

# State of Arkansas

## Corrective Action Plan

For the year ending June 30, 2007

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**FINANCIAL STATEMENT FINDINGS**

**FS-07-01 Financial Management**

The State places varying levels of daily accounting responsibility with the respective boards, commissions, departments, agencies, offices and institutions of higher education. Management has oversight responsibilities for transactions entered into the financial accounting system to ensure accuracy and completeness in accordance with generally accepted accounting principles. Even though the Department of Finance and Administration, Office of Accounting, and several agencies have increased their staffs of qualified accountants to meet management's accounting and reporting responsibilities, some State agencies continue to lack personnel with sufficient knowledge and understanding of generally accepted accounting principles applied in a governmental environment.

Additionally, personnel at some agencies and institutions of higher education were unable to provide, in a timely manner, the required financial information to the Department of Finance and Administration, Office of Accounting, which hindered the efficient preparation of the State's financial statements.

The lack of a sufficient number of qualified accountants and inadequate management oversight over the submission of required financial information may result in inaccurate and unreliable financial reports that could affect management's ability to make quality decisions.

We recommend that the State continue efforts to attract qualified accountants to ensure the proper recording of transactions and timely submission of financial information to the Department of Finance and Administration. In addition, with continual changes in accounting standards, the Department of Finance and Administration should provide sufficient training to all financial accounting personnel to ensure adequate financial accountability to the citizens of the State.

**Response**

The Department of Finance and Administration (DFA) - Office of Accounting and Office of Personnel Management has worked with several State agencies to hire Certified Public Accountants within the last year which will improve the quality of financial reporting in FY2008. DFA will continue to support agencies in their efforts to improve the quality of their financial staff.

Timeline requirements are provided to the individual agencies and institutions of higher education each year. DFA will continue to communicate with State entities about the necessity of timely and accurate reporting to ensure a complete and accurate reporting of the State's finances.

DFA has assigned a staff member to develop training on new accounting pronouncements for DFA and other State agency staff members. Training on topics pertinent to all State agency staff will begin in March of 2008. Issues specific to certain agencies will be determined and addressed with smaller training sessions in the fall and winter of 2008.

**FS-07-02 Accounting for Tax Revenue**

The process of receiving and recording tax revenue should have adequate controls to assure that all revenue is recorded properly.

As reported in the previous audit, our review of the internal control over the receiving and recording of various tax revenues at the Department of Finance and Administration – Revenue Division, identified the following:

- The initial processing of tax return documents and taxpayers' checks was performed in an unlocked room. Additionally, the checks were transported within the building in an unsecured manner.
- Computer program changes were placed into production without sufficient management review to ensure adequate testing and authorization.

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- or long-term interruption of computer service. Also, the agency maintained daily backup files in the same building as the computer system.
- Users whose employment had been terminated were not deactivated from the computer system in a timely manner.
- Password configuration settings were not structured to effectively reduce the risk of unauthorized access to the computer system.

Failure to properly implement controls increases the risk of:

- Misappropriation of assets.
- Misstatement of the State's financial records and financial statements.
- Loss of the ability to process and account for tax revenues in a timely manner due to computer processing being hindered because of a disaster.
- Irrecoverable loss of various data, including tax return images, in the event of a disaster.

The Department of Finance and Administration indicated that corrections to these control deficiencies had commenced. However, the corrective measures had not been completed by June 30, 2007.

We recommend that the management of the Department of Finance and Administration continue to strengthen internal control over the revenue receipting and recording process.

**Response**

The Department of Finance and Administration (DFA) - Revenue Division implemented security restrictions to the processing areas of the Revenue Building and began transporting payment documents in locked boxes immediately upon being notified of these issues.

The program change process control recommendations made by Legislative Audit have been implemented.

DFA - Revenue Division is developing a contingency processing plan that will be modeled after the federally approved plan of the DFA - Office of Child Support and Enforcement. The first draft of the plan is to be submitted to the DFA Director for his review on or before April 1, 2008. This plan will be expanded into an agency wide disaster recovery plan by a DFA staff member as their sole work assignment until the plan is finalized.

Daily backup storage tapes are being kept in fire-proof safes at a secure location over a mile and a half away from the central processing area of the DFA - Revenue Division. The tapes are rotated on a schedule that assures a proper restart point for each individual revenue stream.

DFA has implemented a policy that Administrator's must notify the DFA - Office of Information Systems within seventy-two hours of the voluntary termination of an employee. Involuntary terminations are to be reported immediately to both the Office of Information Systems and Office of Administrative Services for removal of all network and AASIS access. Immediately after each bi-weekly payroll a report is provided to the Administrator of each operating unit for review and any changes to network access required.

The password process implementation is well over 70% completed. It is scheduled for completion by May 2008.

**FS-07-03 Arkansas Treasurer of State**

The Constitution of the State of Arkansas established the Office of Treasurer of State. The duties of the Treasurer of State include the receipt and deposit of state monies collected by various administering agencies; the reconciliation of funds held by the Treasurer of State to the fund equities of more than 200 state agencies and institutions; the management, investment and safekeeping of State funds; the redemption of warrants drawn on the Treasurer of State in accordance with State law; and the distribution of county and municipal aid and local sales and use tax. Adequate controls should be in place to assure that these transactions are accounted for properly.

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Our review of the internal control over the Treasurer of State's processes identified the following deficiencies:

- There was no written contingency plan to specify the recovery procedures in the event of a short-term or long-term interruption of computer service.
- Daily backup files were not stored in a building adequately distant from the computer system.
- Vendors who assisted the Treasurer of State in the implementation of their new system continued to have access to the computer applications. These vendors should only be given closely monitored access as needed for specific projects.
- Password configuration settings were not structured to effectively reduce the risk of unauthorized access to the computer system.
- During the processing of the various payments to counties and municipalities, one person is typically in control of the entire payment process. The duties of this person include approving and changing payee direct deposit information as well as sending payment notification letters to the payees.

Failure to properly implement controls increases the risk of:

- Loss of the ability to process and account for State funds in a timely manner due to computer processing being hindered because of a disaster.
- Irrecoverable loss of various data in the event of a disaster.
- Misappropriation of assets.
- Misstatement of the State's financial records and financial statements.

The Treasurer of State indicated that they started implementing corrective procedures on these control deficiencies subsequent to June 30, 2007.

We recommend that the management of the Treasurer of State continue efforts to strengthen internal control.

**Response**

The Treasurer of State has begun the process of creating a written contingency plan for disaster recovery. As a part of this, the Treasurer of State is using the State's disaster recovery system – LDRPS – to identify and document critical processes. We are currently working with the Department of Finance and Administration and the Auditor of State in this effort.

Daily backup files are now stored offsite weekly in a location several miles from the offices of the Treasurer of State.

Vendor logins were immediately deleted or disabled. Vendors on current projects must contact the network administrator for access and logins are enabled and disabled as needed.

The Treasurer of State is implementing the password settings as recommended and is developing a timeline for this implementation.

Segregation of these duties within the distribution system has been implemented. One person now handles all the bank and payee changes and another generates the payment notification letters to the payees. Treasurer of State employees have also met with AASIS personnel to possibly implement AASIS vendors into the distribution system.

**FS-07-04 Purchase Order Maintenance**

As noted in prior audits, changes to a previously approved purchase order could be made to certain critical items on the purchase order, such as the payment vendor, the delivery address, the specified items to be purchased or the account coding, without a subsequent re-approval of the changes. This configuration of the purchase order was designed to promote the use of the purchase order functionality. The ability to subsequently change these critical fields in the purchase order could cause vendor payments to be directed to an improper vendor, the purchase of unapproved goods and services, goods to be diverted to an unapproved location or the account coding to be changed to an improper general ledger account or program account. Adequate internal control requires purchase order transactions recorded in the accounting system to be properly authorized.

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The Department of Finance and Administration indicated that, subsequent to June 30, 2007, corrective procedures to limit changes to previously approved purchase orders had been implemented.

We recommend the Department of Finance and Administration continue to monitor the controls around the purchasing process to ensure that entries in critical fields of purchase orders are properly authorized and approved.

**Response**

The Department of Finance and Administration (DFA) has made additional changes to the vendor maintenance process for those agencies using the purchase order process within AASIS. The payment partner address field and the delivery address field have been locked down so that agency staff must select an option contained in an approved master list within the system. This limits where a payment may be mailed to or a delivery of products or goods sent at the time the purchase is processed. Additions or changes to the payment partners or delivery address in the master list must be approved by authorized agency personnel and then updated by DFA - Office of State Procurement staff in the system.

**FS-07-05 Purchase Order Segregation of Duties**

Purchasing controls should include management authorization for the purchase, posting of the purchase to the correct accounts, and receipt of the items before payment of the vendor invoice. The Arkansas Administrative Statewide Information System (AASIS) contains various system controls over the purchasing process. However, we noted that several AASIS users had the ability to create a purchase order, approve the purchase order, receipt the goods, and/or enter an invoice, thereby having total access to the transactions and by-passing the controls established in AASIS.

The lack of proper segregation of duties increases the risk of misappropriation of assets as well as misstatement of the State's financial records and financial statements.

We recommend that agency management and the Department of Finance and Administration review the AASIS purchasing security role assignments, segregate duties, and use the system's purchasing controls to the extent possible.

**Response**

Security role conflicts in the procurement group at the Department of Human Services were corrected in December 2007. The Department of Corrections implemented the necessary mitigating controls as of March 3, 2008 to retain their security roles. The DFA - Office of Accounting is currently reviewing the remaining role conflicts at each agency identified by Legislative Audit to determine to what extent security role changes can be implemented without hindering an agency's ability to complete their mission.

Mitigating controls will be developed and implemented where appropriate for those agencies that must maintain their roles to utilize the purchase order system by May 31, 2008.

**FS-07-06 Arkansas Information Consortium Program Change Control**

Arkansas Information Consortium (AIC), a for-profit entity, develops and manages numerous State and other governmental entities websites, including those websites that have various fee and tax collection functionality. Controls should be in place to ensure that changes made to these website production programs are adequately tested and authorized. Computer program changes were placed into production without sufficient management review to ensure adequate testing and authorization. Failure to implement a proper program change control environment could result in unauthorized changes made to the production systems, thereby increasing the risk for misappropriation of assets and misstatement of the State's financial records and financial statements.

We recommend controls be implemented to ensure that changes to production programs are properly authorized, tested and monitored.

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**Response**

AIC is implementing new procedures to control access to production servers that house active programs and databases. The implementation of these procedures will be completed by April 1, 2008. AIC staff will review these controls as implemented on a quarterly basis.

The new procedures include:

- 1) Specific authorization must be granted prior to access of the databases;
- 2) Access to certain specific databases will be granted as "read only";
- 3) Requests for creation and/or modifications to production databases require an approved work order and the database is opened by the release management staff;
- 4) Production system and application source code can only be accessed by approved staff with active account assignments;
- 5) Implemented deployment tracking software to assure work assignments are completed prior to deployment of new source code into production;
- 6) A security penetration test (Appscan®) is performed on new applications prior to deployment; 7) Application code is deployed into production directly from source control software (Subversion®) which details the differences between the production version and the version to be deployed. Management staff reviews the changes and approves them prior to loading the new source code into the system;
- 8) Monitoring software (Tripwire®) will be installed to monitor unauthorized changes to production code. This installation is scheduled for March, 2008.

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**FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY**

<b>FINDING NUMBER:</b>	<b>07-710-01</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>10.551 - Food Stamps (Food Stamp Cluster) 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

**SPECIAL TESTS AND PROVISIONS** – A review conducted on the controls in place over the Social Security Number (SSN) Enumeration and Verification process revealed the following:

- No current documented policies were found to be in existence for the SSN Enumeration and Verification process, including the distribution and correction of the SSN mismatch reports for the Arkansas Networked System for Welfare Eligibility (ANSWER) system. The mismatch reports are compiled by the Agency through the monthly verification of SSNs with the US Social Security Administration (SSA).

We recommend the Agency strengthen internal controls by implementing consistent policies concerning the SSN Enumeration and Verification process at both the Central and County Office levels. The policy should address precise distribution of the mismatch reports from the Central Office to specific Agency employees responsible for receipt and correction of them.

- SSNs were not found to be complete and accurate for all Medicaid recipients in the Medicaid Management Information System (MMIS). In the MMIS, SSNs are not considered a key field because Medicaid payments are made for recipients according to their Medicaid Base ID assigned through the application rather than their SSN. The ANSWER system is considered by the Agency to be the system of record for Medicaid recipient eligibility data and the source for updating this data to the MMIS. Even though SSNs are not the key field for payment of Medicaid benefits in the MMIS, failure to maintain accurate recipient eligibility data in both systems could result in payments being made to false recipients.

In early October 2007, a mass update of 40,308 SSNs was conducted. The Agency has been unable to provide documentation that the updated SSNs were verified with the SSA.

We recommend consistent and timely updates of verified SSNs for Medicaid recipients be made between ANSWER and the MMIS. Specific Agency employees should be responsible for completing and monitoring this process.

- Once a SSN is transmitted to the SSA for verification and returned with a mismatch code in ANSWER, it will not be resubmitted for verification unless a change is made to the record. A mismatched SSN will only appear on the monthly SSA report in the month that it was submitted. No indication was found that a history is maintained of monthly mismatch reports for tracking corrections in subsequent months. If a mismatched SSN is not corrected in the month that it appears on the report, benefits could possibly continue to be provided indefinitely on an inaccurate SSN for possibly a false recipient.

Analytical procedures were performed on the unverified SSNs in the electronic SSA Response file from October 2007 to determine whether the SSNs were resubmitted in November. Of the 121,230 SSNs submitted by the Division of County Operations (DCO) to the SSA in October 2007, 10,693 were unverified. Of these, 5,776 were resubmitted to the SSA in November 2007 leaving 4,917 SSNs that were not resubmitted. After resubmission, 4,996 of the 5,776 SSNs resubmitted in November remained unverified. Adding the 4,917 SSNs that were not resubmitted in November to the 4,996 SSNs that remained unverified after resubmission, a total of 9,913 SSNs remained unverified. Total claims paid on these 9,913 unverified SSNs for October and November 2007 amounted to \$5,273,968.

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**FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)**

<b>FINDING NUMBER:</b>	<b>07-710-01 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>10.551 - Food Stamps (Food Stamp Cluster) 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

In summary, a significant number of resubmitted SSNs are not being verified. Failure to ensure that SSN information is verified in a consistent and timely manner could result in ineligible recipients receiving benefits.

We recommend that all SSNs in ANSWER be resubmitted for verification with the SSA every month until returned with a verified code. We further recommend that the Agency determine the reason that unverified SSNs fail to be resubmitted and verified. The necessary changes should be made to ensure that SSNs are verified in a timely manner in order to prevent misuse of federal program funds.

**Response**

A comprehensive Corrective Action Plan to address the above findings in relation to the ANSWER system and MMIS has been developed by DCO. This plan includes the recommendations made by Legislative Audit. Specifically, the following actions are being taken: (1) Policies related to the SSN enumeration process are being updated to reflect the current processes for resolving mismatches and monitoring the mismatch reports; (2) Interface processes between the ANSWER and MMIS systems have been reviewed to determine causes for the differences in SSN's between the two systems and corrections have been made or are being made to resolve those error causes. Specific employees have been identified to monitor the ANSWER and MMIS systems for discrepancies in data and are performing monthly reconciliations between the systems to ensure they are in sync; (3) Beginning in February 2008, all unverified SSN's will be submitted to SSA each month until verified. This will ensure that all mismatched SSN's will appear on the mismatch reports until resolved. In addition, a counter is being added to indicate how many times a particular SSN has been submitted for verification. This counter will appear on the mismatch report and can be used for monitoring purposes; (4) Specific monitoring procedures have been implemented to ensure that the monthly mismatch reports are being worked at the county level.

The Division of County Operations Director testified before the Legislative Audit Sub-Committee on State Agencies on January 10, 2008 to provide a progress report on this finding. The committee indicated they were pleased with our progress and requested additional updates as corrective actions continue in State Fiscal Year 2008.

**Anticipated Completion Date:** Items 2 – 4 above have been implemented. All policies and procedures will be updated and formally issued by April 30, 2008.

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**FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)**

<b>FINDING NUMBER:</b>	<b>07-710-02</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>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</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

**ALLOWABLE COSTS/COST PRINCIPLES** – The Agency failed to provide personnel activity reports, equivalent documentation, or other substitute system approved by the cognizant Federal agency pursuant to OMB Circular A-87 Attachment B for employees within the Division of Health expected to work on multiple activities. Consequently, the Agency failed to allocate payroll costs within the Division of Health using an approved cost allocation plan. This was the result of the Agency's inability to interface their current cost allocation coding structure with the recently merged Division of Health's legacy coding structure. 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 strengthen internal controls over cost allocation by continuing to work with the Division of Cost Allocation to select a methodology to be used for documentation of salary costs among benefiting federal programs.

**Response**

The Agency is currently working with the Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) to implement an approved cost allocation plan for the agency. Meetings were held with DCA in August 2007 and January 2008 to update them on our intended methods and time frames for implementation of a cost allocation plan (CAP) for the agency. A 100% time study was implemented in November 2007 and tested in December 2007 and implemented agency wide in January 2008, we are now compiling information for DCA review. DCA has granted the use of a direct salaries indirect cost rate that will be submitted after closing SFY2008 for their review and approval. We will continue to work closely with DCA until this process is completed for the agency.

**Anticipated completion date:** December 2008

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**FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)**

<b>FINDING NUMBER:</b>	<b>07-710-03</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>10.558 – Child and Adult Care Food Program 93.558 - Temporary Assistance for Needy Families 93.568 - Low-Income Home Energy Assistance 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) 93.658 – Foster Care Title IV-E 93.959 – Block Grants for Prevention and Treatment of Substance Abuse</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**PERIOD OF AVAILABILITY OF FEDERAL FUNDS** – Due to the Agency's failure to establish adequate internal controls to separately identify federal grant awards in the Arkansas Administrative Statewide Information System (AASIS), disbursement activity could not be identified to specific grant awards. As a result, we were unable to determine if the Agency complied with the compliance requirement regarding period of availability of federal funds.

We recommend the Agency establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards. Beginning July 1, 2007, the Agency implemented new internal order coding in AASIS which the Agency indicates will separately identify expenditures by specific federal grant award.

**Response**

On July 1, 2007 new internal order coding was implemented adding a two digit year field. The year of the grant is now reflected in AASIS as the last two digits of the internal order providing the specific detail to identify expenditures by individual federal grant award.

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**U.S. DEPARTMENT OF AGRICULTURE**

<b>FINDING NUMBER:</b>	<b>07-710-04</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children</b>
<b>QUESTIONED COSTS:</b>	<b>\$1,511,927</b>

**PERIOD OF AVAILABILITY OF FEDERAL FUNDS AND INADEQUATE INTERNAL CONTROLS** – The Agency may charge costs to the grant resulting from obligations incurred during the grant's funding period. The testing of eighty-eight (88) disbursements revealed fourteen (14) expenditures or 16% of the number of sampled items coded to the incorrect grant year totaling \$9,880. In addition, \$1,484,840 of food instruments issued during the 2007 grant year were charged to 2006 grant funds and \$17,207 of food instruments issued during the 2006 grant year were charged to 2007 grant funds. The Agency failed to establish adequate internal controls to ensure costs charged to the grant were obligated within the period of availability.

We recommend the Agency strengthen internal controls by providing additional training to regional and local health unit employees and establishing procedures to ensure that expenditures are coded and charged to the correct grant year to limit expenditures of federal funds to obligations occurring within the period of availability of the grant. In addition, the Agency should establish procedures to ensure that food instruments are charged to grant periods based on their date of issuance.

**Response**

The agency is working to implement procedures for liquidation timeframes for agency personnel in the field as well as purchasing and payables personnel. Procedures for monthly notices of impending grant end dates, routine clearing of outstanding commitments at grant end, and blocking of AASIS internal orders at the end of a grants close out period will help strengthen internal controls for these processes. Individual training and technical assistance will be available and ongoing. Future period of availability issues are expected to be significantly mitigated.

**Anticipated completion date:** April 2008

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**U.S. DEPARTMENT OF EDUCATION**

**FINDING NUMBER:** 07-135/145-01  
**STATE/EDUCATIONAL AGENCY:** University of Arkansas at Fayetteville  
University of Arkansas at Little Rock  
**CFDA NUMBER:** 84.063 - Federal Pell Grant Program  
84.038 - Federal Perkins Loan Program Federal Capital Contributions  
(Student Financial Assistance Cluster)  
**QUESTIONED COSTS:** None

**REPORTING** – The Arkansas Department of Finance and Administration (DFA) is tasked with the responsibility of preparing the State's Schedule of Expenditures of Federal Awards (the Schedule). In order to ensure timely and accurate reporting, the Schedule is prepared by requiring each Agency and Institution of Higher Education to submit the required federal program information to DFA. Upon receipt of the federal program information, DFA compiles reviews and makes the necessary adjustments to present the information on the Schedule. The audit for the year ended June 30, 2007 revealed that the University of Arkansas at Fayetteville omitted federal expenditures totaling \$17,239,681 for the Federal Perkins Loan Program Federal Capital Contributions program (CFDA) 84.038 and the University of Arkansas at Little Rock failed to report expenditures totaling \$9,594,554 for the Federal Pell Grant Program (CFDA) 84.063. Appropriate audit adjustments have subsequently been made by DFA to correct the Schedule.

We recommend the University of Arkansas at Fayetteville and the University of Arkansas at Little Rock develop and implement procedures to ensure the federal program information submitted to DFA is accurate and complete.

**Response**

University of Arkansas, Fayetteville – We agree. We have developed procedures to ensure that federal program information submitted to the Department of Finance and Administration is accurate and complete. The following procedures will be implemented for the fiscal year 2008 reporting period:

1. Develop an attribute code within our general ledger account numbering system to identify cost centers that contain Federal funds.
2. Retrieve all potential values using Query SQL (Structured Query Language) from the general ledger accounts that have been identified as containing Federal funds.
3. Coordinate with the Student Financial Aid department to ensure that expenditures for Federal programs not recorded in the general ledger have been included on the Schedule.
4. Perform analytical review procedures on the Schedule by comparing the previous year schedule to the current year schedule and investigating differences.
5. Maintain a perpetual file of instructions used to prepare the Schedule and any corrections and revisions. Refer to this file annually to ensure that all previous revisions have been incorporated.

**Anticipated Completion Date:** April 2008

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The University of Arkansas at Little Rock has taken necessary action to address the matters disclosed in the Legislative Audit's Statewide Single Audit report. We have developed and implemented procedures below to properly identify and report federal financial assistance on the Schedule of Federal Awards submitted to DFA.

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

**FINDING NUMBER:** 07-135/145-01 (Continued)  
**STATE/EDUCATIONAL AGENCY:** University of Arkansas at Fayetteville  
University of Arkansas at Little Rock  
**CFDA NUMBER:** 84.063 - Federal Pell Grant Program  
84.038 - Federal Perkins Loan Program Federal Capital  
Contributions  
(Student Financial Assistance Cluster)  
**QUESTIONED COSTS:** None

1. Obtain from the grantor complete information on the true source of funding from agencies. This is critical to identifying pass thru federal funding.(A copy of our collection instrument is attached).
2. Compare amounts on Schedule of Federal Awards for FY08 with those for FY07.
3. Compare the amounts for Financial Aid on the Schedule of Federal Awards with the Fiscal Operations Report and Application to Participate (FISAP) and resolve any differences.
4. Retain from year to year, instructions on steps taken to correctly complete the report.
5. Have other UALR offices familiar with the federal program/funding to review the information for their program(s).

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**FINDING NUMBER:** 07-160-01  
**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** – For seven consecutive years the University exceeded the allowable cohort default rate of 25%. The current year cohort default was 57.14%

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

**Response**

The University plans to liquidate the Perkins Program and assign all existing loans to the U. S. Department of Education. Currently:

- An outside agency, Campus Partners, services the Perkins Program for the University, insuring regular billing and due diligence for borrowers.
- The University regularly submits delinquent loans to collection agencies so professional collection efforts are attempted for accounts.
- The University participates in the State of Arkansas tax offset program submitting all delinquent accounts to the Department of Revenue and Administration.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-160-01 (Continued)  
**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

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**FINDING NUMBER:** 07-500-01  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Education  
**CFDA NUMBER:** 84.027 - Special Education Grants to States  
84.173 - Special Education Preschool Grants  
(Special Education Cluster)  
**QUESTIONED COSTS:** \$28,319

**PERIOD OF AVAILABILITY OF FEDERAL FUNDS** – The Agency is allowed to charge costs to a grant for obligations incurred during a grant's period of availability. During the year ended June 30, 2007, the Special Education Unit of the Agency utilized postage which had been purchased from various federal grants in previous years, including Special Education Cluster Grants. The period of availability for those Special Education Cluster Grants had expired on September 30, 2005 or earlier. Agency records are not sufficient to determine the exact amount of postage still available after the period of availability for each individual grant, but the amount of unused postage from the expired grants at the beginning of the year was \$28,319.

We recommend the Agency strengthen internal controls to ensure that obligated funds are expended during the period of availability.

**Response**

The Special Education Unit at the Arkansas Department of Education has strengthened internal controls to implement new procedures to limit access to the postage machine, log all mailings, and reconcile the usage monthly. In addition, the Department has requested a written response from the US Department of Education clarifying the purchase of postage that may then be used after the period of availability of the grant funds.

**Anticipated Completion Date:** March 2008

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-500-02</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Education</b>
<b>CFDA NUMBER:</b>	<b>84.027 - Special Education Grants to States (Special Education Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

**MATCHING, LEVEL OF EFFORT, EARMARKING** – During the fiscal year ended June 30, 2007, the Agency was awarded a \$103,400,423 grant which allowed for no more than \$11,144,851 to be spent on administrative and State activities with the remaining \$92,255,572 to be passed on to local educational agencies (LEA). Deficiencies in the Agency's controls and operations of the program include:

- As noted in finding 06-500-01 of the prior audit, the Agency still could not provide explanations and documentation regarding the allocation of federal funds in a timely manner. Multiple allocation worksheets, each supporting an amount less than the required \$92,255,572, were given to the auditor throughout the audit process. But none of the worksheets provided comprehensive evidence that the amount required to be passed through to LEAs had been calculated in accordance with program guidelines.
- As noted in finding 06-500-02 of the prior audit, the Agency again did not allocate all of the required funds to each LEA in accordance with program guidelines. In response to the prior audit finding, the Agency reallocated and redistributed funds for fiscal years 2006 and 2007; however, the federal grantor has not approved the method the Agency used to reallocate the funds.

We recommend the Agency strengthen their internal controls to perform one and only one allocation of the amount to be passed on to LEAs in accordance with program guidelines and retain documentation of that allocation for audit purposes. We further recommend the Agency continue communication with the federal grantor to resolve their allocation problems and strengthen procedures to ensure that all distributions to local educational agencies are accurate and in accordance with federal grant requirements.

**Response**

The ADE has strengthened internal controls to insure that the Special Education financial staff provides the auditors the official funding calculations. The allocations will be determined in accordance with program guidelines. In addition, the ADE continues to communicate with the federal grantor to resolve questions related to findings 06-200-01 and 02. In communications with the grantor agency, the ADE asserts that calculations were in accordance with program guidelines and will work to resolve the allocation issues.

**Anticipated Completion Date:** Currently Unknown    Awaiting response from USDA

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-500-03</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Education</b>
<b>CFDA NUMBER:</b>	<b>84.357 – Reading First State Grants</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

**SUBRECIPIENT MONITORING** – The Agency failed to establish adequate controls and procedures to ensure the complete and accurate reporting of subrecipient activity. A test of financial reports from fifteen (15) subrecipients revealed that the reported “carryover” funds for six (6) subrecipients could not be recalculated and verified. Carryover funds retained by a subrecipient should be taken into consideration to ensure that all grant funds are spent appropriately.

Establish and follow effective controls to monitor and evaluate the fiscal and programmatic needs of subrecipients to ensure that federal funds have been spent appropriately.

**Response**

The ADE is currently working with program staff to establish controls to insure auditors are provided accurate data during the audit. In the future, financial data used for audit purposes will be extracted from the actual district financial records contained in the Arkansas Public School Computer Network (APSCN) and the ADE staff will monitor actual district financial data.

**Anticipated Completion Date:** March 2008

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**FINDING NUMBER:** 07-710-05  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.283 - Centers for Disease Control and Prevention\_Investigations and Technical Assistance  
**QUESTIONED COSTS:** \$25,710

**PERIOD OF AVAILABILITY OF FEDERAL FUNDS** - The Agency may charge costs to the National Cancer Prevention and Control Program grant resulting from obligations incurred during the twelve (12) month award period. All expenditures obligated within the time allowed must be liquidated within ninety (90) days of the award period expiration. The Agency failed to adequately monitor the expenditures being charged against the 2006 and 2007 grant awards. As a result, expenditures totaling \$25,710 were charged to the 2006 grant award even though the liquidation period had passed.

We recommend the Agency establish internal control procedures to ensure that expenditures are charged to the appropriate grant award.

**Response**

The agency agrees that a keying error in the amount of \$25,397.87 was made by agency staff and three coding errors for \$312.47 were made. Staff involved has been counseled with and additional controls have been put in place for monitoring all expenditures for their grants. Individual training and technical assistance will be available and on going.

**Anticipated completion date:** February 2008

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**FINDING NUMBER:** 07-710-06  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.558 – Temporary Assistance for Needy Families  
**QUESTIONED COSTS:** Unknown

**CASH MANAGEMENT** - As a result of the Agency's inadequate internal controls regarding bank account activity and the monitoring of federal cash balances, the Agency continues to maintain an excessive cash balance in the Electronics Benefits Transfer (EBT) bank account. Although the Agency made an effort to reduce the bank balance, the EBT account balance was \$1,850,584 at June 30, 2007.

We recommend the Agency review their corrective action plan from the 2006 Statewide Single Audit and reevaluate existing procedures regarding cash management policies.

**Response**

The agency agrees the estimate of year end needs was excessive by approximately \$300,000. Reconciliation of the bank account to the benefit liability will be performed weekly to prevent an excess of cash from accumulating in the account. At year end, funding requirements will be estimated in order to cover the EBT card liability during year end

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-06 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.558 – Temporary Assistance for Needy Families</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

processing when AASIS access is unavailable for up to 9 days and insure availability of funds for clients. The new procedures will provide more accurate data and decrease excess funds in the account throughout the year and at year end.

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<b>FINDING NUMBER:</b>	<b>07-710-07</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.568 - Low-Income Home Energy Assistance</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**MATCHING, LEVEL OF EFFORT, EARMARKING** – According to 42 USC 8624, no more than 15 percent of the funds allotted or the funds available to the grantee for a Federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. During the year ended June 30, 2007, there were multiple grants operating and frequent transfers/expenditures were made for weatherization. However, the Agency was unable to separately identify the transfers/expenditures within AASIS, the State's accounting system. As a result, a determination could not be made as to compliance with the 15% transfer limit.

We recommend the Agency strengthen internal controls over matching, level of effort and earmarking by establishing a coding system to identify LIHEAP expenditures for weatherization by grant award.

**Response**

On July 1, 2007 new internal order coding was implemented adding a two digit year field. The year of the grant is now reflected in AASIS as the last two digits of the internal order providing the specific detail to identify expenditures by individual federal grant award.

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

**FINDING NUMBER:** 07-710-08  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.568 - Low-Income Home Energy Assistance  
**QUESTIONED COSTS:** None

**REPORTING** – The Agency failed to submit a SF-269A Financial Status Report for the grant period ending on March 31, 2006. The SF-269A is a required annual report to be prepared and filed no later than six (6) months after the close of the grant and should have been prepared and filed on or before September 30, 2006.

We recommend the Agency strengthen internal controls over reporting by establishing procedures to monitor reporting requirements and ensure that the Financial Status Report is completed and submitted in a timely manner.

**Response**

Office of Finance & Administration has developed a tracking report to ensure proper and timely report submission. This report will be monitored by a Managerial Accounting Controller.

**Anticipated completion date:** April 2008

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**FINDING NUMBER:** 07-710-09  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and 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 November 1, 2006 and November 30, 2007, the Division of Child Care and Early Childhood Education identified forty-six (46) cases of possible provider fraud totaling \$122,539 and one hundred fifty-nine (159) cases of possible client fraud totaling \$287,166. These cases have been turned over to the Agency's Office of Chief Counsel for review. Of these cases, investigations on eight (8) provider cases were completed reflecting provider overpayments totaling \$11,345 and investigations on twenty-four (24) client cases were finalized reflecting client overpayments totaling \$15,306. The remainder awaits further investigation or administrative hearings.

In addition to the above, we selected thirty (30) clients for audit testing from a list of sixty (60) clients who received in excess of \$20,000 in daycare benefits. As a result, we referred twenty-three (23) of the clients to the Agency for further analysis due to conflicting information in the eligibility records that raised questions regarding the justification for the amount of services provided. Examples include hours of daycare provided does not correspond with clients work activity schedule, client was unemployed, daycare provided for a questionable period of consecutive days and records for eleven (11) of the thirty (30) clients reviewed indicated the client was employed by the daycare. Included in the twenty-three (23) was one (1) client who received daycare services totaling \$49,991 for the year ended June 30, 2007.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-09 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>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)</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

We recommend the Agency continue to strengthen internal controls and implement policies and procedures necessary to prevent fraudulent activity. In addition, we recommend the Agency provide adequate resources to properly investigate the reoccurring provider fraud caseload.

**Response**

The Division of Child Care and Early Childhood Education (DCC/ECE) continues to aggressively identify suspicious activity via database checks and data mining techniques; fully investigates all suspicious activity; and acts quickly on the results from investigation by imposing applicable sanctions. 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 Office of Chief Counsel, Fraud Investigations actively investigates all allegations of Client and Provider Fraud identified by the Division of Child Care and Early Childhood Education and the public. Investigations are conducted statewide by two investigators. The Office of Chief Counsel, Fraud Investigations works directly with The Division of Child Care and Early Childhood Education Compliance Unit and gives reports, both formal and informal to the Division on the findings throughout the ongoing investigations. Fraud Investigations also testifies as witnesses for the Agency at all Client and Provider hearings.

Specifically regarding the benefits in excess of \$20,000, caseworkers will be re-trained on all procedures related to eligibility with the understanding that future performance evaluations will be based on the quality of information entered in the KIDCare system, the adequacy of documentation kept in a case file and caseworker error percentage. Reviews will be completed by supervisors, in addition to two dedicated quality reviewers, who will randomly monitor case records and KIDCare narratives throughout the year. The 30 cases identified in the finding have been referred to the Compliance Unit for analysis and determination of any overpayment or need for referral to Office of Chief Counsel for possible fraud investigation.

A report will be produced monthly to identify benefits in excess of \$20,000/year for one casehead. The report will be reviewed by supervisor level personnel.

**Anticipated Completion Date:** May 1, 2008

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-710-10  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and 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:** None

**CASH MANAGEMENT** – The Agency did not have adequate internal controls in place to ensure that drawdowns were made in accordance with the Treasury-State Agreement between the U.S. Department of the Treasury and the State of Arkansas for the period July 1, 2006 through June 30, 2007. Drawdowns for payroll and administrative costs were not bi-weekly estimates of the prior quarter's expenditures, as prescribed per the agreement; instead they were made in large amounts at irregular intervals.

We recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that drawdowns are made in compliance with the agreement. In addition, training should be provided to Agency personnel responsible for ensuring adherence to the Treasury-State Agreement.

**Response**

Agency agrees the Treasury-State Agreement was not followed. Drawdown procedures have been reviewed and a new process is being implemented for drawing both direct and indirect costs daily. The Treasury-State Agreement will be revised to reflect the new process.

**Anticipated Completion Date:** March 31, 2008

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**FINDING NUMBER:** 07-710-11  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.658 – Foster Care Title IV-E  
**QUESTIONED COSTS:** \$13,833

**ACTIVITIES ALLOWED OR UNALLOWED** – Our review of travel reimbursements paid to foster parents revealed the following:

- The Agency failed to properly code travel expenses incurred by foster parents and as a result, \$5,343 was improperly reimbursed from the Federal government.
- The Agency improperly reimbursed foster parents for transporting ineligible children totaling \$889.
- The Agency reimbursed foster parents for providing transportation services to various ineligible individuals (adults) which included transportation to doctor appointments and other errands totaling \$618
- Two (2) foster parent travel claims were duplicated and reimbursed by the Agency totaling \$645.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-11 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.658 – Foster Care_Title IV-E</b>
<b>QUESTIONED COSTS:</b>	<b>\$13,833</b>

- The Agency reimbursed inadequately documented travel claims totaling \$5,530. The claims failed to state the name of the child for whom the travel expense was incurred or the purpose of the travel.
- Transportation services claimed for reimbursement may only include "reasonable travel for a child's visitation with family or other caretakers" (45 CFR 1355.20) or for the "determination and redetermination of eligibility, fair hearings and appeals, rate setting and other costs directly related only to the administration of the foster care program" (45 CFR 1356.60). The Agency failed to adequately review foster parent travel claims resulting in reimbursements for travel expenses other than those stated above totaling \$808.

We recommend the Agency strengthen internal controls over activities allowed or unallowed to ensure travel expenses are adequately monitored and reviewed.

**Response**

As a result of the audit findings, the Division of Children and Family Services now requires documentation on all employee reimbursement forms (TR-1's) denoting client ID # along with purpose of trip for each day claimed. A meeting was held with Area Managers in which they were notified that TR-1's should only be submitted for transportation of clients with an open case and examples were cited.

The agency has requested all TR-1's be submitted to the central office for review and implemented a requirement for a "to and from street address" for all vicinity miles claimed.

The Director of DCFS will include in her weekly email to all DCFS staff a summary of TR-1 requirements along with Points to Remember. In addition, a separate email will be sent to the travel administrators on their responsibility when approving a TR-1.

**Anticipated Completion Date:** DCFS expects to have this completed by March 14, 2008

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<b>FINDING NUMBER:</b>	<b>07-710-12</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.658 – Foster Care_Title IV-E</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

**CASH MANAGEMENT** – The Agency did not have adequate internal controls in place to ensure than drawdowns were made in accordance with the Treasury-State Agreement as prescribed in the Cash Management Improvement Act (CMIA). The Agency failed to make cash draws for payroll and administrative (in-direct non-payroll) costs in accordance with the funding techniques outlined in the Treasury-State Agreement. According to the Treasury-State Agreement, draws for payroll expenditures are to be made based upon the estimated clearance technique, and the draws for non-payroll administrative costs are to be drawn based on the pro-rated draws on payday (CFDA 93.658)

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

<b>FINDING NUMBER:</b>	<b>07-710-12 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.658 – Foster Care_Title IV-E</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

technique. The Agency instead made bi-weekly draws based on an estimate using 2005 expenditures and did not draw the monies using the clearance pattern.

Lack of oversight by the program personnel could potentially lead to instances where the period of availability of federal funds has been exceeded and draws would no longer be available for expenditures already incurred by the State.

We recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that drawdowns are made in compliance with the agreement. In addition, training should be provided to Agency personnel responsible for ensuring adherence to the Treasury-State Agreement.

**Response**

Agency agrees the Treasury-State Agreement was not followed. Drawdown procedures have been reviewed and a new process is being implemented for drawing both direct and indirect cost daily. The Treasury-State Agreement will be revised to reflect the new process.

**Anticipated Completion Date:** March 31, 2008

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<b>FINDING NUMBER:</b>	<b>07-710-13</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.767 – State Children's Health Insurance Program</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**CASH MANAGEMENT** – The Agency failed to make cash draws for administrative costs in accordance with the Treasury-State Agreement. According to the Treasury-State Agreement, draws for administrative expenditures are to be drawn based on the pro-rated draw on payday technique. An estimated total amount is to be drawn bi-weekly. The Agency's calculations for administrative expenditures were correct based on the proper technique, but the Agency failed to draw funds bi-weekly. Instead, the Agency made draws for administrative expenditures at irregular intervals during the fiscal year.

We recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that drawdowns are made in compliance with the agreement. In addition, training should be provided to Agency personnel responsible for ensuring adherence to the Treasury-State Agreement.

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

<b>FINDING NUMBER:</b>	<b>07-710-13 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.767 – State Children’s Health Insurance Program</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**Response**

Agency agrees the Treasury-State Agreement was not followed. Drawdown procedures have been reviewed and a new process is being implemented for drawing both direct and indirect cost daily. The Treasury-State Agreement will be revised to reflect the new process.

**Anticipated Completion Date:** March 31,2008

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<b>FINDING NUMBER:</b>	<b>07-710-14</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>\$910</b>

**ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES** – A review of administrative expenditures revealed inadequate internal controls related to travel reimbursements to foster parents. The following deficiencies were identified in one (1) foster family, resulting in \$910 of unallowed reimbursements:

- Eight (8) travel reimbursements contained claims for mileage that did not involve the transportation of a Medicaid recipient, resulting in \$590 of unallowed reimbursements. According to Section 1200.5 of the Medical Services Policy Manual, a foster parent is only allowed to claim mileage reimbursement for miles driven while the Medicaid recipient is in the vehicle.
- Four (4) travel reimbursements contained mileage claims for adult Medicaid recipients when non-emergency transportation services were available at no additional cost resulting in \$186 of unallowed reimbursements. According to Section 1200 of the Medical Services Policy Manual, free transportation is to be used when available.
- Three (3) travel reimbursements contained mileage claims for non-Medicaid covered services resulting in \$134 of unallowed reimbursements. According to Section 1200.1 of the Medical Services Policy Manual, Medicaid transportation will not be provided for non-Medicaid covered services. These claims should have been reimbursed through the Division of Children and Family Services (DCFS).

We recommend the Agency strengthen internal controls related to administrative expenditures by ensuring existing policies and procedures be followed and provide additional training to personnel to enable them to make informed determinations on whether claims are allowed or unallowed.



**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-14 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>\$910</b>

**Response**

The current staff has been trained and is reviewing claims more closely for compliance with policy and procedures. The Department is also reviewing policy to update and clarify. To date, there has been one meeting concerning revisions.

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<b>FINDING NUMBER:</b>	<b>07-710-15</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**CASH MANAGEMENT** – We noted internal control deficiencies related to the Medicaid Funding Account II, which had disbursements of \$3,246,293,613 during the year. At June 30, 2007, reconciliations, performed by Electronic Data Systems (EDS) on behalf of the Agency, identified one hundred seventy-seven (177) reconciling items dating back to April 16, 1998 totaling \$1,174,615. The reconciling items were brought to the attention of personnel at EDS during the 2006 Single Audit at which time EDS stated that they were working with the bank and Agency personnel to resolve the reconciling items.

Also, we noted that five (5) bank reconciliations were prepared one (1) month or longer after the bank statement had been issued, and six (6) bank reconciliations were reviewed two (2) months or longer after having been prepared. Lack of timely preparation and review of bank reconciliations could lead to errors remaining undetected beyond the time frame for financial corrections and adjustments to be made.

We recommend the Agency establish adequate internal control procedures to ensure that reconciliations are being prepared and reviewed in a timely manner, and that reconciling items are not only identified, but resolved promptly through collaboration with EDS, bank and Agency personnel.

**Response**

The Division of Medical Services agrees that controls need to be improved in this area. DMS financial staff is currently working toward resolving the outstanding reconciling items. Of the 177 reconciling items, to date 9 items representing \$50,799.04 have been resolved. An additional 66 items representing \$906,444.88 are expected to be resolved by April 30, 2008. The remaining 102 representing \$217,371.08 will have to be individually researched and may take until September 30, 2008 to fully resolve. In the future, the reconciliation will be reviewed monthly, and reconciling items will be resolved in a timely fashion. In addition, the CFO will perform quarterly reviews of the reconciliations, including a review of reconciling items.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-710-15 (Continued)  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.778 – Medical Assistance Program  
(Medicaid Cluster)  
**QUESTIONED COSTS:** None

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**FINDING NUMBER:** 07-710-16  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.778 – Medical Assistance Program  
(Medicaid Cluster)  
**QUESTIONED COSTS:** \$1,387

**ELIGIBILITY** - The results of testing of one hundred fifty-four (154) recipients for the proper determination of eligibility revealed the following deficiencies:

- The Agency failed to deny Medicaid coverage to two (2) clients who were not eligible for the Medical Assistance Program resulting in claims paid totaling \$1,387. One (1) client was over the age limit for ARKids A. According to 42 CFR 435.229, the Agency may only provide Medicaid to individuals under the age of nineteen (19) who are optional targeted low-income children. One (1) client did not meet the five (5) year residency requirement for qualified aliens. According to 42 CFR 435.406, qualified aliens are to provide satisfactory documentary evidence of Qualified Alien status.
- Twelve (12) client files, which includes both the county office files and the electronic files located in the ANSWER system, contained Social Security Number (SSN) enumeration discrepancies. Of these, ten (10) client files did not contain documentation of SSN verification, and two (2) client files did not contain documentation of an SSN either being provided or declared. According to 42 CFR 435.910, the Agency is required to verify the SSN of each client.
- The Agency failed to perform annual redeterminations of eligibility for twenty-three (23) clients. According to 42 CFR 435.916, the Agency is required to redetermine Medicaid eligibility at least every twelve (12) months.
- The Agency was unable to locate seven (7) client files. According to 42 CFR 435.913, the Agency is required to maintain documentation of the facts to support the Agency's determination of eligibility in each applicant's case record.
- The Agency failed to maintain documentation showing that citizenship had been verified for seventeen (17) clients. According to 42 CFR 435.406, the Agency is required to document the individual's citizenship in the individual's eligibility file on initial applications and initial re-determinations.
- Thirteen (13) client files did not contain documentation such as re-evaluations, eligibility determinations, or changes in coverage necessary for the auditor to complete their review. According to 42 CFR 435.913, the Agency is required to maintain documentation of the facts to support the Agency's determination of eligibility in each applicant's case record.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-16 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>\$1,387</b>

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

**Response**

The majority of these findings are directly related to a large backlog of Medicaid case redeterminations resulting from increased caseloads and the lack of adequate staff. This is most problematic in large county offices that experience high staff turnover. The Agency has hired and trained 50 employees for the sole purpose of processing the backlog of Medicaid case reviews. The majority of these employees were hired in early October and received immediate training. Processing of Medicaid case redeterminations began in December 2007.

- Denial of Medicaid Coverage - The first client's case was closed appropriately by the system on the client's 19<sup>th</sup> birthday; however, a caseworker inadvertently re-opened the case while processing a budget for another case. A total of \$19.26 was paid for claims incurred after the client's 19<sup>th</sup> birthday.

The second case audit finding occurred because of an isolated worker's misunderstanding of the five year residency requirement. Training has been provided to this caseworker.

- SSN Enumeration - The Agency disagrees that one of these cases did not contain documentation of SSN verification. The SSN was declared on the application and recorded in ANSWER. The Agency has obtained SSN verification for the remaining eleven cases.
- Annual Redeterminations - As stated above, the Agency is addressing a backlog of Medicaid case redeterminations by hiring 50 staff to fill positions left vacant due to funding restrictions.
- Client Files - The seven client files that could not be located were in the Pulaski County East office. A corrective action plan has been developed and implemented to address this finding.
- Verification of Citizenship – Verification of citizenship has been obtained on each open case and documented in the case file.
- Documentation of Eligibility - As stated above, the Agency is addressing a backlog of Medicaid case redeterminations by utilizing 50 newly hired employees. As these cases are reviewed, any documentation that is missing from the file is being included as part of the redetermination process.

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-710-17  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.778 – Medical Assistance Program  
(Medicaid Cluster)  
**QUESTIONED COSTS:** None

**ELIGIBILITY** - The Agency failed to take corrective action in accordance with 42 CFR 431.836 for seven (7) of twenty-five (25) cases selected for review on which the Quality Assurance unit (Medicaid Eligibility Quality Control System or MEQC) found errors.

In addition, the Agency's county offices failed to submit required error response documentation to the Quality Assurance Unit to report on the findings of errors identified for fifteen (15) of the twenty-five (25) tested cases. According to the policies set forth by the Agency, county office personnel are to complete the specified documentation within thirty (30) days of receiving notice of the error found by the Quality Assurance Unit.

We recommend the Agency review and strengthen internal controls related to the Quality Assurance process and train personnel on requirements of the program.

**Response**

The DCO-29 is the form that denotes that action has been taken by the county office on an overpayment identified by review of the Quality Assurance Unit. The County Office Economic Services Supervisor and the County Administrator are the employees responsible for ensuring that the DCO-29 is submitted timely when an error is confirmed. The first Friday of every month a deficiency report, which identifies all DCO-29's that are thirty days old or older, is developed and forwarded to the Assistant Director of Field Operations for follow-up and compliance. Any case that does not have a DCO-29 submitted to Quality Assurance will remain on this list until the form is received by Quality Assurance. The Program Support Specialists also monitor the completion of this task. As of January 2008, the number of overdue DCO-29's has been greatly reduced. This new procedure was implemented in May 2007 based on an audit finding from State Fiscal Year 2006.

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**FINDING NUMBER:** 07-710-18  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.778 – Medical Assistance Program  
(Medicaid Cluster)  
**QUESTIONED COSTS:** Unknown

**ELIGIBILITY** – During the 2005, 2006, and 2007 State of Arkansas Single Audits, we performed testing at each of Pulaski County's five (5) offices for a total of one hundred fifty (150) cases selected. Total Medicaid expenditures for Pulaski County for the years ended June 30, 2005, 2006, and 2007 were \$339,007,866, \$349,158,743, and \$369,790,510, respectively. The results of testing eligibility for the three (3) year period revealed the following deficiencies:

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-18 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>Unknown</b>

- The Agency was unable to locate fifteen (15) client files or 10% of all cases reviewed. According to 42 CFR 435.913, the Agency is required to maintain documentation of the facts to support the Agency's determination of eligibility in each applicant's case record.
- Eighteen (18) client files or 12% of all cases reviewed did not contain documentation such as application forms, re-evaluation forms, or change in coverage forms necessary for the auditor to complete their review. According to 42 CFR 435.913, the Agency is required to maintain documentation of the facts to support the Agency's determination of eligibility in each applicant's case record.
- Of the remaining one hundred seventeen (117) client files selected for testing, the audit identified errors in sixty-three (63) client files or 42% of all cases reviewed. These errors included items such as: SSNs not being verified, clients not being eligible in the category they were placed in, no re-evaluations being performed, and no verification of other eligibility factors.

Due to the large number of missing files, lack of documentation, and errors identified during the three (3) year period, the auditor considers the controls in place at the five (5) Pulaski County offices to be inadequate for recipient eligibility determination and maintaining client file documentation.

We recommend the Agency review and strengthen internal controls over file documentation and retention practices in place at the Pulaski County offices and train personnel on requirements of the program.

**Response**

A contributing factor to this audit finding is staffing shortages in the Pulaski County offices. Although it is common to have vacant positions in Pulaski County, we are experiencing an unusually high rate of twenty-one percent. This represents the highest vacancy rate in the state.

- Case Files - As a result of staff shortages, it is common practice for case files to be moved from one office to the other for processing. To limit the movement of physical files, the Agency is currently analyzing a process for document imaging to address lost files, lost information, etc. in an effort to increase program efficiency. The long range goal is to scan documents directly into the Agency's eligibility system to address the issue of lost files and documentation. A report is due in March 2008 that will identify agency needs and costs.
- Lack of Documentation and Case Errors – A Central Processing Unit was established November 2007 in Pulaski County to address a large backlog of Medicaid case redeterminations resulting from increased caseloads and the lack of adequate staff.

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-710-19</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Health and Human Services</b>
<b>CFDA NUMBER:</b>	<b>93.778 – Medical Assistance Program (Medicaid Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**SPECIAL TESTS AND PROVISIONS – PROVIDER ELIGIBILITY** – In order to determine whether providers of medical services are licensed to participate in the Medicaid program in accordance with the State Plan and made the required disclosures to the State in accordance with 42 CFR 455 subpart B, a test of twenty-eight (28) provider files was performed revealing the following deficiencies:

- One (1) provider file did not contain a Request for Taxpayer Identification Number and Certification (Form W-9).
- One (1) provider file did not contain a current copy of their Emergency Medical Service (EMS) license.
- Two (2) provider files did not contain documentation of enrollment in the Medicare program.
- One (1) provider file could not be located by Electronic Data Systems (EDS). The audit was unable to verify information required by the State Plan such as having an application, contract, provider ID, proof of enrollment in the Medicare program and a Primary Care Physician (PCP) agreement. Also, the audit could not determine if the proper disclosures were made regarding ownership and control, significant business transactions or criminal convictions.

We recommend the Agency establish adequate internal control procedures to ensure that EDS is following proper procedures for determining if a provider is eligible to participate in the Medicaid program.

**Response**

- One (1) provider file did not contain a Request for Taxpayer Identification Number and Certification (Form W-9).  
Response: Enrolled 07/01/91– No W-9 in file and current CLIA was not in file: The W-9 could not be located with the original enrollment documents. This provider was enrolled in 1991. The EDS provider Enrollment unit currently does not enroll providers without a W-9.
- One (1) provider file did not contain a current copy of their Emergency Medical Service (EMS) license.  
Response: Enrolled 05/25/85 Current License not in file: At the time of the audit the license in the file had expired on 9/30/07. The current license was received on 11/06/07 and the file was updated on that date.
- Two (2) provider files did not contain documentation of enrollment in the Medicare program.  
Response: Enrolled 5/25/85 and 3/27/02 No Medicare Verification in File: Medicare Verification could not be located among the original enrollment documents. The Medicare verification has been requested and will be placed in the file upon receipt. The EDS enrollment unit currently does not enroll providers without confirmation of Medicare enrollment.
- One (1) provider file could not be located by Electronic Data Systems (EDS). The auditor was unable to verify any information other than the current license.  
Response: Enrolled 04/09/91 Original File not located at time of audit: EDS was unable to locate the original enrollment documents. This provider was enrolled in 1991 and has not been closed since that time. EDS created and maintains a new folder for updates sent in from 2005, when EDS received the enrollment files, until the present.

DMS will review provider enrollment protocol with EDS and monitor performance to ensure compliance.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-710-19 (Continued)  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.778 – Medical Assistance Program  
(Medicaid Cluster)  
**QUESTIONED COSTS:** None

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**FINDING NUMBER:** 07-710-20  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.959 – Block Grants for Prevention and Treatment of  
Substance Abuse  
**QUESTIONED COSTS:** None

**MATCHING, LEVEL OF EFFORT, EARMARKING** - The Agency failed to provide an adequate detailed cost accounting of administrative and prevention program expenditures by grant award. As a result, we were unable to determine if earmarking requirements had been met.

We recommend the Agency establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards.

**Response**

On July 1, 2007 new internal order coding was implemented adding a two digit year field. The year of the grant is now reflected in AASIS as the last two digits of the internal order providing the specific detail to identify expenditures by individual grant award.

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**FINDING NUMBER:** 07-710-21  
**STATE/EDUCATIONAL AGENCY:** Arkansas Department of Health and Human Services  
**CFDA NUMBER:** 93.959 – Block Grants for Prevention and Treatment of Substance Abuse  
**QUESTIONED COSTS:** None

**SPECIAL TESTS AND PROVISIONS** - According to 45 CFR 96.136, "the State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals." Our examination of the peer reviews revealed no documentation to support the reviewer's independence.

We recommend the Agency establish policies and procedures to include written and signed documentation of independence for personnel assigned to provider peer reviews.

**Response**

The Office of Alcohol and Drug Abuse Prevention (OADAP) has implemented in SFY 2007 a peer review process independent of program licensure for all organizations receiving Substance Abuse Prevention and Treatment Block Grants funding. OADAP has retained an independent alcohol and drug program professional to review at least 5% of programs funded by the Block Grant annually as required by the funding authority. In SFY Year 2008 two (2) programs will be reviewed. One will be a comprehensive program providing detoxification services, residential, outpatient and Special Women Services and the other will be an outpatient program. Items to be reviewed will include client records, services provided and community outreach. Reports generated will provide OADAP with an independent review of its funded programs identifying strengths and weakness of the programs. The reports will become a part of the facility's program file. OADAP is at this time updating its Policy and Procedure Manual to include the Peer Review Process.

**Anticipated Completion Date:** This update to the Policy and Procedure Manual must go through the promulgation process and will be in place by August 1, 2008.

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**FINDING NUMBER:** 07-150-01  
**STATE/EDUCATIONAL AGENCY:** University of Arkansas for Medical Sciences  
**CFDA NUMBER:** 93.242 - Mental Health Research Grants  
93.279 - Drug Abuse and Addiction Research Programs (Research and Development Cluster)  
**QUESTIONED COSTS:** None

**ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES** - During our test work, we noted that two (2) of the selected twenty-five (25) indirect costs improperly included rent expense in the calculations. The rent expenditures were not properly excluded from direct cost when the IDC rate was applied during the month or during the end of budget period close out.

We recommend management consider periodic training for department grant administrators and grants accounting personnel responsible for the close out process on the rules and regulations surrounding indirect cost calculations.



**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-150-01 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>University of Arkansas for Medical Sciences</b>
<b>CFDA NUMBER:</b>	<b>93.242 - Mental Health Research Grants 93.279 - Drug Abuse and Addiction Research Programs (Research and Development Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**Response**

Added emphasis on the specific rules and regulations surrounding the indirect cost calculations will be included in the annual training presented as part of the Grants Management Training Program scheduled for January 2008. This training is provided by the Director of Cost Accounting. In addition the department specifically involved in this error has been provided individual training to assist in preventing this error from reoccurring.

Subsequent to the completion of the audit, the Director of Cost Accounting reviewed the expense items excluded from the facilities and administration costs calculation program. The review was performed to ensure items such as rent are excluded from this calculation. The review is complete and necessary corrections have been made.

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<b>FINDING NUMBER:</b>	<b>07-150-02</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>University of Arkansas for Medical Sciences</b>
<b>CFDA NUMBER:</b>	<b>93.389 - National Center for Research Resources 93.395 - Cancer Treatment Research 93.866 - Aging Research (Research and Development Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**EQUIPMENT AND REAL PROPERTY MANAGEMENT** - During our test work, we noted five (5) exceptions out of thirty (30) sample items as follows:

- One (1) equipment purchase was improperly capitalized. The total amount of the invoice was \$247,005, which included two (2) items values at \$224,647 and \$22,358. However, when one (1) of the items was capitalized, the total amount of the invoice was capitalized, instead of the cost of the item which was \$22,358. The amount expensed to the grant was correct.
- One (1) equipment purchase had an acquisition date of October 3, 2005; however, the asset was not recorded in the fixed asset subledger until July 1, 2006, which was the next fiscal year.
- One (1) equipment purchase had an incorrect location. The asset had been moved from the 9<sup>th</sup> floor to the 4<sup>th</sup> floor without updating its location within the University's records.
- Two (2) equipment purchases did not include shipping charges into the total amounts capitalized.

**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-150-02 (Continued)</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>University of Arkansas for Medical Sciences</b>
<b>CFDA NUMBER:</b>	<b>93.389 - National Center for Research Resources 93.395 - Cancer Treatment Research 93.866 - Aging Research (Research and Development Cluster)</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

We recommend that management perform a detailed reconciliation of asset additions on a monthly basis so that corrections are identified and made in a timely manner. Assets not capitalized when acquired should be identified and recorded in the proper period during this process. Shipping costs should be reviewed on a monthly basis to ensure that these charges are added to the asset's total cost. In addition, we recommend that the University implement a policy to identify when assets are moved so that the equipment records can be updated properly.

**Response**

For item one the procedure, prior to FY2008, was to reconcile all asset general ledger accounts (54xxxx) to the purchasing documents as of fiscal year end. The above noted item was identified during interim audit work prior to the reconciliation for year ended 06/30/2007. Since the reconciliation had not been performed at the time of interim audit this asset had not been tied to the purchasing document. Beginning with FY2008, this review will be made quarterly so that any differences can be identified and corrected in a timely manner.

For item 2, this was originally capitalized as one asset in FY 2006. During fiscal inventory Property Services discovered the item was actually two pieces of equipment. This discovery was made after FY 2006 was closed; therefore the correction was made in FY 2007.

For item 3, the inventory performed in August 2007 located the item and noted the change in location. A review of the process to update location areas in SAP will be undertaken.

For item 4, the vendor involved in these two items provides electronic invoicing which is automatically uploaded into SAP. Shipping charges are not always included in the electronic invoice therefore a manual correction must be made to the previously capitalized asset. The Fixed Asset Department will work with Property Services to develop a process to monitor shipping charges.

Starting November 30, 2007, the Fixed Asset Manager, will receive a list of new grant assets each month, and add to a master list of grant assets. Additional staff will be used to check each asset for proper receipting (GR/IR) and shipping charges. Review will be made by the Fixed Asset Manager on a monthly basis and by the General Ledger Manager on a quarterly basis. Assets will stay on the list until all issues have been resolved. If no shipping has been charged or receipt made to the original purchase order after two months, an e-mail will be sent to Procurement asking for their help in resolving outstanding problems on the purchase orders.

The Property Services Manager will continue to make corrections to the asset value and location when errors are found during the tagging or physical inventory process.

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**STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

<b>FINDING NUMBER:</b>	<b>07-810-01</b>
<b>STATE/EDUCATIONAL AGENCY:</b>	<b>Arkansas Department of Workforce Services</b>
<b>CFDA NUMBER:</b>	<b>93.558 - Temporary Assistance for Needy Families</b>
<b>QUESTIONED COSTS:</b>	<b>None</b>

**ELIGIBILITY AND MONITORING** - Management is responsible for establishing and maintaining effective internal control over program eligibility determination and monitoring subrecipients of federal grant dollars. Monitoring of the State Agency that determines eligibility of TANF participants is not being performed.

We recommend Management evaluate and document the level of compliance of the Agency contracted to determine eligibility requirements of TANF program participants. Proper monitoring could help ensure that federal awards are used by eligible participants for purposes authorized by laws, regulations, and the provisions of contracts or grant agreements.

**Response**

DWS has a Memorandum of Agreement (MOA) with the Arkansas Department of Human Services (DHS), another State agency, for determining TANF eligibility. TANF eligibility is recorded by DHS in a database called ANSWER and DWS has shared capability with this database.

DWS has an established TANF Monitoring Unit, consisting of a supervisor and 10 monitors tasked with reviewing and evaluating TANF subrecipients. This unit has started gathering preliminary data to begin its monitoring of DHS and is scheduled to complete its review by the end of the current State fiscal year, June 30, 2008. The plan is for this unit to perform annual reviews of the MOA with DHS.

Also, DWS is in the process of establishing a TANF Quality Assurance Unit. This unit will consist of eleven people; a manager, seven staff members dedicated to reviewing TANF participant case files, and three people to review TANF performance related requirements. The manager of this unit has been hired and the job announcement for some of the remaining positions closed on Friday, February 1, 2008. The applicants are being screened and the interviewing and hiring process has begun.

The TANF Quality Assurance Unit among other things will be responsible for reviewing TANF participant case files to evaluate compliance with all TANF laws, policies and regulations, which may include evaluating whether participant eligibility in ANSWER has been properly established and documented. This unit will document its quality assurance review activities and develop reporting mechanism to disseminate its results.

DWS believes with the addition of the TANF Quality Assurance Unit and the existing TANF Monitoring Unit, potential participant eligibility compliance issues will be addressed over time through the monitoring of participant case files, the MOA and the information recorded in ANSWER. The reporting mechanisms developed by these two units to convey their results will enable DWS to work closely with DHS to resolve any participant eligibility issues that may arise.

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