistance of DFA AASIS and Office of Accounting personnel to ensure accurate reporting to the federal awarding agency.

The SFC-272 reporting is done on a cumulative basis, and our process includes an analysis of past reporting of cumulative disbursements to ensure the resulting cumulative totals are accurate.

FINDING NUMBER: 04-645-06
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.268 – Immunization Grants
QUESTIONED COSTS: None

ELIGIBILITY AND SPECIAL TESTS AND PROVISIONS – The testing of five (5) of the ninety-five (95) local health units revealed five (5) instances where management did not follow program guidelines related to client eligibility and client record keeping.

We also tested records at a private clinic and found that eligibility screening documentation was not retained as required per the Annual Provider Enrollment Form.

We recommend the Agency establish procedures to ensure that client immunization records are properly maintained, that required Immunization Record information is completed, and that private sector providers properly maintain documentation on eligibility screening.

AGENCY RESPONSE:

Training on our procedures for maintaining client immunization records will be provided within our five (5) public health regions on Vaccine for Children (VFC) eligibility criteria, documentation, and record retention by January 1, 2006. Our VFC nurses visit private providers at least annually and complete a questionnaire/audit for VFC compliance. Eligibility screening documentation is part of that visit. Any problems found are addressed and corrected with the provider.

FINDING NUMBER: 04-645-07
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.283 – Centers for Disease Control and Prevention_
Investigations and Technical Assistance
QUESTIONED COSTS: None

PERIOD OF AVAILABILITY OF FEDERAL FUNDS – Management's failure to establish internal controls for the Public Health Preparedness and Response for Bioterrorism Grant resulted in expenditures totaling \$65,851 for the 2003-2004 grant being charged in error to the 2001-2003 grant.

We recommend the Agency establish internal controls to limit expenditures of federal funds to obligations occurring the period of availability of the grant.

AGENCY RESPONSE:

DFA AASIS and Office of Accounting personnel are also assisting us with establishing internal controls that will enable us to control spending within periods of availability by re-establishing funds for each grant year and using AASIS to limit spending to applicable time periods.

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

FINDING NUMBER: 04-645-08
STATE/EDUCATIONAL AGENCY: Arkansas Department of Health
CFDA NUMBER: 93.283 – Centers for Disease Control and Prevention_
Investigations and Technical Assistance
QUESTIONED COSTS: None

REPORTING – Management did not file the final FS-269A Financial Status Reports for the 2001-2003 Public Health Preparedness and Response for Bioterrorism Grant and the 2002-2003 Support State Oral Disease Prevention Grant. The FS-269A is prepared annually and a final report is due one year after the grant expires. The Public Health Preparedness and Response for Bioterrorism Grant final report was due August 30, 2004; the final report for Support State Oral Disease Prevention Grant was due June 30, 2004. Failure to file federal reports in a timely manner could lead to misrepresentation and disallowance of federal expenditures.

We recommend the Agency establish internal controls to enable preparation and submission of financial status reports as required in the grant agreements.

AGENCY RESPONSE:

DFA AASIS and Office of Accounting personnel are also assisting us with getting Financial Status Reports up-to-date. We have developed a schedule of when all FSRs are due and monitor it regularly so that we are aware of due dates at least 90 days in advance. The period of availability controls, as discussed above in 04-645-07, will also ensure these reports can be filed on a timely basis.

FINDING NUMBER: 04-645-09
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 – Numerous requests were made for documentation related to the portion of this program under the direction of the Arkansas Department of Health. The documentation requested included PMS-272 reports and follow-up on a prior year issue. The Finance Office failed to provide the required documentation as requested in a timely manner.

We recommend the Finance Office at the Arkansas Department of Health provide necessary documentation when requested in a timely manner.

AGENCY RESPONSE:

The documentation has since been supplied. In future audits if anyone in the Department of Health fails to respond to a request for information from the auditors in a timely manner, we request that the matter be brought to the attention of our Chief Financial Officer so that he can ensure we are being responsive. We regret and apologize for the inconvenience encountered by auditors during this audit.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER: 04-710-05
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$198,987

ALLOWABLE COSTS/COST PRINCIPLES – During a routine monthly reconciliation of the Temporary Employment Assistance (TEA) checking account, Agency employees discovered numerous unauthorized electronic transfers and three (3) inappropriate checks disbursed from the account to a credit card company, public utilities and various retailers. We determined the total amount of unauthorized disbursements that occurred between June 15, 2004 and September 1, 2004 to be \$198,987. As of January 26, 2005, all but \$3,332 had been recovered by the Agency. At the end of audit fieldwork, an investigation was being conducted by the Arkansas State Police and the Federal Bureau of Investigation.

We recommend the Agency establish procedures to ensure only authorized disbursements occur within the TEA checking account.

AGENCY RESPONSE:

Procedures are in place which resulted in Agency employees discovering and properly reporting unauthorized disbursements. Future unauthorized disbursement should be eliminated as this account is being transferred to the State Treasury.

Anticipated Completion Date:

July 2005

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FINDING NUMBER: 04-710-06
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$4,847

ALLOWABLE COSTS/COST PRINCIPLES – A review of supportive services payments maintained in the WISE system revealed eight (8) clients had received assistance for medical services totaling \$4,847. The medical services included a root canal, dental examinations, dentures, extractions and prescriptions. Federal regulations prohibit funds from being used to provide medical services other than pre-pregnancy family planning services.

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

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AGENCY RESPONSE:

A review of these findings revealed that three of these payments are for dentures, which are an allowable TANF expenditure, and one payment was miscoded as a medical expense instead of an educational expense. As a result of findings in this area for SFY 2003, the agency provided written clarification to caseworkers regarding payment of medical services during the latter part of SFY 2004. Also, a new code (ST) has been added to the WISE system. This code will utilize state funds for medical expenses that are not allowable to be paid for with TANF funds (such as the extraction of teeth).

Anticipated Completion Date:

Completed

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FINDING NUMBER:	04-710-07
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	None

CASH MANAGEMENT - The Agency's inadequate internal controls regarding bank account activity and the recording of transfers revealed the following deficiencies:

- The Agency's continued failure to perform a reconciliation between actual expenditures for cash assistance benefits and the funds drawn for those benefits again resulted in an overdraft of federal funds in the amount of \$651,235.
- As stated in the previous two (2) audit reports, the Agency has struggled to reduce the cash balances in the Electronics Benefits Transfer (EBT) bank account and the TEA Employment Services and Employment and Training (E&T) Jobs bank account. Although the Agency did reduce the cash balances at the end of fiscal year 2004 by \$2,360,716, excessive cash balances still exist.
- The Agency again failed to return interest totaling \$25,960, which was earned on federal deposits on four (4) bank accounts.
- The Agency is not performing reconciliations between the expenditures reported on the TANF financial reports with the disbursements recorded in the Work Information System Exchange (WISE) checking account. An unreconciled difference of \$444,653 exists for the year ended June 30, 2004. It is estimated the TANF financial reports have over reported expenditures by \$279,089 for FY04. This overage is due to voided checks within the WISE system which are not being reported on the TANF financial reports. Without the reconciliation, adjustments to expenditures are not being made for accurate reporting.

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- 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 \$149,313 exists for the year ended June 30, 2004. Without the reconciliation, inappropriate disbursements could be made and not detected in a timely manner.

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 and federal reports reconcile to supporting records.

AGENCY RESPONSE:

- Regarding reconciliation of expenditures with funds drawn:
Four items resulted in the total overdraw amount of \$651,235. First, an EBT invoice for \$1,751,124 was keyed in AASIS with the wrong internal order and fund resulting in an overdraw of \$437,781. The invoice was funded at 100% federal based on the internal order that was keyed, rather at 75 % federal and 25% state had the correct internal order been used. The error was identified and an error correction was made to correct the expenditure and the revenue receipt for the fund. The draw was adjusted in the reconciliation of the total draws for the year. Second and third, overdraw differences of \$104,200 and \$114,400 were the result of incorrectly coded EBT invoices. The invoices were coded 100% federal instead of 100% state. The errors were identified and error corrections were made to correct the expenditures. The draws were adjusted in the reconciliation of the total draws for the year. Fourth, the underdraw difference of \$5,146 (75% of \$6,861) was due to omitting the \$6,861 in the calculation for a payment request. Staff will make the necessary adjustments.
- Regarding reduction of cash balances:
The EBT checking account balance at the end of June 30, 2004, was considered to be sufficient to cover the payments to the clients on July 1, 2004. There is no way to know in advance the exact amount the clients will draw from this account. The Agency projected the amount to cover the payments. All draws and deposits were completed before June 30, 2004, due to the year-end closeout requirement. AASIS is shut down at the beginning of a new year, therefore no transactions are completed during this time. By telephone with Arkansas' contact with USDA/Food and Nutrition Service, we were told that funds had to be available at all times to cover all benefits on the EBT cards, therefore the amount of the cash balance is not deemed to be excessive. At no time during reviews by the USDA/FNS have we been cited for having excessive cash.
- Regarding interest earned on federal funds:
The interest earned on the EBT checking account is reported to DFA annually to be included in a State report to the U.S. Treasury. The Agency makes a payment annually to the U.S. Treasury after DFA receives the official notice from the U.S. Treasury of the interest liability due by March 31. We have been instructed not to make any payment until official notice is received.
- Regarding reconciliation of TANF financial reports with the WISE checking account:
Voided checks are now being recorded in the WISE system which reduces expenditures and adds back to available authorization. Staff in the Division of County Operations (DCO) and the

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

Office of Finance and Administration (OFA) can see the voids in WISE and therefore will have accurate expenditures for submission on the federal reports. DCO and OFA will continue to work together to ensure accurate reporting and reconciliation. This account is planned for transfer to the State Treasury within the next few months, which should resolve further issues with reconciliation.

- Regarding reconciliation of the WISE database with the WISE checking account:
General Operations currently compares the list of checks printed to the check register produced from the Wise System on a daily basis to ensure that warrants printed match the data keyed from the County Offices. Notifications will be given to appropriate persons if the checks printed do not match the data keyed into the WISE System. The Division of County Operations will work with OFA Banking to determine the correct amount of authorization in the WISE system, obtain and maintain a copy of the bank account reconciliation, ensure that the authorization level and the checking account balance are reconciled, and there are no excess monies in the bank account. This account is planned for transfer to the State Treasury within the next few months, which should resolve further issues with reconciliation.

Anticipated Completion Date:
July 2005

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FINDING NUMBER:	04-710-08
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	Unknown

ELIGIBILITY - Two hundred twenty-five (225) client case files covering eight (8) counties were selected for review for cash assistance payments in the Arkansas Client Eligibility System (ACES) to determine whether clients were eligible to receive benefit payments in accordance with the Agency's TEA manual.

Our examination revealed the following discrepancies:

- Three (3) client case files did not contain a completed application. An application is required when a request for assistance is made.
- Eleven (11) 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.
- Two (2) client case files did not contain an Income Eligibility budget, as required by the Agency's TEA manual.

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- Three (3) client case files did not contain documentation that a minor-parent had successfully completed or is attending high school or it's equivalent.
- Thirteen (13) client case files did not contain Collateral Statements to verify the existence of a child in the home, as required by the Agency's TEA manual.
- Twenty (20) client case files did not contain documentation to verify that the client had not been convicted of a felony.
- Twenty-seven (27) client case files did not contain a signed declaration of citizenship, or lawful alien status.
- Nine (9) client case files did not contain a signed statement assigning child support rights over to the state.
- 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) fifty-five (55) clients case files did not contain results of a Test of Basic Adult Education (TABE). 2) Fifteen (15) client case files did not contain documentation that the Learning Disability Screening was conducted, and 3) eight (8) client case files did not contain verification of a completed TEA Skills, Employability and Intake Assessment (DCO-1402).
- One (1) ineligible client was approved and received cash assistance although supporting documentation clearly stated the client had been convicted of a felony drug possession after August 22, 1996.

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.

AGENCY RESPONSE:

The SFY 2003 audit was issued in April 2004 at which time the Agency developed several corrective measures to address these findings. This has resulted in significant improvement in several areas. Due to the timing of the SFY 2003 audit and corrective actions, the full impact of our efforts was not apparent in this audit review. Corrective actions included:

- The Agency implemented an extensive review of all TEA cases in SFY 2004 to insure that the case record was in compliance with TEA policy. In some situations, the case was closed and it was not possible to obtain client signatures for required forms.
- The Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and employment support expenditures to give us advance notice of potential problems. In addition to these internal audits, agency staff randomly selected TEA cases for review.
- The Agency created a new TEA training unit that has provided increased training for staff. The training curriculum for new TEA case workers was enhanced to address the SFY 2003 audit findings. Additionally, policy refresher training was

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provided for all existing TEA case workers. A mandatory monitoring training will be conducted for all supervisors in SFY 2005.

The Agency expects continuous improvement of TEA case activities as a result of these corrective actions.

It is important to note, for the finding in dot point eight (8), that the assignment of support is automatic upon receipt of assistance; therefore, a signed statement from the client is not required by state law for the assignment to be effective. We are required to notify the client in writing of the automatic assignment. The DCO-237 form is used for this purpose. Assuming the DCO-237 was not in the record, this finding should be restated to say "files did not contain documentation of the written notification regarding the automatic assignment of child support rights." As written, it implies that no assignment took place because the form was not in the record, when in fact the assignment is automatic. The client referenced in dot point ten (10) had been convicted of possession of drugs, not the manufacture or distribution of drugs. Current TEA policy requires that benefits are denied to those with a felony conviction for the manufacture or distribution of drugs. The date in this finding should be corrected to be July 1, 1997.

Anticipated Completion Date:

Completed – Initial actions.

Training and monitoring are on-going activities with no completion date.

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FINDING NUMBER:	04-710-09
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	None

REPORTING - The Agency's failure to perform a reconciliation between the TANF Financial Reports and the PSC 272 Federal Cash Transaction Report resulted in expenditures being understated by \$3,522,238 on the PSC 272.

We recommend the Agency establish adequate internal controls and reconciliation procedures for accurate reporting of federal funds.

AGENCY RESPONSE:

The TANF FFY 2002 grant had been inactivated on the PSC 272. Cumulative expenditures for the 09/30/03 quarter of \$62,927,768 were indicated on the working copy of the PSC 272 and were entered in the PSC system. The Division of Payment Management did not reactivate the grant as entered. The agency will contact PSC to reactivate the account for FFY2002 to report the understated amount. The exact amount to adjust will be based on the reconciliation for the year. The Agency will monitor the PSC 272 each quarter to verify the amounts are correct as requested.

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

Anticipated Completion Date:

Completed

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FINDING NUMBER:	04-710-10
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-compliance with program requirements concerning child support through the use of an OCES-1650 notification form. A review of an OCES-1650 listing for the year ended June 30, 2004 for the eight (8) counties selected for testing revealed one hundred forty-seven (147) 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.

AGENCY RESPONSE:

The Agency developed and implemented the first phase of a Corrective Compliance Plan (CCP) based on the SFY 2003 finding regarding child support non-compliance sanctions. This plan was accepted by the Federal Office for the Administration for Children and Families. The approved CCP to remedy this problem includes two phases. The first phase, implemented in August 2004, was to establish a central control and monitoring system to ensure counties are aware of sanction requests and that the sanction is imposed. Since this corrective action was implemented after the end of SFY 2004, there was no impact in this audit year. The second phase, scheduled for implementation by October 2005, will automatically apply system sanctions upon receipt of electronic sanction requests from the Office of Child Support Enforcement.

Anticipated Completion Date:

October 2005

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

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FINDING NUMBER:	04-710-11
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	Unknown

SPECIAL TESTS AND PROVISIONS – LIFE SKILLS CLASS - The Arkansas Department of Human Services (DHS) entered into a contract with several organizations to provide Life Skill Classes to Transitional Employment Assistance (TEA) recipients. According to the contract, the organization would receive a \$25 intake fee for each TEA recipient referred to the organization. If the recipient attended two (2) Life Skills Classes the organizations would be paid \$600 for the Life Skills Class and up to six (6) \$75 follow up fees after the client had completed the classes. A review of all payments to two (2) of the organizations revealed:

- One thousand one hundred thirty seven (1,137) \$25 intake fees were paid to the organizations during fiscal year 2004 for recipients who never enrolled in the life skills classes. Twenty (20) clients for whom a \$25 intake fee was paid and did not enroll in the life skills class were reviewed to determine if a sanction had been assessed for non-compliance with assigned work activities. The review revealed that fifteen (15) clients were not sanctioned. According to the Agency TEA Manual, “all able-bodied adult family members are required to work or participate in work activities which are designed to lead to employment.” In addition according to the State Plan, “when it is determined that a person who is required to participate in work activities has failed to do so without good cause, a progressive sanction will be imposed.”
- Three hundred twenty (320) duplicate intake fees were paid to the organizations for clients who never enrolled in the life skills classes.
- Forty-eight (48) \$75 follow up fees were paid with no evidence of the life skills class being completed.
- Forty-one (41) \$75 follow up fees were paid in excess of the allowed six (6) stated in the contract.
- Nine (9) recipients had tuition for two (2) Life Skills Classes paid in fiscal year 2004.

We recommend the Agency evaluate and monitor the life skills classes and develop procedures to ensure appropriate guidelines are followed.

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AGENCY RESPONSE:

While the payment of an intake fee is an allowable expenditure, this audit report reveals that an unintended consequence of the program design occurs when clients exercise their option to change their service provider. When this occurs, another \$25 fee is generated. The Agency will implement a corrective action plan to work with the client to make a more informed choice about their provider of service. We will also review current policies regarding client service options. The Agency will review existing agreements with providers to determine if changes are warranted. Providers will be required to reimburse the Agency for inappropriate billings. The Agency is also utilizing the Office of Chief Counsel Audit Unit to conduct a review of provider reimbursements. The sanction policy has been emphasized in all training provided to staff.

Anticipated Completion Date:

October 2005

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FINDING NUMBER:	04-710-12
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	\$4,180

SPECIAL TESTS AND PROVISIONS – RENT AND UTILITY PAYMENTS - Eighteen (18) client case files located in four (4) counties were selected from supportive services payments reported in the WISE system to determine whether rent and/or utility assistance payments were made in accordance with the Agency's TEA Manual.

Our examination revealed the following discrepancies:

- Five (5) client case files contained rent assistance in the form of a security deposit totaling \$1,450. According to the Agency's TEA manual, "Assistance with rent and utilities is not considered an allowable supportive service expense. Rent and utilities are basic living expenses for which the monthly cash grant is intended and are not solely associated with a work activity. However, on a rare occasion under an *emergency situation*, assistance with rent and/or utilities may be provided on a one-time basis when it is determined the assistance is necessary for the individual to participate in an assigned work activity or to accept or retain employment." Nothing in the client case file indicated an emergency situation existed.
- Five (5) client case files did not contain shut-off or eviction notices which is required by the Agency's TEA manual resulting in questioned costs of \$1,724.
- Five (5) client case files contained no documentation to support that a household budget was

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prepared prior to approving the rent or utility assistance payments. According to the Agency's TEA manual, "Prior to approving a rent or utility assistance payment, the TEA Case Manager and the client will complete a household budget to determine if the client will be able to continue to pay the current rent amount and utilities based on the individual's income and other expenses."

- Three (3) client case files did not contain supporting documentation for the rent or utility payments resulting in questioned costs of \$1,006.

We recommend the Agency develop procedures to ensure adherence to policy regarding rent and utility assistance payments.

AGENCY RESPONSE:

The SFY 2003 audit was issued in April 2004 at which time the Agency developed several corrective measures to address these findings. This has resulted in significant improvement in several areas. Due to the timing of the SFY 2003 audit and corrective actions, the full impact of our efforts was not apparent in this audit review. Corrective actions included:

- The Agency implemented an extensive review of all TEA cases in SFY 2004 to insure that the case record was in compliance with TEA policy. In some situations, the case was closed and it was not possible to obtain client signatures for required forms.
- The Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and employment support expenditures to give us advance notice of potential problems. In addition to these internal audits, agency staff randomly selected TEA cases for review.
- The Agency created a new TEA training unit that has provided increased training for staff. The training curriculum for new TEA case workers was enhanced to address the SFY 2003 audit findings. Additionally, policy refresher training was provided for all existing TEA case workers. A mandatory monitoring training will be conducted for all supervisors in SFY 2005.

The Agency expects continuous improvement of TEA case activities as a result of these corrective actions.

Anticipated Completion Date:

Completed – Initial actions.

Training and monitoring are on-going activities with no completion date.

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

FINDING NUMBER: 04-710-13
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS: \$91,032

SPECIAL TESTS AND PROVISIONS – TRANSPORTATION ASSISTANCE – One hundred seventeen (117) client case files containing transportation assistance payments were selected from the WISE system to determine if the payments were made in accordance with the Agency's TEA Manual. Our examination revealed the following discrepancies:

- One (1) client case file could not be located. Transportation assistance of \$3,250 had been paid on behalf of this client.
- Three (3) transportation providers did not have a signed DCO-1432 Memorandum of Agreement on file with the county office. One (1) transportation provider was allowed to enter into a verbal agreement with a county office. According to the Agency TEA manual, "when transportation is provided by individuals or entities, including relatives or friends of the client, the provider must enter into an agreement with the county via form DCO-1432, Memorandum of Agreement (MOA), to provide transportation services for TEA clients."
- Eleven (11) client case files did not contain documentation to support why transportation payments totaling \$64,597 were extended past the receipt of the client's first paycheck. Nine (9) of these client case files were located in the Pulaski-Jacksonville office. According to the Agency's TEA manual, "persons who are employed will be expected to arrange and pay for their transportation expenses to and from work from their paychecks. Transportation payments or reimbursements may be provided to a newly hired TEA client until he or she has received his or her first full paycheck."
- Nine (9) client case files did not contain adequate supporting documentation for the transportation payments totaling \$23,185.

In addition, the Agency's TEA manual states, "Payments which exceed a total of \$200 per month must be approved by the county administrator prior to being paid. Such payments will be allowed only when there is a direct connection between the excessive transportation expenses and whether the client will be able to accept or retain a job. Transportation payments or reimbursements will normally be made to employed persons only until the first paycheck has been received. It is expected that the client will make his or her own transportation arrangements. If the person does not have access to transportation, he or she will be encouraged to seek rides with family members or other persons at no cost. Persons who are employed will be expected to arrange and pay for their transportation expenses to and from work from their first paychecks." A review of the WISE system for fiscal year 2004 revealed that forty (40) clients received over \$4,000 each in transportation assistance totaling \$273,412 of which \$215,129 was in Pulaski county alone. Six (6) of these clients received transportation assistance over \$10,000 each with one (1) client receiving \$17,361. Audit testing revealed possible questionable practices that we referred to the Agency's internal audit department for further review.

We recommend the Agency strengthen employee training and develop procedures to ensure adherence to policy regarding transportation assistance payments.

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AGENCY RESPONSE:

In addition to the corrective actions noted above in finding 04-710-12, the Agency is revising the Pulaski County transportation provider agreements. Additional training will be provided to the Pulaski County staff and managers and additional internal monitoring and oversight will occur.

Anticipated Completion Date:

October 2005

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FINDING NUMBER:	04-710-14
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	\$12,500

SPECIAL TESTS AND PROVISIONS – VEHICLE DOWN PAYMENT ASSISTANCE - Thirty (30) client case files located in eight (8) counties containing vehicle down payment assistance were selected from the WISE system to determine if payments were made in accordance with the Agency's TEA Manual.

Our examination revealed the following discrepancies:

- Ten (10) client case files did not contain a signed DCO-1410 Client Vehicle Assistance Agreement. According to the TEA policy manual, "the client must sign form DCO-1410, Client Vehicle Assistance Agreement."
- Seven (7) client case files did not contain a DCO-1409 TEA Household Income and Expense Worksheet. According to the TEA policy manual, "Prior to approving the down payment assistance, the case manager will determine if a client can afford the vehicle by calculating a household budget with the client using form DCO-1409, TEA Household Income and Expense Worksheet."

In addition, a review of all supportive services payments reported in the WISE system in fiscal year 2004 revealed questioned costs of \$12,500. 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. Five (5) 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 approval process and lifetime maximum amount for vehicle down payment assistance.

AGENCY RESPONSE:

In addition to the corrective action measures already noted in 04-710-14, the Agency implemented

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changes in March 2004 to add an edit to the WISE system that will not allow more than the \$2500 lifetime limit for down payment assistance on vehicles. As a result, duplicate payments occurred for four cases noted in the finding before the corrective action measure was implemented. The one case where a duplicate payment was made after this system change was a result of a payment that was made to a provider who was unable to deliver the selected vehicle to the client. The county office was under the impression that the check had been cancelled. After verifying the check was returned, Central Office did an override of the system and Central Office reissued a check to the provider. This gave the appearance that the client had been provided more than one check for down payment assistance when in fact the original payment was returned and reissued. The corrective action changes that have been implemented for vehicle down payment assistance appear to be effective and the results should be more evident in future audits.

Anticipated Completion Date:
Completed

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FINDING NUMBER:	04-710-15
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	\$12,793

SPECIAL TESTS AND PROVISIONS – VEHICLE REPAIR ASSISTANCE – A review of all supportive services payments representing vehicle repair assistance reported in the WISE system in fiscal year 2004 revealed questioned costs of \$12,793. Agency policy states repair costs will not exceed a vehicle's value by fifty percent (50%) or \$1,000 maximum. Twenty-nine (29) clients received vehicle repair assistance in excess of the \$1,000 limit totaling \$12,043. In addition, clients are responsible for paying the first \$25 of the repair cost. A review of seventy-two (72) payments for vehicle repairs revealed thirty (30) payments lacked the required \$25 co-pay totaling \$750.

We recommend the Agency strengthen employee training and develop procedures to ensure adherence to policy regarding vehicle repair assistance payments.

AGENCY RESPONSE:

The SFY 2003 audit was issued in April 2004 at which time the Agency developed several corrective measures to address these findings. This has resulted in significant improvement in several areas. Due to the timing of the SFY 2003 audit and corrective actions, the full impact of our efforts was not apparent in this audit review. Corrective actions included:

- The Agency implemented an extensive review of all TEA cases in SFY 2004 to insure that the case record was in compliance with TEA policy. In some

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situations, the case was closed and it was not possible to obtain client signatures for required forms.

- The Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and employment support expenditures to give us advance notice of potential problems. In addition to these internal audits, agency staff randomly selected TEA cases for review.
- The Agency created a new TEA training unit that has provided increased training for staff. The training curriculum for new TEA case workers was enhanced to address the SFY 2003 audit findings. Additionally, policy refresher training was provided for all existing TEA case workers. A mandatory monitoring training will be conducted for all supervisors in SFY 2005.

The Agency expects continuous improvement of TEA case activities as a result of these corrective actions.

As noted above, the Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and has provided training to staff on policy related to vehicle repairs. Additionally, a policy clarification was issued on vehicle repair assistance limits.

Anticipated Completion Date:

Completed – Initial actions.

Training and monitoring are on-going activities with no completion date.

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FINDING NUMBER:	04-710-16
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.558 – Temporary Assistance for Needy Families
QUESTIONED COSTS:	Unknown

SPECIAL TESTS AND PROVISIONS – 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 two hundred twenty-five (225) client case files revealed that sixteen (16) clients were not in compliance with work requirements and no sanction was applied.

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.

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AGENCY RESPONSE:

The SFY 2003 audit was issued in April 2004 at which time the Agency developed several corrective measures to address these findings. This has resulted in significant improvement in several areas. Due to the timing of the SFY 2003 audit and corrective actions, the full impact of our efforts was not apparent in this audit review. Corrective actions included:

- The Agency implemented an extensive review of all TEA cases in SFY 2004 to insure that the case record was in compliance with TEA policy. In some situations, the case was closed and it was not possible to obtain client signatures for required forms.
- The Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and employment support expenditures to give us advance notice of potential problems. In addition to these internal audits, agency staff randomly selected TEA cases for review.
- The Agency created a new TEA training unit that has provided increased training for staff. The training curriculum for new TEA case workers was enhanced to address the SFY 2003 audit findings. Additionally, policy refresher training was provided for all existing TEA case workers. A mandatory monitoring training will be conducted for all supervisors in SFY 2005.

The Agency expects continuous improvement of TEA case activities as a result of these corrective actions. As noted above, the Agency entered into an agreement with the Office of Chief Counsel Audit Unit to perform internal reviews of TEA cases and has revised the TEA training curriculum to provide additional emphasis on the policy related to case sanctions. A review of sanction policy was provided for current staff in late 2004/early 2005. This review of Work Activities and client motivation to return to compliance will also be addressed in the Supervisory Monitoring training to be held in 2005.

Anticipated Completion Date:

June 2006

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FINDING NUMBER:

04-710-17

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
(CCDF Cluster)**

QUESTIONED COSTS:

Unknown

ALLOWABLE COSTS/COST PRINCIPLES – Between January 1, 2004 and December 31, 2004, the

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Division of Child Care and Early Childhood Education identified twenty-five (25) cases of possible provider fraud totaling \$189,132 and one hundred ninety-three (193) cases of possible client fraud totaling \$332,439. These cases have been turned over to the Agency's Office of Chief Counsel. Of these cases, four (4) provider cases were closed reflecting no provider liability and seventy (70) client cases were closed reflecting client liabilities totaling \$77,888. The remainder awaits further investigation or administrative hearings. According to Agency staff, the transactions identified in these cases predominately occurred during fiscal year 2004 and the subsequent period.

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

AGENCY RESPONSE:

The Division of Child Care and Early Childhood Education (DCC/ECE) continues to aggressively implement a fraud prevention strategy by identifying suspicious activity via database checks and data mining techniques, fully investigating suspicious activity, and quickly acting on the results. Later in calendar year 2005, DCC/ECE will complete the prototype development of a business intelligence system called the Decision Support System (DSS). DSS will be designed to have a data warehouse capability for all the DCC/ECE business units in order to conduct detailed executive query and reporting further complemented by a data mining predictive capability. DCC/ECE also continues to be an active participant in the U.S. Department of Health and Human Services' Child Care Bureau's initiative on detecting and preventing improper payments. The division has received the U.S. Department of Health and Human Services Regional Administrator's 2005 Leadership Award for participating in the Bureau's initiative.

Anticipated Completion Date:

Monitoring and compliance investigations will be ongoing activities with no completion date.

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FINDING NUMBER:	04-710-18
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Human Services
CFDA NUMBER:	93.658 – Foster Care_Title IV-E
QUESTIONED COSTS:	None

ACTIVITIES ALLOWED OR UNALLOWED, ELIGIBILITY AND INTERNAL CONTROL – A test of monthly board payments was made to ensure that the correct amount was paid, the payment was allowable, and all eligibility requirements had been met in order for benefits to be paid. A payment is allowable only if all eligibility requirements are met for the child, as well as the foster parent. The test represented fifty (50) foster family homes. Supporting documentation for a criminal records check for forty-

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six (46) of the fifty (50) foster family homes 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.

Prior to October 2003, the Agency would receive a criminal records check from the Arkansas State Police, generate a letter within the Foster Care Unit which stated the results of the check, then forward the letter to the county. The Agency would destroy the actual State Police document after one year. Beginning in October 2003, the actual State Police documentation is sent to the requesting party. Due to the new procedure, a test was performed on criminal records checks that were performed after October 2003 to ensure the procedure is being followed. The following was noted:

- The Agency was unable to provide State Police documentation for three (3) of the ten (10) homes tested.
- Also, we noted a lack of communication among the Foster Care Eligibility Unit, Office of Community Services and the county offices. The new procedure had not been forwarded to the Office of Community Services or county offices. As a result, they are unaware that they should be receiving and retaining the criminal records check documentation.

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 and new procedures should be communicated to all applicable offices.

AGENCY RESPONSE:

The Child Welfare Agency Licensing staff in their review of the foster charts will review the chart to ensure that the criminal record check is on the chart. The licensing specialists utilize a checklist for foster home records that includes all the requirements for approval for a foster family home. Included among those items are the central registry check and the criminal record check.

Prior to November 2003, the agency destroyed the documentation received from the Arkansas State Police after one year. Currently, Arkansas State Police results are forwarded to the requesting county and are to be maintained in the foster home record. The counties receive both the Arkansas Criminal History Report which has the Identification Bureau stamp and initial, along with a cover letter from the Supervisor of the Criminal Records Checks for the Division of Children and Family Services.

Copies of the documentation that is required to be in the foster care record were shared with the Area Managers at a meeting held at the Central Office on March 16, 2005.

The licensing staff is conducting a 100% review of all files and will identify any deficiencies and if any are found, provide a list to the Area Manager for corrective action.

Anticipated Completion Date:

March 2005

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

FINDING NUMBER: 04-710-19
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:

- Five (5) client case files could not be located by county office personnel.
- Thirty-three (33) client cases did not contain documentation verifying the social security number listed for the client.
- Five (5) client case files did not contain documentation to confirm citizenship.
- Three (3) case files did not contain a primary care physician for ARKids B.
- Eight (8) client case files did not contain a signed Assignment of Rights to Medical Support/Third Party Liability form.

We recommend the Agency review and strengthen the record retention practices in place in the county offices and train personnel on requirements of the program.

AGENCY RESPONSE:

The SFY 2003 audit was issued in April 2004 at which time the Agency developed several corrective measures to address these findings. This has resulted in significant improvement in several areas. Due to the timing of the SFY 2003 audit and corrective actions, the full impact of our efforts was not apparent in this audit review. The Agency has implemented corrective action plans to address case files that were not available at the time of the audit. The number of cases that could not be found has been drastically reduced from the prior year's audit finding. Of the files noted above, four were provided to the auditor after the audit review was conducted. The verification of the Social Security Number is done electronically through a match between DHS and the Social Security Administration (SSA). A re-review of these cases revealed that twenty-nine (29) of the Social Security Numbers had been verified by SSA and were in the ANSWER system. We will continue to address documentation deficiencies through training to staff.

Anticipated Completion Date:

Completed – Initial actions.

Training and monitoring are on-going activities with no completion date.

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

FINDING NUMBER: 04-710-20
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. As noted in the previous audit, MFAU was not able to open the electronic file and did not obtain the EDS information in another useable format. As a result, MFAU was prevented from investigating Medicaid payments made to excluded providers. MFAU is still not receiving the EDS file on a regular basis and is still experiencing problems with opening the file. Thus, MFAU is unable to investigate Medicaid payments made to excluded providers.

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.

AGENCY RESPONSE:

The file of excluded providers is produced by DHHS Centers for Medicare and Medicaid Services (CMS) and forwarded to EDS, who transmits the file to MFAU. In the past, CMS did not regularly submit the file. The Division of Medical Services (DMS) has worked with CMS to receive the file on a regular basis and also to restructure the file in a more user-friendly format.

Anticipated Completion Date:

Completed

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

FINDING NUMBER: 04-710-21
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 –

According to the Code of Federal Regulations Title 45, Part 95.621, State Agencies must establish and maintain a program for conducting periodic risk analyses. The State Agency shall also review the Automatic Data Processing (ADP) security system involved in the administration of the United States Department of Health and Human Services programs on a biennial basis. The Agency's periodic ADP risk analysis and system security reviews continue to fail to adequately address the physical and data security operating procedures since no formal ADP risk analysis or security review has been conducted in at least two years. The SAS 70 review currently in place was conducted on Electronic Data Systems, the outside processor of Arkansas Medicaid claims, for the period covering March 1, 2003 – August 31, 2003. This review stated that it did not extend to reviewing procedures in effect at client organizations. No report was available for 2004.

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

AGENCY RESPONSE:

The State has entered into a new contract with the Medicaid fiscal intermediary, Electronic Data Systems, which requires annual SAS70 audits.

Anticipated Completion Date:

Completed

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FINDING NUMBER: 04-710-22
STATE/EDUCATIONAL AGENCY: Arkansas Department of Human Services
CFDA NUMBER: 93.778 – Medical Assistance Program
(Medicaid Cluster)
QUESTIONED COSTS: None

SPECIAL TESTS AND PROVISIONS – UTILIZATION AND PROGRAM INTEGRITY – The Medicaid Field Audit Unit (MFAU) at the Department of Human Services is not properly forwarding information on

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potential cases of fraud by Medicaid providers to the Medicaid Fraud Control Unit at the Office of the Attorney General. It is the responsibility of the MFAU to identify any potential cases of fraud and abuse in the Medicaid system through the testing of paid Medicaid claims and to forward information relating to potential cases of fraud to the Medicaid Fraud Control Unit. The Medicaid Fraud Control Unit at the Office of the Attorney General indicated that no cases were forwarded to them from the MFAU during calendar year 2004. According to the MFAU, no cases were referred to the Medicaid Fraud Control Unit at the Office of the Attorney General because they were involved in the completion of other projects. Failure to forward information on cases of potential fraud to the Medicaid Fraud Control Unit at the Office of the Attorney General for further review hinders the Medicaid investigative process.

We recommend the MFAU at the Department of Human Services improve communications with the Medicaid Fraud Control Unit of the Office of the Attorney General regarding the forwarding of information concerning possible instances of fraudulent activities by Medicaid providers.

AGENCY RESPONSE:

The Division of Medical Services (DMS) Medicaid Field Audit Unit (MFAU) and the Office of Attorney General Medicaid Fraud Control Unit (MFCU) developed a new Memorandum of Understanding (MOU) signed 10/21/03, after discussion and agreement. Both agencies conduct quarterly meetings where referrals and cases are discussed. Prior to any referral to the MFCU, DMS has the information reviewed by the Department of Human Services Office of Chief Counsel (OCC). Additionally, the MFCU has conducted training for both Utilization Review and MFAU staff. DMS staff have been available to assist the MFCU. As a normal course of cooperation we have, and continue to be, available to testify in their cases. Additionally, the DMS Office of Long Term Care and the DMS Pharmacy Program as well as OCC send referrals to the MFCU.

Anticipated Completion Date:

Completed

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FINDING NUMBER: 04-395-01
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.

AGENCY RESPONSE:

Management implemented security changes for accessing payroll software functions and separated duties involving custody of assets and recording of transactions.

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U.S. ENVIRONMENTAL PROTECTION AGENCY

FINDING NUMBER: 04-395/455-01
STATE/EDUCATIONAL AGENCY: Arkansas Development Finance Authority
Arkansas Soil and Water Conservation Commission
CFDA NUMBER: 66.458 – Capitalization Grants for 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 the Agencies take steps to ensure all federal cash receipts are disbursed within three (3) days to prevent noncompliance with federal guidelines.

AGENCY RESPONSE:

ADFA: 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.

Soil & Water: The Arkansas Soil and Water Conservation Commission does not have the responsibility for the disbursements of the Capitalization Grants for the Drinking Water State Revolving Funds.

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: 04-150-02
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
QUESTIONED COSTS: None

SUBRECIPIENT MONITORING - Written procedures and adequate training of personnel in the area of subrecipient monitoring did not exist for the entire fiscal year to ensure 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 grants.

We recommend UAMS continue to develop appropriate policies and procedures to monitor subrecipients of federal funds and fully implement them in fiscal year 2005.

AGENCY RESPONSE:

A revised Sub-recipient Monitoring Policy and the procedures to implement the policy have been formally presented to the Grants Policy and Procedure Committee. With an informal approval of these changes, we began using the new procedure in June 2004. The procedure will require checking and reviewing A-133 audits where applicable, doing a risk assessment of those entities not under A-133 and sending follow up letters to subcontractors who are determined to be a high risk and to those A-133 entities with findings effecting our UAMS grant dollars.

FINDING NUMBER: 04-150-03
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
93.600 – Head Start
Various – Various non-major programs
QUESTIONED COSTS: None

PROCUREMENT, SUSPENSION AND DEBARMENT – Prior to November 26, 2003, non-federal entities were required to obtain certifications from contractors receiving more than \$100,000 and all subrecipients that they are not debarred or prohibited from providing services under federal grants. Subsequent to November 26, 2003, non-federal entities may determine that the contractors and subrecipients are not debarred or suspended using the Excluded Parties List System (EPLS), obtaining certifications or adding a clause or condition to the covered transaction with the entity. Prior to November 26, 2003, UAMS verified significant contractors and all subrecipients and principal investigators were not debarred by checking the EPLS but did not obtain the required certifications.

We recommend UAMS adhere to current policy as it satisfies the compliance requirement as revised effective November 26, 2003.

AGENCY RESPONSE:

UAMS's current policy satisfies the compliance requirement as revised effective November 26, 2003. No changes to current practice are necessary.

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FINDING NUMBER: 04-150-04
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: Various – Research and Development Cluster
Various – Various non-major programs
QUESTIONED COSTS: None

REPORTING – A sample of seven (7) research and development grants revealed a Financial Status Report (FSR) for three (3) grants were filed late and one (1) FSR was not yet filed. Follow-up inquiry also revealed several other FSR's for various grants were also filed late. As a result, federal regulators and grantors are unable to monitor the use of funds granted to UAMS.

We recommend UAMS prepare required FSR's in a timely manner.

AGENCY RESPONSE:

Now current with the FSRs that are due, UAMS should continue to prepare required reports in a timely manner.

FINDING NUMBER: 04-150-05
STATE/EDUCATIONAL AGENCY: University of Arkansas for Medical Sciences
CFDA NUMBER: 93.600 – Head Start
QUESTIONED COSTS: None

CRIMINAL BACKGROUND CHECKS – Head Start programs are required to obtain criminal background checks on all employees prior to making employment permanent. New employees of the UAMS Head Start program are subject to an initial ninety (90) day probationary period. UAMS Head Start policy states the probationary period is to be extended if the criminal background check is not received prior to the end of the initial probationary period. A sample of twenty-five (25) employees hired during fiscal year 2004 revealed one (1) employee criminal background check was not received prior to the end of the initial probationary period and documentation had not been maintained to prove the employee's probationary period had been extended.

We recommend UAMS develop a plan to expedite the receipt of criminal background checks on all UAMS Head Start program employees. In addition, UAMS Head Start should prepare and retain documentation of extended probationary periods for employees for whom receipt of criminal background checks have been delayed.

AGENCY RESPONSE:

Refer to Head Start **Policy** enacted June 22, 2004, **PPO5-R "Selection Procedures**, Number 5," which specifically states that if it is not feasible to obtain a criminal record check prior to hiring, an employee must not be considered permanent until such a check is completed. New employees that have not received clearance regarding their Criminal Background Checks will not become permanent employees and will remain as provisional employees by extending their probationary period for an additional 90 days. If an employee is found not able to pass the State Police check or other investigations, they are terminated immediately in accordance with the UAMS policy. New employees are not placed in a position of working with children independently and there are always two or more adults present with children at each site.

A process is currently being implemented to initiate timely corrective action of criminal background checks by the Head Start Program working more closely with the Arkansas Department of Human Services, Division of Child Care and Early Childhood Education to verify the status of the criminal background check

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on all new employees within two weeks after initial placement within any job of Head Start. The Head Start Human Resource personnel will have the

responsibility of contacting the DHS office every two weeks regarding the status of a new hire via email to the licensing specialist copying the chief administrator over the Background Checks to obtain the necessary paper work to verify the status of the checks on each Head Start employee.

FINDING NUMBER:	04-150-06
STATE/EDUCATIONAL AGENCY:	University of Arkansas for Medical Sciences
CFDA NUMBER:	93.600 – Head Start
QUESTIONED COSTS:	Unknown

EMPLOYMENT DOCUMENTS – Prior to a Head Start employee being considered a permanent hire, Head Start programs are required to obtain a signed declaration form disclosing criminal charges and arrests relating to child abuse and violent felonies. The declaration must also include verification of personal and employment references. UAMS Head Start did not consistently obtain the required documents prior to hiring employees. A sample of twenty-five (25) employees hired during fiscal year 2004 revealed one (1) employee declaration form was not completed until after the employee's hire date.

We recommend UAMS develop a plan for ensuring all required items are completed prior to an employee's hire date.

AGENCY RESPONSE:

In accordance with the Had Start Policy, *PPO5-R*, under Selection Procedures, Number 4, before an employee is hired, the program conducts a verification of the employee's reference. This policy was enacted June 22, 2004 and the Head Start Program is taking the necessary steps to comply with this procedure.

Reference checks and Employee Declaration statements on all potential applicants are being verified prior to permanent employment within the Head Start program.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004**

**STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

ARKANSAS STATE FORESTRY COMMISSION

FINDING NUMBER: 01-415-05
STATE/EDUCATIONAL AGENCY: Arkansas State Forestry Commission
CFDA NUMBER: 10.664 — Cooperative Forestry Assistance
QUESTIONED COSTS: \$4,898

CONDITION:

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - Department of Agriculture 7 CFR Part 3016.23 states where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. The Agency requested and received reimbursement for expenditures occurring after the grant award expiration date of September 30, 2001. Expenditures occurring after September 30, 2001 totaled \$9,796. Because the award cost sharing percentage was 50%, the Agency received excess reimbursement of \$4,898 for expenditures occurring after the grant award expiration date.

RECOMMENDATION:

Contact the grantor Agency for guidance concerning the excess reimbursement of \$4,898 and that future reimbursement requests be based on Agency's costs incurred during the grant period.

CURRENT STATUS:

Corrective action has not been taken. However, the Agency has contacted the grantor for guidance.

UPDATED RESPONSE:

Corrective action has not been taken. However, the Agency mailed a request and a corrected financial status report to the USDA Forest Service on February 12, 2005 to be billed for \$4,898 so that repayment could be made.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004**

ARKANSAS DEPARTMENT OF HEALTH

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

CONDITION:

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).

RECOMMENDATION:

Comply with applicable federal program requirements.

CURRENT STATUS:

Although the Agency has established procedures to avoid further occurrences and no exceptions were noted relating to these transfers during current year audit testing, the Agency has not taken steps to determine applicable FNS sanctions.

UPDATED RESPONSE:

We have determined that the grant does allow certain food costs to be converted to administrative costs, but the transfer above was miscoded. It should have been made to a fund designated for the same grant year rather than a past year. The \$81,000 that was converted includes vendor rejections of food valued at \$79,172.82 with the remainder involving reduced payments for food and vendor deposits for food. We have contacted FNS and no sanctions will be applied. This grant is now finalized and FNS is satisfied with the results as evidenced by their acceptance of our closed out 798 USDA reports.

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

CONDITION:

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

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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ARKANSAS DEPARTMENT OF HEALTH (Continued)

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).

RECOMMENDATION:

Comply with federal program requirements.

CURRENT STATUS:

Although the Agency has established procedures to avoid further occurrences and no exceptions were noted relating to period of availability of federal funds during current year audit testing, the Agency has not taken steps to determine applicable FNS sanctions.

UPDATED RESPONSE:

The two transfers discussed above involved coding errors resulting in postings that reflected movement of funds between grant years and that has been resolved. This grant is now finalized and ENS is satisfied with the results as evidenced by their acceptance of our closed out 798 USDA reports. No sanctions will be applied.

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

CONDITION:

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.

RECOMMENDATION:

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.

CURRENT STATUS:

The Agency is in active discussions with CSAT regarding a resolution to the final amount of un-restored state general revenue dollars. The Agency was able to restore \$274,525 of the revenue that was cut for that period. The decision of how CSAT will rule regarding the outstanding amount of \$76,046 remains unsettled. The last conversation the Agency had with CSAT was in November of 2004.

The Agency has been waiting on a letter from the SAMHSA Director since November to approve or disapprove the request for being fully compliant with MOE requirements based on the positive action the Agency has taken to be in compliance. Also, there is a possibility that the Agency will have a condition or contingency on the 2005 Block Grant award holding them accountable to restore the remaining general revenue dollars. The SAMHSA Administrator has the authority to grant full compliance provided the Agency has met material compliance with the MOE requirement.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
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ARKANSAS DEPARTMENT OF HEALTH (Continued)

UPDATED RESPONSE:

The Bureau of Alcohol and Drug Abuse Prevention (Agency) and Arkansas' Governor's Office each received a letter dated January 27, 2005 from the federal Department of Health & Human Services. Those letters state that full compliance has been granted to the Agency for meeting material compliance with the MOE requirement for SFYs 1997, 1998, and 1999. Additionally, the letters state that the Agency exceeded its MOE requirement in SFYs 2000 through 2004.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FOR THE YEAR ENDED JUNE 30, 2004**

ARKANSAS DEPARTMENT OF HUMAN SERVICES

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
(Child Nutrition Cluster)
QUESTIONED COSTS: None

CONDITION:

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.

RECOMMENDATION:

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.

CURRENT STATUS:

Corrective action has not been taken.

UPDATED RESPONSE:

Corrective Action has been taken and was taken in FY2003. Reconciliations are performed each quarter for every grant managed. The auditors were unhappy with the format in which the reconciliation was being completed, therefore staff changed to the format given by the auditor in July, 2003. These reconciliations show that when an estimated report was submitted, the next quarters report was adjusted for any difference between actual and the estimate. There is a line on the explanations for difference between Cost Allocation and reports that show difference between estimate and actual cost. While there is a difference each quarter, each year the net difference is zero. There is no need to submit corrected reports because they are already correct. In 2004, we reconciled the expenses from the Special Nutrition Programs system to AASIS, AASIS to Cost Allocation, Cost Allocation to staff reports, Special Nutrition Program to ledgers. We reconciled draws from AASIS to ledgers to the Federal Payment System.

In the 2004 Audit, there was no finding of failure to perform reconciliations.

There is sufficient staff assigned to perform reconciliation duties.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004**

ARKANSAS DEPARTMENT OF HUMAN SERVICES (Continued)

FINDING NUMBER: 02-710-08
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
(Child Nutrition Cluster)
QUESTIONED COSTS: None

CONDITION:

REPORTING — The Agency failed to perform reconciliations between the cost allocation system and the Child Nutrition Financial Reports submitted to the United States Food and Drug Administration, Food Nutrition Services (USDS, FNS).

In addition, estimated expenditures were reported on the quarterly reports due to problems with statewide conversion to the Arkansas Accounting Statewide Information System (AASIS). Although approval was obtained from the federal authorities at the time the reports were completed, almost two (2) fiscal years have passed since the original reports were issued.

Failure to reconcile the expenditures and update estimates to actual expenditures results in misstatement of expenditures in reporting to the USDA, FNS.

RECOMMENDATION:

Implement procedures to ensure proper reporting of expenditures on financial reports. In addition, an adequate number of qualified personnel should be allocated to perform these responsibilities.

CURRENT STATUS:

Corrective action has not been taken.

UPDATED RESPONSE:

Corrective Action has been taken and was taken in FY2003. Reconciliations are performed each quarter for every grant managed. The auditors were unhappy with the format in which the reconciliation was being completed, therefore staff changed to the format given by the auditor in July, 2003. These reconciliations show that when an estimated report was submitted, the next quarters report was adjusted for any difference between actual and the estimate. There is a line on the explanations for difference between Cost Allocation and reports that show difference between estimate and actual cost. While there is a difference each quarter, each year the net difference is zero. There is no need to submit corrected reports because they are already correct. In 2004, we reconciled the expenses from the Special Nutrition Programs system to AASIS, AASIS to Cost Allocation, Cost Allocation to staff reports, Special Nutrition Program to ledgers. We reconciled draws from AASIS to ledgers to the Federal Payment System.

In the 2004 Audit, there was no finding of failure to perform reconciliations.

There is sufficient staff assigned to perform reconciliation duties.

**STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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ARKANSAS DEPARTMENT OF EMERGENCY MANAGEMENT

FINDING NUMBER:	02-995-01
STATE/EDUCATIONAL AGENCY:	Arkansas Department of Emergency Management
CFDA NUMBER:	83.544 — Public Assistance Grants
QUESTIONED COSTS:	\$148,436

CONDITION:

SPECIAL TESTS AND PROVISIONS — PROJECT ACCOUNTING - Our test of disaster assistance payments relating to the December 2000 ice storm revealed that the Agency made overpayments to Lonoke, Sharp and Ouachita counties in the amounts of \$1,986, \$115,186 and \$31,264, respectively. In addition, the Agency made a disaster assistance payment to the City of Greers Ferry totaling \$52,811 without the appropriate supporting documentation. This grant was designated as a “small project” by the Agency; however “small project” grants for the federal fiscal year ending September 30, 2002 are limited to a cost threshold of \$52,000. Small and large project grants have different requirements for supporting documentation.

The December 2000 ice storm disaster was by far the largest disaster, in terms of costs, in the history of the State.

Federal funds totaling \$174,366,729 were obligated and disbursed to 534 applicants. The volume of requests, the

complexity of multi-million dollar projects and the Agency’s lack of an employee experienced in the Public Assistance

Grants program contributed to inaccurate and improperly documented disbursements to subrecipients.

RECOMMENDATION:

Continue to seek recovery of overpayments to Lonoke, Sharp and Ouachita counties. In addition, the Agency should continue to review files supporting payments made for the December 2000 ice storm disaster to ensure that all payments were calculated accurately and are supported by the appropriate documentation. The Agency should ensure that it has sufficient staff adequately trained to manage the Public Assistance Grants program, especially in times of large disasters.

CURRENT STATUS:

Corrective action has been taken on two (2) of the three (3) overpayments to Counties. In January of 2004, Lonoke County repaid \$1,986. In November of 2004, Ouachita County repaid \$10,180.32 after providing additional documentation of expenditures amounting to \$21,083.68. These additional expenditures were approved by FEMA. Sharp County submitted additional expenditures of \$27,115 that were approved by FEMA reducing their overpayment to \$88,071. On November 9, 2004, ADEM officials and the Sharp County Judge met and came to an agreement to allow the county to repay the overpayment over four (4) years.

UPDATED RESPONSE:

No change.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FOR THE YEAR ENDED JUNE 30, 2004

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

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

CONDITION:

SPECIAL TESTS AND PROVISIONS - UAMS has inadequate procedures for accruing for sub-recipient invoices to mitigate the delay in receiving original documentation. Sub-recipient 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.

RECOMMENDATION:

Develop a method for accruing sub-recipient invoices.

CURRENT STATUS:

Corrective action has not been taken.

UPDATED RESPONSE:

Management's Response — UAMS instructs the sub-recipient, 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.

Substantially all of the subcontracts that UAMS issues are cost reimbursement agreements. These agreements frequently cover time frames that are different from the UAMS' fiscal year. Because grant expenditures are not usually recorded equally from one period to another, it would be very difficult to "estimate" with any measure of accuracy or consistency what amount should be accrued at the end of a fiscal period. Because the grants are cost reimbursed, it is not possible to predetermine an agreed-upon amount to be invoiced. As part of the new close out checklist and cost summary report the grant accountant and the departmental business officer review the subcontracts prior to closing a grant to ensure that applicable invoices from the sub-recipient have been received and posted to the grant.

Management will investigate a method of accruing applicable expenses for the fiscal year end by June 30, 2004. Person Responsible: Janet Hopper

Action Plan: Because we can not accrue an amount that is unknown to us, we disagree with this finding.

Anticipated Completion Date: N/A