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THE NATURAL STATE

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Mike Beebe
Governor

Richard A. Weiss
Director
Department of Finance and Administration

Prepared by
The Department of Finance and Administration
Office of Accounting

All photographs, except for the picture of the Governor, are courtesy of the Department of Arkansas Heritage. The photograph of Governor Mike Beebe is courtesy of the Governor's Office.

The photograph on the cover is of the Old State House, the oldest surviving capitol west of the Mississippi River and is home to the Old State House Museum. The Old State House was listed on the National Register of Historic Places 1969 and listed as a National Historic Landmark in 1997.

Governor Mike Beebe

STATE OF ARKANSAS
MIKE BEEBE
GOVERNOR

December 23, 2008

To the People of Arkansas and the Honorable Members of the Arkansas General Assembly:

I submit to you the Arkansas Comprehensive Annual Financial Report (CAFR). This annual publication ensures that our State's finances are accurate and accounted for in a timely manner. The national credit markets require detailed information about the State's finances on an annual basis, and this report is an excellent means of providing that information.

I am pleased to report that the Fiscal Year 2007 CAFR received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The State has received this prestigious award ten times.

I appreciate the work performed by the dedicated State employees who support the efforts of the Department of Finance and Administration to publish this report.

Sincerely yours,

Mike Beebe

MB:jb

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Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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Introductory Section

The Hemingway-Pfeiffer House is located in Piggott, Arkansas. During the 1930s, Ernest Hemingway wrote part of *A Farewell to Arms* and several short stories on the grounds. Both the house and barn were named to the National Historic Register in 1982.

GREAT SEAL OF THE STATE OF ARKANSAS
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STATE OF ARKANSAS
Department of Finance and Administration

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December 23, 2008

The Honorable Mike Beebe, Governor
The Honorable Members of the Arkansas General Assembly
The Citizens of Arkansas

In accordance with the requirements set forth in Arkansas Code of 1987 Annotated (ACA) § 19-4-517, it is my pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arkansas (the State) for the fiscal year ended June 30, 2008.

This report has been prepared by the Department of Finance and Administration in conformance with Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). The accuracy of agency level data that supports these financial statements is the responsibility of agency management. The completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits require estimates and judgments by management.

The State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2008. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Management's Discussion and Analysis, or MD&A, introduces the basic financial statements and provides an analytical overview of the government's financial activities. This letter of transmittal complements MD&A and should be read in conjunction with it. The State's MD&A can be found in the financial section immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Originally part of the Louisiana Purchase of 1803, Arkansas was organized into a territory in 1819 with the same northern, eastern and southern borders it shares today. In 1836, Arkansas became the 25th state of the United States of America with a new border on the west. It stands as the 26th state in size with an area of 53,225 square miles. Arkansas has grown from a vast wilderness to a thriving state with a population of 2.8 million and industries ranging from agriculture to technology to commerce. Nicknamed "The Natural State," Arkansas is known throughout the country for its natural beauty, clear lakes and streams and an abundance of natural wildlife.

The Constitution of the State provides for three distinct departments. The executive department of Arkansas State government is comprised of the Governor, Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Auditor, and State Land Commissioner; all of whom are elected by state-wide vote every four years. The legislative department is comprised of 35 State Senators and 100 State Representatives. Known collectively as The General Assembly, the Senators and Representatives begin the Legislative Session in January of every odd year. The judicial department is comprised of three levels of courts. They are: the District Courts, the Circuit Courts, and the Appellate Courts, which are the Supreme Court and the Court of Appeals.

Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration (DFA). DFA compiles the executive budget on behalf of the Governor who then submits it to the Legislature for approval. DFA maintains control over the spending patterns of the State through control at the line-item level. See Note to RSI (Budgetary Basis Reporting – Budgetary Process) for further discussion of budgetary controls.

The State of Arkansas provides a full range of services including education; health and human services; transportation, law, justice and public safety; recreation and resource development; regulation of business and professionals; and general government.

All agencies, accounts, departments, boards, and commissions that represent the State's reporting entity are included in this report. In addition to these primary government activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the focus of the MD&A and Basic Financial Statements is on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their respective financial conditions. Additional information on all discretely presented component units can be found in the notes to the financial statements (see Note 1(c)).

FACTORS AFFECTING ECONOMIC CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the State of Arkansas operates.

Local Economy

Arkansas is noted as a leader in the South for its favorable business climate and low cost of doing business. The average cost of living for all of Arkansas's Metropolitan Statistical Areas is consistently below the national average. Businesses also enjoy low tax obligations through a variety of incentives, exemptions, credits and refunds. Centrally located half way between Canada and Mexico, California and the Carolinas, Arkansas is only one gas-tank away from one-third of the nation's population.

Arkansas is proud of the four homegrown *Fortune* 500 companies headquartered here: Dillard's, Murphy Oil, Tyson Foods and Wal-Mart. This year, even in the face of a nation-wide economic downturn, Arkansas has continued to attract new businesses. Windmill blade manufacturer LM Glasfiber; disposable medical products manufacturer Dynarex; petfood manufacturer Mars Petcare U.S.; axle manufacturer Axis LLC; footwear manufacturer Atlantic Thermal Plastics; sustainable metals PIZO Operating Company; aerospace industry's KAT Manufacturing, Inc.; as well as Duralor LLC and N.E.W. Customer Service Companies; Hewlett-Packard; Anchor Packaging; Strateline Industries; Man Industries; and Aviation Repair Technologies are some of the corporations that took action to locate or expand facilities in Arkansas during fiscal year 2008.

In addition, the discovery of natural gas in the Fayetteville Shale Region drew companies such as TETRA Technologies, England OilField Services, BJ Services, Garver Engineers, LLC and Weatherford Fracturing Technologies to begin new operations in Arkansas.

Targeted business incentives provide start-up companies a 33 percent transferable income tax credit for research and development, a 10 percent payroll tax credit for up to 5 years, and sales and use tax refunds for equipment and building materials. Businesses targeted are those that grow knowledge-based businesses from the intellectual property primarily generated by the State's research universities. To date, 18 businesses have signed financial incentive agreements with the State, bringing in a total investment of $61.7 million.

ECONOMIC CONDITION AND OUTLOOK

State Personal Income: Personal income consists of wages and salaries, dividends, interest, rent, and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income, measured in current dollars, reached a total of $87,678 million in fiscal year 2008. This represented an increase of $5,316 million or 6.4 percent over fiscal year 2007.

Fiscal year 2009 is estimated at $90,322 million (current dollars), an increase of $2,643 million or 3.0 percent over fiscal year 2008.

Arkansas Wage and Salary Disbursements: Measured in current dollars, wage and salary disbursements reached $43,455 million in fiscal year 2008, an increase of $2,281 million or 5.5 percent over fiscal year 2007.

Fiscal year 2009 is estimated at $44,323 million (current dollars), an increase of $868 million or 2.0 percent over fiscal year 2008.

Employment: In fiscal year 2008, wage and salary employment in Arkansas rose to 1,205,900 jobs. This represented an increase of 4,300 jobs or 0.4 percent compared to fiscal year 2007. In fiscal year 2009, wage and salary employment is expected to average 1,203,000 jobs. This represents a projected decrease of 3,000 jobs or 0.2 percent from fiscal year 2008.

Fiscal Year 2008 Net Available General Revenues: Actual net available general revenues collected totaled $4,529.2 million, of which $4,352.7 million was distributed to State agencies and $176.5 million surplus was deposited to the General Revenue Allotment Reserve Fund. The net available distribution was $294.1 million or 7.2 percent above the net available distribution of fiscal year 2007. The general revenue distribution included a one-time transfer of $4.7 million from the General Improvement Fund.

Fiscal year 2009 net available general revenue collections are estimated at $4,411.0 million, a decrease of $118.2 million or 2.6 percent from fiscal year 2008. The decrease is related in part to a $65 million in one-time collections gain in fiscal year 2008 in Individual Income Tax. The general revenue distribution estimate includes a one-time transfer of $3.4 million from the General Improvement Fund.

Selected Special Revenues: Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004 a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Act 87 of 2007 designated a portion of the 6-cent per gallon dyed diesel tax to the Educational Adequacy Fund to partially offset the exemption of dyed diesel from sales tax. These revenues are deposited to the Education Adequacy Fund to provide an adequate education system. In fiscal year 2008, $438.7 million was distributed to the Education Adequacy Fund, with the fiscal year 2009 distribution estimated to be $440.4 million.

RELEVANT FINANCIAL POLICIES

Balanced Budget: Arkansas Code Title 19 (Public Finance) requires the Director of the Department of Finance and Administration, who is the Chief Fiscal Officer (CFO) of the State, to be aware of the actual and estimated funds available at all times to ensure that they are sufficient to maintain the State on a sound financial basis without incurring a deficit. Additionally, there are requirements for the Executive Branch to report to the Legislative Branch on a regular basis regarding the status of the State's finances.

The law provides that 60 days prior to the convening of the General Assembly each odd year, the Governor shall issue a General Revenue Forecast. This forecast is based upon the aggregate revenue forecasts of each individual agency. It identifies the expected level of general revenue collections and the net distributions of those revenues for each year of the biennium, as required by the Revenue Stabilization Act. The General Assembly then authorizes the level of funded appropriation each year based upon the annual general revenue distribution along with other special and federal revenue sources.

Each appropriation is required to have at least one funding source. These funding sources are categorized as general, special, federal or other. State spending is limited to available cash and available appropriation.

The Office of Economic Analysis and Tax Research compares the actual revenue collections to the forecast on an ongoing basis. If shortfalls in general revenue collections are anticipated, the "funded appropriation" levels are appropriately reduced to maintain a balanced budget for general revenues. Special, federal and other revenue collections are monitored by the Department of Finance and Administration Office of Budget. Each agency provides an annual revenue forecast which is the basis for establishing the agency's "funded appropriation." This funded appropriation will be adjusted by the Office of Budget as necessary for shortfalls in anticipated revenue collection.

General revenue collections in excess of the original general revenue forecast for the biennium are placed into a revenue allotment reserve fund. The General Assembly then determines how the funds will be spent. This general revenue one-time funding source is rarely used to finance general operation appropriations. Special, federal and other revenues generally remain with the recipient agency as funding for its operations.

MAJOR INITIATIVES

Education: Education in Arkansas has scored big gains over the past several years. The state has pursued an intelligent, systematic course to raise achievement for all students. The initiative is called Smart Arkansas, and it envelopes specific strategies that focus on providing teachers the tools and resources they need to teach students the necessary skills and knowledge to compete in today's global economy. Smart Arkansas is manifested through four interlinked programs: Smart Start, Smart Step, Smart Future and Smart Leadership.

The Smart Start program is based on the goal that "all children will meet or exceed grade-level requirements in reading and mathematics by Grade 4." Smart Step provides the same intense professional development for teachers and administrators at the middle school level, as well as additional materials and assistance to the state's middle school teachers. Smart Future brings the focus to the high school level to ensure that all students are prepared for life beyond graduation. An integral component of Smart Future is Smart Core, the default curriculum that implements educational strategies and content that are innovative, effective, rigorous, relevant, and rewarding so that students are prepared to compete and be successful in the ever-changing global marketplace.

Smart Leadership takes the work of the Smart Initiatives to the next level. Building leadership capacity and providing quality professional development are the key components to creating effective systems within schools to sustain academic growth and narrow the achievement gap. Smart Arkansas requires smart educators learning and collaborating together effectively to meet the needs of each student.

Highways and Transportation: In a special legislative session that ended in April of 2008, Arkansas' legislators voted to support Governor Mike Beebe's plan to raise the severance tax on natural gas in the state. The tax increase benefits the Arkansas State Highway and Transportation Department (AHTD) which will now receive additional funds for much needed road improvements. The tax increase is expected to raise $57 million in 2009 and increase to $100 million by 2013. Ninety-five percent of the tax revenue will go to road improvements. Of that, 70 percent will go to state highways, 15 percent will go to county roads and 15 percent to city streets. With the additional funding, the Commission will focus on improving the Arkansas Primary Highway Network, which carries 92 percent of the traffic on the 16,440-mile state highway system.

Members of the Arkansas Highway Commission were given a status report about the condition of bridges in the state at the Commission's July meeting in Little Rock. The report was made by AHTD staff. Overall, Arkansas's bridge conditions rank favorably when compared to conditions around the country. For example, the nation's bridge inventory shows nearly 600,000 total bridges with an average age of 43 years. There are 12,531 total bridges in Arkansas, with an average age of 35 years. The presentation to the Commission also noted that Arkansas has taken steps recently to improve its bridge inspection program. AHTD is in the process of doubling the number of personnel trained to inspect bridges, from 20 to 40.

AHTD completed a number of construction projects in each of its ten districts this year. Those projects included building new roads, resurfacing existing roads, widening of some roadways, adding passing lanes to some and maintaining the state's highway system.

Among the construction projects completed within the last year is a new bypass at Flippin that opened in May. The bypass is a three-mile, five-lane roadway located to the south of town. In Conway, a new interchange was opened on Interstate 40 connecting Highway 64 to the Interstate on the north side of town. Also on Interstate 40, a six mile widening project through the Burns Park area of North Little Rock improved the Interstate from four to six travel lanes in the area. In May, a new railroad overpass on Highway 100 at Maumelle was opened to traffic.

State Parks: There are 52 state parks encompassing 53,895 acres of wetlands, forest, fish and wildlife habitat, recreational facilities and unique historic and cultural resources. Within the parks are 1,799 campsites, five lodges, over 130 fully equipped cabins, nine marinas, swimming pools, eight restaurants, an 18-hole golf course, over 120 miles of roads, hundreds of miles of utilities, and more than 305 miles of hiking trails. Nearly 10 million visitors came to our parks last year. Over 827,400 guests participated in more than 52,600 educational and recreational programs and special events throughout the park system. 2008 marks the 75th anniversary of the Arkansas State Parks system and the theme is "Making Memories." Programs and special events are taking place throughout this year to commemorate the anniversary.

The new resort facilities at Village Creek in northwest Arkansas are the result of a public/private partnership between The Arkansas Department of Parks & Tourism (ADPT), Arkansas Development Finance Authority, Arkansas Economic Development Commission, the Cross County Economic Development Corporation and Village Creek Resort, LLC (VCR). Seven million dollars has been loaned to ADPT for VCR's construction of a 27 hole golf course which has been completed. The first nine holes are scheduled to open in fall 2008, the second nine holes in spring 2009, and the last nine in fall 2009. The developer has secured financing for the resort, and the clubhouse is slated to open in October of 2009. VCR is financing approximately $8 million for the construction of a group lodge, clubhouse, restaurant and meeting facility, spa and fitness center, swimming pool, utilities and parking.

In conjunction with the expansion of the municipal water supply and the enlargement of Lake Fort Smith, the city of Fort Smith and Arkansas State Parks entered into an agreement to relocate the Lake Fort Smith State Park facilities. The city of Fort Smith agreed to pay $12 million toward substantially replicating the facilities of the old park and Arkansas State Parks agreed to pay $10 million to ensure that the development would meet State Parks standards and the public's needs. The new state park was dedicated June 19, 2008, and includes a visitor center, a lodge, thirty campsites, a swimming pool, a day-use picnic area, a rental pavilion, a marina service building with sixteen slip docks, a double boat launch with associated parking and numerous hiking trails.

Tourism: Arkansas's Tourism industry enjoyed a prosperous year. Collections of the state's 2% tourism tax were up a solid 5%. Several new attractions were unveiled, including Lakeport Plantation near Lake Village, the Quapaw Bathhouse in Hot Springs, and Lake Fort Smith State Park. Construction at the new Blytheville Welcome Center is progressing, with an opening date scheduled for mid-2009. Work has begun on the new welcome center in Lake Village and initial planning for a replacement facility in West Memphis is now underway. All these projects are cooperative ventures between the Arkansas State Highway & Transportation Department and the Arkansas Department of Parks & Tourism.

Human Services: The Department of Human Services (DHS) serves more than one million Arkansans each year with 7,000 employees located in 86 sites around the state. During fiscal year 2008, DHS launched several core initiatives to further the agency's mission, which is improving the quality of life of all Arkansans by protecting the vulnerable, fostering independence, and promoting better health. Some of these initiatives include:

ACESS Arkansas - A pilot program has been launched which allows Arkansans to more efficiently find the DHS-administered programs for which they are eligible. This application, designed by a DHS interdepartmental team, provides the ability to screen citizens based on multiple non-identifying factors, such as income vs. household size, medical needs, child development needs, etc. and is available 24 hours per day, 7 days per week. Several programs are included in the initial limited pilot with the expectation that all DHS programs will soon be covered.

Document Imaging Project - Using two pilot counties, the Division of County Operations is utilizing document imaging to re-engineer the "paper flow" by converting all forms/documents for case re-evaluations to an electronic format. The goal of this project is to reduce the number of complaints and audit findings about lost documents and to allow for more offsite case processing. This project is the first phase in the conversion to the new Service Delivery Model and will serve as the cornerstone for on-line applications and centralized processing. Statewide rollout remains on schedule for June 2009.

Automated Reimbursement - The DHS Office of Finance and Administration has created an online system for submitting and tracking reimbursement requests for the hundreds of employees who travel throughout the state to carry out the DHS mission. This process will strengthen internal control and reduce the processing time for reimbursements.

Options Counseling/Home and Community-Based Services - With the support of legislation passed in the 2007 Legislative Session, the state is offering home and community based services as an alternative to a long term care institution. This effort will preserve the quality of life for aging Arkansans at a fraction of the cost of nursing home care.

Information Technology: Arkansas remains a leader in electronic government. The Arkansas Wireless Information Network (AWIN) was awarded the 2008 Recognition Award for Outstanding Achievement in the Field of Information Technology in State Government by the National Association of State Chief Information Officers (NASCIO). NASCIO named AWIN the award recipient in the category of Information Communications Technology Innovations. Emphasis is placed on recognizing programs that exemplify best practices, support the public policy goals of state leaders, and represent an innovative use of existing technology or a use of new technology.

The Arkansas Geographic Information Office received national attention in 2008 for two distinct areas. The state's Geographic Information Systems (GIS) Program Manager, Learon Dalby was elected to serve as President of the National States Geographic Information Council. The 300 plus member organization is made up of senior GIS executives from states, the federal government and the private sector and is the leading advocate for national GIS coordination. Also, in a recent report to the Federal Geographic Data Committee following Hurricane Ike, the state's organization and coordination of land ownership data was highlighted as a national best practice. This data was used by several federal agencies to assess property damage following the hurricane.

The State Security Office of the Department of Information Systems (DIS) continues to oversee the Continuity of Operations Program (COOP) to ensure that Arkansas is prepared for any potential disaster whether natural or man-made. All emergency response procedures have been reviewed, updated, and distributed to staff. Pandemic flu preparations have been expanded to address cross training and documentation for prioritized functions, preparation of supplies, and identification of practical social distancing practices. DIS provides software tools and direct support to more than 100 agencies and 700 planners for development and maintenance of their COOP plans and exercises. Moving into the role of lead agency for Emergency Support Communications, DIS responded to several tornado and hurricane events in 2008, including Louisiana's Hurricane Ike evacuees, providing computer, telephone, and radio communications equipment and support to responders. The State Security Office also serves as the focal point for all cybersecurity issues.

Arkansas.gov offers more than 450 interactive services, including car tag renewals, property tax payments, business tax filings, game and fish licenses, and criminal background searches. Launched in July 1997, the Arkansas.gov portal now supports more than 190 state and local government agencies. To maximize taxpayer return on investment, Arkansas does not appropriate funds for the network, but rather uses a self-funded solution to provide eGovernment services.

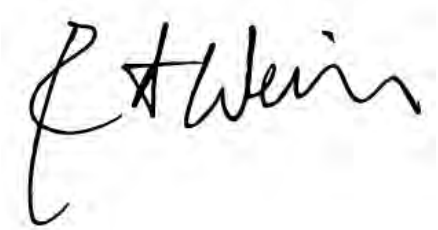
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This was the tenth year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year.

Governor Mike Beebe, by making fiscal responsibility a top priority, has provided excellent leadership in the accurate and timely financial reporting by the State. His administration has developed policies and acquired the resources necessary to ensure strict compliance with the reporting requirements of the entities that govern financial reporting for governments. The information generated by and distributed through the State's reporting structure is used by the Legislature and other decision makers within the State of Arkansas.

The level of detail and degree of accuracy with which information in this report is presented would not be possible without the time and efforts of dedicated staff of all State agencies that provide their financial packages on a timely basis. Their efforts are appreciated by all of the people responsible for preparing the CAFR.

Sincerely,



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Arkansas

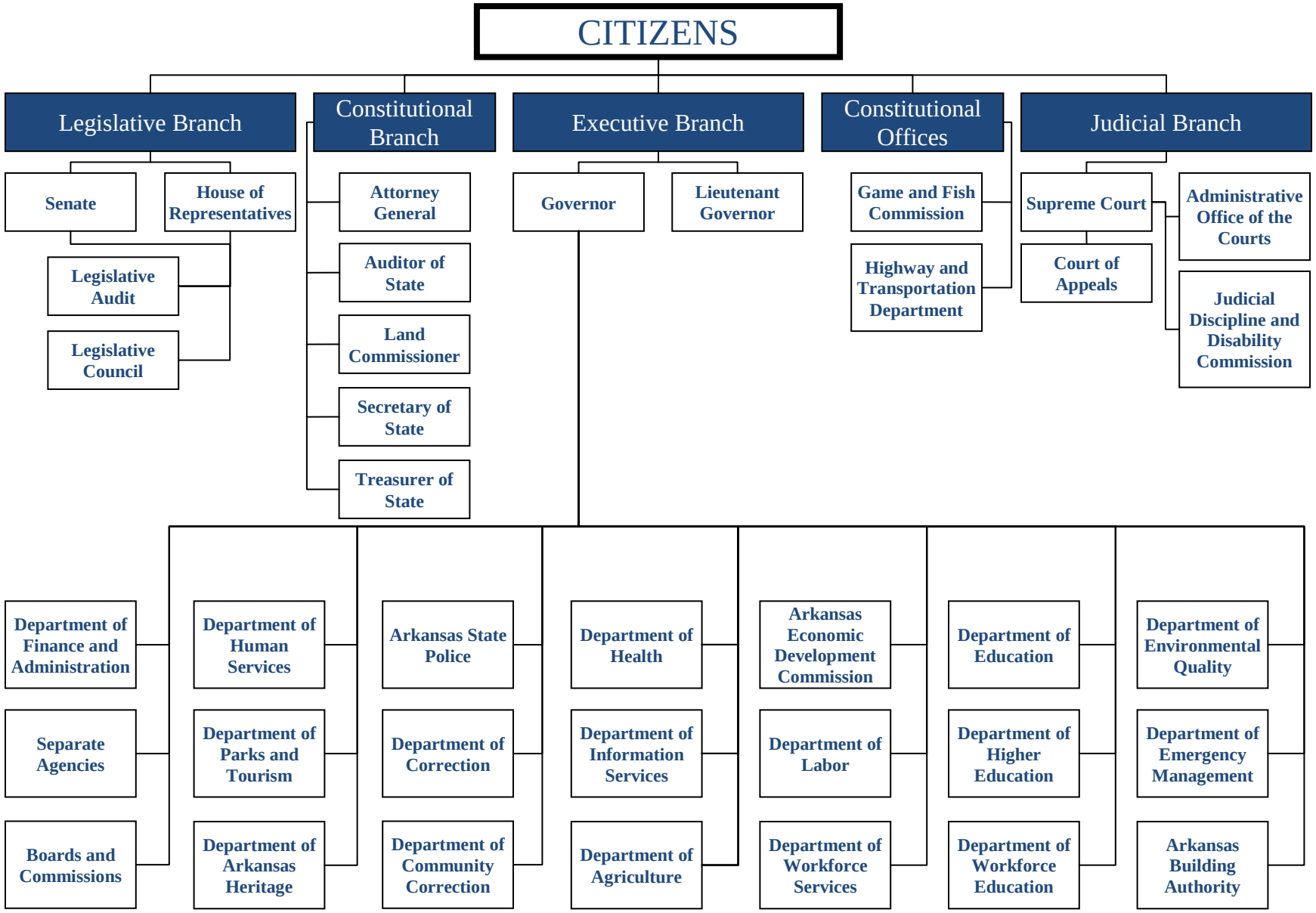
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Organizational Chart



Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor	***President Pro Tempore***	***Chief Justice***
Mike Beebe	Senator Jack Critcher	Jim Hannah
Lieutenant Governor	***Speaker of the House***	***Associate Justice***
Bill Halter	Representative Benny C. Petrus	Robert L. Brown
Attorney General		***Associate Justice***
Dustin McDaniel		Donald L. Corbin
Auditor of State		***Associate Justice***
Jim Wood		Tom Glaze
Land Commissioner		***Associate Justice***
Mark Wilcox		Jim Gunter
Secretary of State		***Associate Justice***
Charlie Daniels		Annabelle Clinton Imber
Treasurer of State		***Associate Justice***
Martha Shoffner		Paul E. Danielson

GREAT SEAL OF THE STATE OF ARKANSAS
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JUSTICE
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Financial Section

The Lakeport Plantation located in Lake Village, Arkansas has been in continuous cotton production since the 1830s. The house was placed on the National Historic Register in 1974 and designated as an offical project of the Save America's Treasure program in 2002.

GREAT SEAL OF THE STATE OF ARKANSAS
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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Independent Auditor's Report

The Honorable Mike Beebe, Governor
and Members of the Legislative Joint Auditing Committee
State of Arkansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas, as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Arkansas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% of the assets and revenues of the aggregate discretely presented component units opinion unit. We did not audit the financial statements of the University of Arkansas for Medical Sciences, a portion of the Higher Education Fund, which represent 18% of the assets and 37% of the revenues of the business-type activities opinion unit and 21% of the assets and 52% of the revenues of the Higher Education major enterprise fund opinion unit. We did not audit the financial statements of the Construction Assistance Revolving Loan Fund, a portion of the non-major enterprise funds, which represent 5% of the assets and 1% of the revenues of the business-type activities opinion unit and 2% of the assets and 1% of the revenues of the aggregate remaining fund information opinion unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aforementioned entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (discretely presented component units) were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas, as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008 on our consideration of the State of Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Arkansas' basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, AR
December 23, 2008
CAFR00108

Arkansas®
THE NATURAL STATE

Management's Discussion and Analysis

The Monroe County Courthouse, located in Clarendon, Arkansas; was designed by Charles L. Thompson and was listed on the National Register of Historic Places in 1976.

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE
MERCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas (the State) provides this *Management's Discussion and Analysis* (MD&A) of the State's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative, overview, and analysis of the financial activities of the State are for the fiscal year ended June 30, 2008. The State's June 30, 2008, financial statements received an unqualified opinion (see Independent Auditors' Report for more information). We believe that the State is making great strides in building a reporting structure that will produce more timely and accurate financial statements in the future. Management has aggressively addressed audit areas of concern by adding professional accounting staff, strengthening internal control, training agency staff, by further defining processes and implementing additional policies and procedures. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal that can be found preceding this narrative and with the State's financial statements that follow this narrative. The first section of MD&A is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State. The second section of the MD&A is a summary of financial and statistical information that should be more meaningful because the readers have been exposed to the accounting terminology and methods used by the State.

Financial Highlights

Government-Wide Highlights:

Net Assets – Primary Government – Net assets may serve over time as a useful indicator of a government's financial position. The assets of the State exceeded its liabilities for the fiscal year ended June 30, 2008, by $14.3 billion (presented as "Total net assets"). The net assets of the State increased $375.6 million during the year. The governmental activities net assets increased by $210.2 million. Of the total net assets, $2.8 billion (19.6%) is reported as unrestricted. Unrestricted net assets represent the amount available to meet the State's ongoing obligations to citizens and creditors. An additional portion of the State's net assets, $1.8 billion (12.7%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted."

The largest portion of the State's net assets, $9.7 billion (67.7%), reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related outstanding debt used to acquire these assets.

Long-term debt payable for bonds, capital leases, installment sales, and notes as of June 30, 2008, was $2.6 billion. Additional debt totaling $249 million was entered into during the year. $116 million of that increase was attributable to increases in college and university revenue bonds.

Fund Highlights:

As of the close of business on June 30, 2008, the State's General Fund reported a fund balance of $3.6 billion. Of this balance, $1.3 billion or 35.3% of the total fund balance is reserved and $2.3 billion or 64.7% of the total fund balance is unreserved. The fund balance in the General Fund increased $67.3 million during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the detailed financial information contained within the State's CAFR. The State's basic financial statements include *Government-Wide Financial Statements*, *Fund Financial Statements*, *Notes to the Financial Statements*, and *Required Supplementary Information* (schedules of funding progress, budgetary schedule, and ten year claims development information). The components of the basic financial statements and the supplemental information are described below.

Basic Financial Statements

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the State's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's economic condition at the end of the fiscal year. The government-wide financial statements are prepared using the full accrual basis of accounting. This basically means methods used are similar to the methods used by most businesses. All assets, liabilities, revenues, and expenses associated with the fiscal year are accounted for even if the cash involved was not received or paid by the end of the fiscal year.

The *Government-Wide Financial Statements* include the *Statement of Net Assets* and the *Statement of Activities*.

> The *Statement of Net Assets* presents all of the government's assets and liabilities; the difference between the assets and liabilities is reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the overall financial position of the State is improving.
>
> The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year and a comparison between program revenues and direct expenses for each function of the State.
>
> The *Statement of Net Assets* and the *Statement of Activities* have separate sections for the three different types of State programs or activities: governmental activities, business-type activities, and discretely presented component units.
>
>> Governmental activities are primarily supported by taxes and intergovernmental revenues, also known as federal grants. Most services normally associated with State government fall into this category and include: Education (elementary and secondary); Health and Human Services; Transportation; Law, Justice, and Public Safety; Recreation and Resources Development; General Government; and Regulation of Business and Professionals.

Business-type activities are the functions that operate more like those of commercial enterprises. These activities normally intend to recover all or a significant portion of their costs through user fees and charges to external users of goods and services, and operate with minimal assistance from the governmental activities of the State. The business-type activities of the State include: Higher Education, Workers' Compensation Commission, Department of Workforce Services, War Memorial Stadium Commission, Public School Employee Health and Life Benefit Plan, Construction Assistance Revolving Loan Fund, and Other Revolving Loan Funds.

Discretely presented component units are legally separate organizations established for a specific purpose and are managed independently with their powers generally vested in a governing board. Discretely presented component units are financially accountable to the State and include: Arkansas Student Loan Authority (ASLA), Arkansas Development Finance Authority (ADFA), The University of Arkansas Foundation, Inc., and The University of Arkansas Fayetteville Campus Foundation, Inc.

Complete financial statements of ASLA, ADFA, The University of Arkansas Foundation, Inc., and The University of Arkansas Fayetteville Campus Foundation, Inc. can be obtained from their administrative offices. Addresses and other additional information about the State's component units are presented in the notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Arkansas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government and report the State's operations in more detail than the government-wide financial statements. All of the funds of the State can be divided into three categories: *Governmental Funds*, *Proprietary Funds*, and *Fiduciary Funds*.

Governmental Fund Financial Statements are used to show essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus of the governmental fund financial statements is the short-term information about the State's financial position rather than both short-term and long-term information that is the focus of the government-wide financial statements. Therefore, the governmental fund financial statements are prepared on the modified-accrual basis of accounting as compared to the full accrual basis of accounting used for the government-wide financial statements. The governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balance.

The State of Arkansas has one governmental fund, which is the General Fund. A reconciliation is provided that facilitates a comparison of the financial statements for the General Fund with the government-wide financial statements and can be found on the pages immediately following the governmental fund financial statements.

Proprietary Funds' Financial Statements are used to show the activities of the State that operate more like those of a commercial business, essentially the same functions reported as business-type activities. Proprietary funds charge fees for services provided to outside customers including local governments. Proprietary funds report the same type of information as the government-wide financial statements. However, the proprietary funds' financial statements report the net assets and the revenues, expenses and changes in fund net assets for each significant proprietary fund rather than report a combined amount of all the proprietary funds as is done for the government-wide financial statements. Proprietary fund financial statements, like the government-wide financial statements, use the full accrual basis of accounting. Therefore, reconciliation is not necessary for the information contained in the government-wide financial statements and the proprietary fund financial statements.

The State of Arkansas has seven proprietary funds: the Higher Education Fund, the Workers' Compensation Commission, the Department of Workforce Services, the War Memorial Stadium Commission, the Public School Employee Health and Life Benefit Plan, the Construction Assistance Revolving Loan Fund, and Other Revolving Loan Funds (Safe Drinking Water and Community/Technical College Revolving Loan).

Fiduciary Funds' Financial Statements show the activity of the funds used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds, like proprietary funds, use the full accrual basis of accounting. The State's fiduciary funds include Pension Trust Funds: Judicial, Highway, State Police, Teacher, and Arkansas Public Employees Retirement Systems; and also the State Insurance Department Agency Funds and Other Agency Funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the Fiduciary Funds financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a schedules of funding progress, schedules of ten-year claims development information for three public entity risk pools, and a budgetary comparison schedule, which includes a reconciliation between the statutory expenditures for budgetary purposes and the expenditures for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements for proprietary funds and fiduciary funds are presented following the required supplementary information.

GOVERNMENT-WIDE HIGHLIGHTS AND ANALYSIS

The following charts present a summary of the government-wide financial statements.

State of Arkansas - Primary Government
Net Assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Current Assets	$ 4,407,028	$ 4,188,939	$ 1,390,609	$ 1,295,222	$ 5,797,637	$ 5,484,161
Noncurrent Assets	231,981	223,987	2,014,626	2,065,078	2,246,607	2,289,065
Capital Assets	9,225,106	9,020,702	2,721,930	2,496,674	11,947,036	11,517,376
Total Assets	13,864,115	13,433,628	6,127,165	5,856,974	19,991,280	19,290,602
Current Liabilities	1,116,368	962,981	414,355	397,340	1,530,723	1,360,321
Long-Term Liabilities	1,317,517	1,230,073	2,798,054	2,710,244	4,115,571	3,940,317
Total Liabilities	2,433,885	2,193,054	3,212,409	3,107,584	5,646,294	5,300,638
Net Assets						
Invested in Capital Assets, Net of Related Debt	8,210,615	7,937,210	1,500,418	1,456,147	9,711,033	9,393,357
Restricted	863,721	812,989	954,661	882,865	1,818,382	1,695,854
Unrestricted	2,355,894	2,469,825	459,677	410,378	2,815,571	2,880,203
Total Net Assets	$ 11,430,230	$ 11,220,024	$ 2,914,756	$ 2,749,390	$ 14,344,986	$ 13,969,414

The net assets of the governmental activities increased $210.2 million, while the net assets of the business-type activities increased $165.4 million. Although the economy has slowed down, the governmental activities continue to show an increase. Personal income taxes have increased again reflecting the growth in personal income in fiscal year 2008. Revenue from Federal grants has also grown, indicating the additional services provided by the State. Revenue from sales tax has declined due to the decrease on sales tax on groceries from 6% to 3%. The offset to the growth in revenue in fiscal year 2008 are: expenses associated with the growth of Federal grants, increased fuel costs, transfer to business-type activities, and the recording of the first installment for Other Postemployment Benefits (OPEB). The business-type activities saw an increase in tuition received and transfers in from the governmental activities but was also required to record the OPEB obligation.

The book value of capital assets as of June 30, 2008, was $9.2 billion for governmental activities and $2.7 billion for business-type activities. The State uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to fund these liabilities.

As outlined previously, governmental activities and business-type activities increased the State's net assets by $210.2 million and $165.4 million, respectively. Key elements of this increase are as follows:

State of Arkansas - Primary Government
Changes in Net assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007 (restated)	2008	2007	2008	2007 (restated)
Program Revenues:						
Charges for services	$ 932,112	$ 868,382	$ 1,592,817	$ 1,434,009	$ 2,524,929	$ 2,302,391
Operating grants and contributions	4,410,782	4,180,653	626,798	578,648	5,037,580	4,759,301
Capital grants and contributions	413,055	422,270	72,677	60,447	485,732	482,717
General Revenues:						
Personal and corporate taxes	2,655,399	2,522,806			2,655,399	2,522,806
Sales and use taxes	2,544,356	2,618,936			2,544,356	2,618,936
Motor fuel taxes	456,223	462,732			456,223	462,732
Other taxes	790,010	785,213	310,728	306,019	1,100,738	1,091,232
Total Revenues	12,201,937	11,860,992	2,603,020	2,379,123	14,804,957	14,240,115
Expenses:						
Education	3,291,054	3,153,653			3,291,054	3,153,653
Health and human services	5,195,317	4,855,759			5,195,317	4,855,759
Transportation	668,305	625,911			668,305	625,911
Law, justice and public safety	631,793	587,413			631,793	587,413
Recreation and resources development	244,959	219,283			244,959	219,283
General government	1,296,232	1,156,301			1,296,232	1,156,301
Regulation of business and professionals	105,620	119,225			105,620	119,225
Business-type expenses:						
Higher Education			2,851,140	2,628,963	2,851,140	2,628,963
Workers' Compensation Commission			53,967	33,363	53,967	33,363
Department of Workforce Services			432,661	384,313	432,661	384,313
War Memorial Stadium Commission			3,990	3,293	3,990	3,293
Public School Employee Health and Life Benefit Plan			232,252	240,944	232,252	240,944
Revolving Loans			4,203	4,406	4,203	4,406
Interest expense	57,923	56,143			57,923	56,143
Total Expenses	11,491,203	10,773,688	3,578,213	3,295,282	15,069,416	14,068,970
Other:						
Unrestricted investment earnings	172,081	162,603	57,064	96,394	229,145	258,997
Miscellaneous Income	274,730	247,395	136,156	123,934	410,886	371,329
Total Other	446,811	409,998	193,220	220,328	640,031	630,326
Increase (decrease) in net assets before transfers and restatements	1,157,545	1,497,302	(781,973)	(695,831)	375,572	801,471
Transfers - internal activities	(947,339)	(811,518)	947,339	811,518		
Restatements		(20,550)				(20,550)
Total Transfers and Restatements	(947,339)	(832,068)	947,339	811,518		(20,550)
Increase (decrease) in net assets	210,206	665,234	165,366	115,687	375,572	780,921
Net Assets - Beginning, as restated	11,220,024	10,554,790	2,749,390	2,633,703	13,969,414	13,188,493
Net Assets - Ending	$ 11,430,230	$ 11,220,024	$ 2,914,756	$ 2,749,390	$ 14,344,986	$ 13,969,414

As is typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $5.7 billion were funded by normal State taxing activities.

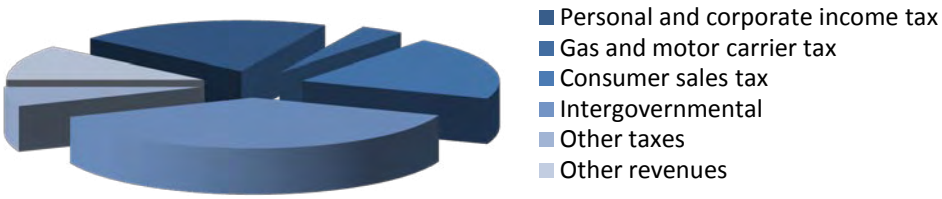
FUND HIGHLIGHTS AND ANALYSIS

General Government Functions

Most State functions are financed through the General Fund. The State's most significant sources of revenues in the General Fund are taxes and intergovernmental. The State's most significant areas of expenditures from the General Fund are the areas of public education and health and human services. The following charts present actual General Fund revenues and expenditures for the fiscal years ended June 30, 2008 and 2007 (expressed in thousands). The information presented includes Revenue by Source for the General Fund, Expenditures by Function for the General Fund, and Changes in Fund Balance for the General Fund. The fund financial statements provide greater detail than is presented in this overview.

Revenues by Source - General Fund

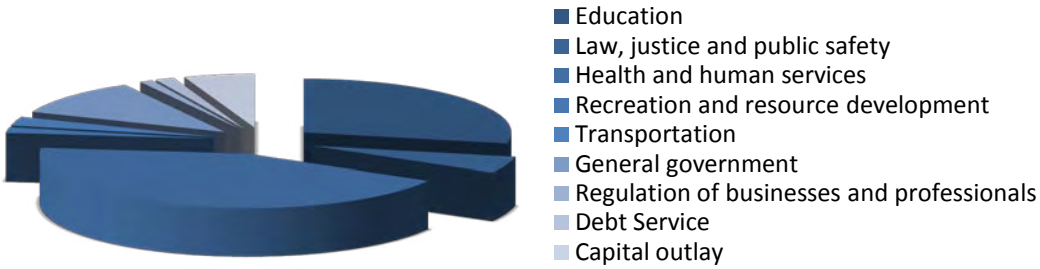
Revenues	2008	2007	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,644,852	$ 2,515,958	5.12%
Gas and motor carrier tax	456,216	463,362	-1.54%
Consumer sales tax	2,551,222	2,624,325	-2.79%
Intergovernmental	4,832,649	4,594,212	5.19%
Other taxes	790,122	784,936	0.66%
Other revenues	1,405,151	1,335,740	5.20%
Total	$ 12,680,212	$ 12,318,533	2.94%



Governmental revenues increased by 2.94%. Personal and corporate income tax revenue increased by $129 million due to growth in personal income and collections from one-time business transactions. Federal grant revenue and reimbursements increased by $238 million primarily because of increased Medicaid revenues which were a result of rate changes and increased utilization of the program.

Expenditures by Source - General Fund

Expenditures	2008	2007	Increase (Decrease) Percent
Education	$ 3,286,143	$ 3,149,468	4.34%
Law, justice and public safety	606,633	552,728	9.75%
Health and human services	5,184,858	4,844,657	7.02%
Recreation and resource development	228,663	187,970	21.65%
Transportation	338,062	297,816	13.51%
General government	1,190,857	1,213,597	-1.87%
Regulation of businesses and professionals	109,818	112,833	-2.67%
Debt Service	167,086	164,851	1.36%
Capital outlay	628,536	611,567	2.77%
Total	$ 11,740,656	$ 11,135,487	5.43%



The State's agencies expenditures increased for the fiscal year 2008 by 5.43%. Generally there were three areas of growth: personnel expenses, grants and aid, and increased fuel costs. Education expenditures increased $137 million primarily due to additional funding provided to local school districts. Health and Human Services increased $340 million with Medicaid expenditures accounting for most of the change which was a result of increased utilization of the program.

General Fund – Fund Balance

The focus of the State's General Fund is to provide information on near-term inflows, outflows, and balances of resources that can be spent. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2008, the State's General Fund reported an ending fund balance of $3.6 billion, which is an increase of $67.3 million in comparison to fiscal year 2007.

Approximately $2.3 billion or 64.7% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance, approximately $1.3 billion or 35.3%, is reserved to indicate that it is not available for new spending because it has already been committed for certain items.

Capital Assets and Debt Administration

Capital Assets

The investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The investment in capital assets for the governmental and business-type activities was $19.1 billion and the accumulated depreciation was $7.2 billion at June 30, 2008. The net book value was $11.9 billion. Depreciation expense was $404.4 million for the governmental activities and $166.8 million for the business-type activities.

Major capital asset events during the current fiscal year included the following:

- The Department of Correction recorded current costs of $27.1 million for a facility in Malvern.
- Arkansas Game and Fish expended an additional $5.3 million for the Central Arkansas Nature Center Aviation Support Facility.
- The State Military Department has spent $4.9 million on the construction of a Regional Training Institute.
- The Department Of Human Services acquired the Arkansas State Hospital at a cost of $31.5 million.
- The Department of Highway and Transportation constructed roads and bridges for $379 million.
- Business-type activities recorded additions of $298 million for construction in progress and $212 million for buildings.

Additional information on the State's capital assets can be found in Note 7 of the notes to the financial statements of this report.

Debt Administration

The State issues both general obligation bonds and revenue bonds. General obligation bonds are backed by the full faith and credit of the State. Revenue bonds are backed by a revenue source and restricted funds as specified in the bond resolution. Revenue bonds are generally designed to be self-supporting from the revenue source related to the program financed.

Depending on the issuing entity, the State's bonds are rated between Aa2 and Baa1 by Moody's Investor Service, with general obligation bonds generally rated Aa2. The Aa rating indicates very strong creditworthiness comparative to similar issues. The bonds issued by the following agencies and organizations have not been rated: Henderson State University, East Arkansas Community College, National Park Community College, Mid-South Community College, Arkansas Northeastern College, North Arkansas College, Rich Mountain Community College, Black River Technical College, Pulaski Technical College, Ouachita Technical College, and Ozarka College.

Governmental Activities

The State's governmental activities had $1.197 billion in bonds, notes payable, installment sales payable, and capital leases outstanding at June 30, 2008, versus $1.228 billion at June 30, 2007. The net decrease is approximately $31 million. Significant increases in bonds, notes payable, installment sales payable, and capital leases are as follows:

- The Arkansas Natural Resources Commission issued $25.4 million of Series 2008 Pollution General Obligation Bonds.
- The Department of Correction incurred an additional $28.0 million on the capital lease with Arkansas Development Finance Authority for the construction of the Malvern facility.
- The Department of Corrections entered into a capital lease for $3.0 million with Jefferson County, Arkansas for the purchase of a jail.
- The Arkansas Building Authority borrowed $4.7 million, the 2008 Justice Building note payable, from ADFA. The new note was used to refund the 1999 Justice Building note payable.
- The Arkansas Game and Fish Commission entered into an installment sales agreement with ADFA in the amount of $13.2 million for the purchase of land and land interests.

Notes payable, installment sales payable, and capital leases to component units increased $29.3 million in fiscal year 2008. During fiscal year 2008, bonds payable decreased $58.9 million with $86.6 million paid toward principal payments. Notes payable and capital leases to outside entities decreased $.9 million.

The State's governmental activities had approximately $117.0 million of claims and judgments outstanding at June 30, 2008, compared to $117.2 million at June 30, 2007. Other obligations include accrued sick leave and vacation pay of $124.1 million at June 30, 2008. The State's governmental activities also had $106.6 million recorded for net post employment benefits obligation at June 30, 2008 as a result of implementing GASB Statement No. 45.

Business-type Activities

The State's business-type activities had $1.407 billion in bonds, notes payable, and capital leases outstanding at June 30, 2008, versus $1.344 billion at June 30, 2007. The net increase was approximately $63 million.

New debt resulted primarily from the issuance of revenue and general obligation bonds. Significant increases and decreases in bonds, notes payable, and capital leases follow:

- $45 million in revenue bonds were issued by the University of Arkansas System.
- Other revenue bonds issued were:
  - Arkansas State University, $13.7 million;
  - Arkansas Tech University, $4.8 million;
  - Henderson State University, $8.0 million;
  - National Park Community College, $3.8 million;
  - North Arkansas College, $4.7 million;
  - Southern Arkansas University, $14.0 million;
  - University of Central Arkansas, $21.4 million

The colleges and universities also entered into capital leases totaling $20.3 million, as well as notes payable totaling $29.9 million. Bonds, notes payable, and capital leases decreased $103.6 million due to principal payments made during the year.

The State's business-type activities had approximately $285.7 million of claims and judgments outstanding at June 30, 2008, compared to $257.8 million at June 30, 2007. Other obligations included accrued sick leave and vacation pay of $87.4 million at June 30, 2008. The State's business-type activities also had $24.9 million recorded for net post employment benefits obligation at June 30, 2008 as a result of implementing GASB Statement No. 45.

More detailed information about the State's liabilities is presented in Note 8 of the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Schedule of Expenditures – Budget and Actual
(Expressed in thousands)

Functions	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts
General government	$ 5,078,152	$ 6,786,196	$ 1,596,903
Education	4,095,241	4,396,178	3,333,004
Health and human services	4,989,155	5,086,702	4,771,830
Law, justice and public safety	801,935	767,252	639,172
Recreation and resources development	365,065	424,753	225,207
Regulation of business and professionals	234,799	269,968	150,562
Transportation	451,257	489,852	314,153
Debt service	206,779	219,730	175,655
Capital outlay	1,073,217	1,515,863	535,918
Total	$ 17,295,600	$ 19,956,494	$ 11,742,404

The amounts reported as budgeted reflect appropriations made by the General Assembly of the State. Appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs and agencies' funds maintained by the State Treasurer or the maximum appropriation by the General Assembly. The significant variances between budgeted amounts and actual amounts are due to the appropriations exceeding available funding sources or delays in timing of expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Arkansas' finances for all of Arkansas' citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of Arkansas, Department of Finance and Administration, PO Box 3278, Little Rock, Arkansas, 72203.

GREAT SEAL OF THE STATE OF ARKANSAS
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THE NATURAL STATE

Basic Financial Statements

The Boone County Courthouse was designed by Charles L. Thompson and is located in Harrison, Arkansas. The Courthouse was named to the National Historic Register in 1976.

Statement of Net Assets
June 30, 2008
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Assets					
Current assets:					
Cash and cash equivalents	$ 615,031	$ 373,002	$ 988,033	$ 2,847	$ 120,049
Investments	2,753,520	650,053	3,403,573	13,831	2,504
Receivables, net:					
Accounts	119,158	307,936	427,094		1,217
Taxes	478,167		478,167		
Medicaid	199,417		199,417		
Loans	14,803	8,695	23,498	12,656	1,215
Leases	28		28		
Interest	31,567	4,183	35,750	17,084	5,782
Trust Funds		1	1		
Other	29,245		29,245	72	
Internal balances	3,754	(3,754)			
Due from component unit	215		215		
Note receivable component unit	9,000		9,000		
Due from other governments	87,122	15,879	103,001		
Prepaid items	12,094	2,377	14,471		
Inventories	53,464	21,002	74,466		
Deposits with bond trustee		3,839	3,839		
Current deferred charges	436		436		
Other current assets	7	7,396	7,403		
Total current assets	4,407,028	1,390,609	5,797,637	46,490	130,767
Noncurrent assets:					
Cash and cash equivalents, restricted		51,550	51,550		
Deposit with component unit	35,349	202	35,551		
Deposits with bond trustee		123,853	123,853		
Investments		343,757	343,757	76,261	931,589
Accounts receivable, net		53,035	53,035		
Loans and mortgages receivable	189,416	318,647	508,063	613,460	185,011
Loans and capital leases receivable from primary government					253,695
Capital leases receivable	690		690		8,114
External portion of investment pool		1,109,467	1,109,467		
Installment sale agreement with primary government					13,210
Deferred charges	5,536		5,536	11,861	5,219
Financial assurance instruments		6,650	6,650		
Net pension asset	1,076		1,076		
Internal balances	(86)	86			
Other noncurrent assets		7,379	7,379	639	1,031
Total noncurrent assets	231,981	2,014,626	2,246,607	702,221	1,397,869
Capital assets (net of accumulated depreciation):					
Land	594,026	109,087	703,113	670	
Land improvements	66,009		66,009		
Infrastructure	5,704,307	121,195	5,825,502		
Buildings	733,785	1,818,337	2,552,122	1,927	
Equipment	218,554	182,829	401,383	571	281
Improvements other than building		8,614	8,614		
Leasehold improvements		75	75		
Construction in progress	1,887,806	422,656	2,310,462		
Other capital assets	20,619	59,137	79,756		
Total capital assets, net of depreciation	9,225,106	2,721,930	11,947,036	3,168	281
Total noncurrent assets and capital assets	9,457,087	4,736,556	14,193,643	705,389	1,398,150
Total assets	$ 13,864,115	$ 6,127,165	$ 19,991,280	$ 751,879	$ 1,528,917

Statement of Net Assets
June 30, 2008
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Cash overdraft	$	$ 357	$ 357	$	$
Accounts payable	33,928	100,287	134,215	9,696	3,874
Accrued interest	11,728	7,538	19,266		18,101
Accrued and other current liabilities	117,071	118,153	235,224		
Medicaid payable	299,025		299,025		
Income tax refunds payable	297,695		297,695		
Due to other governments	93,651	3,641	97,292		
Due to primary government				5	210
Workers' compensation benefits payable		17,462	17,462		
Funds held in trust for others		7,374	7,374		
Bonds, notes, and leases payable	94,040	68,480	162,520	42,600	43,589
Installment sales payable	415		415		
Claims, judgments, and compensated absences	132,954	46,329	179,283		
Net post employment benefits obligation		3,643	3,643		
Deferred revenue	35,861	41,091	76,952		
Total current liabilities	1,116,368	414,355	1,530,723	52,301	65,774
Long-term liabilities:					
Workers' compensation benefits payable		233,803	233,803		
External portion of investment pool		1,109,467	1,109,467		
Bonds, notes, and leases payable	1,089,978	1,338,398	2,428,376	648,550	1,250,025
Installment sales payable	12,795		12,795		
Note payable to primary government				9,000	
Claims, judgments, and compensated absences	108,174	75,510	183,684		
Net post employment benefits obligation	106,570	21,211	127,781	19	198
Deposits held on behalf of primary government					35,551
Other noncurrent liabilities		17,420	17,420		18,936
Deferred revenue		2,245	2,245		7,095
Total long-term liabilities	1,317,517	2,798,054	4,115,571	657,569	1,311,805
Total liabilities	2,433,885	3,212,409	5,646,294	709,870	1,377,579
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	8,210,615	1,500,418	9,711,033	3,168	281
Restricted for:					
Unemployment compensation		220,015	220,015		
Debt service	245,534	20,752	266,286		
Other capital projects	168,213	36,305	204,518		
Bond and resolution program					61,843
Program requirements	344,974	367,329	712,303		
Tobacco settlement	105,000		105,000		
Non-expendable - endowment		94,963	94,963		
Expendable-capital projects, debt service, loans, and other		215,297	215,297	38,841	
Unrestricted	2,355,894	459,677	2,815,571		89,214
Total net assets	11,430,230	2,914,756	14,344,986	42,009	151,338
Total liabilities and net assets	$ 13,864,115	$ 6,127,165	$ 19,991,280	$ 751,879	$ 1,528,917

The notes to the financial statements are an integral part of this statement.

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2008
(Expressed in thousands)

Assets		
Contributions receivable, net of allowance for doubtful accounts of $628	$	45,354
Interest receivable		2,732
Notes and other receivables		123
Cash value of life insurance		579
Land		403
Buildings and equipment, net of accumulated depreciation of $575		100
Investments		644,775
Total assets	$	694,066
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	3,846
Annuity obligations		18,362
Total liabilities		22,208
Net Assets:		
Unrestricted		68,443
Temporarily restricted		120,780
Permanently restricted		482,635
Total net assets		671,858
Total liabilities and net assets	$	694,066

The notes to the financial statements are an integral part of this statement.

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2008
(Expressed in thousands)

Assets	
Investments	$ 486,853
Net Assets	
Temporarily restricted	$ 14,535
Permanently restricted	472,318
Total net assets	$ 486,853

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 1,296,232	$ 291,216	$ 145,960	$
Education	3,291,054	16,638	523,065	
Health and human services	5,195,317	244,706	3,605,665	
Transportation	668,305	146,463	7,811	403,784
Law, justice, and public safety	631,793	72,066	94,483	8,857
Recreation and resources development	244,959	79,438	31,964	414
Regulation of business and professionals	105,620	81,585	1,834	
Interest expense	57,923			
Total governmental activities	11,491,203	932,112	4,410,782	413,055
Business-type activities:				
Higher Education	2,851,140	1,345,783	475,054	72,677
Workers' Compensation Commission	53,967			
Department of Workforce Services	432,661		132,074	
War Memorial Stadium Commission	3,990	1,860	124	
Public School Employee Health and Life Benefit Plan	232,252	241,839		
Revolving Loans	4,203	3,335	19,546	
Total business-type activities	3,578,213	1,592,817	626,798	72,677
Total primary government	$ 15,069,416	$ 2,524,929	$ 5,037,580	$ 485,732
Component units:				
Arkansas Student Loan Authority	$ 45,828	$ 43,706	$	
Arkansas Development Finance Authority	84,304	91,779	14,183	
Total component units	$ 130,132	$ 135,485	$ 14,183	

General revenues:
- Taxes:
  - Personal and corporate income
  - Consumer sales and use
  - Gas and motor carrier
  - Other
  - Total taxes
- Investment earnings
- Miscellaneous income
- Transfers-internal activities
- Total general revenues and transfers

Change in net assets

Net assets - beginning, as restated

Net assets - ending

The notes to the financial statements are an integral part of this statement.

Net Revenue (Expense)				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
$ (859,056)	$	$ (859,056)		
(2,751,351)		(2,751,351)		
(1,344,946)		(1,344,946)		
(110,247)		(110,247)		
(456,387)		(456,387)		
(133,143)		(133,143)		
(22,201)		(22,201)		
(57,923)		(57,923)		
(5,735,254)		(5,735,254)		
	(957,626)	(957,626)		
	(53,967)	(53,967)		
	(300,587)	(300,587)		
	(2,006)	(2,006)		
	9,587	9,587		
	18,678	18,678		
	(1,285,921)	(1,285,921)		
(5,735,254)	(1,285,921)	(7,021,175)		
			$ (2,122)	$
				21,658
			(2,122)	21,658
2,655,399		2,655,399		
2,544,356		2,544,356		
456,223		456,223		
790,010	310,728	1,100,738		
6,445,988	310,728	6,756,716		
172,081	57,064	229,145		
274,730	136,156	410,886		
(947,339)	947,339			
5,945,460	1,451,287	7,396,747		
210,206	165,366	375,572	(2,122)	21,658
11,220,024	2,749,390	13,969,414	44,131	129,680
$ 11,430,230	$ 2,914,756	$ 14,344,986	$ 42,009	$ 151,338

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 14,532	$ 34,219	$ 20,800	$ 69,551
Sponsored programs	1,597	707	1	2,305
Interest and dividends	7,392	7,733	385	15,510
Net realized and unrealized gains (losses) on long-term investments	3,905	11,673	(25,099)	(9,521)
Other	287	137		424
Net assets released from restrictions	60,409	(60,409)		
Total revenues, gains, and other support	88,122	(5,940)	(3,913)	78,269
Expenses and losses:				
Program services:				
Construction	28,962			28,962
Research	9,079			9,079
Faculty/staff support	12,314			12,314
Scholarships and awards	6,962			6,962
Public/staff relations	3,310			3,310
Equipment	4,162			4,162
Sponsored programs	1,880			1,880
Other	16,130			16,130
Total program services	82,799			82,799
Supporting services:				
Management and general	490			490
Fund raising	1,987			1,987
Change in value of split-interest agreements			1,605	1,605
Provision for loss on uncollectible pledges	5	120	155	280
Total supporting services	2,482	120	1,760	4,362
Total expenses and losses	85,281	120	1,760	87,161
Change in net assets	2,841	(6,060)	(5,673)	(8,892)
Net assets - beginning	65,602	126,840	488,308	680,750
Net assets - ending	$ 68,443	$ 120,780	$ 482,635	$ 671,858

The notes to the financial statements are an integral part of this statement.

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Interest and dividends	$	$ 3,660	$ 362	$ 4,022
Net realized and unrealized gains (losses) on long-term investments		14,448	(23,485)	(9,037)
Net assets released from restrictions	15,160	(15,160)		
Total revenues, gains, and other support	15,160	2,948	(23,123)	(5,015)
Expenses and losses:				
Program services:				
Research	1,147			1,147
Faculty/staff support	1,791			1,791
Scholarships and awards	9,331			9,331
Equipment and technology	1,977			1,977
Other	914			914
Total program services	15,160			15,160
Change in net assets		2,948	(23,123)	(20,175)
Net assets - beginning		11,587	495,441	507,028
Net assets - ending	$	$ 14,535	$ 472,318	$ 486,853

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Fund
June 30, 2008
(Expressed in thousands)

		General Fund
Assets		
Cash and cash equivalents	$	615,031
Investments		2,753,520
Receivable, net:		
Accounts		119,158
Taxes		478,167
Medicaid		199,417
Loans		204,219
Leases		718
Interest		31,567
Other		29,245
Note from component unit		9,000
Due from other funds		12,962
Advances to other funds		375
Due from component unit		215
Due from other governments		87,122
Prepaid items		12,094
Inventories		53,464
Deposits with component unit		35,349
Other assets		6
Total assets	$	4,641,629
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	31,881
Accrued and other current liabilities		117,071
Deferred revenue		213,708
Income tax refunds payable		297,695
Due to other governments		93,651
Due to other funds		11,715
Advances from other funds		9,606
Medicaid claims payable		299,025
Total liabilities		1,074,352
Fund balance:		
Reserved for:		
Prepaid items		12,094
Inventories		53,464
Debt service		255,139
Loans		204,219
Leases		718
Note from component unit		9,000
Grant programs		281,872
Capital projects		85,532
Transportation programs		190,408
Tobacco settlement		165,410
Unreserved		2,309,421
Total fund balance		3,567,277
Total liabilities and fund balance	$	4,641,629

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
June 30, 2008
(Expressed in thousands)

Total fund balances:		
Governmental fund		$ 3,567,277
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land and land improvements	$ 723,907	
Infrastructure assets	10,188,243	
Other capital assets	3,750,061	
Accumulated depreciation	(5,437,105)	
Total capital assets		9,225,106
Bonds issued by the State have associated costs that are paid from current available financial resources of governmental funds. However, these costs are deferred on the statement of activities.		5,972
The State Police Retirement Plan has been funded in excess of annual required contributions, creating a net pension asset. These assets are not current available financial resources and are not reported in the funds.		1,076
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		177,847
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds, notes, and leases payable	$ (1,171,766)	
Installment sales payable	(13,210)	
Claims, judgments, and compensated absences	(347,698)	
Loss of early retirement	13,140	
Unamortized bond issue premium	(18,049)	
Accrued interest on bonds, notes, installment sales payable, and leases	(11,728)	
Unamortized bond issue discounts	2,263	
Total long-term liabilities		(1,547,048)
Net assets of governmental activities		$ 11,430,230

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,644,852
Consumers sales and use		2,551,222
Gas and motor carrier		456,216
Other		790,122
Intergovernmental		4,832,649
Licenses, permits, and fees		957,424
Investment earnings		172,081
Miscellaneous		275,646
Total revenues		12,680,212
Expenditures:		
Current:		
General government		1,190,857
Education		3,286,143
Health and human services		5,184,858
Transportation		338,062
Law, justice, and public safety		606,633
Recreation and resources development		228,663
Regulation of business and professionals		109,818
Debt service:		
Principal retirement		107,070
Interest		59,671
Bond issuance costs		345
Capital outlay		628,536
Total expenditures		11,740,656
Excess of revenues over expenditures		939,556
Other financing sources (uses):		
Issuance of debt		35,417
Bond discounts		(361)
Bond premiums		55
Payment to refunding escrow agent		(4,523)
Capital leases		32,047
Installment sales		13,210
Sale of capital assets		2,943
Transfers in		82,277
Transfers out		(1,033,300)
Total other financing sources and uses		(872,235)
Net change in fund balance		67,321
Fund balance - beginning		3,499,956
Fund balance - ending	$	3,567,277

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

Net change in fund balance-governmental fund		$ 67,321
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense In the current period, these amounts are:		
Capital outlay	$ 628,536	
Depreciation expense	(404,427)	
Excess of capital outlay over depreciation expense		224,109
The net effect of various miscellaneous transactions involving capital assets (i e sales, trade-ins, and donations) is to increase net assets		3,820
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets		(35,417)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets		(55)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets		361
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets		345
Loss on early retirement of bonds		(1,282)
Payments to refunding escrow agent use current financial resources to governmental funds but reduces long-term liabilities in the statement of net assets		4,523
Some capital additions were financed through capital leases In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability		(32,047)
Some capital additions were financed through installment sales In governmental funds, an installment sale arrangement is considered a source of financing, but in the statement of net assets, the installment obligation is reported as a liability		(13,210)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets In the current year, these amounts consist of:		
Bond, loan and lease principal retirement		107,070
Because some revenues will not be collected for several months after the State's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds Deferred revenues decreased by this amount this year		(3,851)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds These activities consist of:		
Interest accreted on capital appreciation debt	$ (794)	
Increase in claims, judgments, and compensated absences	(2,916)	
Amortization of bond premium, discount and issuance costs	2,152	
Loss on sale of capital assets	(2,975)	
Guarantee on defaulted bonds	(3,213)	
Change in net pension assets/obligations	1,608	
Decrease in accrued interest	1,227	
Increase in other post-employment benefits obligations	(106,570)	
Total additional expenditures		(111,481)
Change in net assets of governmental activities		$ 210,206

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
Proprietary Funds
June 30, 2008
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 272,135	$ 23,173	$ 77,694	$ 373,002
Investments	321,359	135,919	192,775	650,053
Receivables, net				
Accounts	213,044	10,299	84,593	307,936
Loans	8,695			8,695
Interest	873	2,169	1,141	4,183
Due from other funds	7,921	529	1,423	9,873
Due from other governments	5,236		10,643	15,879
Inventories	20,987		15	21,002
Prepaid items	2,200	34	143	2,377
Deposits with bond trustee	3,839			3,839
Other current assets	7,396			7,396
Total current assets	863,685	172,123	368,427	1,404,235
Noncurrent assets:				
Cash and cash equivalents - restricted	51,550			51,550
Investments				
Endowment	22,164			22,164
Restricted	3,696	105	100,156	103,957
Unrestricted	217,636			217,636
Receivables, net	53,035			53,035
Capital assets:				
Land	105,534	580	2,973	109,087
Infrastructure	209,494		22	209,516
Buildings	2,874,831	2,273	24,719	2,901,823
Equipment	609,362	1,420	6,936	617,718
Improvements other than building	14,331			14,331
Leasehold improvements	75			75
Construction in progress	422,282		374	422,656
Other depreciable assets	160,124	119	2,210	162,453
Less accumulated depreciation	(1,696,105)	(2,505)	(17,119)	(1,715,729)
External portion of investment pool	1,109,467			1,109,467
Advances to other funds			5,959	5,959
Loans receivable - restricted			318,647	318,647
Deposits with bond trustee	123,853			123,853
Deposits with component unit		202		202
Financial assurance instruments		6,650		6,650
Other noncurrent assets	6,767		612	7,379
Total noncurrent assets	4,288,096	8,844	445,489	4,742,429
Total assets	$ 5,151,781	$ 180,967	$ 813,916	$ 6,146,664

Statement of Net Assets
Proprietary Funds
June 30, 2008
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Cash overdraft	$	$	$ 357	$ 357
Accounts payable	41,498	7	58,782	100,287
Accrued interest payable	7,233	14	291	7,538
Accrued and other current liabilities	116,263	323	1,567	118,153
Advances from other funds	461			461
Due to other funds	12,243	11	911	13,165
Due to other governments			3,641	3,641
Funds held in trust for others	7,374			7,374
Workers' compensation benefits payable		17,462		17,462
Bonds, notes, and leases payable	61,770	185	6,525	68,480
Net post employment benefits payable	3,643			3,643
Claims, judgments, and compensated absences	23,554	79	22,696	46,329
Deferred revenue	36,625		4,466	41,091
Total current liabilities	310,664	18,081	99,236	427,981
Noncurrent liabilities:				
Workers' compensation benefits payable		233,803		233,803
External portion of investment pool	1,109,467			1,109,467
Advances from other funds	5,873			5,873
Bonds, notes, and leases payable	1,271,322	810	66,266	1,338,398
Net post employment benefits payable	18,379	490	2,342	21,211
Claims, judgments, and compensated absences	71,846	540	3,124	75,510
Deferred revenue	989		1,256	2,245
Other noncurrent liabilities	10,770	6,650		17,420
Total noncurrent liabilities	2,488,646	242,293	72,988	2,803,927
Total liabilities	2,799,310	260,374	172,224	3,231,908
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	1,480,303		20,115	1,500,418
Restricted for:				
Unemployment compensation			220,015	220,015
Debt service	20,752			20,752
Capital projects	36,305			36,305
Program requirements	3,495		363,834	367,329
Nonexpendable - endowments	94,963			94,963
Expendable - capital projects, debt service, loans, and other	215,297			215,297
Unrestricted	501,356	(79,407)	37,728	459,677
Total net assets (deficit)	2,352,471	(79,407)	641,692	2,914,756
Total liabilities and net assets	$ 5,151,781	$ 180,967	$ 813,916	$ 6,146,664

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$ 987,842	$	$ 243,699	$ 1,231,541
Licenses, permits, and fees	357,941		3,335	361,276
Grants and contributions	341,062			341,062
Investment earnings			11,382	11,382
Miscellaneous	114,772	83	6,434	121,289
Total operating revenues	1,801,617	83	264,850	2,066,550
Operating expenses:				
Cost of sales and services			3,847	3,847
Compensation and benefits	1,755,419	8,821	39,154	1,803,394
Supplies and services	746,373	770	33,331	780,474
General and administrative expenses	2,478	613	3,605	6,696
Scholarships and fellowships	128,170	40		128,210
Benefit and aid payments		43,549	587,904	631,453
Depreciation and amortization	165,220	128	1,454	166,802
Amortization of bond costs			131	131
Interest			3,659	3,659
Total operating expenses	2,797,660	53,921	673,085	3,524,666
Operating income (loss)	(996,043)	(53,838)	(408,235)	(1,458,116)
Nonoperating revenues (expenses):				
Investment earnings	27,250	6,957	11,540	45,747
Unrealized gains/losses on investments	(65)			(65)
Taxes	24,661		263,119	287,780
Insurance tax		22,948		22,948
Grants and contributions	133,992		151,991	285,983
Interest and amortization expense	(50,088)	(46)		(50,134)
Loss on sale of fixed assets	(3,392)		(21)	(3,413)
Other nonoperating revenue (expense)	14,867		(4,049)	10,818
Total nonoperating revenues (expenses)	147,225	29,859	422,580	599,664
Income (loss) before transfers and contributions	(848,818)	(23,979)	14,345	(858,452)
Transfers in	1,026,098	1	7,201	1,033,300
Transfers out	(74,842)	(3)	(7,432)	(82,277)
Capital grants and contributions	72,795			72,795
Change in net assets	175,233	(23,981)	14,114	165,366
Total net assets(deficit) - beginning	2,177,238	(55,426)	627,578	2,749,390
Total net assets(deficit) - ending	$ 2,352,471	$ (79,407)	$ 641,692	$ 2,914,756

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 353,025	$	$ 244,480	$ 597,505
Cash received from other government agencies	339,980			339,980
Auxiliary enterprise charges	979,017			979,017
Payments to employees	(1,360,273)	(8,370)	(36,514)	(1,405,157)
Payments of benefits	(231,619)	(15,391)	(583,316)	(830,326)
Payments to suppliers	(749,290)	(1,422)	(42,701)	(793,413)
Interest received (paid)	5,640		7,108	12,748
Loan administration received (paid)	(7,101)		(14,499)	(21,600)
Other receipts (payments)	(137,302)	83	6,783	(130,436)
Net cash used in operating activities	(807,923)	(25,100)	(418,659)	(1,251,682)
Cash flows from noncapital financing activities:				
Gifts and grants	90,948			90,948
Direct lending receipts	124,026			124,026
Direct lending payments	(124,008)		(5,810)	(129,818)
Taxes	19,951	22,566	260,577	303,094
Grants and contributions	31,028		148,761	179,789
Other receipts (payments)	1,651			1,651
Net transfers to other funds	951,373	(2)	(373)	950,998
Net cash provided by noncapital financing activities	1,094,969	22,564	403,155	1,520,688
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(58,183)	(180)		(58,363)
Interest paid on capital debts and leases	(50,199)	(48)		(50,247)
Acquisition and construction of capital assets	(372,214)	(9)	(1,363)	(373,586)
Proceeds from governmental sources	50,744			50,744
Proceeds from short-term borrowings			54	54
Proceeds from long-term borrowings	106,614			106,614
Proceeds from sale of capital assets	328			328
Other receipts (payments) *	(62,825)			(62,825)
Net cash used in capital and related financing activities	(385,735)	(237)	(1,309)	(387,281)
Cash flows from investing activities:				
Purchase of investments	(375,197)	(2,390)	(76,728)	(454,315)
Proceeds from sale and maturities of investments	437,226		76,595	513,821
Interest and dividends on investments	18,057	7,283	11,317	36,657
Advance repayments (disbursements)			(2,199)	(2,199)
Net cash provided by investing activities	80,086	4,893	8,985	93,964
Net increase (decrease) in cash and cash equivalents	(18,603)	2,120	(7,828)	(24,311)
Cash and cash equivalents - beginning	342,288	21,053	85,165	448,506
Cash and cash equivalents (cash overdrafts) - ending	$ 323,685	$ 23,173	$ 77,337	$ 424,195

* Includes items such as capital allocation of property taxes, bond escrow activity, and capital gifts and contributions.

Continued on the following page

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

Continued from the previous page

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (996,043)	$ (53,838)	$ (408,235)	$ (1,458,116)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	165,221	128	1,454	166,803
Amortization			(1)	(1)
Net appreciation (depreciation) of investments			(782)	(782)
Loan principle and interest cancelled	158			158
Other operating activities	128			128
Prior year adjustment for capital asset capitalization			5	5
Net changes in assets and liabilities:				
Accounts receivable	(18,860)		505	(18,355)
Loans receivable	(32)		(14,495)	(14,527)
Inventory	(128)		(3)	(131)
Prepaid items		4		4
Other current assets	640		1,017	1,657
Current liabilities	(3,813)		395	(3,418)
Accounts payable and other accrued liabilities	12,643	28,187	(1,512)	39,318
Net other post employment benefits	22,022	490	2,343	24,855
Compensated absences	6,376	(71)	24	6,329
Deferred revenue	3,765		626	4,391
Net cash used in operating activities	$ (807,923)	$ (25,100)	$ (418,659)	$ (1,251,682)
Non-cash investing, capital, and financing activities:				
Decrease in fair value of investments	$ (14)			$ (14)
Borrowing under capital leases	(479)			(479)
Donated capital assets	2,307			2,307
Captial assets donated by other state agencies	(801)			(801)
Capital gifts	25,821			25,821
Fixed asset acquisition paid for by the State of Arkansas	18,937			18,937
Fixed asset acquisition directly from bond proceeds	9,292			9,292
Payments to bond trustee directly from bond proceeds	7,016			7,016
Proceeds from bond issue	3,348			3,348
Bond discount and issue costs	596			596
Capital assets acquired by incurring capital leases and notes payable	11,656			11,656
Interest on LTD paid directly by UA Foundation, Inc.	1,448			1,448
Principal on LTD paid directly by UA Foundation, Inc.	3,761			3,761
Insurance proceeds remitted directly to Dept of Finance & Admin	28			28
Principal on capital debt paid by trustee	2,595			2,595
Interest on capital debt paid by trustee	348			348

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008
(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 877,839	$ 25,617
Receivables:		
Employee	15,900	
Employer	54,561	
Interest and dividends	38,113	10
Advances to other funds	9,606	
Other	236,892	10
Due from other funds	2,126	
Total receivables	357,198	20
Investments at fair value:		
Certificates of deposit		42,614
Bonds, notes, mortgages, and preferred stock	1,884,415	72,191
Common stock	5,461,818	
Real estate	1,261,527	
International investments	1,949,199	
Mutual funds	490,907	
Pooled investment funds	4,651,109	
Corporate obligations	513,340	
Asset and mortgage backed securities	229,729	
Other	1,020,792	
Total investments	17,462,836	114,805
Securities lending collateral	1,530,563	
Financial assurance instruments		310,507
Capital assets	350	
Other assets	1,716	
Total assets	20,230,502	450,949
Liabilities		
Accounts payable and other liabilities	16,278	4
Investment principal payable	408,968	
Obligations under securities lending	1,530,563	
Post-employment benefit liability	472	
Due to other governments		116,835
Due to other funds	81	
Due to third parties		334,110
Total liabilities	1,956,362	450,949
Net Assets		
Held in trust for employees' pension benefits	18,274,140	
Total net assets	$ 18,274,140	$

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Pension Trust Funds
Additions:	
Contributions:	
Members	$ 137,081
Employers	546,426
Supplemental contributions	6,908
Court fees	2,421
Reinstatement fees	1,532
Total contributions	694,368
Investment income:	
Net increase (decrease) in fair value of investments	(2,181,839)
Interest, dividends, and other	1,534,853
Real estate operating income	6,391
Securities lending income	86,999
Total investment (loss)	(553,596)
Less investment expense	144,028
Net investment (loss)	(697,624)
Miscellaneous	5,465
Total additions	2,209
Deductions:	
Benefits paid to participants or beneficiaries	945,497
Refunds of employee/employer contributions	9,578
Administrative expenses	11,910
Total deductions	966,985
Change in net assets held in trust for employees' pension benefits	(964,776)
Net assets - beginning	19,238,916
Net assets - ending	$ 18,274,140

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting in the United States of America.

The basic financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prepared by various state agencies and departments based on independent or subsidiary accounting records maintained by them.

(b) Reporting Entity

For financial reporting purposes, the State of Arkansas (the State) includes all funds, departments, and agencies of the State as well as boards, commissions, authorities and colleges and universities for which the State is financially accountable. The State includes component units to the extent necessary for complete financial statement presentation.

(c) Component Units

Component units are those entities which are legally separate organizations for which the State's elected officials are financially accountable or are other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GAAP permits three methods of presentation: (1) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions (the State has no blended component units), (2) discrete presentation of the component units' financial data in columns separate from the State's balances and transactions, or (3) discrete presentation of the component units' financial data following the government-wide financial statements.

Two component units meet the criteria to be "discretely presented" in the financial statements, as described above. The State does not directly benefit from these funds, however, the State is financially accountable for these entities, is able to impose its will on their operations, and the board members are either appointed by the Governor or elected officials.

Arkansas Student Loan Authority (ASLA) – was established pursuant to Act 873 of 1977, as amended, and is comprised of seven Governor-appointed Board Members. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

Arkansas Development Finance Authority (ADFA) – was established pursuant to Act 1062 of 1985. ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails, and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture, and exporting. The affairs of the Authority are governed by a board of directors composed of the State Treasurer, Director of the Department of Finance and Administration, and eleven public members appointed by the Governor.

Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority
3801 Woodland Heights Road, Suite 200
Little Rock, AR 72212

Arkansas Development Finance Authority
423 Main Street, Suite 500
Little Rock, AR 72201

In addition, two nonprofit foundations are included as discretely presented component units, following the government-wide financial statements. Although the State does not control the timing or amount of receipts from either of these foundations, the economic resources which the foundations hold and invest are almost entirely restricted by the donors for distribution and use benefiting the State and are significant to the state. As a result, these foundations are considered component units of the State in accordance with GASB Statement No. 39.

The University of Arkansas Foundation, Inc. operates for charitable, educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of the University of Arkansas. The Board of directors of the foundation includes four members who are also former members of the University of Arkansas Board of Trustees.

The University of Arkansas Fayetteville Campus Foundation, Inc. was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville campus. The foundation was established on March 11, 2003, and exists primarily to support the Honors College, the Graduate School, and the University's library. The Board of Trustees of the foundation is made up of seven members, including three members who are also employees of the University of Arkansas at Fayetteville.

Complete financial statements for each of the foundations can be obtained by contacting their administrative offices.

The University of Arkansas Foundation, Inc.
535 Research Center Blvd., Suite 120
Fayetteville, AR 72701

The University of Arkansas Fayetteville Campus Foundation, Inc.
700 Research Center Blvd.
Fayetteville, AR 72701

The foundations are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations financial information for these differences.

(d) Accounting Restatement

Governmental activities net assets, as previously reported on the statement of net assets for 2007, have been decreased by $20.5 million as follows (expressed in thousands):

Beginning Net Assets	$ 11,240,574
Fixed Assets corrections	(20,550)
Restated Beginning Net Assets	$ 11,220,024

(e) Measurement Focus and Basis of Accounting

The accrual basis of accounting, with a "flow of economic resources" measurement focus, is utilized in the government-wide financial statements, proprietary funds, fiduciary funds, and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Significant revenues susceptible to accrual include: individual and corporate income taxes, sales and use tax, gas and other taxes, federal reimbursements, federal grants, and other reimbursements for use of materials and services. In general, tax revenue is recognized on the government-wide statement of activities when assessed or levied.

The governmental fund financial statements are prepared using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e. 45 days). Tax revenue is recognized to the extent that it is both measurable and available. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met, except for Medicaid revenues, which are recognized using a one-year availability criteria. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when consumed, and (2) principal and interest on long-term debt, claims and judgments, and compensated absences are recorded when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting, published by the FASB which were issued on or before November 30, 1989, are followed in the government-wide and proprietary fund financial statements to the extent that such standards do not conflict with standards issued by the GASB. As permitted by the GASB, the State has elected not to adopt FASB guidance issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. New GASB Statements and Interpretations are adopted in the years they become effective.

For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

(f) Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are identified as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

The statement of net assets presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or the like, or imposed by law through constitutional provision or enabling legislation.
- Unrestricted net assets do not meet the definition of the two preceding categories and are generally available for government purposes.

In the government-wide statement of activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, health and human services, etc.) Direct expenses are those that are clearly identifiable with a specific function. Revenues are classified as either program or general revenues. Program revenues include: (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally, dedicated resources are reported as general revenues rather than as program revenue. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue. Certain indirect costs are included in the program expenses reported for individual functions and activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the rule are: (1) activities between funds reported as governmental activities and funds reported as business-type activities, and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

(g) Fund Financial Statements

Separate financial statements are provided for the governmental fund (i.e. the general fund), proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund (General Fund) and the major individual proprietary funds (i.e. the Higher Education Fund and Workers' Compensation Commission) are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column for the proprietary funds.

In the fund financial statements, transfers represent flows of cash or assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides the revenue to the fund which expends the resources.

The following describes the major funds and categories used in the accompanying financial statements:

Governmental Fund

The General Fund is the major Governmental Fund of the State. As the general operating fund of the State, it is used to account for all financial resources obtained and spent for those services normally provided by the State, which are not accounted for in other funds.

The focus of Governmental Fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to a business. These funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the state has decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following is a description of the major proprietary funds of the State:

Higher Education Fund

The financial statements of the Higher Education Fund, which accounts for the activities of the State's Higher Education System, are prepared as a "business-type" activity with the accounting guidance and reporting practices applicable to colleges and universities.

Workers' Compensation Commission Fund

The Workers' Compensation Commission Fund accounts for the activities of the Workers' Compensation Commission (WCC), which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

Non-Major Enterprise Funds

The non-major enterprise funds consist of the Department of Workforce Services, which is responsible for promoting employment security in the State of Arkansas; War Memorial Stadium Commission, which is responsible for the operation of the War Memorial Stadium; the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities; the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation for water systems and for the financing of capitalizable educational and general projects for community and technical colleges; and the Public School Employee Health and Life Benefit Plan, which is responsible for providing health and life insurance along with a prescription drug benefit to participating public school employees.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. These funds include pension trust and agency funds. The pension trust funds account for the activities of the Arkansas Judicial Retirement Plan, the Arkansas State Highway Employees Retirement Plan, the Arkansas State Police Retirement Plan, the Arkansas Teacher Retirement Plan, and the Arkansas Public Employee Retirement Plan, which accumulate resources required to be held in trust for members and beneficiaries of the respective plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

(h) Assets, Liabilities, and Net Assets or Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments for the Arkansas State Highway Employees Retirement System are stated at amortized cost. All other short-term investments are stated at fair value.

Investments

Investments include U.S. Government and government agency obligations, repurchase agreements, mutual funds, real estate, limited partnerships, foreign currency contracts, asset backed securities, guaranteed investment contracts, state and local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Investments in the pension trust funds are reported at fair value as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Securities on loan for cash collateral are reported in the statement of net assets. Liabilities resulting from security lending transactions are provided in Note 4.

Unrealized gains and losses on investments are included in investment earnings on the respective operating statements.

The University of Arkansas System (the System) has established an external investment pool (the Pool). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is exempt from registration with the SEC. The University of Arkansas Board of Trustees and the University of Arkansas Foundation, Inc. Board of Trustees are the sponsors of this investment pool and are responsible for the operation and oversight of it. Participation in the Pool is voluntary. At June 30, 2008, five universities, the University of Arkansas Cooperative Extension Service, and four foundations participated in the Pool. The foundations hold approximately $1.11 billion (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207, (501) 686-2500.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion) or "advances to/from other funds" (noncurrent portion). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the general fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded using the consumption method which records expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Inventory and prepaid balances, as reported in the general fund financial statements, are recorded as a reserve of fund balance indicating that they do not constitute "available, spendable financial resources."

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase capital or other noncurrent assets are classified as noncurrent assets in the statement of net assets. Cash, cash equivalents, and investments relating to university endowments are also reflected as noncurrent assets in the statement of net assets.

Capital Assets

Methods Used to Value Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure items (e.g. roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

Capitalization Policies

All land and other nondepreciable assets are capitalized, regardless of cost. All other capital assets, including equipment, are capitalized when the individual item's cost exceeds $2,500 and the estimated useful life exceeds one year.

The cost of normal maintenance and repairs that do not significantly add to the value of assets or materially extend asset lives are not capitalized.

The State reported a significant portion of their infrastructure assets for the first time in fiscal year 2002. Estimated costs were retroactive to 1971. The State's current policy is to record new infrastructure acquisitions at historical cost, and to use the depreciation method in reporting long-term infrastructure assets.

Items not Capitalized and Depreciated

The State possesses certain capital assets that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as: statues, monuments, historical documents, paintings, rare library books, miscellaneous capital-related artifacts and furnishings, and the like. GASB Statement No. 34 does not require these items to be capitalized because (1) the items are held for reasons other than financial gain; (2) the items are protected, kept unencumbered, cared for, and preserved; and (3) the items are subject to a State policy requiring that the proceeds from the sales of collection items be used to acquire other items for collections. The State also acts as an agent for the tracking and disbursement of federal surplus property. The assigned value of this property at June 30, 2008, is $19.6 million and is not reflected in the financial statements.

Depreciation and Useful Lives

Applicable capital assets are depreciated using the straight-line method, with a full month charged for assets acquired in the first half of the month and a half-month charged for assets acquired in the second half of the month. Assets were assigned estimated useful lives most suitable for the particular assets. Estimated useful lives generally assigned are as follows:

	Years
Assets:	
Equipment	5-20
Buildings & building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Other capital assets	4-20

Accrued and Other Current Liabilities

The State has established a liability for both reported and unreported insured events in the government-wide financial statements, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information, and currently recognized trends affecting data specific to the State. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation. The process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

The Internal Revenue Code of 1986 limits the amount of income issuers of certain tax-exempt bonds can earn from investing the bond proceeds. Such excess, called arbitrage rebates, must be remitted to the Federal Government. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA make provisions for arbitrage rebates as they are incurred.

Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amount reported as income tax refunds payable at June 30, 2008, is related to projected refund estimates attributable to fiscal year 2008 tax revenues.

Compensated Absences

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as services are incurred and benefits accrue to employees.

In the governmental fund financial statements, liabilities for compensated absences are accrued only if they have matured and are recorded in the fund only for separations or transfers that occur before year-end.

Deferred Revenue

In the government-wide financial statements and proprietary fund financial statements, deferred revenue is recognized when cash or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Bond-Related Items

In the government-wide financial statements and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized in the period of issuance. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financiang sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Net Assets/Fund Balance

The difference between total assets and total liabilities is presented as “Net Assets” on the government-wide, proprietary, and fiduciary fund financial statements and as “Fund Balance” on the governmental fund financial statements. Governmental fund financial statements report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific future use.

Restricted Assets/Net Assets

Assets and net assets are reported as restricted when constraints placed on the asset or net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Restricted assets primarily consist of unemployment compensation, bond resolution programs, transportation programs, debt service, capital projects, and various other purposes and may only be used for the legally restricted purposes as allowed by law.

Net Assets Restricted by Enabling Legislation

Enabling legislation is limited to legislation that the government itself approves. It establishes restrictions "if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation." Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purpose specified by the legislation. At June 30, 2008, the government-wide statement of net assets reported $864 million of restricted net assets for governmental activities, of which $213 million were restricted by enabling legislation.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $55.2 million on investments which are available for expenditure by the respective governing boards. Such amounts are included in Restricted Net Assets in accordance with the restriction of the gift instrument. Three sections of the Arkansas Code outline the restrictions placed on the endowment fund and the net appreciation. First, Arkansas Code Annotated §28-69-603 restricts the expenditure of endowment funds that the governing body determines to be prudent under the standard established by Arkansas Code Annotated §28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution. Second, Arkansas Code Annotated §28-69-604 rule of construction states the restriction on the expenditures may not be implied for endowment funds. Third, Arkansas Code Annotated §28-69-607 standard of conduct states that members of a governing board shall exercise ordinary business care and prudence in decision making and retaining investments and shall consider long and short term needs of the institution's financial requirements.

Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(j) New Accounting Pronouncements Not Yet Required to be Adopted

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes standards to enhance the usefulness and comparability of pollution remediation obligation information reported by state and local governments by setting uniform standards requiring more timely and complete reporting of these obligations. Additionally, the standard requires all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2007 (i.e. fiscal year 2009).

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes standards for reporting and accounting for intangible assets by local and state governments, particularly in the areas of recognition, initial measurement, and amortization. Additionally, this statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. The requirements of this statement are effective for financial statements for periods after June 15, 2009 (i.e. fiscal year 2010). The provisions of this statement generally must be applied retroactively to years ending after June 30, 1980.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, established consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The standard requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008 (i.e. fiscal year 2009).

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes standards for reporting and accounting for derivative instruments by local and state governments, particularly in the areas of recognition and measurement. The statement requires that most derivative instruments be reported in the financial statements at their fair value. Additionally, this statement provides guidance for hedge accounting disclosures. The requirements of this statement are effective for financial statements for periods after June 15, 2009 (i.e. fiscal year 2010).

(2) Deposits and Investments

The deposits and investments of the State are exposed to risks that have the potential to result in losses. The following information discloses risks related to credit, interest rate, and foreign currency risks, as well as policies related to these risks. The higher education component units are not included in the following information. The foundations are private nonprofit organizations that report under Financial Accounting Standards Board standards and are not required to report under Governmental Accounting Standards Board standards. As such, the foundations are not required to report deposit and investment risks.

(a) Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the State's deposits may not be returned to it.

The State's Board of Finance policy states that collateralizing deposits with securities pledged to a cash fund agency by a financial institution to be held by a third party custodian should be required to protect public funds in case of a default by the financial institution. Institutions of higher education do not have a deposit policy for custodial credit risk. The retirement systems' policy is to place deposits only in collateralized or insured accounts.

At June 30, 2008, the reported bank balances of the general fund were $1,240,691,358. Of this amount, $2,214,573 was uninsured and uncollateralized, $16,507,068 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $5,955,458 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2008, the reported bank balances of the enterprise funds were $471,543,581. Of this amount, $5,654,464 was uninsured and uncollateralized, $40,395,277 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $15,617,671 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2008, the reported bank balances of the fiduciary funds were $95,721,628. Of this amount, $5,708,436 was uninsured and uncollateralized and $70,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $64,696 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2008, the reported bank balances of the component units were $11,349,246. Of this amount, $6,120,000 was uninsured and uncollateralized, and $466,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

(b) Investments

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes.

The State Treasury's interest rate risk policy is that the investments will not exceed a maturity of five years except securities used as collateral in repurchase agreements, Arkansas Capital Corporation Bonds, and State Board of Finance and State Building Services Certificates of Indebtedness. The investment policy for funds managed by the State Treasurer for the State Money Management Trust Fund states that the average maturity of the portfolio will not exceed ninety days; and the expected maturity of any security will not exceed thirteen months except securities used as collateral in repurchase agreements. The State Board of Finance requires that every effort should be made to match maturity of investments with expenditure requirements. The institutions of higher education and the retirement systems do not have a formal investment policy that limits the investment maturities as a means of managing the exposure to fair value losses arising from increased interest rates.

As of June 30, 2008, the State of Arkansas had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
General Fund					
U S Treasuries	$ 1,093	$ 1,093	$	$	$
U S Treasury STRIPS	2	1	1		
U S Government Agencies	966,355	106,973	851,002	307	8,073
Municipal Bonds	1	1			
Negotiable Certificates of Deposit	1,098	708	390		
Domestic Corporate Bonds	119,003	16,120	102,583		300
Repurchase Agreements	2,600	2,600			
Other Loans	37,068	17,469	19,599		
Subtotal	1,127,220	144,965	973,575	307	8,373
Enterprise Funds					
U S Treasuries	10,515	7,647	2,795	73	
U S Government Agencies	162,543	65,960	93,055	2,001	1,527
Negotiable Certificates of Deposit	4,771	4,771			
Corporate Bonds	20,389	2,948	13,659	3,129	653
Mutual Bond Fund	2,089	2,089			
Short-Term Common Fund	6,314	6,314			
Preferred Stock	5				5
Other Loans	11,603	2,159	7,270	2,174	
Subtotal	218,229	91,888	116,779	7,377	2,185
Fiduciary Funds					
U S Treasuries	166,277		58,269	70,582	37,426
U S Government TIPS	8,784	4,057	4,727		
U S Government Agencies	799,434	8,856	147,260	105,659	537,659
Convertible Bonds	473,900	14,239	132,119	96,752	230,790
Collateralized Obligations	307,363	17	13,840	24,082	269,424
Municipal Bonds	9,164			2,270	6,894
Corporate Bonds	655,309	45,562	321,235	156,093	132,419
Domestic Fixed Income Commingled	135,032			135,032	
International Fixed Income Commingled	10,904		10,904		
High Yield Income Fund	35,466		35,466		
Emerging Markets Bond Fund	13,109			13,109	
Commercial Loans	26,596		19,257	5,700	1,639
International Corporate Fixed	2,747	793		1,954	
International Government Fixed	13,826	4	4,103	7,313	2,406
Emerging Markets	25,467	2,137	12,105	8,836	2,389
U S Corporate Floating Rate	293,495	50,104	243,391		
Bank Obligations	115,191	50,048	65,143		
Certificates of Deposit	139,168	129,129	10,039		
Money Market	90,014	90,014			
Time Deposits	35,133	35,133			
Asset Backed Securities	146,534	111,049	9,050	4,594	21,841
External Investment Pools	2,861,823	1,011,143	311,391	1,364,651	174,638
Repurchase Agreements	6,516	6,516			
Mortgage Loans	50,174	26,699	7,356	16,119	
Other Loans	1,795	1,032	763		
Subtotal	6,423,221	1,586,532	1,406,418	2,012,746	1,417,525
Component Units					
U S Treasuries	38,566	17,392	20,414	685	75
U S Government Agencies	35,698	12,454	15,631	7,613	
Municipal Bonds	453		453		
Guaranteed Investment Contracts	344,740	16,800	270,550	26,612	30,778
Money Market Mutual Fund	128,388	128,388			
Mortgage Backed Securities	590,040	32		1,650	588,358
Other Loans & Notes	5	3	2		
Subtotal	1,137,890	175,069	307,050	36,560	619,211
Total	$ 8,906,560	$ 1,998,454	$ 2,803,822	$ 2,056,990	$ 2,047,294

Corporate Bonds

As of June 30, 2008, the Arkansas Public Employees Retirement System (APERS) held corporate bonds with a fair value of $245,080,286. Corporate bonds are debt instruments that are issued by private corporations. They have a term maturity, and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates. Of the $245,080,286 total bonds held by APERS at June 30, 2008, $920,000 are considered highly sensitive to interest rate changes.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
Bear Stearns	2/2/2007	$ 995,000	2/2/2017	*	*	$ 920,000

* The coupons is fixed at 7% until February 2009 and then resets to 7.9 times the difference between the 10 year and 2 year yields. The maximum coupon over the life of the note is 11% and the minimum is 4%.

Convertible Corporate Bonds

As of June 30, 2008, the Arkansas Public Employees Retirement System (APERS) held convertible bonds with a fair value of $163,374,858. Convertible bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds offer lower coupon rates and promised yields to maturity than do nonconvertible bonds. A variable coupon varies directly with movements in interest rates. Of the $163,374,858 total bonds held by APERS at June 30, 2008, $4,204,131 are considered highly sensitive to interest rate changes.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
Lockheed Martin	1/15/2008	$ 2,438,955	8/15/2033	3-Month LIBOR - 25%	Quarterly	$ 2,570,211
Wyeth	1/10/2008	1,732,401	1/15/2024	3-Month LIBOR - 50%	Quarterly	1,633,920
		$ 4,171,356				$ 4,204,131

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Arkansas State Police Retirement Fund's policy is to provide for a minimum overall portfolio rating of A or better. The Arkansas State Highway Employees Retirement System's policy is that debt securities purchased shall carry an investment rating of Baa or better by Moody's Investors Service, and a rating of BBB or better by Standard and Poor's. Energy bonds may be purchased that are below investment grade. The other retirement systems, institutions of higher education, and the State Board of Finance do not have a credit risk policy.

The State's exposure to credit risk as of June 30, 2008, is as follows (expressed in thousands):

Standard and Poor's		Moody's Investor's Service	
Rating	**Fair Value**	**Rating**	**Fair Value**
General Fund			
AAA	$ 2,055,751	Aaa	$ 2,054,570
AA	118,704	Aa2	1
Unrated	41,011	Aa3	118,703
		Unrated	42,192
Subtotal	2,215,466		2,215,466
Enterprise Funds			
AAA	374,005	Aaa	320,699
AA	21,594	Aa	10,271
A	7,827	A	3,190
BBB	24	B and Below	553
B and Below	928	Unrated	461,532
Unrated	391,867		
Subtotal	796,245		796,245
Fiduciary Funds			
AGY	332,139	AGY	322,930
AAA	890,489	Aaa	789,674
AA	338,956	Aa	399,154
A	315,951	A	250,393
A-1	264,413	P-1	264,413
BBB	358,321	Baa	351,230
BB	151,418	Ba	101,157
B	101,741	B	71,872
CCC or Lower	19,201	C or Lower	20,801
Unrated	3,480,796	Unrated	3,681,801
Subtotal	6,253,425		6,253,425
Component Units			
AAA	754,126	Aaa	754,579
Unrated	458	Unrated	5
Subtotal	754,584		754,584
Total	$ 10,019,720		$ 10,019,720

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The State Board of Finance requires that investment instruments should be held in safekeeping by financial institutions, and the cash fund manager should obtain safekeeping receipts. The institutions of higher education do not have a formal custodial credit risk policy.

At June 30, 2008, the reported amount of the enterprise funds' investments was $1,123,330,935. Of this amount, $603,215 was uninsured and unregistered with securities held by the counterparty.

At June 30, 2008, the reported amount of general funds' investments was $2,237,259,760. Of this amount, $2,599,774 was uninsured and unregistered with securities held by the counterparty.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the State's investment in any one issuer that represents 5 percent or more of total investments.

The State Treasury's concentration of credit risk policy is that the investments, exclusive of funds managed by security lending agent, will not exceed the following percentages of the total portfolio: 15% in Bankers Acceptances, 15% in Commercial Paper and 10% in Certificates of Deposit. Investment policies for funds managed by the State Treasurer for the State Treasury Certificate of Deposit Investment Program state that an institution can receive no more that 10% of the total distribution.

The State places no limit on the amount the State Treasury may invest in U.S. government agency securities. The State Treasury's investments in Federal Home Loan Bank securities represent $849,727,753 or 37.9% of the general fund and $102,192,772 or 9.10% of the enterprise funds' total investment.

The general fund investment in domestic corporate bonds without a call option from Transamerica Life/Aegon represent $118,702,612 or 5.3% of total general fund investments.

Arkansas Development Finance Authority (ADFA), a component unit of the State, places no limit on the amount that may be invested in any one issuer. ADFA's investments in Natixis Funding and FNMA-mortgage backed securities represented $227,089,000 or 20% and $66,026,446 or 6% , respectively, of total component units' investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The State does not have a formal investment policy for foreign currency risk.

The exposure to foreign currency risk for investments and deposits at June 30, 2008, is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Foreign Currency Contract	Cash
Australian Dollar	$ 31,826	$ 893	$ 30,812	$ (655)	$ 776
Brazilian Real	9,808	797	8,787		224
British Pound Sterling	170,518	5,679	223,296	(56,140)	(2,317)
Canadian Dollar	46,267	249	46,105	(248)	161
Danish Krone	10,040		4,081	5,954	5
Egyptian Pound	266	266			
Euro	260,949	9,542	328,834	(80,150)	2,723
Hong Kong Dollar	28,998		63,077	(34,327)	248
Hungarian Forint	172	1,902		(1,730)	
Indian Rupee	782				782
Indonesian Rupiah	18,056		18,056		
Japanese Yen	233,687		192,740	40,129	818
Malaysian Ringgit	2,698		2,698		
Mexico Nuevo Peso	7,394	1,875		5,443	76
New Taiwan Dollar	18,121		17,583		538
New Zealand Dollar	53	1,061		(1,011)	3
Norwegian Krone	8,358		6,760	1,129	469
Polish Zloty	25	2,400		(2,375)	
Singapore Dollar	27,534		27,227		307
South African Rand	7,815		2,476	5,329	10
South Korean Won	3,070		3,070		
Swedish Krona	37,994		6,218	31,775	1
Swiss Franc	139,816		111,865	26,955	996
Thailand Baht	4,634		4,634		
Total Fair Value	$ 1,068,881	$ 24,664	$ 1,098,319	$ (59,922)	$ 5,820

Note - For Foreign Currency Contracts, a positive number represents the market value of contracts to purchase that currency in excess of the market value of contracts to sell that currency. A negative number therefore represents the market value of contracts to sell foreign currency in excess of contracts to purchase that currency.

(3) Derivatives

Primary Government

Forward Currency Contracts

Arkansas Public Employees Retirement System (APERS) and Arkansas State Teacher Retirement System (Teacher) enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated rate. Risks associated with such contracts include movement in the value of the foreign currency in relation to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the original value of the original contracts and the closing value of such contracts and is included in the net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2008, the retirement systems referred to above were party to outstanding foreign exchange currency contracts to purchase foreign currencies with contract amounts of $149.1 million, collectively. Market values of these outstanding contracts were $147.8 million resulting in a net unrealized loss of $1.3 million. The retirement systems also had outstanding foreign contracts to sell foreign currency with contract amounts of $206.5 million at June 30, 2008. Market values of these contracts were $207.7 million resulting in an unrealized loss of approximately $1.2 million.

To Be Announced Short Contracts

Teacher participates in To Be Announced Short Contracts (TBAs) as part of the overall diversification investment plan by their fixed income managers. TBAs are underlying contracts on mortgage-backed securities to buy or sell mortgage-backed securities which will be delivered at an agreed-upon date in the future. The maturity dates of the TBAs are over ten years. At June 30, 2008, the costs of these TBAs were $105.2 million, collectively. Market values were $105.2 million effectively resulting in neither a net unrealized gain nor loss.

Short Option Contracts

Teacher participates in Short Option Contracts to provide exposure to positive market moves and limit exposure to interest rate and currency fluctuations. An option contract gives the buyer the right, but not the obligation, to purchase or sell a financial instrument at a fixed or determinable price on a given date or any time on or before a given date. At June 30, 2008, Teacher had put option contracts with a cost of $8.3 million and a market value of $11.9 million resulting in an unrealized gain of approximately $3.6 million.

Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System (ASHERS) invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of investment risk (see note 2 on Deposits and Investments). The retirement systems, referred to above, invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield of these securities depends on the changes in interest and principal payment patterns and the market value of the underlying assets. As of June 30, 2008, the retirement systems held $388.6 million of mortgage-backed securities.

Asset-Backed Securities

As of June 30, 2008, APERS and Teacher held asset-backed securities with the fair value of $27.4 million and $32.8 million, respectively. These securities represent interest in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Pooled Funds

APERS, Arkansas Judicial Retirement System (Judicial), and State Police had approximately $710.8 million, $26 million, and $51.4 million, respectively, invested in international pooled funds. These entities could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Component Units

Mortgage-Backed Securities

Arkansas Development Finance Authority (ADFA) invests in various asset and mortgage-backed securities. These securities are reported at the fair value in the statement of net assets. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of investment risk (see note 2 on Deposits and Investments). ADFA invests in these securities to enhance yields on investments. Changes in market interest rate affect the cash flows of these securities and may result in changes in fair value. The overall return on yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets. As of June 30, 2008, ADFA held $.6 million of mortgage-backed securities.

(4) Securities Lending Transactions

Arkansas State Police Retirement System, Arkansas Teacher Retirement System, and Arkansas Public Employees Retirement System participate in security lending programs, as authorized by Arkansas Code Annotated and the Board of Trustees policies, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 102% of the fair value of the security loaned to Arkansas State Police Retirement System and Arkansas Public Employees Retirement System, and at least 100% of fair value of the security loaned to Arkansas Teacher Retirement System. At all times during the term of each loan, the total value of the collateral is not to be less than the fair value of all securities on loan. The program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2008, includes asset backed securities, bank obligations, money markets, time deposits, certificates of deposits, U.S. corporate floating rates, and repurchase agreements. With the exception of cash collateral, the pension does not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the statement of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. These securities have also been included in the preceding summary of deposits and investments (see note 2). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if insolvency causes the borrower to fail to return the securities lent or fail to pay the income on the securities to the trust while lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. The carrying value and fair value of the underlying securities is $1.6 billion. At June 30, 2008, the pension systems have no credit risk exposure to borrowers because the amount the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

(5) Receivables

Receivables at June 30, 2008, consisted of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Employee/ Employer	Medicaid	Capital Lease Receivable	Loans	Investment-Related	Other Receivables	Allowance for Uncollectibles	Total
General Fund	$ 254,160	$ 646,215 (1)	$	$ 204,546	$ 718 (2)	$ 241,251	$ 31,567	$ 38,874	$ (345,840)	$ 1,071,491
Higher Education Fund	541,019					70,571	873	6,357	(343,173)	275,647
Workers' Compensation Commission	10,299						2,169			12,468
Non-major Enterprise Funds	113,522					318,647	1,141		(28,929)	404,381
Pension Trust			70,461				38,113	236,892		345,466
Agency							10	10		20
Total	$ 919,000	$ 646,215	$ 70,461	$ 204,546	$ 718	$ 630,469	$ 73,873	$ 282,133	$ (717,942)	$ 2,109,473

(1) Receivable balances of $42,521 are not expected to be collected within one year of the date of the financial statements
(2) See Note 11 – Leases

Component Units

	Accounts	Loans	Capital Lease Receivable	Investment-Related	Contributions	Other Receivables	Allowance for Uncollectibles	Net Receivable by Component Unit
Arkansas Student Loan Authority	$	$ 627,841	$	$ 17,084	$	$ 72	$ (1,725)	$ 643,272
Arkansas Development Finance Authority	1,217	341,453	140,901	5,782		13,210	(34,319)	468,244
University of Arkansas Foundation				2,732	45,982	123	(628)	48,209
Total	$ 1,217	$ 969,294	$ 140,901	$ 25,598	$ 45,982	$ 13,405	$ (36,672)	$ 1,159,725

(6) Intergovernmental Activity

Interfund Receivables and Payables (expressed in thousands):

	Due From					
Due To	General Fund	Higher Education Fund	Workers' Compensation Commission	Non-major Enterprise Funds	Pension Trust	Total
General Fund	$	$ 11,966	$ 11	$ 905	$ 80	$ 12,962
Higher Education Fund	7,921					7,921
Workers' Compensation Commission	245	277		6	1	529
Non-Major Enterprise Funds	1,423					1,423
Pension Trust Funds	2,126					2,126
Total	$ 11,715	$ 12,243	$ 11	$ 911	$ 81	$ 24,961

Interfund receivables and payables include: (1) $11.9 million due from the Higher Education Fund to the General Fund for workers' compensation unemployment contributions, information technology services, grants, and includes $9.8 million of Medicaid provider payments; (2) $1.4 million due from the General Fund to the Department of Workforce Services for unemployment insurance program contributions; 3) $7.9 million due to the Higher Education Fund from the General Fund for college Technical Bond payment requisitions of $5.4 million and grants; (4) the $.9 million due from the Non-Major Enterprise Funds include $.3 million due from Department of Workforce Services to the General Fund for information technology services and $.4 million due from the Employee Benefit Fund for pharmacy rebates; (5) $2.1 million due from the General Fund to the Pension Fund for employers contributions. All amounts are expected to be repaid within one year.

Advances To/From Other Funds – Primary Government (expressed in thousands):

Advances From	Advances To: General Fund	Advances To: Higher Education Fund	Advances To: Total
General Fund	$	$ 375	$ 375
Non-Major Enterprise Funds		5,959	5,959
Pension Trust Funds	9,606		9,606
Total	$ 9,606	$ 6,334	$ 15,940

Advances include: (1) an outstanding balance of $9.6 million loaned to the General Fund, i.e. Department of Education, by the Teacher's Pension Trust Fund for the purchase of accounting software to be repaid over 15 years at 8% interest maturing in fiscal year 2012; and (2) advances to the Community/Technical College Revolving Loan program of $5.9 million to provide low interest loans to community and technical colleges for capitalizable education and general projects with variable interest rates.

Transfers (expressed in thousands):

Transfers Out	Transfers In: General Fund	Transfers In: Higher Education Fund	Transfers In: Workers' Compensation Commission	Transfers In: Non-major Enterprise Funds	Transfers In: Total
General Fund	$	$ 1,026,098	$ 1	$ 7,201	$ 1,033,300
Higher Education Fund	74,842				74,842
Workers' Compensation Commission	3				3
Non-Major Enterprise Funds	7,432				7,432
Total	$ 82,277	$ 1,026,098	$ 1	$ 7,201	$ 1,115,577

Transfers include: (1) the transfer of $1.027 billion from the General Fund to the Higher Education Fund for state funding of higher education institutions; (2) the transfer of $74.8 million from the Higher Education Fund includes $64 million to the Department of Human Services within the General Fund for the transfer of a portion of the state funding provided to the University of Arkansas Medical School to be used for the Medicaid Program; (3) Non-Major Enterprise Funds transfers include: The Arkansas Natural Resources Commission being reimbursed $.8 million from the Construction Assistance Loan Fund. $1.7 million was reimbursed from Arkansas Natural Resources Commission to Other Revolving Loan Funds for administrative expenses and monitoring of public drinking water facilities to ensure compliance with federal guidelines. The Department of Workforce Service transferred $1 million to the General Fund for personal services and operating expenses of the Arkansas Workforce Investment Board as well as interest from the Federal Unemployment Trust Fund. Another transfer of $2.9 million was from the Non-Major Enterprise Funds to reimburse $2.4 million to the Department of Health and $.5 million to Arkansas Natural Resources Commission for assistance in building clean drinking water facilities.

On the Government-wide financial statements, additional transfers are reported which represents: $432 thousand of capital assets transferred from the General Fund to the Higher Education Fund; a capital asset transfer from the Higher Education Fund to the General Fund of $314 thousand; and $4 million of capital assets transferred from the Non-Major Enterprises Funds to the General Fund. On the Enterprise Fund financial statements, the transfers in amounts were reported as capital contributions and transfers out amount as expense.

(7) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2008, was as follows (expressed in thousands):

	Balance July 1, 2007 (as restated) (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2008
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 518,951	$ 13,384	$ 61,752	$ (61)	$ 594,026
Construction in progress	1,912,563	(469,034)	444,420	(143)	1,887,806
Other non-depreciable assets	4,484	115	277		4,876
Total capital assets, not being depreciated	2,435,998	(455,535)	506,449	(204)	2,486,708
Capital assets, being depreciated:					
Land improvements	125,637	1,698	2,676	(130)	129,881
Infrastructure	9,983,592	392,421	2,100	(189,870)	10,188,243
Buildings	1,050,914	74,164	56,207	(3,718)	1,177,567
Equipment	690,929	(59,226)	54,940	(37,520)	649,123
Other depreciable assets	24,395	143	6,164	(13)	30,689
Total capital assets, being depreciated	11,875,467	409,200	122,087	(231,251)	12,175,503
Subtotal	14,311,465	(46,335)	628,536	(231,455)	14,662,211
Less accumulated depreciation for:					
Land improvements	(58,216)	76	(5,823)	91	(63,872)
Infrastructure	(4,344,805)	(4,896)	(324,105)	189,870	(4,483,936)
Buildings	(432,152)	8,135	(22,917)	3,152	(443,782)
Equipment	(466,839)	46,877	(46,036)	35,429	(430,569)
Other depreciable assets	(9,301)	(105)	(5,546)	6	(14,946)
Total accumulated depreciation	(5,311,313)	50,087	(404,427)	228,548	(5,437,105)
Governmental activities capital assets, net	$ 9,000,152	$ 3,752	$ 224,109	$ (2,907)	$ 9,225,106

(1) Balance July 1, 2007, restated by ($20,550)
(2) Includes transfers with the primary government, assets that were not previously reported, accounting errors, and other changes

	Balance July 1, 2007	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2008
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 100,549	$ 1,001	$ 7,683	$ (146)	$ 109,087
Construction in progress	408,564	(40,566)	297,609	(242,951)	422,656
Total capital assets, not being depreciated	509,113	(39,565)	305,292	(243,097)	531,743
Capital assets, being depreciated:					
Improvements other than building	17,003	(5,203)	2,548	(17)	14,331
Leasehold improvements	75				75
Buildings	2,643,603	50,118	212,234	(4,132)	2,901,823
Equipment	567,898	60	64,725	(14,965)	617,718
Other capital assets	142,915	5,739	14,808	(1,009)	162,453
Infrastructure	187,890	7,678	13,978	(30)	209,516
Total capital assets, being depreciated	3,559,384	58,392	308,293	(20,153)	3,905,916
Subtotal	4,068,497	18,827	613,585	(263,250)	4,437,659
Less accumulated depreciation for:					
Improvements other than building	(7,850)	2,571	(445)	7	(5,717)
Buildings	(999,445)	(119)	(87,822)	3,900	(1,083,486)
Equipment	(388,804)	210	(59,850)	13,555	(434,889)
Other capital assets	(98,321)	(117)	(10,422)	5,544	(103,316)
Infrastructure	(77,403)	(3,105)	(8,263)	450	(88,321)
Total accumulated depreciation	(1,571,823)	(560)	(166,802)	23,456	(1,715,729)
Business-type activities capital assets, net	$ 2,496,674	$ 18,267	$ 446,783	$ (239,794)	$ 2,721,930

(1) Includes transfers within the primary government, assets that were not previously reported, accounting errors, and other changes.

Component Units

Activity for ADFA for the year ended June 30, 2008, was as follows (expressed in thousands):

	Balance July 1, 2007	Additions/ Deletions	Balance June 30, 2008
ADFA:			
Capital assets being depreciated:			
Equipment	$ 677	$ 94	$ 771
Less accumulated depreciation for:			
Equipment	(500)	10	(490)
ADFA capital assets, net	$ 177	$ 104	$ 281

Activity for ASLA for the year ended June 30, 2008, was as follows (expressed in thousands):

	Balance July 1, 2007	Additions/ Deletions	Balance June 30, 2008
ASLA:			
Capital assets not being depreciated:			
Land	$ 670	$	$ 670
Capital assets being depreciated:			
Buildings and equipment	2,357	589	2,946
Less accumulated depreciation for:			
Buildings and equipment	(388)	(60)	(448)
ASLA capital assets, net	$ 2,639	$ 529	$ 3,168

Activity for U of A Foundation, Inc. for the year ended June 30, 2008, was as follows (expressed in thousands):

	Balance July 1, 2007	Additions/ Deletions	Balance June 30, 2008
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 522	$ (119)	$ 403
Capital assets being depreciated:			
Buildings and equipment	611	64	675
Less accumulated depreciation for:			
Buildings and equipment	(571)	(4)	(575)
Total Assets being depreciated, net	40	60	100
Total Assets U of A Foundation	$ 562	$ (59)	$ 503

Depreciation

Depreciation expense was charged to functions/programs of the primary government and component units as follows (expressed in thousands):

Primary Government

Governmental Activities:	
Education	$ 5,439
Health and human services	8,722
Transportation	333,401
Law, justice, and public safety	26,558
Recreation and resources development	16,401
General government	13,007
Regulation of business and professionals	899
Total depreciation expense – governmental activities	$ 404,427
Business-type Activities:	
Enterprise Funds	$ 166,802
Total depreciation expense – business-type activities	$ 166,802

Component Units

ADFA	$ 50
ASLA	60
U of A Foundation	45
Total depreciation expense – component units	$ 155

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, are summarized as follows (expressed in thousands):

	Balance July 1, 2007	Additions	Accretion on capital appreciation bonds	Reductions	Balance June 30, 2008	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 972,191	$ 25,425	$ 794	$ 86,115	$ 912,295 ##	$ 71,972	$ 840,323
Revenue Bond Guaranty Fund	2,925	3,213 (2)		435	5,703	380	5,323
Add (deduct):							
Deferred bond refunding loss:							
General Obligation	(10,831)			(1,001)	(9,830)		(9,830)
Debt to Component Unit	(3,432)	(158)		(280)	(3,310)		(3,310)
Issuance premium (discount):							
General Obligation	15,521	(310)		2,375	12,836	2,334	10,502
Debt to Component Unit	3,168	5		223	2,950	221	2,729
Total bonds payable	979,542	28,175	794	87,867	920,644	74,907	845,737
Notes payable to component unit	121,645	9,992		14,247	117,390	8,395	108,995
Note payable to pension trust fund	11,580			1,974	9,606	2,132	7,474
Capital leases	3,520	3,000		1,934	4,586	1,700	2,886
Capital leases with component unit	111,450	29,046		8,704	131,792	6,906	124,886
Total notes and leases payable	248,195	42,038		26,859	263,374	19,133	244,241
Total bonds, notes, and leases payable	1,227,737	70,213	794	114,726	1,184,018	94,040	1,089,978
Installment sale with component unit		13,210			13,210	415	12,795
Claims and judgments	117,214	102,579		102,751	117,042	117,042	
Compensated absences	120,998	76,926		73,838	124,086	15,912	108,174
Total claims, judgments, and compensated absences	238,212	179,505		176,589	241,128	132,954	108,174
Net pension obligation	532			532			
Net OPEB obligation		106,570			106,570		106,570
Governmental activity total	$ 1,466,481	$ 369,498	$ 794	$ 291,847	$ 1,544,926	$ 227,409	$ 1,317,517

(1) Includes accretion on capital appreciation bonds of $ 22,350
(2) Represents assumed debt for which proceeds are not recorded in the fund statements

The compensated absences liabilities will be liquidated by the applicable funds that account for the salaries and wages of the related employees.

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year	Due greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
Construction Assistance Revolving Loan Fund	$ 78,775	$	$ 5,810	$ 72,965	$ 6,525	$ 66,440
College and University Revenue Bonds	1,197,070	115,425	66,420	1,246,075	42,475	1,203,600
Add (deduct):						
Deferred bond refunding loss	(3,979)	(76)	(376)	(3,679)	(376)	(3,303)
Issuance premiums/ (discounts)	12,891	535	440	12,986	818	12,168
Total bonds payable	1,284,757	115,884	72,294	1,328,347	49,442	1,278,905
Notes payable	22,920	26,873	17,777	32,016	11,858	20,158
Notes payable with component unit	5,857	3,037	5,376	3,518	466	3,052
Total notes payable	28,777	29,910	23,153	35,534	12,324	23,210
Capital leases	29,737	20,278	8,013	42,002	6,529	35,473
Capital leases with component unit	1,174		179	995	185	810
Total lease payable	30,911	20,278	8,192	42,997	6,714	36,283
Total bonds, notes, and leases payable	1,344,445	166,072	103,639	1,406,878	68,480	1,338,398
Claims and judgments	257,804	158,799	130,947	285,656	51,408	234,248
Compensated absences	81,380	58,045	51,977	87,448	12,383	75,065
Total claims, judgments, and compensated absences	339,184	216,844	182,924	373,104	63,791	309,313
Net OPEB obligation		24,854		24,854	3,643	21,211
Business-type activity total	$ 1,683,629	$ 407,770	$ 286,563	$ 1,804,836	$ 135,914	$ 1,668,922

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable:						
Revenue	$ 753,780	$	$ 62,630	$ 691,150	$ 42,600	$ 648,550
Net OPEB Obligation		19		19		19
Arkansas Development Finance Authority:						
Bonds payable	1,133,632	101,608	150,300	1,084,940	43,512	1,041,428
Notes payable	220,751	134,579	149,607	205,723	77	205,646
Add: issuance premiums	2,686	417	152	2,951		2,951
Total bonds and notes payable ADFA	1,357,069	236,604	300,059	1,293,614	43,589	1,250,025
Net OPEB Obligation		198		198		198
U of A Foundation						
Annuity Obligations	19,606	931	2,175	18,362	1,366	16,996
Component units total	$ 2,130,455	$ 237,752	$ 364,864	$ 2,003,343	$ 87,555	$ 1,915,788

Primary Government

Governmental Activities

General Obligation Bonds – The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 2008, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G.O. Bonds	2012	5.50	$ 107,800
2001A Series Federal Highway G.O. Bonds	2013	4.00-5.25	133,680
2002 Series Federal Highway G.O. Bonds	2015	3.50-5.00	190,065
Arkansas Natural Resources Commission Bonds:			
2001A Series Water, Waste, and Pollution	2011	4.65-6.30	3,495
2001B Series Water, Waste, and Pollution	2011	3.25-4.45	555
2002A Series Water, Waste, and Pollution	2026	4.00-5.00	11,665
2002B Series Water, Waste, and Pollution	2025	4.25-5.00	5,685
2002C Series Water, Waste, and Pollution	2020	3.50-5.00	6,305
2002D Series Water, Waste, and Pollution	2017	3.00-4.75	6,370
2002E Series Water, Waste, and Pollution	2012	2.75-5.80	930
2002F Series Water, Waste, and Pollution	2012	2.00-4.20	1,220
2002G Series Water, Waste, and Pollution	2035	2.85-4.95	4,740
2002H Series Water, Waste, and Pollution	2017	4.50-5.35	1,450
2002I Series Water, Waste, and Pollution	2026	3.00-4.75	9,300
2002K Series Water, Waste, and Pollution	2026	3.00-4.88	7,395
2003A Series Water, Waste, and Pollution	2020	2.25-5.30	1,860
2003B Series Water, Waste, and Pollution	2020	2.00-4.10	2,425
2003C Series Water, Waste, and Pollution	2033	2.50-4.75	16,295
2004A Series Water, Waste, and Pollution	2036	3.00-5.00	13,330
2005A Series Water, Waste, and Pollution	2025	3.25-4.35	5,175
2005B Series Water, Waste, and Pollution	2027	3.00-4.75	8,835
2006A Series Water, Waste, and Pollution	2016	5.00	15,505
2006B Series Water, Waste, and Pollution	2036	3.50-4.50	9,330
2006C Series Water, Waste, and Pollution	2033	4.13-4.63	4,645
2007 Series Water, Waste, and Pollution	2040	4.00-4.50	7,465
2008 Series Water, Waste, and Pollution	2042	3.50-4.60	25,425
College Savings Bonds:			
1993 Series, G.O. Bonds	2014	5.60	12,985
1996C Series, G.O. Bonds	2016	5.60	11,464
1997A Series, G.O. Bonds	2017	5.35	3,535
1997B Series, G.O. Bonds	2017	5.10-5.45	8,560
1998A Series, G.O. Bonds	2017	4.60-4.90	8,376
2005 Series, G.O. Bonds	2016	4.40-4.70	29,060
Higher Education Bonds:			
2007A Series, G. O. Bonds	2023	4.00-4.50	99,595
2007B Series, G. O. Bonds	2029	4.38-4.75	126,825
2007C Series, G. O. Bonds	2010	5.00-5.25	10,950
Total			$ 912,295

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2008, including accrued accreted interest of approximately $22,350 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 71,972	$ 42,900	$ 114,872
2010	75,501	38,860	114,361
2011	77,228	36,729	113,957
2012	79,576	32,503	112,079
2013	81,895	28,070	109,965
2014-2018	226,708	84,303	311,011
2019-2023	109,670	53,811	163,481
2024-2028	125,490	27,071	152,561
2029-2033	27,250	6,240	33,490
2034-2038	9,960	2,301	12,261
2039-2043	4,695	504	5,199
Total	$ 889,945	$ 353,292	$ 1,243,237

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds – Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of reconstructing and renovating the interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily from Federal Interstate Maintenance Funds and by State revenues derived from the tax on diesel fuel at the rate of 4 cents per gallon. No bonds were issued under this act in the 2008 fiscal year.

State Water Resources Development General Obligation Bonds – Act 496 of 1981, as amended, authorized the Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources Commission) to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds; any remaining debt service requirement is paid from general revenues. No bonds were issued under this act in the 2008 fiscal year.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds – Act 686 of 1987, as amended, authorized the Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources Commission) to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds are issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds; any remaining debt service requirement is paid from general revenues. No bonds were issued under this act in the 2008 fiscal year.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds – Act 607 of 1997 authorized the Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources Commission) to issue Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $300 million with no more than $60 million being issued during any fiscal biennium for nonrefunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation, and wetland preservation facilities projects in the state. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds; any remaining debt service requirement is paid from general revenues. In fiscal year 2008, $25.4 million of bonds were issued under this act.

College Savings General Obligation Bonds – Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $300 million with no more than $100 million being issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this act in the 2008 fiscal year.

Higher Education General Obligation Bonds – Act 1282 of 2005 authorized the State to issue Higher Education General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and the College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of $24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this act in the 2008 fiscal year.

Revenue Bond Guaranty Fund - Under the Arkansas Development Finance Authority Bond Guaranty Act of 1985, the Arkansas Economic Development Commission (AEDC) may guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2008, total bonds guaranteed by the Revenue Bond Guaranty Fund amounted to $5.7 million, all of which are in default.

AEDC has security interest in property, plant, and equipment purchased with proceeds of revenue bonds guaranteed by the Revenue Bond Guaranty Fund. Assets held by AEDC, as a result of bankrupt companies defaulting on revenue bonds, are capitalized for financial statement purposes at an amount equal to the outstanding principal of the defaulted bond issue. AEDC maintains these facilities until a buyer can be found. At June 30, 2008, the equity interest in industrial facilities, which totaled approximately $1.8 million, were either rented or vacant.

The bonds assumed by the Revenue Bond Guaranty Fund and outstanding at June 30, 2008, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate %	Balance
Revenue Bond Guaranty Fund	2021	3.45-5.75	$ 5,703

Future amounts required to pay principal and interest on Revenue Bond Guaranty Fund at June 30, 2008, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 380	$ 286	$ 666
2010	397	268	665
2011	413	249	662
2012	433	229	662
2013	455	207	662
2014-2018	2,645	649	3,294
2019-2023	980	117	1,097
Total	$ 5,703	$ 2,005	$ 7,708

Notes Payable to Component Units – Notes payable to component units consist of notes issued to ADFA for construction and renovation of various state agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 2008, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 8,395	$ 4,928	$ 13,323
2010	8,673	4,640	13,313
2011	8,197	4,349	12,546
2012	8,495	4,033	12,528
2013	8,832	3,684	12,516
2014-2018	41,935	12,474	54,409
2019-2023	20,015	5,436	25,451
2024-2028	10,633	1,774	12,407
2029-2033	2,215	105	2,320
Total	$ 117,390	$ 41,423	$ 158,813

Note Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher Retirement System from the Department of Education (the Agency) for a statewide computer system capable of linking all public school district systems and the Department of Education's computer system. The note payable provides that interest for the loan(s) for this project shall be at the rate of eight percent (8%). The Agency borrowed $24.8 million in nine (9) installments between November 24, 1992, and July 17, 1996, to fund the project. Accrued interest totaled $5 million at June 30, 1997, and was paid on August 26, 1997.

The Agency signed a promissory note dated July 1, 1997, in which repayment of the loan was scheduled to begin on June 30, 1998, with an annual payment of $2.9 million. These annual payments are to continue for 14 years. A final payment of the unpaid principal and accrued interest is to be made on June 30, 2012. The Agency made its first annual payment on August 18, 1997.

Future amounts required to pay principal and interest on notes payable to pension trust fund at June 30, 2008, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 2,132	$ 768	$ 2,900
2010	2,302	598	2,900
2011	2,487	414	2,901
2012	2,685	215	2,900
Total	$ 9,606	$ 1,995	$ 11,601

Business-Type Activities

Special Obligation Bonds outstanding at June 30, 2008, issued pursuant to specific statutory provisions enacted by the legislature and paid from specifically dedicated fees and other revenues generated by a particular program and do not constitute general debt of the State, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Construction Assistance Revolving Loan Fund	2022	3.00-5.50	$ 72,965

Details of the Special Obligation Bonds outstanding are as follows:

Construction Assistance Revolving Loan Fund (the Fund) – ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2008, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined statement of net assets due to unamortized discounts of approximately $174 thousand:

	Principal	Interest	Total
Year ending June 30:			
2009	$ 6,525	$ 3,426	$ 9,951
2010	6,850	3,146	9,996
2011	7,165	2,886	10,051
2012	7,255	2,577	9,832
2013	7,445	2,216	9,661
2014-2018	31,295	5,371	36,666
2019-2023	6,430	646	7,076
Total	$ 72,965	$ 20,268	$ 93,233

Higher Education Fund

Colleges and Universities – The boards of trustees of state-sponsored colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings, and the acquisition of furnishings or equipment for any such buildings of all state colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 2008, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined statement of net assets due to unamortized premiums of approximately $13,160 and unamortized deferred bond refunding losses of $3,679:

	Final maturity date	Interest rates %	Balance
Henderson State University	2036	1.00-7.00	$ 35,560
Southern Arkansas University-Magnolia	2037	1.40-5.35	26,277
Southern Arkansas University Tech-Camden	2016	5.00-6.02	710
Arkansas State University-Beebe	2036	3.00-6.60	30,565
Arkansas State University-Jonesboro	2037	1.60-6.00	123,019
Arkansas State University-Mountain Home	2033	1.60-4.50	9,055
Arkansas State University-Newport	2033	2.75-4.50	6,475
Arkansas Tech University	2039	1.10-5.65	47,087
University of Arkansas at Fayetteville	2038	Variable	355,675
University of Arkansas at Little Rock	2030	4.22-5.50	48,802
University of Arkansas for Medical Sciences	2036	2.00-5.05	266,125
University of Arkansas at Monticello	2036	Variable	12,375
University of Arkansas at Pine Bluff	2036	2.00-5.70	25,738
University of Central Arkansas	2038	2.00-7.75	97,800
University of Arkansas Community College at Hope	2021	3.80-4.33	5,295
University of Arkansas Community College at Batesville	2019	Variable	3,893
University of Arkansas Community College at Morrilton	2022	2.24-4.00	4,045
University of Arkansas at Fort Smith	2032	1.00-5.00	59,270
East Arkansas Community College	2013	3.00-6.00	715
National Park Community College	2033	3.00-4.70	12,800
Mid-South Community College	2039	3.70	15,365
Arkansas Northeastern College	2031	4.00-5.35	4,660
North Arkansas College	2037	3.00-3.50	4,535
Phillips Community College of the University of Arkansas	2018	3.58-5.00	4,519
Rich Mountain Community College	2023	2.25	1,575
Northwest Arkansas Community College	2030	3.00-5.00	21,980
Black River Technical College	2028	1.35-4.75	2,870
Pulaski Technical College	2037	3.6-4.89	52,295
Ouachita Technical College	2009	2.99	89
Ozarka College	2028	4.90	2,440
Total			$ 1,281,609

The variable rates of interest are calculated at periodic intervals. Such calculations are primarily based on the lenders' changes in the index determined by the Prime Rate or the LIBOR Rate. Other variable rates are calculated using the rate in effect at the financial statement date. Actual rates will vary.

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2008, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 54,799	$ 58,051	$ 112,850
2010	62,203	55,720	117,923
2011	48,532	53,442	101,974
2012	47,548	51,498	99,046
2013	45,310	49,559	94,869
2014-2018	245,439	215,976	461,415
2019-2023	256,000	159,270	415,270
2024-2028	207,093	103,620	310,713
2029-2033	198,335	54,544	252,879
2034-2038	115,485	11,507	126,992
2039-2043	865	38	903
Total	$ 1,281,609	$ 813,225	$ 2,094,834

Component Units

Arkansas Student Loan Authority – Pursuant to Act 873 of 1977, revenue bonds are issued by ASLA to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. These revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 2008, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Student Loan Revenue Bonds, Series 1994A	2009	2.91	$ 23,500
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	0.00	42,900
Student Loan Revenue Bonds, Series 1997A	2014	2.74	31,150
Student Loan Revenue Refunding Bonds, Series 2000 A-1	2030	5.38	50,000
Student Loan Revenue Refunding Bonds, Series 2000 A-2	2030	3.98	20,000
Student Loan Revenue Refunding Bonds, Series 2004 A-1/A-2	2038	3.85-3.95	110,550
Student Loan Revenue Refunding Bonds, Series 2004 A-3	2038	3.72	15,500
Student Loan Revenue Refunding Bonds, Series 2005 A-1/A-2/A-3	2039	5.38	187,350
Student Loan Revenue Bonds, Series 2006 A-1/A-2/A-3/B-1	2040	3.81-3.92	178,600
Student Loan Revenue Bonds, Series 2006 A-4	2040	0.00	25,000
Total			$ 691,150

Future amounts required to pay principal and interest on revenue bonds at June 30, 2008, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2009	$ 42,600	$ 21,335	$ 63,935
2010	44,800	21,005	65,805
2011	11,300	20,708	32,008
2012	18,550	20,066	38,616
2013		20,151	20,151
2014-2018	31,150	64,020	95,170
2019-2023		74,979	74,979
2024-2028	65,000	77,228	142,228
2029-2033		80,682	80,682
2034-2038		79,150	79,150
2039-2043	477,750	49,565	527,315
Total	$ 691,150	$ 528,889	$ 1,220,039

Arkansas Development Finance Authority (the Authority) – Pursuant to Act 1062, the Authority is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments, and industrial enterprises.

Bonds and other debt instruments issued by the Authority are special obligations of the Authority, payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. The Authority has no taxing power.

Conduit debt issued by the Authority is recorded on the Authority's balance sheet if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty fund. Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net assets.

During the normal course of business, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from and secured by a pledge of revenues from the private companies to which the bond proceeds were remitted and, accordingly, are not obligations of the Authority or the State of Arkansas. At June 30, 2008, the bonds outstanding issued under these programs aggregated $ 227.2 million.

Bonds and notes payable at June 30, 2008, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Single Family Bonds Payable	2038	2.40-10.00	$ 756,717
Multi-Family Bonds Payable	2035	3.75-9.75	69,927
Bond Guaranty Program	2024	2.70-7.45	55,965
State and Health Facilities Bonds Payable	2040	2.125-7.00	268,010
Economic Development Bonds and Notes Payable	2015	1.00-5.70	1,401
Tobacco Bond Payable	2046	3.80-5.50	89,112
General Fund Bonds and Note Payable	2041	2.33-4.51	49,531
Total			$ 1,290,663

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2008, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of $2,951 less accreted interest of $92,899:

	Principal	Interest	Total
Year ending June 30:			
2009	$ 43,589	$ 55,110	$ 98,699
2010	249,760	50,620	300,380
2011	43,676	45,113	88,789
2012	42,022	42,960	84,982
2013	39,436	40,911	80,347
2014-2018	190,038	177,249	367,287
2019-2023	184,902	133,048	317,950
2024-2028	196,045	89,403	285,448
2029-2033	175,670	47,660	223,330
2034-2038	117,611	15,640	133,251
2039-2043	80,845	4,147	84,992
2044-2048	19,968		19,968
Total	$ 1,383,562	$ 701,861	$ 2,085,423

U of A Foundation – The U of A Foundation receives gifts in return for lifetime annuities from some of its contributors. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2008, were $554,200 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2008, were as follows (expressed in thousands):

		Principal
Year ending June 30:		
2009	$	1,366
2010		1,322
2011		1,087
2012		1,001
2013		939
Thereafter		12,647
Total	$	18,362

The U of A Foundation is a private nonprofit organization that reports under FASB standards and is not required to report under GASB standards. As such, the U of A Foundation is not required to report future amounts related to interest on long-term liabilities.

Prior Defeasances

Primary Government

Governmental Activities

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $113 million were considered defeased at June 30, 2008.

Higher Education

In December 2001, the University of Arkansas Fort Smith Campus issued Student Fee revenue bonds, Series 2001 in the amount of $41.5 million with interest rates ranging from 2 to 5%. The primary portion of the proceeds was pledged to advance refund the outstanding balances of the 1999 and 1997 general obligation bonds, $9.7 million and $25.9 million, respectively. The required portion was deposited in an irrevocable trust to provide full funding for all future debt service payments on the old outstanding bonds. Final payment from the Defeasance Escrow Fund is scheduled for April 1, 2009. To date all payments have been made according to the schedule. Neither this defeased debt, nor the activity associated with it, is reported in the financial statements. The outstanding principal balance at June 30, 2008, was $8.4 million, all attributable to the 1999 issue, and the related escrow balance was $8.6 million.

On October 1, 2004, the University of Arkansas Fayetteville Campus issued $7.1 million in Various Facility Revenue Refunding Bonds. The bonds were issued with an average coupon rate of 3.677% in order to advance refund $6.6 million of Series 1997 Various Facility Revenue Bonds having an average interest rate of 5.198%. Proceeds in the amount of $7 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. All outstanding refunded Series 1997 bonds were redeemed on November 1, 2007, and the escrow balance at June 30, 2008, was $10.

On March 1, 2005, the University of Arkansas Fayetteville Campus issued $60 million in Various Facility Revenue Refunding Bonds. Series 2005B bonds were issued with an average coupon rate of 4.408% in order to advance refund $44.2 million of Series 2002 Various Facility Revenue Bonds and $12.1 million of Series 2001 Various Facility Revenue Bonds. The refunded bonds have an average interest rate of 5.472%. Proceeds in the amount of $62.3 million, plus an additional $779,632, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2002 and 2001 Series bonds. All outstanding refunded Series 2002 bonds will be redeemed on December 1, 2012, at a price equal to 100% of the principal amount plus interest accrued thereon. All outstanding refunded Series 2001 bonds will be redeemed on December 1, 2011, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, those portions of the 2002 Series and 2001 Series bonds are considered defeased. The outstanding principal balance at June 30, 2008, was $56.3 million for these issues, and the related escrow balance at June 30, 2008, was $60.1 million.

On September 15, 2005, Arkansas State University issued $3.3 million in refunding bonds, for the Beebe campus, with interest rates of 2.8% to 4.15% to advance refund $3.3 million of outstanding bonds dated December 1, 1998, with interest rates of 3.85% to 5%. Net bond proceeds of $3.2 million, with a contribution from the University of $136,000, were used to advance refund the 1998 bonds. As a result, the 1998 bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. An additional $4,693 was received by Arkansas State University as a result of the refunding to be applied for debt service of the new issue. The 1998 bonds were called for redemption on October 15, 2005. Arkansas State University advance refunded the bonds to reduce its total debt service payments over the next 19 years by $432,696 and to obtain an economic gain of $171,960. All outstanding refunded bonds were redeemed on April 1, 2008, and the escrow balance at June 30, 2008, was $0.

On September 15, 2005, Arkansas State University issued $19.2 million in refunding bonds, for the Jonesboro campus, with interest rates of 3% to 5% to advance refund $14.4 million of outstanding bonds dated May 1, 1999, and $4.9 million dated April 1, 2000, with interest rates of 3.5% to 6.125%. Net bond proceeds of $18.8 million, after payment of $382,184 bond issuance costs, and a premium of $1.5 million were remitted to an escrow agent to provide for all future payments of the defeased bonds. The May 1, 1999, bonds were called on April 1, 2007, and the April 1, 2000 bonds will be called on April 1, 2008. Arkansas State University advance refunded the bonds to reduce its total debt service payment by $1.1 million over the next 19 years and to obtain an economic gain of $1.1 million. Arkansas State University received accrued interest of $34,936 from the bond issue to apply toward the debt payments of the new issue. All outstanding refunded bonds were redeemed on April 1, 2008, and the escrow balance at June 30, 2008, was $0.

On October 12, 2005, the University of Arkansas Pine Bluff Campus issued $19.6 million in Various Facility Revenue Refunding and Construction Bonds, Series 2005A, and $3.3 million in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued for the purpose of financing (1) the transfer of a student housing facility from Delta Student Housing, Inc. in exchange for $10.2 million to retire Delta's existing debt; (2) the refunding of the University's note to the Department of Education in the amount of $2.7 million; (3) the refunding of the University's note to the Arkansas Development Finance Authority in the amount of $668,968; (4) and the capital repairs and improvements to existing facilities on campus. Series 2005B bonds were issued with an average coupon rate of 3.53% in order to advance refund $3.3 million of Series 1997 Athletic Facilities Revenue Bonds having an average interest rate of 5.23%. Proceeds in the amount of $3.4 million were deposited in trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. All outstanding refunded bonds were redeemed on December 1, 2007, and the balance at June 30, 2008, was $0.

On April 27, 2006, the University of Central Arkansas issued $19.1 million in general obligation bonds collectively referred to as 2006D, 2006E, and 2006F and dated as April 1, 2006. The series 2006D bonds ($7.2 million) are secured by a pledge of a portion of auxiliary revenues and the proceeds will be used to fund the construction of a student health facility and to provide additional parking facilities. The series 2006E bonds ($3.8 million) are secured by a pledge of a portion of the general tuition and fee revenue and it will be used to construct and improve intramurals and practice fields for educational and general purposes. The series 2006F bonds ($8.1 million) are secured by a pledge of a portion of student housing revenues and will refund the series 2000 bonds of the College Square Retirement Center. This issuance created a net present value savings of $803,000 by the advance refunding of the 2000 Series bonds refunded through the 2006F Series bonds. The 2000 issue would have required principal and interest payments of $14.8 million.

On June 1, 2007, Arkansas State University issued $30.3 million in refunding and construction bonds, for the Jonesboro campus, with interest rates of 3.65% to 5%. A portion of the bond proceeds was utilized to advance refund outstanding bonds of $7.6 million dated March 1, 1999, with interest rates of 4.15% to 5.05%. Net bond proceeds of $7.8 million were remitted to an escrow agent to provide for all future payments of the defeased bonds. The March 1, 1999, bonds were called on August 1, 2007. The University advance refunded the bonds to reduce its total debt service payments by $240,091 over the next sixteen years and to obtain an economic gain of $194,821. The University received accrued interest of $19,056 from the bond issue to apply toward the debt payments of the new issue. All outstanding refunded bonds were redeemed on August 1, 2007, and the escrow balance at June 30, 2008, was $0.

On May 15, 2005, Northwest Arkansas Community College issued capital improvement and refunding bonds of $23.4 million with interest rate from 3% to 5%. A portion of the bond proceeds was utilized to advance refund outstanding bonds dated November 1, 2000, and October 1, 2002, with interest rates of 4.8 and 5.9% and 1.5% to 3.6% respectively. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. The final call dates of the 2000 and 2002 series bonds are November 15, 2010, and November 15, 2007, respectively. The outstanding principal balance at June 30, 2008, was $5.3 million for these issues, and the related escrow balance at June 30, 2008, was $5.5 million.

Component Units

In prior years, the Arkansas Development Finance Authority defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $53.8 million were considered defeased at June 30, 2008. The bonds include the 1979 Series A Single Family Conventional Bonds and the 1999 Series A State Agencies Facilities Revenue Bonds.

Current Refundings

Primary Government

Higher Education

On April 30, 2008, Arkansas State University issued $4.4 million in refunding bonds for the Newport campus with interest rates of 2.75% to 4.5% to advance refund $4.3 million of outstanding bonds dated May 1, 2003. Net bond proceeds of $4.3, after payment of $78,215 net bond issuance costs, and Arkansas State University contribution of $8,950 were remitted to an escrow agent to provide for all future payments of the defeased bonds. The May 1, 2003, bonds were called on June 1, 2008. Arkansas State University advance refunded the bonds to reduce its total debt service payment by $239,381 over the next 20 years.

On October 1, 2007, the University of Central Arkansas issued $21.4 million in refunding bonds referred to as the Board of Trustees of the University of Central Arkansas Student Housing Revenue Refunding Bonds, Series 2007C. The bonds were issued to provide funds for the advance refunding of the Housing System Revenue Bonds Series 1997A in the amount of $5.5 million and the Student Housing System Revenue Bonds Series 2004C of $15.2 million, as well as to pay the cost of issuance of the 2007C bonds. The advance refunding will reduce the total debt service payments by $1.5 million and result in an economic gain of $733,357.

(9) Pledged Revenues

Primary Government

Governmental Activities

The state has committed to appropriate each year, from various fee revenues, amounts sufficient to cover the principal and interest requirements on bonds issued by the Arkansas Development Finance Authority (ADFA). ADFA has pledged, as the sole security for the bonds, the annual appropriations from the State. The following is a summary of the pledged gross revenues collected, principal, and interest paid during the fiscal year ended June 30, 2008, and the remaining principal and interest as of June 30, 2008 (expressed in thousands):

Revenue Pledged	Purpose of Debt	Term of Commitment	Remaining Principal and Interest	FY08 Pledged Revenue	FY08 Principal and Interest
Motor vehicle transfer fees, lein fees, title fees	Construction and remodel of buildings	2014	$ 5,811	$ 1,800	$ 2,330
Permit fees	Construction of buildings	2041	38,117	11,711	670

Business-Type Activities

For purposes of extinguishing long-term debt issues, certain revenues have been pledged as security. The following is a summary of the pledged gross revenues collected, principal and interest paid during the fiscal year ended June 30, 2008, and the approximate amount of pledged revenues as of June 30, 2008 (expressed in thousands):

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	FY 2008 Pledged Revenue	FY 2008 Principal and Interest
Henderson State University	Student housing revenue	Construction and renovation of student housing and refunding of existing student housing bond	2035	$ 29,007	63%	$ 1,711	$ 1,275
	Student recreation center revenue	Construction of student recreation center	2032	13,090	68%	801	263
	Auxiliary revenue	Renovation and maintenance of other auxiliary services	2027	795	10%	413	89
Southern Arkansas University - Magnolia	Student fees	Capital improvements to facilities	2037	29,899	7%	15,439	772
	Housing system revenue	Construction and remodel of residence halls	2014	607	2%	5,532	84
	Auxiliary revenue	Capital improvements to facilities	2030	13,926	11%	5,970	644
Arkansas State University - Beebe	Student fees	Construction of facilities	2013	337	47%	144	33
	Student tuition & fee revenue	Construction, renovation and refinance of facilities	2036	50,751	34%	5,377	1,835
Arkansas State University - Jonesboro	Lessee rent	Construction of facilities	2010	256	11%	1,140	124
	Student tuition & fee revenue	Construction of facilities, property purchase and refinance facilities	2034	26,274	2%	54,660	1,666
	Housing fees	Construction of facilitiies and refinance facilities	2037	120,913	88%	4,716	4,124
	Student union fees	Refinance facilities	2025	19,501	51%	2,251	1,200
	Parking fees	Refinance facilities	2025	6,645	28%	1,394	409
	Recreation center fees	Construction of facilities	2037	30,680	94%	1,123	1,056
Arkansas State University - Mountain Home	Student fees	Construction of facilities	2033	8,320	15%	2,258	78
	Student fees and ad valorem tax	Refinance prior issue	2018	4,715	14%	3,332	552
Arkansas State University - Newport	Student tuition & fee revenue	Construction of facilitiies and refinance facilities	2033	9,837	14%	2,756	31
Arkansas Tech University	Food service fees	Renovation of cafeteria	2017	934	3%	4,105	107
	Housing fees	Construction of facilities and refunding of existing bond issue	2038	44,053	26%	5,666	1,631
	Student tuition & fee revenue	Construction of facilities, refunding of existing bond issue, upgrade computer system and software	2038	22,969	2%	30,998	1,595
	Athletic revenues	Construction of facilities	2037	6,873	7%	3,468	262
University of Arkansas at Fayetteville	Various facility revenue	Construction and renovation of facilities, refunding of prior issues, land purchases	2038	497,341	9%	177,937	21,431
	Athletic fees	Construction of facilities and refunding of prior issues	2023	53,128	9%	41,608	4,958
University of Arkansas at Little Rock	Student fees	Refunding of prior issues and general improvements	2025	39,213	4%	54,296	4,546
	Housing fees	Construction of facilities	2030	26,286	42%	2,861	900
University of Arkansas for Medical Sciences	Clinical programs revenue	Construction of facilities and refinance prior issues	2036	443,960	3%	488,488	17,383
	Parking fees	Parking deck construction	2035	30,792	53%	2,172	1,764
University of Arkansas at Monticello	Auxiliary revenue	Refunding of prior issues	2019	4,493	8%	5,289	410
	Student fees & auxiliary revenue	Capital improvements and refund loan with component unit	2036	15,828	4%	15,152	568
University of Arkansas at Pine Bluff	E&G funds	Refunding of prior issues and capital improvements	2036	38,015	5%	26,089	1,602
	Student fees	Construction of facilities	2014	563	1%	15,746	95
University of Central Arkansas	Student fees	Construction of facilities, capital improvements and refunding of prior issues	2038	69,156	4%	60,805	2,929
	Housing fees	Construction of facilities and refunding of prior issues	2034	52,354	10%	20,991	2,515
	Auxiliary revenue	Construction of facilities, capital improvements and refunding of prior issues	2038	26,109	7%	12,151	1,967
University of Arkansas Community College - Hope	Student fees	Construction of facilities and refund of prior issues	2021	7,044	28%	1,910	586
University of Arkansas Community College - Batesville	Student fees	Construction of facilities	2019	3,395	12%	2,606	308
University of Arkansas Community College - Morrilton	Student fees	Construction of facilities and refund of prior issues	2022	5,364	10%	3,792	444
University of Arkansas at Fort Smith	Student fees	Construction of facilities and general improvments	2032	84,711	16%	22,506	4,987
National Park Community College	Student tuition & fee revenue	Construction and renovation of facilities	2033	20,610	23%	3,511	622
University of Arkansas Community College - Phillips	Student fees	Construction of facilities	2018	5,317	19%	2,780	506
Rich Mountain Community College	Tax revenue	Capital improvements	2023	2,212	45%	327	158
Black River Technical College	Student tuition & fee revenue	Renovation and expansion of facilities	2028	4,394	12%	1,884	219
Pulaski Technical College	Student tuition & fee revenue	Construction and renovation of facilities	2037	88,654	70%	4,344	3,362
Ozarka College	Student tuition & fee revenue	Construction of facilities	2027	3,800	9%	2,215	189

(10) Arbitrage Rebate and Excess Earnings Liability

Primary Government

The interest paid on most debt issued by state governments is exempt from federal income tax. State governments sometimes temporarily reinvest the proceeds of such tax-exempt debt in materially higher-yielding taxable securities. This practice is known as arbitrage. Any excess earnings resulting from arbitrage must be rebated to the federal government. Arbitrage is calculated and rebated at the end of each five-year period that the tax-exempt debt is outstanding (90% of the amount due), as well as at maturity. The State's outstanding bonds are subject to federal government yield and adjustment excess earnings laws, which limit the earnings rate on funds received by an organization, that issue tax exempt bonds. Additionally, all of the State's outstanding bonds are subject to federal government arbitrage rebate laws. At June 30, 2008, the State owed $40,000 in arbitrage rebate liability.

Component Units

The Arkansas Student Loan Authority's (ASLA) outstanding bonds are subject to federal government yield and adjustment excess earnings laws, which limit the earnings rate on funds received by an organization which issues tax exempt bonds. Additionally, all of the ASLA's outstanding bonds are subject to federal government arbitrage rebate laws. These laws limit the earnings rate on funds received by an organization which issues tax exempt bonds. A liability for revenues above the arbitrage rebate limit and for excess earnings over the allowable spread between the loan yield and bond yield have been included in accounts payable and accrued expenses in the amounts of approximately $3.6 million at June 30, 2008. The Series 2004A bonds currently have excess earnings provisions. The 2004A, 2005A, and 2006A & B currently have arbitrage rebate provisions.

The ASLA trust indentures require such excess earnings and arbitrage rebate provisions to be placed in the respective rebate funds and held until the amounts are due to the federal government, generally five years subsequent to the issuance of the bonds. The excess earnings are periodically adjusted when the calculations reveal changes in the current amount that may be due if the bonds were redeemed. There were no amounts remitted by the ASLA to the federal government related to its excess earnings liability during the year ending June 30, 2008.

The Internal Revenue Code of 1986 establishes rules and regulation for arbitrage rebates. The Arkansas Development Finance Authority (ADFA) has made provisions for revenues above the rebate limit which must be remitted to the federal government. The Internal Revenue Service limits the amount of interest rate spread that an issuer can earn on tax-exempt single family mortgage revenue bonds. Based on certain assumptions with regard to its variable rate demand obligations, ADFA could earn in excess of the allowed amount. In order to maintain compliance with the IRS, the excess is directed to bond issues earning less than the allowed amount. At June 30, 2008, the present value of excess subsidy was approximately $13.4 million. In the event the cost of long-term bonds exceeds the reserved or warehoused loan rates, ADFA would utilize this subsidy to limit losses.

(11) Leases

Capital Lease Receivables

In July of 2006, a capital lease receivable was entered into with the Arkansas Development Finance Authority, a discretely presented component unit of the State, and the Arkansas Economic Development Commission, a department of the State of Arkansas, as lessors, and Drew Foam Companies, Inc. as a lessee. The capital lease term continues until June 30, 2024. The amount of the lease is $750,000, to include land with all buildings, structures and other improvements now or in the future. The capital lease bears no interest rate and the future lease payments below represent only principal payments. There are no contingent rentals or unearned income at June 30, 2008.

Future amounts required to pay principal as of June 30, 2008, are as follows (expressed in thousands):

		Principal
Year ending June 30:		
2009	$	28
2010		46
2011		46
2012		46
2013		46
2014-2018		230
2019-2023		230
2024-2028		46
Total	$	718

Capital Lease Obligations

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature.

The State has lease agreements for buildings and equipment which are accounted for as operating leases. The lease payments are recorded as expenditures or expenses over the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee. Capital leases in the government-wide and proprietary fund statements are reported as long-term obligations in those funds along with the related assets. Capital leases for the governmental funds are reported as other financing sources and expenditures.

The State also has direct-financing lease agreements with the Arkansas Development Finance Authority. These leases and the related assets are reported separately from other capital leases in the notes to the government-wide financial statements.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

Assets acquired through capital leases were as follows (expressed in thousands):

	Governmental activities	Business-type activities
Assets:		
Land	$	$ 259
Buildings	290,351	20,979
Machinery and equipment	1,020	30,848
Less: Accumulated depreciation	(64,625)	(13,776)
Total	$ 226,746	$ 38,310

Future minimum commitments under operating and capital leases by fund type as of June 30, 2008, were as follows (expressed in thousands):

	Capital leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2009	$ 1,833	$ 8,421
2010	1,452	7,301
2011	904	5,823
2012	600	4,157
2013		3,564
2014-2018		13,781
2019-2023		8,699
2024-2028		3,056
2029-2033		1,476
2034-2038		566
Total minimum lease payments	4,789	56,844
Less: Interest	(203)	(14,842)
Present value of future minimum lease payments	$ 4,586	$ 42,002

	Capital leases with component unit	
	Governmental activities	**Business-type activities**
Year ending June 30:		
2009	$ 12,962	$ 226
2010	12,956	225
2011	12,940	227
2012	10,858	224
2013	10,845	225
2014-2018	50,111	
2019-2023	41,205	
2024-2028	26,617	
2029-2033	19,923	
2034-2038	8,662	
2039-2043	2,827	
Total minimum lease payments	209,906	1,127
Less: Interest	(78,114)	(132)
Present value of future minimum lease payments	$ 131,792	$ 995

	Operating leases	
	Governmental activities	**Business-type activities**
Year ending June 30:		
2009	$ 28,119	$ 12,913
2010	19,770	8,106
2011	14,593	4,288
2012	8,402	2,425
2013	5,917	2,331
2014-2018	17,570	7,097
2019-2023	13,088	4,432
2024-2028	26,742	4,356
Total minimum lease payments	$ 134,201	$ 45,948
Total rental expenditure/ expense (2008)	$ 32,727	$ 18,106

(12) Fund Balance/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $79.4 million deficit in net assets as of June 30, 2008. The deficit is due to a change in actuarial assumptions during the fiscal year ended June 30, 1997. During 1987, the structure of the law changed by tying workers' compensation payments to the State's average weekly wage, beginning on January 1, 1989. However, the threshold at which the agency's Permanent and Total Disability Trust Fund takes over indemnity payments was not changed, and has remained static at $75,000 since 1981, although the state maximum total disability rate has increased over 300% since that time. This increased payout of claims, without a concomitant increase in the takeover threshold and without any increase in the premium tax that funds the agency, has led to the deficit. A major step towards eliminating the deficit was taken during the latest legislative session with the passage of Act 1599 of 2007, which now sets the threshold to 325 times the maximum total disability rate, or $169,650.

(13) Pensions

(a) Plan Descriptions

The State contributed to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan (Judicial), Arkansas Highway and Transportation Retirement Plan (Highway), and Arkansas State Police Retirement System (State Police). State Police and Judicial are administered by Arkansas Public Employee Retirement System (APERS). Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits in accordance with benefit provisions established and amended by Arkansas Code Title 24. Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan
One Union National Plaza
124 W. Capitol, Suite 400
Little Rock, AR 72201-1015
(501) 682-7800

Arkansas Highway and Transportation Retirement Plan
10324 I-30
Little Rock, AR 72209
(501) 569-2000

Arkansas State Police Retirement Plan
One Union National Plaza
124 W. Capitol, Suite 400
Little Rock, AR 72201-1015
(501) 682-7800

The State sponsors two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System board of trustees, and APERS, administered by the Arkansas Public Employees Retirement System board of trustees, which provide retirement, disability and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by Arkansas Code Title 24. Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan
1400 West Third Street
Little Rock, AR 72201
(501) 682-1517

Arkansas Public Employees Retirement Plan
One Union National Plaza
124 W. Capitol, Suite 400
Little Rock, AR 72201-1015
(501) 682-7800

(b) Funding Policies

Arkansas Code establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	Teacher	APERS	Highway	State Police	Judicial
Number of participating employers/contributing entities	336	697	1	1	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	14.00%	4.00%-24.54%	12.90%	22.00%	12.00%
Legal or contractual maximum rates	14.00%	24.54%	12.90%	22.00%	12.00%
Covered Payroll (in thousands)	$ 2,268,000	$ 1,380,000	$ 119,000	$ 25,910	$ 18,074
State Plan Members - contributory plans	6.00%	5.00%	6.00%	9.25%	5.00% or 6.00%
Annual pension cost (in thousands)	$ 350,319	$ 173,462	$ 16,178	$ 10,043	$ 5,145
Contributions made (in thousands)	$ 350,319	$ 173,462	$ 16,178	$ 11,651	$ 5,145

The annual required contribution amounts and the percentage contributed is determined by the annual actuarial valuation as set forth in Arkansas Code for Teacher and APERS. The current year and each of the two preceding years are as follows (expressed in thousands):

Fiscal year	Plan	Annual Pension Cost	Percentage contributed
2008	Teacher	$ 350,319	100%
	APERS	$ 173,462	100%
2007	Teacher	$ 331,891	100%
	APERS	$ 163,224	100%
2006	Teacher	$ 311,714	100%
	APERS	$ 158,152	100%

The State Police plan consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members after that date. All non-retired members of the State Police are now covered by noncontributory benefits. Act 1071 of 1997 created a second tier of benefits for new hires and prior members electing the new program. Act 1071 of 1997 also provided additional funding for State Police. Through June 30, 2003, the funding provided by Act 1071 enabled the Retirement System to meet the level percent-of-payroll financing objective. Act 1071 of 1997 was further amended by Act 1023 of 2005 to extend the maximum amortization period for unfunded actuarial accrued liabilities to an open 30-year period.

APERS consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan, and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977, and was effective January 1, 1978. It automatically applied to all members hired between January 1, 1978, and June 30, 2005. Act 2084 of 2005 requires that beginning July 1, 2005, all new hires become APERS members and are required to contribute 5% of their earnings to APERS. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005.

Members of the Teacher plan contribute 6% of their salaries, with one exception. Those who became members before July 1, 1971, can contribute only on the first $7,800 of their annual salary. Effective July 1, 1993, all new members, including any former active members, were automatically enrolled as noncontributory members. By individual election, members of the Teacher plan may choose to contribute.

Active members of the Judicial plan contribute either 5% or 6% of their salaries depending upon the member's appointment date. Members of the Judicial plan with 20 or more years of service and members age 65 or older with 10 or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

The Teacher, Highway, and Judicial plans did not have any investments of any commercial or industrial organization whose market value equaled 5% or more of the individual plan's net assets available for benefits.

Investment in the pension trust funds are reported at fair value as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

The State's 2008 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to the Teacher plan. As required by Act 1194 of 1995, the State increased the local state supported school appropriation so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation (asset) to State Police for the current year is as follows (expressed in thousands):

		State Police
Annual required contributions (ARC)	$	9,996
Interest on net pension obligations		163
Adjustment to annual required contributions		(116)
Annual pension cost		10,043
Contributions made		11,651
Change in net pension obligations (asset)		(1,608)
Net pension obligation (asset), beginning of year		532
Net pension obligation (asset), end of year	$	(1,076)

The net pension obligation (asset) for State Police is recorded in the governmental activities column in the government-wide financial statements.

No pension liability exists for Teacher, APERS, Highway, or Judicial as the State's contributions to each respective plan for the year ending June 30, 2008 was equal to the ARC.

Three-year trend information for Highway, State Police, and Judicial is as follows (expressed in thousands):

	Year ending		Annual pension cost (APC)	Percentage of APC contributed		Net pension obligation (asset)
Highway	6/30/2008	$	16,178	100.00%	$	
	6/30/2007		15,925	100.00%		
	6/30/2006		15,952	100.00%		
State Police	6/30/2008		10,043	116.01%		(1,076)
	6/30/2007		9,891	115.93%		532
	6/30/2006		9,984	96.60%		2,107
Judicial	6/30/2008		5,145	100.00%		
	6/30/2007		5,182	100.00%		
	6/30/2006		4,905	100.00%		

Historical trend information designed to provide information about each systems' progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is located immediately following the notes of the State's financial statements.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

(c) Funded Status

The funded status of the State's Highway, State Police and Judicial plans as of June 30, 2008 are as follows:

	Highway	State Police	Judicial
Actuarial accrued liability	$ 1,188,700	$ 320,100	$ 165,747
Acturial value of plan assets	1,206,900	238,040	169,061
Unfunded actuarial accrued liability (UAAL)	$ (18,200)	$ 82,060	$ (3,314)
Funded ratio	101.5%	74.4%	102.0%
Covered payroll	$ 119,000	$ 25,910	$ 18,074
UAAL as a percentage of covered payroll	-15.29%	316.71%	-18.31%

(d) Actuarial Assumptions

	Teacher	APERS	Highway	State Police	Judicial
Actuarial valuation date	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining amortization period	21 years	18 years	0 years	30 years	30 years
Asset valuation method	4 Year Smoothing 80%-120% Corridor	4 Year Smoothing Market	5 Year Smoothing Market	4 Year Smoothing Market	4 Year Smoothing Market
Actuarial assumptions:					
Inflation rate	4.00%	4.00%	3.50%	4.00%	3.00%
Investment rate of return*	8.00%	8.00%	8.00%	7.75%	7.50%
Projected salary increases*	4.00%-10.10%	4.7%-10.6%	4.75%-11.25%	3.75%	4.00%
Postretirement benefit increases	3.00% Simple	3.00% Compounded	3.00% Compounded	3.00% Compounded	(a)

* Includes assumed inflation.

(a) Pre-July 1, 1983, retiree's benefits are increased or decreased as the salary for the particular Judical office is increased or decreased. Post June 30, 1983, retiree's - 3.0% compounded.

(e) State Employee Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer receiving a portion of their salary until they become eligible for benefits at retirement, termination, death, or unforeseeable emergency. Amounts deferred are invested in custodial accounts or annuity contracts and deferrals and earnings on investments are not subject to state or federal income taxation until received by beneficiaries.

In 1991, the Attorney General opined (Opinion 91-088) that the annuity contracts purchased with the employees' deferred compensation were covered by the Arkansas Life and Disability Insurance Guaranty Association Act, as described in Arkansas Code Annotated Section 23-96-101 et. Seq. and liability for losses due to failure or nonperformance of contractual obligations due to impairment or insolvency of member insurers were insured under this act, to the extent of one-hundred thousand dollars ($100,000) per participating employee. Act 1604 of the Regular Session of 2001 increased the coverage amount to three-hundred thousand dollars ($300,000) per participating employee.

The assets of the plan are held in trust by the custodian, State Street Bank and Trust Company of Boston, Massachusetts, according to terms specified by contract, for the exclusive benefit of plan participants and their beneficiaries. The plan is administered by Citistreet LLC, of Quincy, Massachusetts, acting under contract in an agency capacity for the Department of Finance and Administration – Employee Benefits Division to provide investment direction, asset transfer or withdrawal instruction or other instruction to the custodian. (On July 1, 2008, CitiStreet joined ING Institutional Plan Services.) In accordance with GASB Statement No. 32, plan balances and activities are not reflected in the State's financial statements. According to the custodian, plan assets totaled $346.2 million at June 30, 2008.

(f) Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher, the Variable Annuity Life Insurance Company (VALIC), the Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF), the Fidelity Fund, or other approved plans.

The board of trustees of each respective college or university established a defined contribution plan as set forth under Section 403(b) of the Internal Revenue Code. Participation in the plan is authorized under Arkansas Code and the plan is administered by the president of the college or university or his designee. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The funds available under the plan primarily include VALIC, TIAA-CREF, and the Fidelity Fund.

Each college or university contributes a percentage of an employee's salary ranging from 5% to 14%, to a VALIC, TIAA-CREF, Fidelity Fund or other retirement account. These amounts are allocated between the funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2008, total employer contributions to VALIC, TIAA-CREF, and Fidelity were $92.4 million while contributions to other plans were $.8 million. Employee contributions to VALIC, TIAA-CREF and the Fidelity Fund were $91.6 million while contributions to other plans were $.6 million.

(g) Component Units

The U of A Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The U of A Foundation's contributions to the plan are 5% of the participants' salaries. In addition, the U of A Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Contributions to the plan were $109,234 in 2008.

(14) Postemployment Benefits Other Than Pensions

Governmental Activities

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The statement establishes standards for the measurement recognition, and display of Other Postemployment Benefits (OPEB). The statement has been implemented prospectively.

(a) Plan Descriptions

The state contributed to these single-employer defined benefit healthcare plans:

- Arkansas State Police Medical and Rx Plan (ASP) (administered by CoreSource, Inc.)
- Arkansas State Employee Health Insurance Plan (AEP) (administered by Department of Finance and Administration Employee Benefits Division)

Each plan provides medical and prescription drugs benefits to eligible state employees as established by State law:

- Arkansas State Police Medical and Rx Plan (ASP)
  - Arkansas Code 12-8-210
- Arkansas State Employee Health Insurance Plan (AEP)
  - Arkansas Code 21-5-401 to 21-5-414

Participants were as follows:

- ASP: 656 active employees and 349 retirees and beneficiaries
- AEP: 31,485 active employees and 7,619 retirees

(b) Funding Policies, Annual OPEB Cost, and Net OPEB Obligation

For both plans, the contribution requirements of plan members and the state are established and may be amended by the State Legislature. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008, the State contributed $2.5 million to ASP and $32 million to AEP. Plan members receiving benefits contributed $1.6 million to ASP and $363.9 million to AEP. The contribution requirements of plan members receiving benefits are as follows:

	ASP	AEP
Under age 65		
Retiree Only	224	204
Retiree & Spouse	350	486
Medicare Eligible		
Retiree Only	91	109
Retiree & Spouse	252	380

The State's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual pension cost for the current year and related information for each plan is as follows:

	ASP	AEP
Number of participating employers/contributing entities	1	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go
State plan members - retirees, (% of premium)	100%	38%
Annual required contribution (ARC)	$ 4,389	$ 140,903
Interest on net OPEB obligation	74	
Adjustment to ARC		
Annual OPEB cost	4,463	140,903
Contribution made	(2,499)	(32,018)
Increase in net OPEB obligation	1,964	108,885
Net OPEB obligation - beginning of year		
Net OPEB obligation - end of year	$ 1,964	$ 108,885

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year for each of the plans are as follows (expressed in thousands):

Fiscal year	Plan	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2008	ASP	$ 4,463	56%	$ 1,964
	AEP	140,903	23%	108,885

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2008, was as follows (expressed in thousands):

	ASP	AEP
Actuarial accrued liability	$ 76,505	$ 1,464,934
Actuarial value of plan assets		
Unfunded actuarial accrued liability (funding excess)	$ 76,505	$ 1,464,934
Funded ratio	0%	0%
Covered payroll	$ 40,568	$ 1,044,880
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	189%	140%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(d) Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the State and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	ASP	AEP
Actuarial valuation date	January 1, 2008	July 1, 2008
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Straight-line	Straight-line
Remaining amortization period	30 years	30 years
Asset valuation method	N/A	N/A
Actuarial assumptions:		
Discount rate	4.00%	5.25%
Projected salary increases	2.00%	N/A
Healthcare inflation rate	8% initial	Initial: 8.75% pre-Medicare 9.75% post-Medicare
	5% ultimate	5% ultimate

(e) Reconciliation of net OPEB liability to amounts recorded on the financial statements:

Governmental	$ 106,570
Business-type	24,854
Component units	217
Pensions	472
Total net OPEB obligation	$ 132,113

Business-Type Activities

Higher Education

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement recognition, and display of other postemployment benefits (OPEB). The Statement has been implemented prospectively.

(a) Plan Descriptions

The State contributed to these single-employer defined benefit healthcare plans administered by the respective higher education institution except as noted:

- Arkansas Northeastern College Retirement Option (ANC)
- Arkansas State University System Retiree Benefits Plan (ASU)
- Arkansas Tech University Retiree Medical and Life Insurance Plan (ATU)
- Black River Technical College Health Insurance Plan (BRTC)
- Henderson State University Postemployment Benefit Plan (HSU) (administered by Health Advantage and MetLife)
- Northwest Arkansas Community College Healthcare Plan (NWACC) (administered by Arkansas Blue Cross and Blue Shield)
- Rich Mountain Community College Retirement Program (RMCC)
- South Arkansas Community College Post-Employment Benefits (SACC)
- Southern Arkansas University – Technical Campus Early Retirement Program (SAUT) (administered by BlueAdvantage)
- Southern Arkansas University Group Health Plan (SAU)
- University of Arkansas at Fort Smith Benefit Plan (UAFS)
- University of Arkansas System Self-Funded Plan (UAS1)
- University of Central Arkansas Retiree Benefits Plan (UCA)

Participants in these plans included 20,669 active employees and 2,186 retirees.

The State contributed to the following defined postemployment benefit plans which are affiliated with and administered by the Arkansas Higher Education Consortium (AHEC), an agent multi-employer defined benefit healthcare plan:

- Mid-South Community College Plan (MSCC)
- North Arkansas College Continued Health/Dental Insurance (NAC)
- National Park Community College Other Postemployment Benefits Policy (NPCC)
- Ozarka College Early Retirement Incentive Program (OC)
- Pulaski Technical College Postemployment Healthcare (PTC)
- University of Arkansas System AHEC Benefits (UAS2)

Participants in these plans included 1,551 active employees and 86 retirees.

Each institute of higher education has the authority to affiliate with AHEC and establish by policy the defined benefits and amount contributed by the employer to AHEC.

Benefits provided to retirees by the plans and eligibility requirements are established by policy by the Board of Trustees of each higher education institution. All plans include individual medical insurance and may include prescription drug programs, dental insurance, life insurance and dependent coverage. Benefits are provided through age 65 for all plans. After age 65, benefits may be reduced or terminated.

(b) Funding Policies

Contribution requirements are established and may be amended by each college's or university's board of trustees. The required contribution is based on projected pay-as-you-go financing requirements.

Participating retirees are required to pay from $0 to $1,099 per month.

The State's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and related information for each plan is as follows (expressed in thousands):

	ANC	ASU	ATU	BRTC	OC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	10%	33%	0%	0% up to age 65;100% after age 65	0% up to age 65;100% after age 65
Annual required contribution (ARC)	$ 107	$ 1,154	$ 1,093	$ 53	$ 31
Interest on net OPEB obligation					
Adjustment to ARC					
Annual OPEB cost	107	1,154	1,093	53	31
Contribution made	(30)	(415)	(392)	(12)	(19)
Increase in net OPEB obligation	77	739	701	41	12
Net OPEB obligation - beginning of year					
Net OPEB obligation - end of year	$ 77	$ 739	$ 701	$ 41	$ 12

	HSU	MSCC	NAC	NPCC	NWACC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	7%	0%	100%	0% up to age 65;100% after age 65	68%
Annual required contribution (ARC)	$ 311	$ 61	$ 30	$ 108	$ 42
Interest on net OPEB obligation					
Adjustment to ARC					
Annual OPEB cost	311	61	30	108	42
Contribution made	(124)			(36)	(15)
Increase in net OPEB obligation	187	61	30	72	27
Net OPEB obligation - beginning of year					
Net OPEB obligation - end of year	$ 187	$ 61	$ 30	$ 72	$ 27

	PTC	RMCC	SACC	SAUT	SAU
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	100%	100%	0% to 75%	0% to 75%	0% to 100%
Annual required contribution (ARC)	$ 115	$ 20	$ 41	$ 77	$ 377
Interest on net OPEB obligation					
Adjustment to ARC					
Annual OPEB cost	115	20	41	77	377
Contribution made	(6)		(16)	(6)	(33)
Increase in net OPEB obligation	109	20	25	71	344
Net OPEB obligation - beginning of year					
Net OPEB obligation - end of year	$ 109	$ 20	$ 25	$ 71	$ 344

	UAFS	UAS1	UAS2	UCA
Number of participating employers/contributing entities	1	8	4	1
Contribution rates for the fiscal year ended June 30, 2008 (% of covered payroll):	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
State Plan Members - retirees, (% of premium)	100%	100%	0% to 100%	36%
Annual required contribution (ARC)	$ 105	$ 20,100	$ 584	$ 367
Interest on net OPEB obligation				
Adjustment to ARC				
Annual OPEB cost	105	20,100	584	367
Contribution made	(15)	(1,953)	(237)	(238)
Increase in net OPEB obligation	90	18,147	347	129
Net OPEB obligation - beginning of year				
Net OPEB obligation - end of year	$ 90	$ 18,147	$ 347	$ 129

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year for each of the plans are as follows (expressed in thousands):

Fiscal Year	Plan	Annual OPEB Cost	Percentage contributes	Net OPEB Obligation
2008	ANC	$ 107	28%	$ 77
	ASU	1,154	36%	739
	ATU	1,093	36%	701
	BRTC	53	23%	41
	OC	31	61%	12
	HSU	311	40%	187
	MSCC	61	0%	61
	NAC	30	0%	30
	NPCC	108	33%	72
	NWACC	42	37%	27
	PTC	115	4%	109
	RMCC	20	0%	20
	SACC	41	39%	25
	SAUT	77	8%	71
	SAU	377	9%	344
	UAFS	105	15%	90
	UAS1	20,100	10%	18,147
	UAS2	619	38%	382
	UCA	367	64%	129

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2008, was as follows (expressed in thousands):

	ANC	ASU	ATU	BRTC	OC
Actuarial accrued liability	$ 866	$ 8,081	$ 9,054	$ 454	$ 186
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 866	$ 8,081	$ 9,054	$ 454	$ 186
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 8,424	$ 87,213	$ 30,326	$ 4,948	$ 4,026
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	10%	9%	30%	9%	5%

	HSU	MSCC	NAC	NPCC	NWACC
Actuarial accrued liability	$ 2,668	$ 295	$ 225	686	$ 185
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 2,668	$ 295	$ 225	$ 686	$ 185
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 18,187	$ 6,314	$ 2,135	$ 9,443	$ 18,827
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	15%	5%	11%	7%	1%

	PTC	RMCC	SACC	SAUT	SAU
Actuarial accrued liability	$ 571	$ 131	$ 263	$ 468	$ 2,604
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 571	$ 131	$ 263	$ 468	$ 2,604
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 12,332	$ 385	$ 6,369	$ 5,853	$ 14,283
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	5%	34%	4%	8%	39%

	UAFS	UAS1	UAS2	UCA
Actuarial accrued liability	$ 644	$ 171,807	$ 5,110	$ 2,446
Actuarial value of plan assets				
Unfunded actuarial accrued liability (funding excess)	$ 644	$ 171,807	$ 5,110	$ 2,446
Funded ratio	0%	0%	0%	0%
Covered payroll	$ 24,674	$ 780,954	$ 20,969	$ 47,660
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	3%	22%	24%	5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(d) Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the valuation date and the historical pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	ANC, BRTC, MSCC, NAC, NPCC, NWACC, OC, RMCC, SACC, SAUT, UAFS, UAS2	ASU, HSU, SAU, UCA	ATU	PTC	UAS1
Actuarial valuation date	July 1, 2007	July 1, 2007	July 1, 2007	July 1, 2007	July 1, 2007
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar	Level Dollar	Level Dollar	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years	30 years	30 years	30 years	30 years
Asset valuation method	N/A	N/A	N/A	N/A	N/A
Actuarial assumptions:	6 00%	3 00%	5 00%	4 50%	4 50%
Discount rate					
Projected salary increases	N/A	N/A	N/A	N/A	N/A
Healthcare inflation rate	10% initial	9% initial	10 5% initial	9% initial	9% medical initial, 4% dental initial
	5% ultimate	4 5% ultimate	5% ultimate	5% ultimate	5% medical ultimate, 3% dental ultimate

(15) Additional Information – Enterprise Funds

The Construction Assistance Revolving Loan Program was created pursuant to the 1987 Amendments (P.L. 100-4) to the “Clean Water Act” (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities.

Condensed Statement of Net Assets (expressed in thousands):

	Construction Assistance Revolving Loan Fund
Assets	
Current assets	$ 52,738
Noncurrent assets	275,923
Total assets	328,661
Liabilities	
Current liabilities	7,309
Noncurrent liabilities	67,522
Total liabilities	74,831
Net Assets	
Restricted	253,830
Total net assets	$ 253,830

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (expressed in thousands):

	Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$ 2,368
Investment earnings (pledged against bonds)	8,775
Amortization expense	(131)
Other operating expense	(3,949)
Operating income (loss)	7,063
Nonoperating revenue/expenses:	
Operating grants and contributions	11,071
Transfers to other funds	(818)
Change in net assets	17,316
Total net assets, beginning of year	236,514
Total net assets, end of year	$ 253,830

Condensed Statement of Cash Flows (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$	(2,024)
Noncapital financing activities		4,608
Investing activities		(10,535)
Net increase (decrease)		(7,951)
Cash and cash equivalents, beginning		59,902
Cash and cash equivalents, end	$	51,951

(16) Risk Management Program

The following describes the risk management programs administered by the State.

(a) Health and Life Plans

Primary Government

As required by Arkansas Code Annotated § 21-5-405, the State and Public School Life and Health Insurance Board (the Board) and the Executive Director of Employee Benefits Division (EBD) of the Department of Finance and Administration take a risk management approach in designing the State employee benefit programs. In addition, the Board ensures that the state employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board. Not included in this service are most higher education, state police, and some portion of the State's vocational and technical schools.

The Board provides the following employee benefits to state employees: a self-funded comprehensive major medical plan that includes basic dental, vision, and prescription drug benefits, a health savings account, a fully-funded mental health parity and employee assistance program, and a fully-funded basic and supplemental group term life insurance. Starting with the 2008 plan year (January 1, 2008) dental and vision were removed from the plan. EBD offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, state employees are given the option to participate in a deferred compensation plan.

Basic group term life insurance and accidental death and dismemberment coverage is offered to all state employees. Basic life insurance is provided to all full-time active state employees and is paid from the insurance trust fund. Coverage amounts and cost are based on the age of the employee. The basic life insurance premium for active state employees up to age 64 was $4.60 a month for a $10,000 benefit. For ages 65-69, the cost was $2.30 a month for a $5,000 benefit. Starting with the 2008 plan year (January 1, 2008) the rates changed for employees up to age 64 to $2.50 and ages 64-69 to $1.25. Supplemental coverage is offered to state employees for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage.

Claim liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health insurance plan and the prescription drug plan for state employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 19,675	$ 21,250
Incurred Claims:		
Provision for insured events of current year	192,391	191,446
Total incurred claims and claim adjustment expense	192,391	191,446
Payments:		
Claims payments attributed to insured events of current year	174,564	193,021
Claims payments attributed to insured events of prior years	16,002	
Total Payments	190,566	193,021
Claim liability, end of year	$ 21,500	$ 19,675

Enterprise Fund

Public School Employee Health and Life Benefit Plan

The State sponsors an insurance plan for participating public school employees. Public school employees are offered a self-funded comprehensive major medical plan that includes basic vision and dental benefits, prescription drug benefits, a health savings account, a fully-funded mental health parity benefit and employee assistance program, and a fully-funded basic and supplemental group term life insurance program. Starting with the 2008 plan year (October 1, 2007) dental and vision were removed from the plan. Each school district obtains its own cafeteria plan and any other benefits that are offered to public school employees by their school districts.

Through September 30, 2003, the health and life plans were fully insured. Subsequent to that date, the health plan became self-insured and the life component remained fully insured. The pharmacy plan has been self-insured since the inception of the plan. While the health plan was fully insured, most plan participants' premiums for health, life and pharmacy coverage were collected from the school districts by the health insurance companies, and the life and pharmacy components of the premium were paid by the health insurance companies to the life insurance company and the Department of Finance and Administration – Employee Benefits Division, respectively. Premiums for certain retirees and COBRA participants were collected by the Department of Finance and Administration – Employee Benefits Division, and the health and life components were paid to the health and life insurance companies, respectively. Employee contributions and school district matching provide funding for the Public School Employee Health and Life Benefit Plan. Premiums are set by the State and Public School Life and Health Insurance Board, and are based upon family composition and claims history. The mix of employee contributions and school district matching was determined individually by the school districts with school district match being at least $131 for fiscal year 2008. Some school districts provided additional support for their employees through locally generated funding. Act 1745 of 2001 provides the State Legislature the authority to establish the minimum school district matching amount. The plans have not purchased any annuity contracts on behalf of claimants. Effective July 1 of 2007, Act 1420 of 2007 authorizes the Department of Education to pay an additional matching amount of $35 million per fiscal year to the Employee Benefits Division of the Department of Finance and Administration.

Basic group term life insurance and accidental death and dismemberment coverage are offered to all public school employees. Coverage amounts and cost are based on the age of the employee. Upon enrollment in the health insurance plan, public school employees are provided with basic life insurance in the amount of $5,000. The basic life insurance premium for public school employees is $.56 per month. Supplemental coverage is offered to public school employees for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage for public school employees.

Claim liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health plans and the prescription drug plan for public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the Public School Employee Health and Life Benefit Plan Enterprise Fund. An analysis of changes in aggregate liabilities for claims and claims adjustments expenses for the current and prior fiscal year (expressed in thousands) are as follows:

	2008	2007
Claim liability, beginning of year	$ 22,750	$ 21,750
Incurred Claims:		
Provision for insured events of current year	208,506	236,300
Total incurred claims and claim adjustment expense	208,506	236,300
Payments:		
Claims payments attributed to insured events of current year	191,003	213,885
Claims payments attributed to insured events of prior years	17,503	21,415
Total Payments	208,506	235,300
Claim liability, end of year	$ 22,750	$ 22,750

(b) Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various state agencies. Accordingly, state agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those state buildings covered by commercial insurance, the building and contents are generally insured for replacement cost subject to $100,000 deductible from the Arkansas Multi Agency Trust Fund (AMAIT), Act 1762 of 2003, and varying deductible amounts up to $25,000 per occurrence for the state agency involved. Arkansas State University has a $100,000 deductible and does not participate in AMAIT. The University of Arkansas System has its own program that the State Risk Management Office does not oversee. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's total value. Due to market conditions, very limited availability, and excessive cost, total earthquake coverage is limited to $100 million in all earthquake zones. The State has secured domestic and foreign terrorism insurance coverage. Certain state agencies have chosen not to purchase commercial insurance on certain buildings and, as such, losses for these buildings are recorded as expenditures in the General Fund when incurred. Flood coverage is provided with varying limits and deductibles according to the various flood zones. Limits vary from $30 million in Zone A ($500,000 deductible) to $100 million in Zone X ($100,000 deductible). Both earthquake and flood coverage limits are annual total maximum coverage for the State, not per occurrence and not per agency.

The State does not purchase liability insurance coverage for claims arising from third-party losses on state property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those state vehicles covered by commercial insurance, each participating agency determines which, if any, vehicles to insure for physical damage and is subject to a deductible of $500 or $1,000. In addition, all losses are subject to a $25,000 liability and $25,000 physical damage deductible paid by AMAIT. Also, such commercial insurance generally provides coverage against liability losses up to $100,000 per occurrence in state and $1,000,000 per occurrence out of state. Seven higher education institutions have elected to purchase $1 million liability both in and out of state and 13 agencies have purchased $500,000 instate and $1 million out of state. Two state agencies have elected not to purchase commercial vehicle insurance, and losses on such vehicles are recorded as expenditures in the General Fund as incurred. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

The 2007 legislature upheld a Claims Commission award for $1.4 million above policy limits for a University of Central Arkansas auto accident. If a court awarded an amount in excess of policy limits, then a claim would be directed to the State Claims Commission.

(c) State Claims Commission

The State Claims Commission (the Commission) was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $10,000 without further approval, while amounts exceeding $10,000 must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the government-wide financial statements. The amount of claims at June 30, 2008 is $715,077.

(d) Public Employee's Claims Division of the Arkansas Insurance Department

The State's Workers' Compensation Program (the Program) was created by State law to provide benefits to state employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. Prior to July 1, 1986, employees of the counties and cities were included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each state agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience.

Changes in the balance of the State's workers' compensation claim liability for the current and prior fiscal year are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 74,888	$ 70,317
Incurred Claims:		
Provision for insured events of current year	16,665	16,001
Increase (decrease) in provision for insured events of prior years	(6,444)	73
Total incurred claims and claim adjustment expense	10,221	16,074
Payments:		
Claims payments attributed to insured events of current year	3,635	3,842
Claims payments attributed to insured events of prior years	7,779	7,661
Total Payments	11,414	11,503
Claim liability, end of year	$ 73,695	$ 74,888

(e) Special Funds Division of the Arkansas Workers' Compensation Commission

The State provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by State law and is known as the Death & Permanent Total Disability Trust Fund (Disability Trust Fund). The second such plan was created by State law and is known as the Second Injury Trust Fund.

Death and Permanent Total Disability Trust Fund

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Generally, employers are liable for medical services and supplies for injured employees. Arkansas Code Annotated § 11-9-502 provides for the first $75,000 of weekly benefits (the indemnity threshold) for death or permanent total disability to be paid by the employer or its insurance carrier. Act 1599 of 2007 amended § 11-9-502 to move the indemnity threshold up to 325 times the maximum total disability rate, or $169,650 for 2008. All indemnity benefits in excess of the threshold are the liability of the agency. Accordingly, the Disability Trust Fund was established, in part, to administer this liability. The taxation rate is determined by the Workers' Compensation Commission in accordance with Arkansas Code Annotated § 11-9-306 which limits the tax rate to three percent (3%) of written manual premiums of workers' compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance.

Claims liabilities are established based on the present value of future benefits for known cases currently receiving benefits, known cases to receive benefits in the future, and claims incurred but not reported. The following represents the changes in claims liabilities for the fund during the last two fiscal years (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 202,758	$ 194,221
Incurred Claims:		
Provision for insured events of current year	10,912	11,589
Increase (decrease) in provision for insured events of prior years	7,564	(21)
Increase due to decrease in discount period	9,820	9,406
Total incurred claims and claim adjustment expense	28,296	20,974
Payments:		
Claims payments attributed to insured events of prior years	12,951	12,437
Total Payments	12,951	12,437
Claim liability, end of year	$ 218,103	$ 202,758

Second Injury Trust Fund

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Arkansas Code Annotated § 11-9-525 provides that an employer employing a handicapped person will not, in the event the employee suffers an injury on the job, be held liable for a greater disability or impairment than actually occurred while the employee was employed. A liability arises to the agency to the extent of the additional disability or impairment where there has been previous disability or impairment, as determined by an agency administrative law judge or the Workers' Compensation Commission. Accordingly, the Workers' Compensation Commission, in accordance with Arkansas Code Annotated § 11-9-306, limits the tax rate to three percent (3%) of written manual premiums of workers' compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance.

Act 1415 of 2007 amended Arkansas Code Annotated § 11-9-525 by prohibiting claims for second injuries being made under the provisions of § 11-9-525 after January 1, 2008. In effect, this act has eliminated the Second Injury Trust Fund with regard to claims made after January 1, 2008.

Changes in the claims liability for the Second Injury Trust Fund during the current and prior fiscal years are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 20,350	$ 20,882
Incurred Claims:		
Provision for insured events of current year	1,407	2,813
Increase (decrease) in provision for insured events of prior years	13,003	(1,598)
Increase due to decrease in discount period	954	976
Total incurred claims and claim adjustment expense	15,364	2,191
Payments:		
Claims payments attributed to insured events of prior years	2,552	2,723
Total Payments	2,552	2,723
Claim liability, end of year	$ 33,162	$ 20,350

(f) Petroleum Storage Tank Trust Fund/Arkansas Remedial Action Trust Fund

The Petroleum Storage Tank Trust Fund (Storage Tank Fund) was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain other requirements at the time of the release. The Storage Tank Fund will reimburse tank owners up to $1 million per occurrence with a $7,500 deductible as well as third-party property claims or bodily injury claims for damages up to $1 million per occurrence, also with a $7,500 deductible. The Storage Tank Fund is funded by an environmental assurance fee of three tenths of a cent for each gallon of fuel, collected at the wholesale level. The first-party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third-party claim liability is estimated at the plan limits for each third-party claim filed until actual damages are determined and the liability is recorded in the governmental activities.

The Arkansas Remedial Action Trust Fund (RATFA) was established by Act 479 of 1985 to provide funding for investigation and clean up of abandoned hazardous substance sites within the State of Arkansas. The State must provide funds to clean up abandoned sites unless qualification can be established for the Federal Superfund Program. Should this occur, the State is required to match 10% of the monies needed to clean up the site. Funding for RATFA is generated mostly by fees collected from companies that require disposal of large quantities of hazardous waste annually as well as any other fees assessed by RATFA if required. In addition to 100% of fees collected, other monies that fund RATFA are costs recovered from state funded site work and civil and administrative penalties assessed. Prior to the use of these funds at an abandoned hazardous substance site, the Arkansas Pollution Control & Ecology Commission (APC&EC) must approve the addition of the site to the Arkansas Remedial Action Trust Fund Hazardous Substance Site Priority List. This list is currently published as APC&EC Regulation Number 30.

Changes in the claim liability for the Storage Tank Fund and RATFA during the current and prior fiscal years are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 13,990	$ 15,265
Incurred Claims:		
Provision for insured events of current year	11,036	4,503
Total incurred claims and claim adjustment expense	11,036	4,503
Payments:		
Claims payments attributed to insured events of current year	6,046	5,778
Total Payments	6,046	5,778
Claim liability, end of year	$ 18,980	$ 13,990

(g) Higher Education Health Plans

The University of Arkansas System (UA System) and Arkansas State University (ASU) sponsor self-funded health plans for employees and their eligible dependents. Within the UA System, four four-year institutions, one two-year institution, the Medical Sciences campuses, and the Arkansas School for Mathematics, Sciences and the Arts participate in the health insurance programs, along with the UA System's divisions of Criminal Justice Institute, the Winthrop Rockefeller Center, Inc., Arkansas Archeological Survey, the Division of Agriculture, System Administration, and the University of Arkansas Foundation. Also, all ASU campuses participate in the health insurance programs, which are administered by third parties and are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full-time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the UA System and ASU claim liability during the current and prior fiscal years are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 10,547	$ 9,518
Incurred Claims:		
Provision for insured events of current year	114,755	96,732
Increase (decrease) in provision for insured events of prior years	160	(8)
Total incurred claims and claim adjustment expense	114,915	96,724
Payments:		
Claims payments attributed to insured events of current year	103,219	86,335
Claims payments attributed to insured events of prior years	10,617	9,360
Total Payments	113,836	95,695
Claim liability, end of year	$ 11,626	$ 10,547

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangements, the reinsurance carrier pays for claims for covered individuals that exceed specified limits. Such limits are $750,000 and $125,000 for the UA System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

(h) Arkansas State Police Health Insurance Plan

Pursuant to Arkansas Code Annotated § 12-8-210, the Arkansas State Police offers active uniformed members and retirees health care benefits. The Arkansas State Police Human Resource section serves as Plan Administrator. A contracted third party administrator (TPA) is selected each plan year to serve as claims processor. The TPA also administers the COBRA Act of 1985 and provides certain actuarial estimates for the Plan. Health care benefits are funded by employer and retired employee contributions and Act 1500 of 2001. Act 1500 stipulates that for every Arkansas driver's license sold, six (6) dollars of the license fee is used to fund the Arkansas State Police Health Plan. The Plan is partially self-funded; reinsurance stop loss coverage for aggregate benefit utilization is contracted for each plan year. Plan years cover January 1 through December 31 of any given year. Employer contribution rates are set by the Arkansas State Police with final approval by the Arkansas State Police Commission. The Arkansas State Police Commission is authorized by Arkansas Code Annotated § 12-8-210 to direct the Plan. The current monthly budgeted premium, set on July 1, 2008, is $350 per budgeted civilian position and $589 per budgeted commissioned position.

The Plan Administrator offers the following employee benefits to Arkansas State Police uniformed employees: a major medical plan that includes prescription drug benefits, a health savings account, and mental health benefits. Arkansas State Police offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, Arkansas State Police uniformed employees are given the option to participate in a deferred compensation plan. A stand alone vision and dental plan as well as a comprehensive group term life plan are available with the employee paying all premiums.

Liabilities for claims incurred but not reported are included in the Arkansas State Police Health Insurance Plan. These liabilities exist because of the span of time between the incurrence of obligations to pay claims and the liquidation of the obligations by the agency across reporting periods. The amounts of these liabilities, based on evaluation of claims data for those claims that were incurred before year-end and paid after year-end for June 30, 2008 are as follows (expressed in thousands):

	2008	2007
Claim liability, beginning of year	$ 1,702	$ 1,576
Incurred Claims:		
Provision for insured events of current year	7,738	7,194
Increase (decrease) in provision for insured events of prior years	978	935
Total incurred claims and claim adjustment expense	8,716	8,129
Payments:		
Claims payments attributed to insured events of current year	7,178	7,238
Claims payments attributed to insured events of prior years	1,659	765
Total Payments	8,837	8,003
Claim liability, end of year	$ 1,581	$ 1,702

(17) Commitments and Contingencies

Primary Government

Governmental Activities

(a) Litigation

The State, its agencies, and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to: claims assessed against the State for property damage and personal injury, alleged inmate wrongs, and other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of State law, and other alleged violations of State and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $1.2 million for the payment of such claims. For other cases where it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $28 million.

Changes in the balance of litigation during the current and prior fiscal year are as follows (expressed in thousands):

	2008	2007
Litigation, beginning of year	$ 6,959	$ 50,842
Incurred litigation	813	1,654
Litigation payments/dismissals	(6,486)	(45,537)
Litigation, end of year	$ 1,286	$ 6,959

(b) Federal Grants

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulation, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 2008, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

(c) Loan Forgiveness

In compliance with terms of the Little Rock School District desegregation case settlement agreement, the State had loaned $20 million to the Little Rock School District (LRSD) between the dates of July 1, 1989, and July 1, 1999. On March 19, 2001, the State and the Little Rock School District executed an agreement in which $15 million of the loans made to the LRSD was immediately forgiven and the remaining $5 million would be forgiven if the LRSD obtained complete unitary status and release from federal court supervision on or before July 1, 2004. The remaining loans were to be amortized over a 20 year period beginning seven (7) years following the execution of the loan with an interest rate of three percent (3%) per annum. As of June 30, 2008, the State's loan receivable is $4.1 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2008, the State has commitments of approximately $477 million for construction and other contracts and approximately $49 million for professional service contracts. The Arkansas Natural Resources Commission has approved $108 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2008.

(e) Bond Guarantees

The Arkansas Economic Development Commission (AEDC) Bond Reserve Guaranty Fund is used to guarantee principal and interest on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2008, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $62 million. In addition, AEDC has committed to guarantee approximately $6.4 million in industrial development revenue bonds that have not closed at June 30, 2008. As of June 30, 2008, two loans underlying these issues were in default. The aggregate principal amount outstanding under such agreements on such date was approximately $11.4 million. AEDC along with the component unit Arkansas Development Finance Authority have assumed this debt along with the related assets with each entity receiving $5.7 million.

(f) Tobacco Settlement

In November 1998, the Attorney General joined 46 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $206 billion over the next 25 years, and continues in perpetuity. All disbursements from the Master Settlement Agreement were initially deposited to the Tobacco Settlement Cash Holding Account. In 2001, funds were distributed to various accounts within the General Fund, including the Arkansas Healthy Century Trust Account, in the amount needed to bring the principal balance to $100 million, and the remainder was distributed to the Tobacco Settlement Program Account. For 2002 and thereafter, the first $5 million are required to be distributed to the Tobacco Settlement Debt Service Account, and the amounts remaining are distributed to the Tobacco Settlement Program Account.

The Arkansas Tobacco Settlement Commission created by The Arkansas Tobacco Settlement Funds Act of 2000 is directed to conduct monitoring and evaluation of programs established in the Tobacco Proceeds Act, to establish program goals for related programs, and to develop performance indicators to monitor programmatic functions to ensure optimal impact on improving the health of Arkansans. The programs include prevention and cessation programs, targeted State needs programs, health issues with specific emphasis on smoking and the use of tobacco products, and Medicaid Expansion program.

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued $36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the University of Arkansas Board of Trustees (UA Board) to fund an expansion to the Arkansas Cancer Research Center (ACRC) on the campus of the University of Arkansas for Medical Sciences (UAMS). The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for $22,158,000 of serial bonds and beginning in 2036 through 2046 for $14,617,000 of term bonds. Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service and are the primary source of payment for the bonds. In accordance with a loan agreement dated June 1, 2006, between the UA Board and the Authority, the UA Board will be required to make debt service payments on the Series 2006 bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the debt service revenues are insufficient to make such payments. Management believes the debt service revenues will be sufficient to service the entire principal and interest due. The latest *Global Insights USA, Inc*. report, prepared in August 2006, on the *Forecast of U.S. Cigarette Consumption (2004-2046)* indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, the State received $60,067,457 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately $27.6 million in 2046 with the first $5 million dedicated to pay the debt service on the above bond issue. If debt service revenues would have been considered insufficient at June 30, 2008, the University would have incurred a liability of $26.6 million related to issue. This amount includes draw down of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

The State's share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear; therefore, the financial statements only reflect the amounts that were earned in fiscal year 2008. In fiscal year 2008, the State recorded a total of $57.3 million with $5 million being transferred to the Authority for the Tobacco Settlement Debt Service Account.

Business-Type Activities

(a) Litigation

The State's business activities and employees may be defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to: claims assessed against the State for property damage and personal injury, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of State law, and other alleged violations of State and federal laws. At June 30, 2008, there was $15,000 in accrued liabilities for business-type activities. For other cases where it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $1.5 million.

Changes in the balance of litigation during the current fiscal year are as follows (expressed in thousands):

	2008	2007
Litigation, beginning of year	$ 1,399	$ 1,206
Incurred litigation	15	1,399
Litigation payments/dismissals	(1,399)	(1,206)
Litigation, end of year	$ 15	$ 1,399

(a) Construction and Other Commitments

At June 30, 2008, the State has commitments in its business-type activities of approximately $236 million for construction and other contracts and approximately $.4 million for professional service contracts.

(18) Subsequent Events

Primary Government

Governmental Activities

The Arkansas Game & Fish Commission (Game & Fish) signed gas leases on two of its wildlife management areas on July 28, 2008. The lease agreements are with Chesapeake Energy Corporation. Game & Fish has received initial lease payments totaling $29.5 million as of August 4, 2008. These five-year leases also call for 20% royalty payments over the next five years. Money from the leases will be used to fund many projects in the state including conservation programs, renovation of facilities as well as funding new and existing projects.

In October 2008 the Department of Correction (DOC) entered into an agreement with Arkansas Development Finance Authority, a component unit, to receive funds totaling $11.9 million. These funds, which were being held on the behalf of DOC, will be used to pay for the purchase of a jail facility, to construct a modular unit at an existing facility, and to construct and equip a special needs unit at an existing facility.

A contract was signed in October 2008, to construct a new headquarters in Hot Springs for Troop K of the Arkansas State Police. The contract price is $2.2 million and expected completion date is one year from the contract date.

Cross Oil Refining and Marketing, Inc. v Weiss, Union County Circuit Court, Sixth Division, Case Number DV-2008-0320-6 challenging Arkansas Gross Receipts Rule GR-55.1 was filed August 25, 2008. The issue in the case is whether natural gas used by Cross Oil as fuel in its refining (manufacturing) process is exempt as a chemical used in manufacturing. The Plaintiff is seeking a refund of $1.1 million in tax paid on purchases of natural gas. The State's answer was filed on September 16, 2008. The possibility exists of an outcome unfavorable to the State.

Business-Type Activities

Commonfund Short Term Fund Liquidity

Several of the institutions of higher education within the state have invested cash balances in excess of current requirements in the Commonfund Short Term Fund (the Fund). The Fund invests in securities with maturities from one day to five and one-half years, but is structured in a manner to allow funds to be available on a daily basis. Accordingly, these assets have been considered cash equivalents or current investments.

On September 29, 2008, Wachovia Bank, in its capacity as Trustee of the Commonfund Short Term Fund, gave notice of its decision to terminate the Fund, to stop accepting deposits, to establish procedures for an orderly liquidation and distribution of the Fund's assets and to resign as Trustee of the Fund. The Trustee took this action upon recognizing that market conditions had become increasingly disrupted, and to ensure fair and equitable treatment of all investors in the Fund. Accordingly, fund assets which the Trustee considered less liquid in the current market environment and representing approximately 90% of the Fund's portfolio as September 26, 2008, were placed in a separate account within the Fund identified as the "Intermediate/Longer-Term Tranche." The assets held in the Intermediate/Longer-Term Tranche were effectively frozen, and were not available for drawdown by investors. A separate pool, identified as the "Intermediate Tranche," was also established and held the fund assets that were readily converted to cash on a same or next-day basis, and available for drawdown.

The following information is from the audited financial statements of each entity, and the dates relate to the respective audit reports:

On October 1, 2008, the University of Arkansas at Fayetteville had $152,366,148 invested in the Fund.

On October 6, 2008, UAMS had $59,053,000 invested in the Fund and assigned to the Intermediate/Longer Term Tranche.

On September 29, 2008, University of Central Arkansas had $5,500,000 invested in the Fund. On October 28, 2008, $2,647,288 remained invested in the Fund. The University is withdrawing funds as they become available.

On November 19, 2008, Arkansas State University had $3,747,714 invested in the Fund. The amount invested at June 30, 2008 was $6,313,622.

Under the terms of the Trustee agreement, Commonfund may designate a successor Trustee who may establish a fund substantially identical to the Fund. Upon establishment, the assets held by Wachovia in their capacity as Trustee, would be transferred to the successor Trustee. Commonfund has indicated its intent to name a successor Trustee as soon as possible, and to establish a substantially identical Fund. Future liquidity projections will likely be positively impacted when this action is completed and with stabilized or improved market conditions.

University of Arkansas at Fayetteville

(i) On August 20, 2008, the University of Arkansas at Fayetteville (UAF) closed on the Series 2008A Various Facilities Revenue Bonds (tax-exempt) with a par value of $36,750,000 and the Series 2008B Various Facilities Revenue Bond (taxable) with a par value of $15,210,000. The bonds will be used for the construction of a new parking facility, bookstore, and other capital projects.

(ii) Subsequent to June 30, 2008, UAF has drawn an additional $1.8 million on the financing agreement for the construction of a new softball stadium. Management anticipates drawing down the entire $6 million to complete construction.

(iii) In August 2008, UAF entered into a Letter of Agreement consenting to the assignment of the Sports Programming License Agreement between the University of Arkansas and KATV to International Sports Properties, Inc. The term of the license shall be for a period of 10 years, beginning July 1, 2008 and ending June 30, 2018. In consideration of the grant of certain exclusive rights under this Letter of Agreement and the subsequent license agreement, UAF shall receive an annual royalty which shall consist of fees and various other reimbursement stipends.

University of Arkansas Phillips Community College

On September 19, 2008, the Board of Trustees authorized the issuance of bonds with amounts not to exceed $12,305,000. These bonds are to help finance the Grand Prairie Center in Stuttgart, along with refunding the Student Fee Revenue Bonds, Series 1997. As of October 20, 2008, the bonds had not yet been offered.

University of Arkansas Community College at Hope

On October 2, 2008, the Community College at Hope closed on Series 2008 Student Fee Revenue Bonds with a par value of $2,685,000. These bonds are to help finance a Science and Technology Center.

Black River Technical College

A construction contract was issued on July 23, 2008, in the amount of $1.7 million for a new academic complex.

Southern Arkansas University

On July 1, 2008, $6.3 million in student fee secured capital improvement bonds were issued to build an exercise recreation facility and update two classroom buildings.

Pension Funds

The 2007 – 2008 financial and credit crisis continues to negatively impact the financial markets, which has caused the pension investments to decline in value overall, and to continue this decline since the fiscal year end.

Arkansas Teachers' Retirement System

The Arkansas Teachers' retirement investment portfolio had decreased in value by $1.2 billion to $9.6 billion between June 30 and September 30, 2008.

Arkansas Public Employees Retirement System

The Arkansas Public Employees Retirement investment portfolio had decreased in value by $632 million to $5 billion between June 30 and September 30, 2008.

Arkansas State Police Retirement System

The Arkansas State Police Retirement System investment portfolio had decreased in value by $22.5 million to $192.4 million between June 30 and September 30, 2008.

Arkansas State Highway Employees Retirement System

Arkansas State Highway Employees Retirement System investment portfolio had decreased in value by $158 million to $1.058 billion between June 30 and September 30, 2008.

Arkansas Judicial Retirement System

The Arkansas Judicial Retirement System investment portfolio had decreased in value by $13.2 million to $147 million between June 30 and September 30, 2008.

Component Unit

Arkansas Development Finance Authority

In July 2008, Arkansas Development Finance Authority (the Authority) executed a bond purchase agreement and agreed to sell $95 million in bonds as part of the Single Family Mortgage Revenue Bonds, Series 2008 A&B. In August 2008, the Authority executed a bond purchase agreement and agreed to sell $20 million in bonds as part of the Single Family Mortgage Revenue Bonds, Series 2008 C. In conjunction with the issuance of the 2008 Series A, B, and C bonds, the Authority utilized all excess subsidy. These bonds provided $84.5 million in proceeds to fund loans in the pipeline and warehoused mortgage-backed securities.

In September 2008, the Authority redeemed $214 million of the Single Family Note Program from assets within the trust estate.

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Required Supplmentary Information

The Missouri-Pacific Train Depot, a part of the Delta Cultural Center Museum, is located in Helena, Arkansas. The Train Depot was named to the National Register of Historic Places in 1987.

Required Supplementary Information
Pension Funds
Schedule of Funding Progress
(Expressed in thousands)

Plan	Fiscal year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Highway	2008	6/30/2008	$ 1,206,900	$ 1,188,700	$ (18,200)	101.5%	$ 119,000	-15.2%
	2007	6/30/2007	1,132,300	1,145,900	13,600	99.0%	118,400	12.0%
	2006	6/30/2006	1,068,600	1,107,600	38,970	96.5%	118,500	32.9%
State Police	2008	6/30/2008	238,040	320,100	82,060	74.4%	25,910	316.7%
	2007	6/30/2007	233,130	307,660	74,530	76.0%	24,000	311.0%
	2006	6/30/2006	210,340	291,170	80,820	72.2%	23,380	345.7%
Judicial	2008	6/30/2008	169,061	165,747	(3,314)	102.0%	18,074	-18.3%
	2007	6/30/2007	159,590	157,370	(2,220)	101.0%	17,330	-12.8%
	2006	6/30/2006	145,050	156,510	11,459	92.7%	17,009	67.0%

Actuarial assumptions are presented in Note 13.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Budgeted amounts		Actual	Variance with final budget – positive
	Original	Final	amounts	(negative)
Expenditures*				
Current:				
General Government	$ 5,078,152	$ 6,786,196	$ 1,596,903	$ 5,189,293
Education	4,095,241	4,396,178	3,333,004	1,063,174
Health and Human Services	4,989,155	5,086,702	4,771,830	314,872
Law, Justice, and Public Safety	801,935	767,252	639,172	128,080
Recreation and Resource Development	365,065	424,753	225,207	199,546
Regulation of Business and Professionals	234,799	269,968	150,562	119,406
Transportation	451,257	489,852	314,153	175,699
Debt Service	206,779	219,730	175,655	44,075
Capital Outlay	1,073,217	1,515,863	535,918	979,945
Total Expenditures	$ 17,295,600	$ 19,956,494	$ 11,742,404	$ 8,214,090

* Expenditures were appropriated, amounts blocked determined available budget. Blocking is revised quarterly to match the forecast revisions. Expenditures may not exceed the lesser of budget or funds available.

Required Supplementary Information
Notes to Schedule of Expenditures – Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

(a) Budgetary Basis of Accounting

The State's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with Generally Accepted Accounting Principles (GAAP). Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration (DFA). Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multiyear projects.

(b) Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly. The General Assembly, which has full authority to amend the budget, adopts a line item expenditure budget by appropriating monies in biennial appropriation acts. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override.

The original appropriation may be adjusted by several items subsequent to the appropriation act. The adjustment items may be: supplemental appropriations or subsequent legislative acts, revisions to the forecast of revenues, restrictions on spending by Executive Order and carryforward provisions.

The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the Stabilization Law) to provide an allotment process of funding appropriations in order to comply with the State law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific funds (i.e., general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department, and judges), their staffs, and the DFA. The balance, net of income tax refunds, court settlement arrangements, etc., is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DFA and 1½% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs, and DFA. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, “A,” “A1,” and “B.” Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies’ funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

The majority of the State’s appropriations are noncontinuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DFA. DFA utilizes quarterly allotments which restricts spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year. The funded portion of the quarterly allotment is then made available for expenditure, and the remainder is blocked.

DFA has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used, and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, overtime, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements, and other special classifications. Budgetary control is maintained through the Arkansas Administrative Statewide Information System (AASIS). AASIS ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, the Arkansas Law authorizes DFA to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

Budget is controlled at the appropriation line item (commitment item), which is the legal level of budgetary control. For financial reporting, the State groups these appropriation account categories by function to conform to its organization structure. The separately issued Budget Compliance Report tracks budget compliance at the funds center and commitment item level.

The following is a reconciliation of GAAP basis expenditures presented in the financial statements to the statutory cash basis expenditures of the General Fund (expressed in thousands):

Total GAAP basis expenditures General Fund	$	11,740,656
Less non-cash federal grant expenditures		(441,276)
Less non appropriated expenditures		(3,911,855)
Plus expenditures eliminated or reclassed as transfers for reporting purposes		3,902,750
Refunds treated as reduction of revenue for financial statements purposes		511,052
New capital leases recorded in appropriated funds		(3,000)
Basis of accounting differences		(55,923)
Total statutory basis expenditures General Fund	$	11,742,404

Required Supplementary Information
Ten-Year Claims Development Information
Employee Benefits Division – Public School Employee Health and Life Benefit Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Premium and Investment Revenues										
Premium Income	$ 134,445,361	$ 53,791,901	$ 30,953,691	$ 40,709,995	$ 45,694,279	$ 158,499,272	$ 209,344,487	$ 230,564,982	$ 230,141,726	$ 239,686,872
Investment Interest Income	89,879	69,154	81,458	32,734	68,853	233,550	586,801	1,570,234	2,352,048	2,482,253
Totals	$ 134 535 240	$ 53 861 055	$ 31 035 149	$ 40 742 729	$ 45 763 132	$ 158 732 822	$ 209 931 288	$ 232 135 216	$ 232 493 774	$ 242 169 125
Unallocated Expenses										
Operating Costs	$ 78,701	$ 201,512	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938	$ 4,288,268
Reinsurance Premium Expense	0	0	0	0	0	0	0	0	0	0
Totals	$ 78 701	$ 201 512	$ 153 510	$ 317 988	$ 675 968	$ 905 564	$ 1 234 945	$ 1 175 832	$ 1 703 938	$ 4 288 268
Estimated incurred claims and expenses, end of fiscal year	$ 109,313,745	$ 27,844,991	$ 32,226,064	$ 33,852,966	$ 35,916,834	$ 164,172,038	$ 198,727,802	$ 220,169,782	$ 236,300,587	$ 208,506,000
Paid (cumulative) claims and claims adjustment expenses										
End of Fiscal Year	N/A	N/A	N/A	N/A	34,316,834	148,172,038	181,727,802	198,419,782	213,550,587	185,756,000
One Year Later	N/A	N/A	N/A	N/A	35,916,834	163,888,838	198,426,902	219,834,832	235,854,687	
Two Years Later	N/A	N/A	N/A	N/A	N/A	164,172,038	198,678,502	220,245,907		
Reestimated incurred claims and expenses										
End of Fiscal Year	N/A	N/A	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000
One Year Later	N/A	N/A	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	
Two Years Later	N/A	N/A	N/A	N/A	N/A	164,172,038	198,727,802	220,169,782		
Increase (decrease) in estimated incurred claims and expense from end of policy year	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in net incurred claims and claim adjustment expenses from original estimate	0	0	0	0	0	0	0	0	0	0
Number of Plan Participants	N/A	N/A	N/A	N/A	43,632	44,797	45,463	47,268	48,846	50,370

Note 1 Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activities* , effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 16 of the financial statements describes the Public School Employee Health and Life Benefit Plan and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2 Because the Public School Employee Health and Life Benefit Plan is not restating Claims IBNR each year, the reestimated incurred claims and expenses remain the original estimate.

N/A Information not available

Required Supplementary Information
Ten-Year Claims Development Information
Workers' Compensation Commission – Death and Permanent Total Disability Trust Fund

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Premium and Investment Revenues										
Premium Income	$ 11,257,847	$ 6,108,073	$ 9,037,845	$ 8,602,220	$ 12,640,933	$ 8,380,469	$ 9,236,142	$ 8,326,813	$ 7,536,378	$ 9,016,067
Investment Interest Income	5,861,911	6,374,169	7,331,078	4,556,109	2,036,317	1,672,189	1,932,354	4,055,947	6,098,515	6,325,923
Totals	$ 17 119 758	$ 12 482 242	$ 16 368 923	$ 13 158 329	$ 14 677 250	$ 10 052 658	$ 11 168 496	$ 12 382 760	$ 13 634 893	$ 15 341 990
Unallocated Expenses										
Operating Costs (2)	$ 171 410	$ 192 536	$ 194 940	$ 316 858	$ 334 881	$ 321 328	$ 324 698	$ 123 637	$ 129 292	$ 120 693
Estimated incurred claims and expenses, end of fiscal year	$ 7,463,918	$ 7,268,688	$ 7,787,442	$ 7,407,010	$ 7,707,310	$ 7,952,310	$ 9,343,245	$ 10,612,346	$ 11,605,274	$ 10,896,034
Paid (cumulative) claims and claims adjustment expenses										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	0	0	0	0	55,000	0	12,500	45,000	40,000	
Two Years Later	0	25,000	0	0	55,500	60,000	254,500	60,000		
Three Years Later	0	25,238	38,627	8,844	125,695	155,312	443,594			
Four Years Later	143,853	153,081	196,865	193,912	492,077	559,647				
Five Years Later	534,808	405,983	645,390	581,617	960,636					
Six Years Later	1,059,501	753,768	1,210,751	1,068,701						
Seven Years Later	1,681,033	1,195,515	2,082,517							
Eight Years Later	2,391,608	1,772,710								
Nine Years Later	3,111,230									
Reestimated incurred claims and expenses										
End of Fund Year	4,741,451	2,753,743	3,408,898	2,711,400	2,829,345	3,767,145	3,968,387	5,146,235	3,606,231	3,135,931
One Year Later	6,847,954	4,025,027	4,152,446	4,823,740	6,632,484	7,407,958	10,855,431	6,578,501	6,720,442	
Two Years Later	7,422,804	5,064,167	5,528,283	8,885,376	9,082,661	11,023,365	13,658,153	9,955,357		
Three Years Later	8,043,579	5,102,472	8,732,250	13,013,925	11,151,447	12,323,811	6,417,676			
Four Years Later	8,861,604	6,741,258	9,198,291	12,753,443	11,454,147	14,614,740				
Five Years Later	10,103,017	9,223,482	11,644,437	11,864,813	14,265,211					
Six Years Later	11,379,037	8,776,469	12,491,733	12,684,999						
Seven Years Later	12,465,964	9,040,233	13,311,322							
Eight Years Later	12,544,426	10,028,499								
Nine Years Later	12,582,799									
Increase (decrease) in estimated incurred claims and expense from end of policy year	5,118,881	2,759,811	5,523,880	5,277,989	6,557,901	6,662,430	(2,925,569)	(656,989)	(4,884,832)	(7,760,103)
Number of fund participants receiving benefits at end of year	1,136	1,229	1,280	1,293	1,336	1,347	1,324	1,336	1,342	1,356

Note 1 Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activities* , effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 16 of the financial statements describes the Workers ' Compensation Death and Permanent Total Disability Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2 The amounts reflected as operating costs of the program for the respective years which were paid from the Workers' Compensation Trust Fund.

Required Supplementary Information
Ten-Year Claims Development Information
Workers' Compensation Commission – Second Injury Trust Fund

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Premium and Investment Revenues										
Premium Taxes	$ 500	$ 1,000	$ 466	$ 4,982	$ 1,784,175	$ 1,186,860	$ 1,294,907	$ 3,620,160	$ 2,763,390	$ 1,327,517
Interest Income	704 237	662 251	659 587	344 714	142 761	80 943	60 958	74 445	101 278	91 863
Totals	$ 704 737	$ 663 251	$ 660 053	$ 349 696	$ 1 926 936	$ 1 267 803	$ 1 355 865	$ 3 694 605	$ 2 864 668	$ 1 419 380
Unallocated Expenses										
Operating Costs (2)	$ 527,391	$ 534,912	$ 546,985	$ 464,976	$ 480,666	$ 526,768	$ 544,817	$ 584,142	$ 583,796	$ 642,794
Estimated incurred claims and expenses, end of fiscal year (3)	$ 2,226,728	$ 2,684,791	$ 2,528,703	$ 2,290,639	$ 1,891,673	$ 2,148,018	$ 2,884,260	$ 3,120,030	$ 2,954,070	$ 1,406,700
Paid (cumulative) claims and claims adjustment expenses										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	12,375	45,650	83,050	25,106	208,690	70,605	34,500	51,755	169,875	
Two Years Later	303,855	248,145	439,698	673,422	814,873	299,505	751,613	449,159		
Three Years Later	631,343	674,745	1,194,737	1,215,361	1,348,617	1,219,840	1,044,728			
Four Years Later	979,363	868,031	1,441,469	1,507,797	1,273,914	1,542,077				
Five Years Later	1,146,518	1,132,344	1,741,288	1,732,228	1,368,925					
Six Years Later	1,285,688	1,345,166	1,935,324	1,861,762						
Seven Years Later	1,360,621	1,646,846	2,005,069							
Eight Years Later	1,402,789	1,747,061								
Nine Years Later	1,472,293									
Reestimated incurred claims and expenses										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	12,375	45,650	83,050	32,677	208,690	70,605	34,500	51,755	169,875	
Two Years Later	548,339	248,145	653,704	1,369,710	1,253,217	437,313	1,013,605	449,159		
Three Years Later	1,024,608	1,457,506	1,554,449	2,440,234	2,277,287	1,947,770	1,503,828			
Four Years Later	1,443,112	1,711,564	2,298,595	2,576,594	1,742,436	2,665,638				
Five Years Later	1,715,146	2,661,354	2,643,544	2,542,065	2,166,470					
Six Years Later	1,851,925	3,101,437	2,403,693	2,764,092						
Seven Years Later	1,954,076	3,323,033	2,350,972							
Eight Years Later	2,067,135	2,676,837								
Nine Years Later	2,106,154									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(120,574)	(7,954)	(177,731)	473,453	274,797	517,620	(1,380,432)	(2,670,871)	(2,784,195)	(1,406,700)
Number of Fund Participants receiving benefits at end of year	96	95	98	97	102	111	122	128	119	112

Note 1 Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Activitie* , effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 16 of the financial statements describes the Workers ' Compensation Second Injury Trust Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2 The amounts reflected as operating costs of the program for the respective years which were paid from the Workmen's Compensation Trust Fund.

Note 3 Prior to the year ended June 30, 1999, there was no actuarial valuation of estimated incurred claims and expenses. The Workers' Compensation Commission (the Commission) recorded liabilities based on the present value of estimated future payment of orders and accepted liabilities of second injury cases rules on by the Commission. The information presented above on estimated incurred claims and expenses was developed by the actuarial firm Osborn, Carreiro and Associates, Inc.

Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress
(Expressed in thousands)

Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Arkansas Northeast College	7/1/2007	$ 0	$ 866	$ 866	0 0%	$ 8,424	10%
Arkansas State University	7/1/2007	0	8,081	8,081	0 0%	87,213	9%
Arkansas Tech University	7/1/2007	0	9,054	9,054	0 0%	30,326	30%
Black River Technical College	7/1/2007	0	454	454	0 0%	4,948	9%
Ozarka College	7/1/2007	0	186	186	0 0%	4,026	5%
Henderson State University	7/1/2007	0	2,668	2,668	0 0%	18,187	15%
Mid South Community College	7/1/2007	0	295	295	0 0%	6,314	5%
North Arkansas College	7/1/2007	0	225	225	0 0%	2,135	11%
National Park Community College	7/1/2007	0	686	686	0 0%	9,443	7%
Northwest Arkansas Community College	7/1/2007	0	185	185	0 0%	18,827	1%
Pulaski Technical College	7/1/2007	0	571	571	0 0%	12,332	5%
Rich Mountain Community College	7/1/2007	0	131	131	0 0%	385	34%
South Arkansas Community College	7/1/2007	0	263	263	0 0%	6,369	4%
Southern Arkansas University - Technical Branch	7/1/2007	0	468	468	0 0%	5,853	8%
Southern Arkansas University	7/1/2007	0	2,604	2,604	0 0%	14,283	18%
University of Arkansas of Fort Smith	7/1/2007	0	644	644	0 0%	24,674	3%
University of Arkansas System Self-Funded Plan	7/1/2007	0	171,807	171,807	0 0%	780,954	22%
University of Arkansas System AHEC Benefits	7/1/2007	0	5,110	5,110	0 0%	20,969	24%
University of Central Arkansas	7/1/2007	0	2,446	2,446	0 0%	47,660	5%
Arkansas State Police	1/1/2008	0	76,504	76,504	0 0%	40,568	189%
Arkansas Employee Benefits Plan	7/1/2007	0	1,464,934	1,464,934	0 0%	1,044,880	140%

Actuarial assumptions are presented in Note 14

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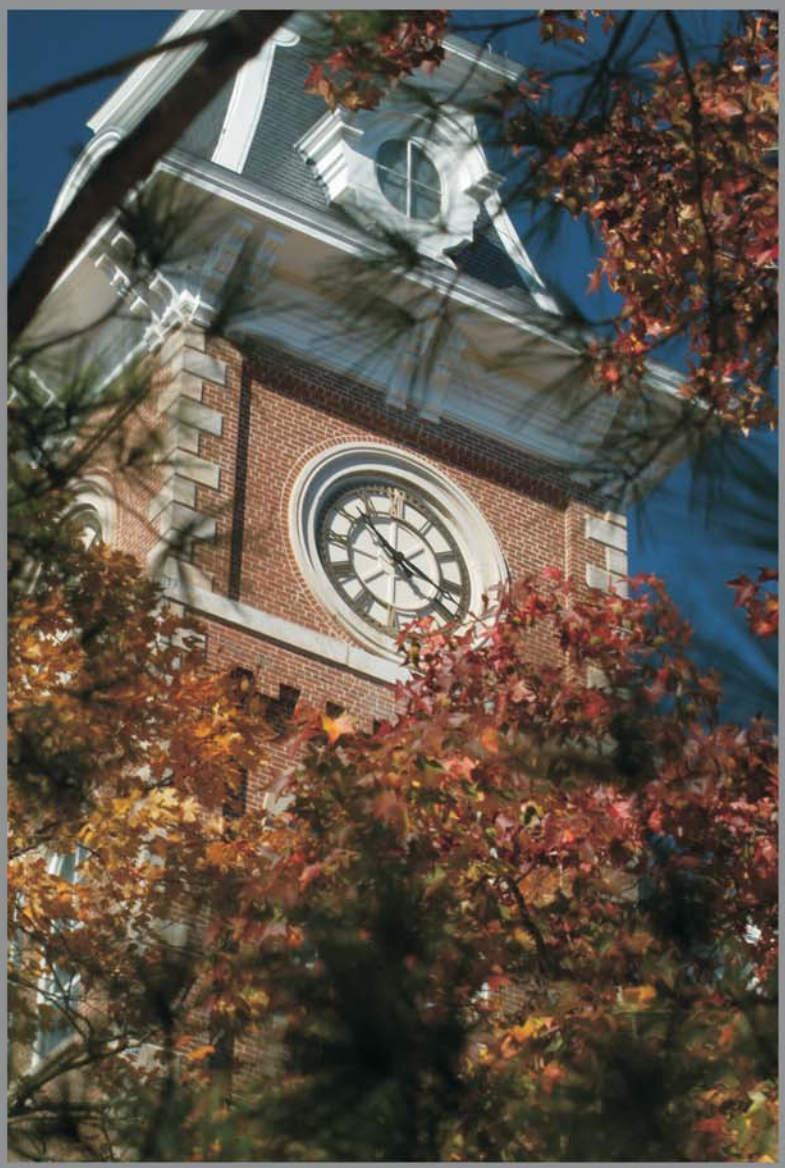
Combining Financial Statements



Old Main is the oldest building on the campus of the University of Arkansas in Fayetteville, Arkansas. The structure was listed on the National Register of Historic Places in 1970.

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE
MERCY

NON-MAJOR ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those state agencies and/or programs providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The non-major enterprise funds consist of the following:

Department of Workforce Services – This department is responsible for promoting employment security in the State of Arkansas by administering federally assisted programs that provide employment, placement, and training services through local public employment offices within the State and for administering the State of Arkansas Unemployment Insurance Program.

War Memorial Stadium Commission – This agency has exclusive jurisdiction for the operation of the facility known as War Memorial Stadium, which is for the use of all the schools, colleges, and universities of the State under the supervision of the agency.

Construction Assistance Revolving Loan Fund – This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Public School Employee Health and Life Benefit Plan – This program is responsible for providing health and life insurance along with a prescription drug benefit to participating public school employees.

Other Revolving Loan Funds – These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges.

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2008
(Expressed in thousands)

	Department of Workforce Services	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Assets						
Current assets:						
Cash and cash equivalents	$	$ 369	$ 51,951	$ 13,538	$ 11,836	$ 77,694
Investments	185,637	203			6,935	192,775
Receivables:						
Accounts	82,467		154	1,705	267	84,593
Interest	37		633	290	181	1,141
Due from other funds	1,423					1,423
Due from other governments	10,643					10,643
Inventories		15				15
Prepaid items	143					143
Total current assets	280,350	587	52,738	15,533	19,219	368,427
Noncurrent assets:						
Investments - restricted			44,737	55,419		100,156
Capital assets:						
Land	2,973					2,973
Infrastructure	22					22
Buildings	9,422	15,297				24,719
Equipment	6,067	775		94		6,936
Construction in progress		374				374
Other depreciable assets	2,210					2,210
Less accumulated depreciation	(10,453)	(6,654)		(12)		(17,119)
Advances to other funds					5,959	5,959
Loans receivable, net			230,574		88,073	318,647
Other noncurrent assets			612			612
Total noncurrent assets	10,241	9,792	275,923	55,501	94,032	445,489
Total assets	$ 290,591	$ 10,379	$ 328,661	$ 71,034	$ 113,251	$ 813,916

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2008
(Expressed in thousands)

	Department of Workforce Services	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Liabilities						
Current liabilities:						
Cash overdraft	$ 357	$	$	$	$	$ 357
Accounts payable	49,189	274	493	8,721	105	58,782
Accrued interest payable			291			291
Accrued and other current liabilities	1,493	74				1,567
Due to other funds	330	38		399	144	911
Due to other governments	3,641					3,641
Bonds payable			6,525			6,525
Claims, judgments, and compensated absences	384	8		22,304		22,696
Deferred revenue				1,468	2,998	4,466
Total current liabilities	55,394	394	7,309	32,892	3,247	99,236
Noncurrent liabilities:						
Bonds payable			66,266			66,266
Net postemployment benefits payable	2,320	22				2,342
Claims, judgments, and compensated absences	2,621	57		446		3,124
Deferred revenue			1,256			1,256
Total noncurrent liabilities	4,941	79	67,522	446		72,988
Total liabilities	60,335	473	74,831	33,338	3,247	172,224
Net Assets						
Net assets:						
Invested in capital assets, net of related debt	10,241	9,792		82		20,115
Restricted for:						
Unemployment compensation	220,015					220,015
Program requirements			253,830		110,004	363,834
Unrestricted		114		37,614		37,728
Total net assets	230,256	9,906	253,830	37,696	110,004	641,692
Total liabilities and net assets	$ 290,591	$ 10,379	$ 328,661	$ 71,034	$ 113,251	$ 813,916

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2008
(Expressed in thousands)

	Department of Workforce Services	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Operating revenues:						
Charges for sales and services	$	$ 1,860	$	$ 241,839	$	$ 243,699
Licenses, permits, and fees			2,361		974	3,335
Investment earnings			8,775		2,607	11,382
Miscellaneous	6,427		7			6,434
Total operating revenues	6,427	1,860	11,143	241,839	3,581	264,850
Operating expenses:						
Cost of sales and services		599		3,248		3,847
Compensation and benefits	38,642	512				39,154
Supplies and services	15,391	2,203		15,737		33,331
General and administrative expenses	3,012	180	290		123	3,605
Benefits and aid payments	374,642			213,262		587,904
Depreciation and amortization	953	496		5		1,454
Amortization of bond costs			131			131
Interest			3,659			3,659
Total operating expenses	432,640	3,990	4,080	232,252	123	673,085
Operating income (loss)	(426,213)	(2,130)	7,063	9,587	3,458	(408,235)
Nonoperating revenues (expenses):						
Investment earnings	8,547	28		2,965		11,540
Taxes	263,119					263,119
Grants and contributions	132,321	124	11,071		8,475	151,991
Loss on sale of fixed assets	(21)					(21)
Other expense	(4,049)					(4,049)
Total nonoperating revenues (expenses)	399,917	152	11,071	2,965	8,475	422,580
Income (loss) before transfers and contributions	(26,296)	(1,978)	18,134	12,552	11,933	14,345
Transfers in	4,406	1,086			1,709	7,201
Transfers out	(3,260)	(87)	(818)	(403)	(2,864)	(7,432)
Change in net assets	(25,150)	(979)	17,316	12,149	10,778	14,114
Total net assets - beginning	255,406	10,885	236,514	25,547	99,226	627,578
Total net assets - ending	$ 230,256	$ 9,906	$ 253,830	$ 37,696	$ 110,004	$ 641,692

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Department of Workforce Services	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Cash flows from operating activities:						
Cash received from customers	$	$ 1,860	$	$ 242,620	$	$ 244,480
Payments to employees	(36,026)	(488)				(36,514)
Payments of benefits	(370,054)			(213,262)		(583,316)
Payments to suppliers	(18,456)	(2,986)	(315)	(20,832)	(112)	(42,701)
Interest received (paid)			4,470		2,638	7,108
Loan administration received (paid)			(8,266)		(6,233)	(14,499)
Other receipts (payments)	6,477		2,087	(3,248)	1,467	6,783
Net cash provided by (used in) operating activities	(418,059)	(1,614)	(2,024)	5,278	(2,240)	(418,659)
Cash flows from noncapital financing activities:						
Direct lending payments			(5,810)			(5,810)
Taxes	260,577					260,577
Grants and contributions	128,752	124	11,236		8,649	148,761
Net transfers to other funds	1,146	1,033	(818)	(403)	(1,331)	(373)
Net cash provided by (used in) noncapital financing activities	390,475	1,157	4,608	(403)	7,318	403,155
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,252)	(100)		(11)		(1,363)
Proceeds from short-term borrowings		54				54
Proceeds from long-term borrowings						
Net cash used in capital and related financing activities	(1,252)	(46)		(11)		(1,309)
Cash flows from investing activities:						
Purchase of investments		(98)	(67,215)	(2,489)	(6,926)	(76,728)
Proceeds from sale and maturities of investments	19,915		56,680			76,595
Interest and dividends on investments	8,614	28		2,675		11,317
Advance disbursements					(2,825)	(2,825)
Advance repayments					626	626
Net cash provided by (used in) investing activities	28,529	(70)	(10,535)	186	(9,125)	8,985
Net increase (decrease) in cash and cash equivalents	(307)	(573)	(7,951)	5,050	(4,047)	(7,828)
Cash and cash equivalents - beginning	(50)	942	59,902	8,488	15,883	85,165
Cash and cash equivalents (cash overdrafts) - ending	$ (357)	$ 369	$ 51,951	$ 13,538	$ 11,836	$ 77,337
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (426,213)	$ (2,130)	$ 7,063	$ 9,587	$ 3,458	$ (408,235)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	953	496		5		1,454
Amortization			131		(132)	(1)
Net appreciation (depreciation) of investments			(773)		(9)	(782)
Prior year adjustment for capital asset capitalization	5					5
Net changes in assets and liabilities:						
Accounts receivable			(13)	522	(4)	505
Loans receivable			(8,266)		(6,229)	(14,495)
Inventory		(3)				(3)
Other current assets	786		141	50	40	1,017
Current liabilities		(2)		397		395
Accounts payable and other accrued liabilities	4,067	1	(46)	(5,541)	7	(1,512)
Net OPEB	2,320	23				2,343
Compensated absences	23	1				24
Deferred revenue			(261)	258	629	626
Net cash provided by (used in) operating activities	$ (418,059)	$ (1,614)	$ (2,024)	$ 5,278	$ (2,240)	$ (418,659)

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

Pension Trust Funds – These funds are accounted for in essentially the same manner as proprietary funds and include Teacher, APERS, Highway, State Police, and Judicial retirement plans.

Agency Funds – These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other state agencies.

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2008
(Expressed in thousands)

Assets	Teacher	APERS	Highway	State Police	Judicial	Total
Cash and cash equivalents	$ 546,768	$ 164,106	$ 163,435	$ 2,170	$ 1,360	$ 877,839
Receivables:						
Employee	15,888		12			15,900
Employer	53,080	1,481				54,561
Interest and dividends	18,131	13,575	6,282	71	54	38,113
Advances to other funds	9,606					9,606
Other	168,074	68,332	2	61	423	236,892
Due from other funds	2,125	1				2,126
Total receivables	266,904	83,389	6,296	132	477	357,198
Investments at fair value:						
Bonds, notes, mortgages and preferred stock	482,277	988,373	413,765			1,884,415
Common stock	2,717,791	1,970,881	658,900	54,298	59,948	5,461,818
Real estate	752,512	509,015				1,261,527
International investments	564,780	1,307,022		51,434	25,963	1,949,199
Mutual funds		490,907				490,907
Pooled investment funds	4,470,747			107,113	73,249	4,651,109
Corporate obligations	470,246	43,094				513,340
Asset and mortgage backed securities	32,797	196,932				229,729
Other	1,020,650	142				1,020,792
Total investments	10,511,800	5,506,366	1,072,665	212,845	159,160	17,462,836
Securities lending collateral	741,151	788,656		756		1,530,563
Capital assets	299	51				350
Other assets	116	1,600				1,716
Total assets	12,067,038	6,544,168	1,242,396	215,903	160,997	20,230,502
Liabilities						
Accounts payable and other liabilities	7,579	8,070	42	356	231	16,278
Investment principal payable	299,945	108,712		90	221	408,968
Obligations under securities lending	741,151	788,656		756		1,530,563
Postemployment benefit liability	264	208				472
Due to other funds	11	70				81
Total liabilities	1,048,950	905,716	42	1,202	452	1,956,362
Net assets						
Held in trust for employees' pension benefits	$ 11,018,088	$ 5,638,452	$ 1,242,354	$ 214,701	$ 160,545	$ 18,274,140

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Additions:							
Contributions							
Members	$ 108,872	$ 19,607	$ 7,715	$ 75	$ 812	$	$ 137,081
Employers	350,320	171,955	16,178	5,786	2,187		546,426
Supplemental contributions		1,665		3,133	2,110		6,908
Court fees				1,518	903		2,421
Reinstatement fees			393	1,139			1,532
Total contributions	459,192	193,227	24,286	11,651	6,012		694,368
Investment income:							
Net increase (decrease) in fair value of investments	(1,839,498)	(380,074)	72,298	(26,813)	(7,752)		(2,181,839)
Interest, dividends, and other	1,388,094	114,253	30,841	547	1,118		1,534,853
Real estate operating income (loss)	6,456	(65)					6,391
Securities lending income	50,597	36,240		162			86,999
Total investment income	(394,351)	(229,646)	103,139	(26,104)	(6,634)		(553,596)
Less investment expense	83,478	53,956	4,524	1,266	804		144,028
Net investment income	(477,829)	(283,602)	98,615	(27,370)	(7,438)		(697,624)
Local municipal judges retirement funds transfer		26,989				(26,989)	
Miscellaneous	249	5,559		(342)	(1)		5,465
Total additions (losses)	(18,388)	(57,827)	122,901	(16,061)	(1,427)	(26,989)	2,209
Deductions:							
Benefits paid to participants or beneficiaries	587,320	266,297	65,484	19,088	7,308		945,497
Refunds of employee/employer contributions	6,462	1,920	1,154		42		9,578
Administrative expenses	6,677	5,027	60	87	59		11,910
Total deductions	600,459	273,244	66,698	19,175	7,409		966,985
Change in net assets held in trust for employees' pension benefits	(618,847)	(331,071)	56,203	(35,236)	(8,836)	(26,989)	(964,776)
Net assets - beginning	11,636,935	5,969,523	1,186,151	249,937	169,381	26,989	19,238,916
Net assets - ending	$ 11,018,088	$ 5,638,452	$ 1,242,354	$ 214,701	$ 160,545	$	$ 18,274,140

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2008
(Expressed in thousands)

	Insurance Department	Other Agencies	Total
Assets			
Cash and cash equivalents	$ 3,766	$ 21,851	$ 25,617
Receivables:			
Interest and dividends	2	8	10
Other		10	10
Total receivables	2	18	20
Investments at fair value:			
Certificates of deposit	1,360	41,254	42,614
Bonds, government securities, notes, mortgages, and preferred stock		72,191	72,191
Total investments	1,360	113,445	114,805
Financial assurance instruments	304,804	5,703	310,507
Total assets	$ 309,932	$ 141,017	$ 450,949
Liabilities			
Accounts payable and other liabilities	$	$ 4	$ 4
Due to other governments		116,835	116,835
Due to third parties	309,932	24,178	334,110
Total liabilities	$ 309,932	$ 141,017	$ 450,949

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Insurance Department			
Assets	**Balance July 1, 2007**	**Additions**	**Reductions**	**Balance June 30, 2008**
Cash and cash equivalents	$ 3,825	$ 163	$ 222	$ 3,766
Receivables:				
Interest and dividends	2	2	2	2
Investments at fair value:				
Certificates of deposit	1,400		40	1,360
Financial assurance instruments	297,953	6,851		304,804
Total assets	$ 303,180	$ 7,016	$ 264	$ 309,932
Liabilities				
Due to third parties	$ 303,180	$ 7,016	$ 264	$ 309,932
Total liabilities	$ 303,180	$ 7,016	$ 264	$ 309,932

	Other Agencies			
Assets	**Balance July 1, 2007**	**Additions**	**Reductions**	**Balance June 30, 2008**
Cash and cash equivalents	$ 24,334	$ 1,572,443	$ 1,574,926	$ 21,851
Receivables:				
Interest and dividends	145	95	232	8
Other	67	168	225	10
Inventories	9	10	19	
Investments at fair value:				
Certificates of deposit	34,394	22,267	15,407	41,254
Bonds, government securities, notes, mortgages, and preferred stock	59,037	72,191	59,037	72,191
Financial assurance instruments	5,796	95	188	5,703
Total assets	$ 123,782	$ 1,667,269	$ 1,650,034	$ 141,017
Liabilities				
Accounts payable and other liabilities	$ 67	$ 15,535	$ 15,598	$ 4
Due to other governments	75,523	958,702	917,390	116,835
Due to third parties	48,192	763,334	787,348	24,178
Total liabilities	$ 123,782	$ 1,737,571	$ 1,720,336	$ 141,017

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2008
(Expressed in thousands)

	Total - All Agency Funds			
Assets	**Balance July 1, 2007**	**Additions**	**Reductions**	**Balance June 30, 2008**
Cash and cash equivalents	$ 28,159	$ 1,572,606	$ 1,575,148	$ 25,617
Receivables:				
Interest and dividends	147	97	234	10
Other	67	168	225	10
Inventories	9	10	19	
Investments at fair value:				
Certificates of deposit	35,794	22,267	15,447	42,614
Bonds, government securities, notes, mortgages, and preferred stock	59,037	72,191	59,037	72,191
Financial assurance instruments	303,749	6,946	188	310,507
Total assets	$ 426,962	$ 1,674,285	$ 1,650,298	$ 450,949
Liabilities				
Accounts payable and other liabilities	$ 67	$ 15,535	$ 15,598	$ 4
Due to other governments	75,523	958,702	917,390	116,835
Due to third parties	351,372	770,350	787,612	334,110
Total liabilities	$ 426,962	$ 1,744,587	$ 1,720,600	$ 450,949

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

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THE NATURAL STATE

Statistical Section

The Greene County Courthouse was constructed in 1888 and is located in Paragould, Arkansas. The structure was listed on the National Register of Historic Places in 1976.

Statistical Section – Table of Contents

Financial Trends - These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. The schedules presented from an entity wide perspective only include fiscal year 2002 and forward, coinciding with the implementation of GASB Statement No. 34. Fund perspective schedules are presented for the last ten years, except where noted. Schedules included are:

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Revenue Capacity Information - These schedules contain trend information to help the reader understand the State's capacity to raise revenues and the sources of those revenues.

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Debt Capacity Information - These schedules contain trend information to help the reader understand the State's outstanding debt and the capacity to repay that debt.

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Demographic and Economic Information - These schedules contain trend information to help the reader understand the environment in which the State's financial activities occur.

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Operating Information - These schedules contain service and infrastructure data in relation to the services the State provides and the activities it performs.

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Schedule 1
Net Assets by Component (Unaudited)
Last Seven Fiscal Years
(Expressed in thousands)

	2008	2007	2006	2005	2004	2003	2002
Governmental Activities							
Invested in capital assets, net of related debt	$ 8,210,615	$ 7,937,210	$ 7,880,406	$ 7,563,452	$ 7,375,246	$ 7,009,304	$ 6,730,616
Restricted	863,721	812,989	672,391	506,508	231,314	178,871	179,988
Unrestricted	2,355,894	2,469,825	2,001,993	1,803,726	1,657,482	1,399,219	1,477,114
Total governmental activities net assets	11,430,230	11,220,024	10,554,790	9,873,686	9,264,042	8,587,394	8,387,718
Business-Type Activities							
Invested in capital assets, net of related debt	1,500,418	1,456,147	1,244,773	1,200,731	1,159,058	1,106,738	1,014,975
Restricted	954,661	882,865	879,536	760,011	649,458	567,056	663,139
Unrestricted	459,677	410,378	509,394	463,153	419,697	388,486	381,757
Total business-type activities net assets	2,914,756	2,749,390	2,633,703	2,423,895	2,228,213	2,062,280	2,059,871
Primary Government							
Invested in capital assets, net of related debt	9,711,033	9,393,357	9,125,179	8,764,183	8,534,304	8,116,042	7,745,591
Restricted	1,818,382	1,695,854	1,551,927	1,266,519	880,772	745,927	843,127
Unrestricted	2,815,571	2,880,203	2,511,387	2,266,879	2,077,179	1,787,705	1,858,871
Total primary government activities net assets	$ 14,344,986	$ 13,969,414	$ 13,188,493	$ 12,297,581	$ 11,492,255	$ 10,649,674	$ 10,447,589

Note: The State implemented Governmental Accounting Standards Board Statement No. 34 in fiscal year 2002; the relevant government-wide schedules are effective beginning in fiscal year 2002.

Schedule 2
Changes in Net Assets (Unaudited)
Last Seven Fiscal Years
(Expressed in thousands)

	2008	2007	2006	2005	2004	2003	2002
Governmental							
Expenses							
General government	$ 1,296,232	$ 1,156,301	$ 1,187,512	$ 1,042,440	$ 1,071,734	$ 1,048,805	$ 940,426
Education	3,291,054	3,153,653	3,048,477	2,881,337	2,342,543	2,326,854	2,236,210
Health and human services	5,195,317	4,855,759	4,663,898	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	668,305	625,911	642,297	626,138	606,900	620,424	522,826
Law, justice, and public safety	631,793	587,413	620,905	518,579	529,693	441,258	428,701
Recreation and resources development	244,959	219,283	201,955	175,097	189,406	243,519	218,534
Regulation of business and professionals	105,620	119,225	115,887	117,525	130,349	115,983	98,494
Interest on long-term debt	57,923	56,143	59,501	60,101	56,906	55,677	51,215
Total Expenses	11,491,203	10,773,688	10,540,432	9,959,459	9,028,361	8,637,648	7,801,120
Program							
Charges for services							
General government	291,216	269,310	256,641	270,746	279,902	252,146	279,099
Education	16,638	14,322	13,501	9,217	4,617	10,057	6,948
Health and human services	244,706	234,181	217,429	214,646	124,321	173,949	202,307
Transportation	146,463	137,338	133,993	130,190	122,873	132,673	12,819
Law, justice, and public safety	72,066	64,666	63,251	60,540	61,163	24,350	9,262
Recreation and resources development	79,438	61,844	55,223	55,026	52,597	51,626	45,582
Regulation of business and professionals	81,585	86,721	89,950	76,026	67,172	75,160	68,180
Operating grants	4,410,782	4,180,653	4,150,897	3,997,615	3,805,225	3,802,814	3,425,029
Capital grants and contributions	413,055	422,270	392,744	431,739	454,668	15,419	6,707
Total Program Revenues	5,755,949	5,471,305	5,373,629	5,245,745	4,972,538	4,538,194	4,055,933
Net (Expense) Revenue	(5,735,254)	(5,302,383)	(5,166,803)	(4,713,714)	(4,055,823)	(4,099,454)	(3,745,187)
General Revenues and Transfers							
Taxes:							
Personal and corporate income	2,655,399	2,522,806	2,374,801	2,164,445	1,920,448	1,722,167	1,678,750
Consumer sales and use	2,544,356	2,618,936	2,509,664	2,380,921	1,956,032	1,788,327	1,780,774
Gas and motor carrier	456,223	462,732	456,223	450,281	449,960	439,483	477,384
Other	790,010	785,213	760,431	720,948	695,623	638,469	556,739
Investment earnings	172,081	162,603	96,369	58,348	36,651	46,139	63,121
Miscellaneous income	274,730	247,395	370,352	203,101	295,706	292,716	45,374
Loss on sale of fixed assets						(31,910)	(14,696)
Transfers-internal activities	(947,339)	(811,518)	(719,933)	(654,686)	(637,949)	(596,261)	(609,619)
Restatement		(20,550)			16,000		
Total General Revenues and Transfers	5,945,460	5,967,617	5,847,907	5,323,358	4,732,471	4,299,130	3,977,827
Total Governmental Activities Change in Net Assets	$ 210,206	$ 665,234	$ 681,104	$ 609,644	$ 676,648	$ 199,676	$ 232,640

Schedule 2
Changes in Net Assets (Unaudited)
Last Seven Fiscal Years
(Expressed in thousands)

	2008	2007	2006	2005	2004	2003	2002
Business-Type							
Expenses							
Higher Education	$ 2,851,140	$ 2,628,963	$ 2,422,557	$ 2,256,317	$ 2,121,960	$ 1,987,141	$ 1,856,264
Workers' Compensation	53,967	33,363	36,629	35,517	31,829	33,938	28,544
Workforce Services	432,661	384,313	322,205	325,595	310,539	482,669	479,834
War Memorial Stadium	3,990	3,293	4,310	1,830	1,726	1,799	1,623
Public School Employee Insurance Plan (1)	232,252	240,944	219,544	202,137			
Revolving loans	4,203	4,406	4,603	4,766	5,671	5,866	8,791
Total Expenses	3,578,213	3,295,282	3,009,848	2,826,162	2,471,725	2,511,413	2,375,056
Program							
Charges for Services							
Higher Education	1,345,783	1,196,351	1,160,194	1,054,808	991,698	915,015	1,160,109
Workforce Services						6	
War Memorial Stadium	1,860	1,980	1,436	746	1,349	1,556	1,365
Public School Employee Insurance Plan (1)	241,839	232,558	233,250	211,430			
Revolving loans	3,335	3,120	2,838	2,364			
Operating Grants	626,798	578,648	566,200	602,649	549,004	544,918	160,833
Capital Grants and Contributions	72,677	60,447	59,025	70,432	56,889	88,396	70,832
Total Program Revenues	2,292,292	2,073,104	2,022,943	1,942,429	1,598,940	1,549,891	1,393,139
Net (Expense) Revenue	(1,285,921)	(1,222,178)	(986,905)	(883,733)	(872,785)	(961,522)	(981,917)
Business-Type Revenues and Transfers							
Taxes:							
Other	310,728	306,019	326,343	310,431	318,555	265,911	249,225
Investment earnings	57,064	96,394	61,462	48,310	40,237	48,295	39,565
Miscellaneous income	136,156	123,934	88,975	65,988	35,119	58,436	65,672
Loss on sale of fixed assets						(4,972)	(1,956)
Transfers-internal activities	947,339	811,518	719,933	654,686	637,949	596,261	609,619
Restatement					6,858		
Total General Revenues and Transfers	1,451,287	1,337,865	1,196,713	1,079,415	1,038,718	963,931	962,125
Total Business-Type Activities Changes in Net Assets	165,366	115,687	209,808	195,682	165,933	2,409	(19,792)
Total Primary Government Change in Net Assets	$ 375,572	$ 780,921	$ 890,912	$ 805,326	$ 842,581	$ 202,085	$ 212,848

(1) Starting in fiscal year 2005, Public School Employee Insurance Plan revenues and expenditures were recorded in the Enterprise fund.

Note: The State implemented Governmental Accounting Standards Board Statement No. 34 in Fiscal Year 2002; the relevant government-wide schedules are effective beginning in Fiscal Year 2002.

Schedule 3
Fund Balances, Governmental Fund (Unaudited)
Last Ten Fiscal Years
(Expressed in thousands)

	2008	2007	2006	2005
General Fund				
Reserved	$ 1,257,856	$ 1,227,194	$ 954,015	$ 988,971
Unreserved	2,309,421	2,272,762	1,988,211	1,532,038
Total General Fund	3,567,277	3,499,956	2,942,226	2,521,009
Total Fund Balances, Govenmental Funds	$ 3,567,277	$ 3,499,956	$ 2,942,226	$ 2,521,009

2004	2003	2002	2001	2000	1999
$ 712,864	$ 769,067	$ 839,209	$ 361,718	$ 501,784	$ 282,416
1,384,917	973,152	839,121	1,462,693	1,411,661	1,407,377
2,097,781	1,742,219	1,678,330	1,824,411	1,913,445	1,689,793
$ 2,097,781	$ 1,742,219	$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793

Schedule 4
Changes in Net Assets, Governmental Fund (Unaudited)
Last Ten Fiscal Years
(Expressed in thousands)

	2008	2007	2006	2005
Revenues:				
Taxes:				
Personal and corporate income	$ 2,644,852	$ 2,515,958	$ 2,374,853	$ 2,169,849
Consumer sales and use	2,551,222	2,624,325	2,519,443	2,382,865
Gas and motor carrier	456,216	463,362	456,569	450,269
Other	790,122	784,936	760,799	721,144
Intergovernmental	4,832,649	4,594,212	4,540,408	4,418,148
Licenses, permits, and fees	957,424	886,106	853,616	836,688
Investment earnings	172,081	162,603	96,369	57,999
Miscellaneous	275,646	287,031	345,978	248,138
Total Revenues	12,680,212	12,318,533	11,948,035	11,285,100
Expenditures:				
Current:				
General government	1,190,857	1,213,597	1,137,458	1,058,514
Education	3,286,143	3,149,468	3,044,735	2,877,770
Health and human services	5,184,858	4,844,657	4,653,553	4,526,132
Transportation	338,062	297,816	320,417	319,140
Law, justice, and public safety	606,633	552,728	588,661	480,246
Recreation and resources development	228,663	187,970	186,137	159,709
Regulation of business and professionals	109,818	112,833	112,623	114,484
Debt service:				
Principal retirement (1)	107,070	103,782	97,583	46,723
Interest expense	59,671	59,752	61,065	58,866
Bond issuance costs	345	1,317	818	2,905
Capital outlay	628,536	611,567	673,624	704,117
Total Expenditures	11,740,656	11,135,487	10,876,674	10,348,606
Excess (deficiency) of revenues over expenditures	939,556	1,183,046	1,071,361	936,494
Other financing sources (uses):				
Issuance of debt	35,417	38,320	71,993	116,717
Proceeds from bond refunding		224,855	15,540	
Bond discounts/premiums	(306)	5,248	1,967	2,844
Payment to refunding escrow agent	(4,523)	(107,806)	(24,371)	(60,325)
Capital leases	32,047	22,855	2,223	80,010
Installment Sales	13,210			
Sale of Capital Assets	2,943	2,717	2,297	2,289
Transfers in	82,277	60,316	47,254	46,495
Transfers out	(1,033,300)	(871,821)	(767,047)	(701,296)
Restatement				
Total other financing sources and uses	(872,235)	(625,316)	(650,144)	(513,266)
Net change in fund balances	67,321	557,730	421,217	423,228
Fund balances-July 1	3,499,956	2,942,226	2,521,009	2,097,781
Decrease in reserve for inventory				
Fund balances-June 30	$ 3,567,277	$ 3,499,956	$ 2,942,226	$ 2,521,009
Debt Service as a percentage of noncapital expenditures:	1.50%	1.57%	1.56%	1.12%

(1) Prior to 2002, principal retirement, interest expense, and bond issuance costs were combined

2004	2003	2002	2001	2000	1999
$ 1,914,067	$ 1,714,603	$ 1,671,615	$ 1,704,226	$ 1,670,110	$ 1,873,980
1,951,475	1,770,946	1,719,686	1,728,033	1,622,476	1,560,892
450,444	439,614	430,735	257,407	285,113	386,503
694,802	638,510	647,387	373,688	349,969	353,136
4,249,189	3,823,171	3,417,665	2,882,725	2,613,654	2,459,368
717,092	750,872	591,817	480,698	481,078	438,174
36,651	46,139	63,167	107,074	102,158	108,000
313,952	250,566	49,403	623,006	442,979	390,236
10,327,672	9,434,421	8,591,475	8,156,857	7,567,537	7,570,289
1,029,316	1,044,164	902,922	681,055	587,147	992,322
2,336,813	2,324,631	2,231,401	2,172,021	2,098,860	1,959,309
4,065,745	3,772,155	3,293,609	2,984,687	2,698,687	2,614,967
312,688	346,282	257,976	788,416	622,061	559,572
496,109	416,353	405,434	509,428	333,211	311,176
159,895	221,987	196,731	196,734	203,358	170,619
125,968	108,378	96,655	120,189	161,703	139,345
36,809	40,066	49,478	69,841	77,244	57,917
56,769	50,341	43,578			
1,194	624	336			
755,373	692,898	810,947	132,485	142,227	120,525
9,376,679	9,017,879	8,289,067	7,654,856	6,924,498	6,925,752
950,993	416,542	302,408	502,001	643,039	644,537
24,974	224,020	185,000	31,874	198,083	2,115
	31,150	45,145			
620	10,329	9,365			
	(32,737)	(44,393)			
4,961	10,846	15,086	3,422	14,069	326
2,296					
49,099	5,266	757	658	229	162
(677,381)	(601,527)	(610,376)	(614,579)	(634,118)	(606,285)
		(49,073)	(8,908)		
(595,431)	(352,653)	(448,489)	(587,533)	(421,737)	(603,682)
355,562	63,889	(146,081)	(85,532)	221,302	40,855
1,742,219	1,678,330	1,824,411	1,913,445	1,689,793	1,645,100
			(3,502)	2,350	3,838
$ 2,097,781	$ 1,742,219	$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793
1.10%	1.09%	1.25%	0.93%	1.14%	0.85%

Schedule 5
Revenue Base (Unaudited)
Last Nine Fiscal Years (1)
(Expressed in thousands)

Industry	2008 Revenue Base	2008 Percent of Total	2007 Revenue Base	2007 Percent of Total	2006 Revenue Base	2006 Percent of Total	2005 Revenue Base	2005 Percent of Total
Agriculture, Forestry, Fishing, and Hunting	$ 105,304	0 25%	$ 108,964	0 27%	$ 103,605	0 26%	$ 110,174	0 29%
Mining	246,908	0 60%	224,806	0 55%	187,394	0 48%	154,114	0 41%
Utilities	4,708,255	11 40%	4,532,525	11 06%	4,380,370	11 17%	3,657,722	9 72%
Construction	529,727	1 28%	493,295	1 20%	466,170	1 19%	405,129	1 08%
Manufacturing	3,624,193	8 77%	3,670,740	8 96%	3,438,906	8 77%	3,362,676	8 94%
Wholesale Trade	4,218,275	10 21%	4,205,431	10 26%	3,982,576	10 16%	3,802,827	10 11%
Retail Trade	18,485,279	44 75%	18,655,946	45 51%	18,145,437	46 27%	17,778,800	47 25%
Transportation and Warehousing	362,152	0 88%	384,758	0 94%	281,285	0 72%	252,335	0 67%
Information	2,722,146	6 59%	2,653,893	6 47%	2,525,643	6 44%	2,454,873	6 53%
Finance and Insurance	57,703	0 14%	47,903	0 12%	46,611	0 12%	47,115	0 13%
Real Estate, Rental, and Leasing	832,469	2 02%	803,267	1 96%	724,694	1 85%	701,230	1 86%
Professional, Scientific, and Technical Services	112,101	0 27%	108,423	0 26%	99,865	0 25%	102,152	0 27%
Management of Companies and Enterprises	120	0 00%	293	0 00%	27	0 00%	38	0 00%
Administrative, Support, Waste Management, and Remediation Services	585,095	1 42%	550,851	1 34%	520,973	1 33%	481,704	1 28%
Educational Services	41,684	0 10%	41,719	0 10%	43,524	0 11%	50,060	0 13%
Health Care and Social Services	64,206	0 16%	62,036	0 15%	54,830	0 14%	62,941	0 17%
Arts, Entertainment, and Recreation	159,423	0 39%	161,053	0 39%	152,619	0 39%	151,894	0 40%
Accommodation and Food Services	3,198,652	7 74%	3,117,969	7 61%	2,975,856	7 59%	2,969,613	7 89%
Other Services (except Public Administration)	1,182,542	2 86%	1,102,308	2 69%	1,018,174	2 60%	1,024,751	2 72%
Public Administration	72,240	0 17%	65,026	0 16%	64,070	0 16%	56,261	0 15%
Total (2)	$ 41,308,474	100%	$ 40,991,206	100%	$ 39,212,629	100%	$ 37,626,409	100%
Direct Sales Tax Rate	6 00% (General) 3 00% (Food) 4 50% (Mfg Util Tax)		6 00%		6 00%		6 00%	

(1) Sales tax data not available prior to fiscal year 2000.
(2) Amounts do not include tax collected on automobile transactions.
Source: Department of Finance and Administration Revenue Division - Sales and Use Tax Section

2004		2003		2002		2001		2000	
Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total	Revenue Base	Percent of Total
$ 91,427	0 28%	$ 117,991	0 36%	$ 118,261	0 36%	$ 133,467	0 39%	$ 51,970	0 17%
111,126	0 34%	111,704	0 34%	114,489	0 35%	130,754	0 39%	39,416	0 13%
3,332,085	10 14%	3,176,490	9 63%	3,267,356	10 01%	3,581,231	10 53%		N/A
326,167	0 99%	347,510	1 05%	360,689	1 10%	353,743	1 04%	283,679	0 90%
2,729,986	8 30%	2,801,495	8 49%	3,180,714	9 74%	3,325,943	9 78%	2,511,858	7 98%
3,194,942	9 72%	3,314,094	10 04%	3,340,808	10 23%	3,545,906	10 43%	3,449,565	10 96%
16,013,365	48 71%	15,982,194	48 42%	15,297,593	46 84%	15,787,265	46 42%	17,099,865	54 32%
161,738	0 49%	392,981	1 19%	360,558	1 10%	378,654	1 11%	5,021,688	15 95%
2,342,534	7 12%	2,135,098	6 47%	2,164,729	6 63%	2,218,403	6 52%		N/A
44,144	0 13%	48,966	0 15%	36,207	0 11%	33,581	0 10%	48,765	0 15%
608,522	1 85%	591,972	1 79%	546,893	1 67%	572,744	1 68%		N/A
87,395	0 27%	86,886	0 26%	91,036	0 28%	90,755	0 27%		N/A
15	0 00%	5	0 00%	6	0 00%	16	0 00%		N/A
197,552	0 60%	168,243	0 51%	147,361	0 45%	146,809	0 43%		N/A
45,713	0 14%	50,875	0 16%	54,329	0 17%	54,150	0 16%		N/A
59,786	0 18%	67,447	0 20%	54,150	0 17%	52,233	0 15%		N/A
125,084	0 38%	128,727	0 39%	125,777	0 39%	126,740	0 37%		N/A
2,544,689	7 74%	2,588,666	7 84%	2,518,407	7 71%	2,578,530	7 58%		N/A
808,652	2 46%	842,348	2 55%	826,560	2 53%	856,825	2 52%	2,949,111	9 37%
50,974	0 16%	53,507	0 16%	51,198	0 16%	45,672	0 13%	22,536	0 07%
$ 32,875,896	100%	$ 33,007,199	100%	$ 32,657,121	100%	$ 34,013,421	100%	$ 31,478,453	100%
5 125% (07/03-02/04) 6 00% (03/04-06/04)		5 125%		5 125%		4 625% (07/00 - 12/00) 5 125% (01/01 - 06/01)		4 625%	

Schedule 6
Revenue Payers (Unaudited)
Current Fiscal Year as Compared to 2001 (1)
(Expressed in thousands, except number of taxpayers)

	2008				2001	
Industry	Sales Tax Collected	Percent of Total	Number of Taxpayers	Percent of Total	Sales Tax Collected	Percent of Total
Agriculture, Forestry, Fishing, and Hunting	$ 6,298	0.27%	703	1.11%	$ 6,506	0.39%
Mining	14,710	0.62%	127	0.20%	6,374	0.39%
Utilities	282,002	11.93%	732	1.15%	174,566	10.53%
Construction	31,774	1.34%	1,863	2.93%	17,243	1.04%
Manufacturing	212,679	9.00%	4,723	7.43%	162,122	9.78%
Wholesale Trade	252,135	10.67%	6,718	10.57%	172,844	10.43%
Retail Trade	1,002,299	42.39%	24,670	38.82%	769,546	46.42%
Transportation and Warehousing	21,720	0.92%	1,671	2.63%	18,457	1.11%
Information	163,229	6.90%	1,031	1.62%	108,135	6.52%
Finance and Insurance	3,462	0.15%	278	0.44%	1,637	0.10%
Real Estate, Rental, and Leasing	49,918	2.11%	1,474	2.32%	27,918	1.68%
Professional, Scientific, and Technical Services	6,725	0.28%	1,343	2.11%	4,424	0.27%
Management of Companies and Enterprises	7	0.00%	5	0.01%	1	0.00%
Administrative, Support, Waste Management, and Remediation Services	35,099	1.49%	3,263	5.14%	7,156	0.43%
Educational Services	2,500	0.11%	242	0.38%	2,640	0.16%
Health Care and Social Services	3,848	0.16%	907	1.43%	2,546	0.15%
Arts, Entertainment, and Recreation	9,548	0.40%	834	1.31%	6,178	0.37%
Accommodation and Food Services	191,344	8.09%	6,273	9.87%	125,690	7.58%
Other Services (except Public Administration)	70,889	3.00%	6,639	10.45%	41,766	2.52%
Public Administration	4,127	0.17%	53	0.08%	2,226	0.13%
Total	$ 2,364,313	100%	63,549	100%	$ 1,657,975	100%

(1) Revenue data is available back to fiscal year 2000, however, this data is not comparable to fiscal year 2008 due to a change in sales tax industry codes in fiscal year 2001.

Source: Department of Finance and Administration Revenue Division - Sales and Use Tax Section

Schedule 7
Ratios of Outstanding Debt by Type (Unaudited)
Last Eight Fiscal Years (1)
(Expressed in thousands, except per capita amount)

	2008	2007	2006	2005	2004	2003	2002	2001
Governmental								
General	$ 912,295	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	$ 552,834
Special			205	370	460	585	765	860
Revenue bond	5,703	2,925	2,988					
Add (deduct):								
Deferred bond refunding loss	(13,140)	(14,263)	(5,542)	(4,807)	(1,011)	(1,064)		
Issuance premiums/(discounts)	15,786	18,689	15,814	16,141	15,339	16,709	8,424	36
Other debt instruments						25	2,499	3,802
Notes payable to component unit	117,390	121,644	123,256	96,683	57,148	56,331	60,000	64,374
Notes payable to pension trust fund	9,606	11,580	13,408	15,100	16,667	18,118	19,461	20,705
Mortgage payable								1,550
Notes payable to healthcare financing administration				171	721	1,131	2,154	
Capital leases	4,586	3,520	4,420	6,927	9,536	11,862	14,567	21,646
Capital leases with component unit	131,792	111,450	97,824	107,522	70,582	76,041	77,153	69,167
Installment sale with component unit	13,210							
Total Governmental Activities Debt	1,197,228	1,227,738	1,152,775	1,182,965	1,092,615	1,100,724	897,962	734,974
Business-Type								
Special obligation:								
War Memorial Stadium Commission						940	1,835	2,690
Construction Assistance Revolving Loan Fund	72,965	78,775	83,955	88,910	93,530	103,275	108,115	112,135
College & University Revenue Bonds	1,246,075	1,197,070	1,155,673	895,910	661,551	637,229	497,060	466,488
Add (deduct): issuance premiums/(discounts)	9,307	8,912	8,803	100	(123)	(1,124)	(1,455)	(1,074)
Notes payable	32,016	22,920	17,930	17,128	14,519	22,281	22,028	
Notes payable with component unit	3,518	5,857	6,666	8,728	9,675	6,349	6,754	
Capital leases	42,002	29,737	25,092	21,470	17,450	8,114	9,921	11,271
Capital leases with component unit	995	1,174	1,354	1,665	1,960	2,240	2,574	2,803
Total Business-Type Activities Debt	1,406,878	1,344,445	1,299,473	1,033,911	798,562	779,304	646,832	594,313
Total Primary Government Debt	2,604,106	2,572,183	2,452,248	2,216,876	1,891,177	1,880,028	1,544,794	1,329,287
Debt Ratios: Primary Government								
Ratio of Primary Government Debt to Personal Income (2)	2 92%	3 11%	3 13%	2 94%	2 66%	2 83%	2 44%	2 15%
Per Capita (3)	$ 911	$ 908	$ 872	$ 797	$ 687	$ 689	$ 570	$ 493
Net General Obligation Bonded Debt								
Gross bonded debt (4)	$ 912,295	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	552,834
Less: debt service funds	(255,139)	(248,143)	(111,587)	(100,166)	(37,561)	(27,639)	(35,462)	(45,974)
Net bonded debt	$ 657,156	$ 724,050	$ 788,815	$ 844,692	$ 885,612	$ 893,347	$ 677,477	506,860
Per Capita (3)	$ 230	$ 255	$ 280	$ 304	$ 322	$ 327	$ 250	$ 188
Supplementary Information								
Component Unit Debt								
Arkansas Student Loan Authority:								
Revenue bonds payable	691,150	753,780	753,780	580,700	404,650	313,780	320,640	271,845
Less: deferred bond refunding loss				(241)	(1,117)	(10)	(15)	
Notes payable						6,860		
Arkansas Development Finance Authority:								
Bonds payable	1,084,940	1,133,632	1,114,118	1,173,362	1,145,682	1,418,162	1,432,066	1,510,611
Notes payable	205,723	220,751	312,307	326,055	216,315			
Add (deduct): issuance premiums/(discounts)	2,951	2,686	(517)	(961)	(2,098)	(1,715)	(1,962)	(415)
U of A Foundation Annuity Obligations	18,362	19,606	18,524	16,783	15,376	14,748		
Total Component Unit Debt	2,003,126	2,130,455	2,198,212	2,095,698	1,778,808	1,751,825	1,750,729	1,782,041
Total Debt	$ 4,607,232	$ 4,702,638	$ 4,650,460	$ 4,312,574	$ 3,669,985	$ 3,631,853	$ 3,295,523	3,111,328
Debt Ratios								
Ratio of Total Debt to Personal Income (2)	5 16%	5 69%	5 93%	5 73%	5 17%	5 48%	5 21%	5 02%
Per Capita (3)	$ 1,611	$ 1,659	$ 1,653	$ 1,551	$ 1,333	$ 1,331	$ 1,217	$ 1,156

(1) Due to the implementation of GASB Statement No. 34, data available prior to fiscal year 2001 is not comparable to fiscal years 2001 through the current year.
(2) Personal income data can be found in schedule 9.
(3) Population can be found in schedule 9.
(4) Bond detail can be found in Note 8 to the financial statements.

Schedule 8
Pledged Revenue Coverage (Unaudited)
Last Ten Years
(Expressed in thousands)

Colleges and Universities (1)	Gross revenue (2)	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Refunding Bonds							
2008	$ 76,479	$ 61,641	$ 14,838	$ 5,300	$ 3,659	$ 8,959	1.66
2007	$ 63,172	$ 53,874	$ 9,298	$ 4,700	$ 3,023	$ 7,723	1.20
2006	$ 60,064	$ 51,039	$ 9,025	$ 3,925	$ 2,295	$ 6,220	1.45
Housing Bonds							
2008	$ 55,512	$ 35,237	$ 20,275	$ 3,075	$ 5,766	$ 8,841	2.29
2007	$ 27,940	$ 16,486	$ 11,454	$ 2,190	$ 4,627	$ 6,817	1.68
2006	$ 24,456	$ 17,323	$ 7,133	$ 1,400	$ 3,899	$ 5,299	1.35
Facilities Bonds							
2008	$ 1,023,312	$ 786,420	$ 236,892	$ 26,310	$ 40,342	$ 66,652	3.55
2007	$ 804,021	$ 615,582	$ 188,439	$ 29,260	$ 33,068	$ 62,328	3.02
2006	$ 719,119	$ 530,582	$ 188,537	$ 15,529	$ 25,911	$ 41,440	4.55
General Revenue and Other Bonds							
2008	$ 11,200	$ 5,978	$ 5,222	$ 1,645	$ 2,048	$ 3,693	1.41
2007	$ 8,042	$ 3,427	$ 4,615	$ 1,585	$ 1,708	$ 3,293	1.40
2006	$ 6,042	$ 1,755	$ 4,287	$ 1,310	$ 2,171	$ 3,481	1.23

Arkansas Student Loan Authority	Gross revenue	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Year ended June 30:							
2008	$ 122,316	$ 5,986	$ 116,330	$ 62,630	$ 36,842	$ 99,472	1.17
2007	164,085	5,405	158,680	0	29,956	29,956	5.30
2006	138,668	5,316	133,352	30,520	19,493	50,013	2.67
2005	85,008	4,832	80,176	11,300	10,828	22,128	3.62
2004	67,473	4,069	63,404	7,180	5,543	12,723	4.98
2003	67,629	3,677	63,952	6,860	6,594	13,454	4.75
2002	61,654	3,597	58,057	13,005	7,769	20,774	2.79
2001	53,888	3,680	50,208	17,655	12,478	30,133	1.67
2000	44,630	2,902	41,728	4,730	10,353	15,083	2.77
1999	42,470	2,775	39,695	1,665	12,002	13,667	2.90

(1) Information not available prior to fiscal year 2006.
(2) Gross Revenues include student tuition and fees, housing fees, rent, athletic fees, millage revenue and other auxiliary revenues.
Source: Colleges and Universities; Arkansas Student Loan Authority

Schedule 9
Demographic and Economic Indicators (Unaudited)
Last Ten Years

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2008*	2,859	$ 89,291	$ 31,232	5.4%
2007	2,837	85,923	30,286	5.1%
2006	2,813	79,983	28,433	5.3%
2005	2,780	74,818	26,913	5.1%
2004	2,751	70,701	25,700	5.6%
2003	2,727	66,476	24,377	5.8%
2002	2,709	63,234	23,342	5.3%
2001	2,694	61,967	23,002	4.7%
2000	2,680	58,726	21,913	4.2%
1999	2,656	56,052	21,104	4.4%

* Projected numbers
Source: Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Schedule 10
Principal Employers (Unaudited)
Current Year as Compared to 1999

2008	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	52,938	4.4%
2	Wal-Mart Stores, Inc.	46,815	3.9%
3	Tyson Foods, Inc.	22,739	1.9%
4	U.S. Federal Government	20,700	1.7%
5	Baptist Health	7,750	0.6%
6	J.B. Hunt Transportation Services, Inc.	7,500	0.6%
7	Community Health Systems, Inc.	5,533	0.5%
8	Sisters of Mercy Health System	4,910	0.4%
9	Pilgrim's Pride	4,088	0.3%
10	Kroger Co.	3,750	0.3%
		176,723	14.6%

1999	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	47,410	4.2%
2	Wal-Mart Stores, Inc.	37,800	3.4%
3	Tyson Foods, Inc.	23,841	2.1%
4	U.S. Federal Government	19,513	1.7%
5	Baptist Health	7,311	0.7%
6	Staffmark, Inc.	5,889	0.5%
7	ConAgra, Inc.	5,031	0.4%
8	Beverly Enterprises, Inc.	4,986	0.4%
9	Georgia-Pacific Corporation	4,800	0.4%
10	Alltel Corporation	4,800	0.4%
		161,381	14.2%

Source: Arkansas Business Publishing Group; Arkansas Department of Economic Development; and Arkansas Department of Finance and Administration

Schedule 11
State Employees by Function (Unaudited)
Last Six Fiscal Years

Full-Time Employees	2008	2007	2006	2005	2004	2003
General Government						
Department of Finance and Administration-Revenue	1,443	1,420	1,370	1,371	1,352	1,319
All Other	2,816	2,764	2,741	2,678	2,632	2,720
Education						
Department of Workforce Education	493	494	498	503	501	503
Department of Education	371	346	359	318	317	391
All Other	979	965	954	877	882	885
Heath and Human Services						
Department of Human Services	7,617	7,524	7,324	7,244	7,222	7,146
Department of Health	2,907	2,887	2,763	2,771	2,757	2,854
All Other	473	458	458	409	404	394
Transportation						
Department of Highway and Transportation	3,576	3,614	3,676	3,749	3,755	3,698
Law, Justice and Public Safety						
Department of Correction	3,750	3,792	3,745	3,354	3,310	3,362
Arkansas State Police	985	966	934	903	843	818
All Other	2,786	2,553	2,546	2,386	2,351	2,074
Recreation and Resources Development						
Department of Parks and Tourism	1,291	1,298	1,214	1,138	1,127	1,138
Arkansas Game and Fish Commission	647	649	634	621	635	610
All Other	1,010	988	990	933	922	929
Regulation of Business and Professionals						
Department of Insurance	189	185	192	182	184	175
All Other	941	922	909	612	592	597
Proprietary Funds						
Colleges and Universities (2)	19,529	20,269	19,088	N/A	N/A	N/A
Workers Compensation Commission	127	135	137	141	141	138
Department of Workforce Services	976	907	852	702	750	881
War Memorial Stadium Commission (3)	32	25	21	29	N/A	N/A
State Total	52,938	53,161	51,405	30,921	30,677	30,632

(1) State employee data not available prior to 2003.
(2) Employee data for colleges and universities not available prior to 2006.
(3) Employee data for War memorial Stadium Commission not available prior to 2005.
Source: Department of Finance and Administration Office of Personnel Management; Department of Highway and Transportation; Colleges and Universities

Schedule 12
Operating Indicators by Function (Unaudited)
Last Ten Fiscal Years

	2008	2007	2006
General Government			
Department of Finance & Administration-Revenue			
Office of Driver Services			
Licenses and ID cards issued (calendar year) (2)	N/A	734,555	727,765
Registered Vehicles (calendar year) (2)	N/A	3,272,311	2,993,975
Income Tax Administration			
Total electronic tax filers (calendar year) (2)	N/A	751,085 (1)	676,504
EFT estimate payments by corporations	1,357 (1)	1,662	1,501
EFT withholding payments (calendar year)	122,858 (1)	140,678	125,999
Education			
Department of Education			
All school districts:			
Average Daily Membership (2)	N/A	459,865	457,490
Number of Certified Personnel (2)	N/A	36,112	35,371
Average Salary of K-12 Classroom full-time employees (2)	N/A	$ 44,493	$ 43,088
Per Pupil Expenditures (2)	N/A	N/A	$ 7,687
Foundation Aid per Student	$ 5,719	$ 5,662	$ 5,528
Assessed Valuation (in millions)	$ 35,970	$ 33,438	$ 31,275
Higher Education			
Public Institutions			
Fall net enrollment	121,182	118,722	118,127
Undergraduate degrees awarded (2)	N/A	19,848	19,038
Graduate degrees awarded (2)	N/A	3,737	3,585
Private Institutions			
Fall net enrollment	13,817	13,381	12,150
Undergraduate degrees awarded	N/A	2,286	2,420
Graduate degrees awarded	N/A	482	455
Health and Human Services			
Department of Health and Human Services			
Foster Care Recipients	6,974	7,194	6,809
Percent of Population	0.24%	0.25%	0.24%
Food Stamp Recipients	556,735	553,618	558,521
Percent of Population	19.54%	19.60%	19.94%
Medicaid Recipients	744,269	742,965	729,800
Percent of Population	26.13%	26.30%	26.06%
Women, Infants and Children Nutrition Program (WIC)	163,766	160,687	158,393
Percent of Population	5.75%	5.69%	5.66%
Doses of Vaccine Administered (3)	N/A	N/A	N/A

(1) As of 9-30-08
(2) Fiscal year 2008 figures not available as of print date
(3) In fiscal year 2001 new regulations required second dose of measles, varicella and hepatitis B vaccines
Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Departments of Revenue, Education, Higher Ed, Health and Human Services, Highway and Transportation, Correction, Parks and Tourism and Insurance

2005	2004	2003	2002	2001	2000	1999
731,155	736,200	702,810	683,237	662,870	678,597	657,283
2,907,650	2,810,529	2,742,630	2,685,507	2,650,512	N/A	N/A
620,490	598,127	535,150	495,842	430,072	350,955	272,711
1,185	1,068	902	N/A	N/A	N/A	N/A
103,356	91,536	93,888	N/A	N/A	N/A	N/A
450,910	447,872	439,742	444,709	444,978	445,739	447,892
35,201	34,024	33,014	33,780	33,405	33,466	33,121
$ 41,489	$ 39,266	$ 37,536	$ 36,026	$ 34,729	$ 33,888	$ 32,819
$ 7,307	$ 6,475	$ 6,168	$ 5,867	$ 5,531	$ 4,945	$ 4,679
$ 5,400	$ 4,721	$ 4,688	$ 4,542	$ 4,492	$ 4,301	$ 4,099
$ 29,274	$ 27,748	$ 26,346	$ 25,269	$ 23,941	$ 22,683	$ 21,682
115,203	113,100	108,844	103,715	100,207	98,989	97,742
18,225	17,046	16,933	15,133	14,090	13,747	13,028
3,525	3,248	3,016	3,131	2,852	2,927	2,829
11,546	11,378	12,629	11,890	11,483	11,015	10,781
2,394	2,309	2,204	2,108	2,057	1,633	1,874
306	271	236	184	118	108	87
6,401	6,502	6,202	6,471	6,670	5,486	5,129
0.23%	0.24%	0.23%	0.24%	0.25%	0.20%	0.19%
544,752	490,641	457,888	433,716	402,119	391,787	398,564
19.62%	17.82%	16.79%	16.02%	14.94%	14.63%	15.03%
688,150	663,920	626,036	582,379	535,798	498,669	459,782
24.79%	24.12%	22.95%	21.51%	19.90%	18.62%	17.34%
156,654	153,570	149,063	145,447	144,006	145,418	147,966
5.64%	5.58%	5.46%	5.37%	5.35%	5.43%	5.58%
725,981	710,929	666,308	715,547	1,024,848	715,995	698,831

Continued on the following page

Schedule 12
Operating Indicators by Function (Unaudited)
Last Ten Fiscal Years

Continued from the previous page

	2008	2007	2006
Transportation			
Highway and Transportation Department			
Miles of State Highway Maintained (2)	N/A	16,438	16,440
Law, Justice and Public Safety			
Department of Correction			
Custody Population Count	13,293	12,828	12,690
Staff Members	4,701	4,375	4,375
Inmate Cost per day	$ 54.82	$ 54.82	$ 54.82
Operating Capacity	12,723	12,552	12,403
Inmate Care/Custody Operating Expenses (in thousands)	$ 272,844	$ 253,888	$ 243,208
Arkansas State Police			
Number of Homicides Investigated	199	219	196
Total Citations Issued	271,125	243,234	244,649
Total Motorist Assists	21,380	21,069	21,167
Total Number of Traffic Accidents	16,759	16,561	16,556
Total Criminal Investigations	3,251	2,688	2,119
Recreation and Resources Development			
Department of Parks and Tourism			
Acres of State Parks Maintained	54,623	53,741	53,402
Game and Fish Commission			
Fishing Licenses sold	680,770	748,184	719,411
Hunting Licenses sold	417,560	408,238	375,834
Lifetime Licenses sold	23,241	21,997	19,467
Other Licenses sold	21,774	24,268	22,880
Regulation of Business and Professionals			
Department of Insurance			
Number of active licensed insurance agents	77,310	66,987	60,933
Total consumer complaints received	2,976	3,080	2,850
Total consumer complaints closed	3,068	2,927	2,901
Total dollars recovered for consumers (in thousands)	$ 8,768	$ 5,161	$ 5,913

2005	2004	2003	2002	2001	2000	1999
16,444	16,419	16,383	16,379	16,369	16,367	16,351
12,568	12,675	11,672	11,223	11,072	10,872	10,712
4,270	4,270	3,666	3,666	3,486	3,486	3,288
$ 54.82	$ 54.82	$ 54.82	$ 54.82	$ 54.82	$ 54.82	$ 54.82
12,178	11,640	11,124	10,968	10,576	10,426	10,416
$ 215,042	$ 209,543	$ 185,682	$ 182,188	$ 175,718	$ 164,025	$ 151,336
171	167	224	210	224	N/A	N/A
258,627	211,023	192,379	211,965	N/A	N/A	N/A
23,946	23,173	22,633	21,176	N/A	N/A	N/A
18,726	18,143	18,029	17,166	N/A	N/A	N/A
2,883	3,375	3,215	3,090	2,641	N/A	N/A
52,747	52,553	52,517	52,605	51,632	51,387	51,235
747,756	726,592	734,236	729,291	750,833	731,767	757,708
410,606	413,723	431,615	458,412	443,432	429,441	542,633
20,657	22,284	10,143	9,659	9,535	10,150	9,799
25,829	27,767	26,975	27,342	26,699	24,736	26,923
49,087	33,970	25,866	20,555	16,369	14,032	11,890
3,157	3,320	3,661	3,874	4,044	3,802	3,621
3,132	3,416	3,345	3,808	3,924	3,855	3,532
$ 5,955	$ 5,433	$ 2,573	$ 4,265	$ 2,000	$ 20,203	$ 2,630

Schedule 13
Capital Asset Statistics by Function (Unaudited)
Last Seven Fiscal Years

	2008	2007	2006	2005	2004	2003	2002
General Government							
Dept of Finance and Administration-Revenue							
Vehicles	177	180	188	168	162	146	145
Education							
Department of Education							
Vehicles	207	217	255	244	229	206	207
Higher Education							
Campuses (public institutions)	33	33	33	33	33	33	33
Health and Human Services							
Department of Human Services							
Buildings (1)	449	459	457	456	417	439	441
Vehicles (2)	496	486	482	488	491	492	546
Department of Health							
Buildings (1)	8	8	9	8	8	8	8
Vehicles (2)	134	148	142	142	142	143	143
Transportation							
Highway and Transportation Department							
Passenger vehicles	2,718	2,635	2,686	2,713	2,714	2,764	2,671
Law, Justice and Public Safety							
Department of Correction							
Correctional units	20	20	20	19	19	18	18
Vehicles (2)	384	399	406	391	387	335	334
Arkansas State Police							
Police stations	12	12	12	12	12	12	12
Commissioned officers	550	544	527	529	533	492	592
Vehicles	885	854	860	745	685	742	847
Recreation and Resources Devleopment							
Department of Parks and Tourism							
State parks and museums	52	52	52	52	52	52	52
Vehicles (2)	342	464	592	548	537	514	289
Game and Fish Commission							
Hatcheries	5	5	5	5	5	5	5
Vehicles (2)	960	1,025	1,029	1,054	1,033	1,090	1,048
Boats	572	568	570	560	560	508	497
Regulation of Business and Professionals							
Vehicles (2)	105	98	94	93	92	88	83

(1) Restated to include only structural buildings.
(2) Restated to include only motorized vehicles.

Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Highway and Transportation Department; Arkansas Departments of Education, Higher Education, Correction, Parks and Tourism, and Finance and Administration-Office of Accounting

Schedule 14
Miscellaneous Statistics (Unaudited)

State Capital	Little Rock
Statehood	June 15, 1836
Nickname	The Natural State
Motto	Regnat populus (The people rule)
Land Area	34,036,700 Acres
Counties	75
Largest Cities	Little Rock, Fort Smith, Fayetteville, Springdale, Jonesboro
Highest Elevation Point	Mount Magazine, 2,753 feet
Lowest Elevation Point	Ouachita River, 54 feet
State Flower	Apple Blossom
State Tree	Pine Tree
State Bird	Mockingbird
State Insect	Honeybee
State Gem	Diamond
State Song	"Arkansas"

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE
MERCY

GREAT SEAL OF T
MERCY

Single

Audit Report

For the Year Ended
June 30, 2008

STATE OF
ARKANSAS
Legislative Joint Auditing Committee
Division of Legislative Audit

STATE OF ARKANSAS
SINGLE AUDIT REPORT
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FOR THE YEAR ENDED JUNE 30, 2008

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ARKANSAS
Legislative Joint Auditing Committee
Division of Legislative Audit

INDEPENDENT AUDITOR'S REPORTS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mike Beebe, Governor,
and Members of the Legislative Joint Auditing Committee
State of Arkansas:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas (the State) as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 23, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, the University of Arkansas for Medical Sciences (a portion of the Higher Education Fund), and the Construction Assistance Revolving Loan Fund (non-major enterprise fund), as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (discretely presented component units) were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State's financial statements that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS-08-01 through FS-08-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items FS-08-01 through FS-08-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's response to the findings identified in our audit are described in the State's Corrective Action Plan, which is a separate document. We did not audit the State's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governor, the Legislative Joint Auditing Committee, state executive and oversight management, agency management, federal awarding agencies, pass-through entities and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 23, 2008

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Report On Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133

The Honorable Mike Beebe, Governor,
and Members of the Legislative Joint Auditing Committee
State of Arkansas:

Compliance

We have audited the compliance of the State of Arkansas (the "State") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit. We did not audit compliance with those requirements by certain entities of the State of Arkansas as identified in the Notes to Schedule of Expenditures of Federal Awards Note 1 (a). Compliance with the requirements by these entities was tested by other auditors whose report has been furnished to us. Our report, insofar as it relates to compliance with the requirements referred to previously by these entities, is based solely on the report of other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

As described in items 08-520-01 and 08-710-20 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding Eligibility that are applicable to its Rehabilitative Services_Vocational Rehabilitation Grants to States (CFDA 84.126) and Medicaid Cluster, respectively. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, based on our audit and the reports of other auditors, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures, and the reports of other auditors, also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-150-01 through 08-150-05, 08-160-01, 08-347-01, 08-520-01, 08-645-01, 08-645-03 through 08-645-05 and 08-710-01 through 08-710-25.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance. We did not consider the internal control over compliance with the requirements of the federal award programs administered by certain entities of the State of Arkansas as identified in the Notes to Schedule of Expenditures of Federal Awards Note 1 (a). The internal control over federal program requirements for these entities was considered by other auditors whose report has been furnished to us. Our report, insofar as it relates to the internal control used in administering federal award programs for these entities, is based solely on the report of the other auditors.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-01, 08-150-01 through 08-150-05, 08-160-01, 08-347-01, 08-520-01, 08-645-01 through 08-645-05 and 08-710-01 through 08-710-25 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-01, 08-520-01 and 08-710-20 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas (the State) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 23, 2008. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the discretely presented component units, the University of Arkansas for Medical Sciences (a portion of the Higher Education Fund) and the Construction Assistance Revolving Loan Fund (non-major enterprise fund), as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. We did not audit the federal financial assistance of certain entities of the State of Arkansas included in the accompanying Schedule of Expenditures of Federal Awards as identified in the Notes to Schedule of Expenditures of Federal Awards Note 1 (a). The Schedules of Expenditures of Federal Awards, related to those entities, were audited by other auditors whose reports have been furnished to us. This report, insofar as it relates to those entities, is based solely on the reports of other auditors.

The State's response to the findings identified in our audit are described the State's Corrective Action Plan, which is a separate document. We did not audit the State's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governor, Legislative Joint Auditing Committee, state executive and oversight management, agency management, federal awarding agencies, pass-through entities and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 20, 2009, except for the
Schedule of Expenditures of Federal
Awards, dated December 23, 2008

ARKANSAS
Legislative Joint Auditing Committee
Division of Legislative Audit

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
FOOD STAMP CLUSTER			
United States Department of Agriculture			
Food Stamps	10.551	$ 425,406,609	
State Administrative Matching Grants for Food Stamp Program	10.561	25,872,762	
Total United States Department of Agriculture		451,279,371	
Total FOOD STAMP CLUSTER		451,279,371	
CHILD NUTRITION CLUSTER			
United States Department of Agriculture			
School Breakfast Program	10.553	103,207	
National School Lunch Program	10.555	128,810,644	$ 122,902,658
Summer Food Service Program for Children	10.559	52,665	
Total United States Department of Agriculture		128,966,516	122,902,658
Total CHILD NUTRITION CLUSTER		128,966,516	122,902,658
EMERGENCY FOOD ASSISTANCE CLUSTER			
United States Department of Agriculture			
Emergency Food Assistance Program (Administrative Costs)	10.568	483,661	473,698
Total United States Department of Agriculture		483,661	473,698
Total EMERGENCY FOOD ASSISTANCE CLUSTER		483,661	473,698
SCHOOLS AND ROADS CLUSTER			
United States Department of Agriculture			
Schools and Roads_ Grants to States	10.665	10,896,792	10,896,792
Total United States Department of Agriculture		10,896,792	10,896,792
Total SCHOOLS AND ROADS CLUSTER		10,896,792	10,896,792
PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER			
United States Department of Commerce			
Economic Adjustment Assistance	11.307	8,400	
Pass-Through from East Arkansas Planning and Development District	11.307	50,623	
Total United States Department of Commerce		59,023	
Total PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER		59,023	
FISH AND WILDLIFE CLUSTER			
United States Department of the Interior			
Sport Fish Restoration Program	15.605	6,573,317	122,791
Wildlife Restoration	15.611	3,690,213	
Total United States Department of the Interior		10,263,530	122,791
Total FISH AND WILDLIFE CLUSTER		10,263,530	122,791
EMPLOYMENT SERVICES CLUSTER			
United States Department of Labor			
Employment Service/Wagner-Peyser Funded Activities	17.207	6,409,674	
Disabled Veterans' Outreach Program (DVOP)	17.801	667,481	
Local Veterans' Employment Representative Program	17.804	788,828	
Total United States Department of Labor		7,865,983	
Total EMPLOYMENT SERVICES CLUSTER		7,865,983	

STATE OF ARKANSAS
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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
WIA CLUSTER			
United States Department of Labor			
WIA Adult Program	17.258	$ 7,777,792	$ 7,777,792
WIA Youth Activities	17.259	9,451,491	8,517,872
WIA Dislocated Workers	17.260	10,780,671	5,919,924
Total United States Department of Labor		28,009,954	22,215,588
Total WIA CLUSTER		28,009,954	22,215,588
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
United States Department of Transportation			
Highway Planning and Construction	20.205	400,534,369	266,811
Total United States Department of Transportation		400,534,369	266,811
Total HIGHWAY PLANNING AND CONSTRUCTION CLUSTER		400,534,369	266,811
FEDERAL TRANSIT CLUSTER			
United States Department of Transportation			
Federal Transit_Capital Investment Grants	20.500	3,431,610	
Federal Transit_Formula Grants	20.507	923,434	
Total United States Department of Transportation		4,355,044	
Total FEDERAL TRANSIT CLUSTER		4,355,044	
TRANSIT SERVICES PROGRAMS CLUSTER			
United States Department of Transportation			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	2,091,112	
Job Access-Reverse Commute	20.516	345,998	249,077
New Freedom Program	20.521	344,209	
Total United States Department of Transportation		2,781,319	249,077
Total TRANSIT SERVICES PROGRAMS CLUSTER		2,781,319	249,077
HIGHWAY SAFETY CLUSTER			
United States Department of Transportation			
State and Community Highway Safety	20.600	2,504,276	923,139
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2,133,517	522,000
Safety Incentive Grants for Use of Seatbelts	20.604	197,339	
State Traffic Safety Information System Improvement Grants	20.610	357,142	
Incentive Grant Program to Increase Motorcyclist Safety	20.612	1,220	
Total United States Department of Transportation		5,193,494	1,445,139
Total HIGHWAY SAFETY CLUSTER		5,193,494	1,445,139
SPECIAL EDUCATION CLUSTER			
United States Department of Education			
Special Education_Grants to States	84.027	106,218,843	102,408,586
Special Education_Preschool Grants	84.173	5,456,613	5,095,634
Total United States Department of Education		111,675,456	107,504,220
Total SPECIAL EDUCATION CLUSTER		111,675,456	107,504,220

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
TRIO CLUSTER			
United States Department of Education			
TRIO_Student Support Services	84.042	$ 5,941,104	
TRIO_Talent Search	84.044	3,394,089	
TRIO_Upward Bound	84.047	5,259,368	
TRIO_Educational Opportunity Centers	84.066	1,739,322	
TRIO_McNair Post-Baccalaureate Achievement	84.217	700,181	
Total United States Department of Education		17,034,064	
Total TRIO CLUSTER		17,034,064	
AGING CLUSTER			
United States Department of Health and Human Services			
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	3,701,848	$ 3,545,430
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	5,685,200	5,481,739
Nutrition Services Incentive Program	93.053	2,290,552	2,290,552
Total United States Department of Health and Human Services		11,677,600	11,317,721
Total AGING CLUSTER		11,677,600	11,317,721
CCDF CLUSTER			
United States Department of Health and Human Services			
Child Care and Development Block Grant	93.575	46,464,925	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	25,622,824	
Total United States Department of Health and Human Services		72,087,749	
Total CCDF CLUSTER		72,087,749	
MEDICAID CLUSTER			
United States Department of Health and Human Services			
State Medicaid Fraud Control Units	93.775	1,458,617	
State Survey and Certification of Health Care Providers and Suppliers	93.777	9,255,070	
Medical Assistance Program	93.778	2,439,383,107	
Total United States Department of Health and Human Services		2,450,096,794	
Total MEDICAID CLUSTER		2,450,096,794	
FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER			
Corporation for National and Community Service			
Foster Grandparent Program	94.011	287,907	
Total Corporation for National and Community Service		287,907	
Total FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER		287,907	
DISABILITY INSURANCE/SSI CLUSTER			
Social Security Administration			
Social Security_Disability Insurance	96.001	22,133,757	
Supplemental Security Income	96.006	114,798	
Total Social Security Administration		22,248,555	
Total DISABILITY INSURANCE/SSI CLUSTER		22,248,555	

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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
HOMELAND SECURITY CLUSTER			
Department of Homeland Security			
State Domestic Preparedness Equipment Support Program	97.004	$ 1,079,106	$ 707,455
Homeland Security Grant Program	97.067	8,279,005	6,847,772
Total Department of Homeland Security		9,358,111	7,555,227
Total HOMELAND SECURITY CLUSTER		9,358,111	7,555,227
RESEARCH AND DEVELOPMENT CLUSTER			
United States Department of Agriculture			
Agricultural Research_Basic and Applied Research	10.001	1,643,194	55,612
Pass-Through from Entomological Services	10.001	22,929	
Plant and Animal Disease, Pest Control, and Animal Care	10.025	31,310	
Wildlife Services	10.028	13,820	
Grants for Agricultural Research, Special Research Grants	10.200	1,284,937	
Pass-Through from University of Georgia	10.200	93,120	35,070
Pass-Through from Heifer Project International	10.200	3,884	
Pass-Through from Iowa State University	10.200	8,287	
Pass-Through from Louisiana State University	10.200	3,585	
Pass-Through from Ohio State University	10.200	20,847	
Pass-Through from Mississippi State University	10.200	104,627	
Pass-Through from Southern Regional Aquaculture Center	10.200	9,901	
Pass-Through from University of Florida	10.200	10,537	
Cooperative Forestry Research	10.202	665,503	
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	3,668,353	
Pass-Through from Iowa State University	10.203	17,203	
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	1,842,465	
Grants for Agricultural Research_Competitive Research Grants	10.206	2,526,478	723,724
Pass-Through from University of Florida	10.206	3,343	
Animal Health and Disease Research	10.207	94,682	
1890 Institution Capacity Building Grants	10.216	398,529	
Pass-Through from West Virginia State University	10.216	22,214	
Higher Education Challenge Grants	10.217	28,488	10,022
Biotechnology Risk Assessment Research	10.219	65,279	
Higher Education Multicultural Scholars Program	10.220	26,819	
Integrated Programs	10.303	181,856	44,107
Pass-Through from Mississippi State University	10.303	(34)	
Pass-Through from Texas A&M University	10.303	26,055	
Pass-Through from Utah State University	10.303	4,780	
Pass-Through from Texas Cooperative Extension	10.303	12,044	
Pass-Through from University of Georgia	10.303	58,759	
Pass-Through from University of Connecticut	10.303	4,955	
Community Outreach and Assistance Partnership Program	10.455	13,168	
Cooperative Extension Service	10.500	274,957	122,885
Pass-Through from North Carolina State University	10.500	36,975	
Pass-Through from Texas Cooperative Extension	10.500	42,955	
Forestry Research	10.652	211,587	
National Agricultural Library	10.700	645,044	217,998
Rural Cooperative Development Grants			
Pass-Through from Winrock International	10.771	14,486	
Resource Conservation and Development			
Pass-Through from Mississippi State University	10.901	5,744	

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
United States Department of Agriculture (continued)			
Soil and Water Conservation	10.902	$ 51,700	
Environmental Quality Incentives Program	10.912	19,458	
Technical Agricultural Assistance	10.960	7,073	
Scientific Cooperation and Research	10.961	6,251	
Cochran Fellowship Program-International Training-Foreign Participant	10.962	638	
Pass-Through from Oregon State University	10.962	5,529	
Other Department of Agriculture Research	N/A	112,033	
Pass-Through from Dairy Management, Inc.	N/A	37,783	
Pass-Through from University of Florida	N/A	17,503	
Pass-Through from Arkansas Women in Agriculture, Inc.	N/A	5,000	
Total United States Department of Agriculture		14,406,633	$ 1,209,418
United States Department of Commerce			
Other Department of Commerce Research	N/A	3,769	
Total United States Department of Commerce		3,769	
United States Department of Defense			
Collaborative Research and Development	12.114	11,501	
Basic and Applied Scientific Research	12.300	203,714	
Pass-Through from College of William and Mary	12.300	18,546	
Pass-Through from University of Illinois	12.300	85,177	
Military Medical Research and Development	12.420	475,975	
Basic Scientific Research	12.431	237,501	
Basic, Applied, and Advanced Research in Science and Engineering	12.630	114,658	
Air Force Defense Research Sciences Program	12.800	650,014	132,082
Pass-Through from International Technology Center	12.800	509,053	
Other Department of Defense Research	N/A	2,191,854	
Pass-Through from Milcord LLC	N/A	20,708	
Pass-Through from Fast VDO LLC	N/A	14,641	
Pass-Through from Defense Threat Reduction Agency	N/A	204,586	
Pass-Through from Q-Flex, Inc.	N/A	1,930	
Pass-Through from Texas Army National Guard	N/A	25,203	
Pass-Through from HM Jackson Foundation for the Advancement of Military Medicine	N/A	75,622	
Pass-Through from Systran Federal Corporation	N/A	34,516	
Pass-Through from Universal Technology Corporation	N/A	44,117	
Pass-Through from University of South Carolina	N/A	210,648	
Pass-Through from Lynguent Inc.	N/A	9,425	
Pass-Through from Irvine Sensors Corporation	N/A	119,854	
Total United States Department of Defense		5,259,243	132,082
United States Department of Housing and Urban Development			
Other Department of Housing and Urban Development Assistance	N/A	6,132	
Total United States Department of Housing and Urbam Development		6,132	
United States Department of the Interior			
Indian Education_Higher Education Grant Program	15.114	71,791	
Cultural Resource Management	15.224	280	
Sport Fish Restoration Program	15.605	230,961	
Fish And Wildlife Management Assistance	15.608	77,957	

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
United States Department of the Interior (continued)			
Cooperative Endangered Species Conservation Fund	15.615	$ 121,519	
Partners for Fish and Wildlife	15.631	16,377	
Conservation Grants Private Stewardship for Imperiled Species	15.632	42,107	
State Wildlife Grants	15.634	20,790	
Pass-Through from The Nature Conservancy	15.634	6,254	
Challenge Cost Share	15.642	14,310	
Assistance to State Water Resources Research Institutes	15.805	97,720	
Earthquake Hazards Reduction Program	15.807	6,837	
U.S. Geological Survey_Research and Data Collection	15.808	24,626	
Pass-Through from AmericaView, Inc.	15.808	51,312	
Cooperative Research Units Program	15.812	29,593	
Rivers, Trails and Conservation Assistance	15.921	992	
Other Department of the Interior Research	N/A	77,074	$ 10,589
Pass-Through from NatureServe	N/A	2,934	
Total United States Department of the Interior		893,434	10,589
United States Department of Justice			
Juvenile Accountability Block Grants	16.523	89,034	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	186,257	
Pass-Through from University of Missouri	16.560	1,511	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	236	
Other Department of Justice Research	N/A	489,921	101,069
Pass-Through from Oklahoma City National Memorial Institute for the	N/A	94,464	
Total United States Department of Justice		861,423	101,069
United States Department of State			
International Education Training and Research			
Pass-Through from NAFSA:Association of International Educators	19.430	7,123	
Total United States Department of State		7,123	
United States Department of Transportation			
Highway Planning and Construction	20.205	116,035	
Highway Training and Education	20.215	33,161	
Safety Incentive Grants for Use of Seatbelts	20.604	7,645	
University Transportation Centers Program	20.701	793,296	67,080
Other Department of Transportation Research	N/A	512,893	
Pass-Through from Oklahoma State University	N/A	3,265	
Pass-Through from National Academy of Sciences	N/A	139,558	32,051
Total United States Department of Transportation		1,605,853	99,131
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	848,983	3,781
Pass-Through from Harding University	43.001	33,229	
Pass-Through from Space Telescope Science Institute	43.001	5,202	
Pass-Through from Jet Propulsion Laboratory	43.001	56,852	
Technology Transfer			
Pass-Through from Arkansas Power Electronics Intl Inc.	43.002	88,234	

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
National Aeronautics and Space Administration (continued)			
Other National Aeronautics and Space Administration Research	N/A	$ 1,495,466	$ 41,967
Pass-Through from Baylor College of Medicine	N/A	484,743	
Pass-Through from Lynguent Inc.	N/A	58,322	
Pass-Through from Power Electronics Leveling Solutions LLC	N/A	2,569	
Total National Aeronautics and Space Administration		3,073,600	45,748
National Foundation on the Arts and the Humanities			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	26,467	
Promotion of the Humanities_Federal/State Partnership			
Pass-Through from Humanities Council	45.129	6,315	
Other National Foundation on the Arts and the Humanities Research			
Pass-Through from Arkansas Humanities Council	N/A	14,496	
Total National Foundation on Arts and the Humanities		47,278	
National Science Foundation			
Engineering Grants	47.041	1,810,778	61,947
Pass-Through from Arkansas Power Electronics Intl Inc.	47.041	1,443	
Pass-Through from Bio-Detection Instruments LLC	47.041	40,795	
Pass-Through from Nanomaterials and Nanofrabrication Laboratories	47.041	88,543	
Pass-Through from Isoflux, Inc.	47.041	37,837	
Pass-Through from White River Bioscience, Inc.	47.041	43,884	
Scientific Research Project Support	47.047	7	
Mathematical and Physical Sciences	47.049	1,503,001	15,003
Pass-Through from University of Oklahoma	47.049	36,406	
Pass-Through from University of Texas at San Antonio	47.049	18,998	
Geosciences	47.050	392,277	
Computer and Information Science and Engineering	47.070	1,556,220	64,780
Biological Sciences	47.074	1,686,225	29,467
Pass-Through from Cornell University	47.074	185,514	
Pass-Through from Washington University	47.074	49,094	
Pass-Through from University of Nevada	47.074	68,138	
Pass-Through from Missouri S&T	47.074	63,201	
Pass-Through from North Dakota State University	47.074	3,330	
Social, Behavioral, and Economic Sciences	47.075	131,246	1,148
Education and Human Resources	47.076	649,985	31,938
Pass-Through from Mathematical Association of America	47.076	32,697	
Pass-Through from San Jose State University	47.076	11	
Polar Programs	47.078	73,144	
International Science and Engineering (OISE)	47.079	79,312	
Office of Cyberinfrastructure	47.080	1,980,467	3,333
Other National Science Foundation Research	N/A	24,652	
Pass-Through from Penn State University	N/A	8,541	
Pass-Through from University of Oklahoma	N/A	566,746	
Pass-Through from Vegrandis LLC	N/A	2,755	
Total National Science Foundation		11,135,247	207,616

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
Environmental Protection Agency			
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	$ 4,113	
Nonpoint Source Implementation Grants	66.460	184,183	
Regional Wetland Program Development Grants	66.461	36,828	
Environmental Protection_Consolidated Research			
Pass-Through from University of Tulsa	66.500	6,025	
Greater Opportunities: Research Program	66.515	69,660	
Surveys, Studies, Investigations and Special Purpose Grants	66.606	891	
Pass-Through from University of Tulsa	66.606	24,917	
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	66.610	14,271	
Other Environmental Protection Agency Research	N/A	43,953	$ 14,856
Total Environmental Protection Agency		384,841	14,856
United States Department of Energy			
Office of Science Financial Assistance Program	81.049	690,253	
Pass-Through from University of Kansas Center for Research, Inc.	81.049	26,047	
Conservation Research and Development			
Pass-Through from Oklahoma State University	81.086	7,875	
Renewable Energy Research and Development	81.087	316,133	
National Industrial Competitiveness Through Energy, Environment and Economics			
Pass-Through from Mississippi State University	81.105	4,857	
State Energy Program Special Projects	81.119	277,965	
Other Department of Energy Research	N/A	257,379	
Pass-Through from Caterpillar, Inc.	N/A	9,238	
Pass-Through from Nanomaterials & Nanofabrication Lab	N/A	15,000	
Total United States Department of Energy		1,604,747	
United States Department of Education			
Title I Grants to Local Educational Agencies	84.010	51,272	
Fund for the Improvement of Postsecondary Education			
Pass-Through from Auburn University	84.116	2,740	
National Institute on Disability and Rehabilitation Research	84.133	43,411	
Special Education - Personnel Development to Improve Services and Results for Children with Disablilities	84.325	125,943	
Mathematics and Science Partnerships	84.366	44,485	
Improving Teacher Quality State Grants	84.367	27,391	
Other Department of Education Research	N/A	582,311	
Pass-Through from Colcord Public Schools, Oklahoma	N/A	5,593	
Pass-Through from Eufaula Public Schools, Oklahoma	N/A	3,356	
Pass-Through from Fairland Public Schools, Oklahoma	N/A	4,779	
Pass-Through from Greasy Public Schools, Oklahoma	N/A	1,449	
Pass-Through from Whitefield Public Schools, Oklahoma	N/A	8,731	
Pass-Through from Westat Inc.	N/A	222,803	
Pass-Through from Mathmatica Policy Research, Inc.	N/A	65,421	
Total United States Department of Education		1,189,685	

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RESEARCH AND DEVELOPMENT CLUSTER (continued)			
United States Department of Health and Human Services			
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	$ 1,327	
Innovations in Appplied Public Health Research			
Pass-Through from Radiation Monitoring Devices, Inc.	93.061	53,966	
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	244,072	
Maternal and Child Health Federal Consolidated Programs	93.110	160,751	
Environmental Health	93.113	147,798	
Human Genome Research	93.172	46,552	
Research Related to Deafness and Communication Disorders	93.173	263,371	
Pass-Through from Multimedia Technology Developers, Inc.	93.173	32,227	
Pass-Through from University of Illinios	93.173	40,415	
Telehealth Network Grants	93.211	220,098	
Research and Training in Complementary and Alternative Medicine			
Pass-Through from Mt. Sinai Medical Center	93.213	1,773	
Research on Healthcare Costs, Quality and Outcomes	93.226	77,397	
Grants for Dental Public Health Residency Training			
Pass-Through from Boston VA research Institute, Inc.	93.236	47,035	
Mental Health Research Grants	93.242	1,398,354	$ 223,895
Pass-Through from University of Washington	93.242	(887)	
Pass-Through from University of Colorado	93.242	6,688	
Pass-Through from Dartmouth College	93.242	14,576	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	278,147	
Poison Control Stabilization and Enhancement Grants	93.253	164,310	
Occupational Safety and Health Program			
Pass-Through from University of Texas Health Sciences Center - Houston	93.262	2,169	
Alcohol Research Programs	93.273	956,281	
Pass-Through from University of Colorado	93.273	97,893	
Drug Abuse and Addiction Research Programs	93.279	6,799,176	451,540
Pass-Through from Baylor College of Medicine	93.279	357,668	
Pass-Through from Dartmouth College	93.279	34,879	
Pass-Through from Washington University	93.279	98,815	
Pass-Through from IntervXion Therapeutics LLC	93.279	125,348	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	199,615	
Pass-Through from University of Alabama at Birmingham	93.283	19,505	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	950,282	
Pass-Through from Nanomaterials and Nanofabrication Laboratories	93.286	680	
Minority Health and Health Disparities Research	93.307	496,008	27,387
Nursing Research	93.361	1,315,189	106,819
Sickle Cell Treatment Demonstration Program	93.365	27,628	
Biomedical Technology	93.371	2,369	127
National Center for Research Resources	93.389	7,579,406	1,237,190
Cancer Cause and Prevention Research	93.393	267,066	84,898
Pass-Through from University of Utah	93.393	17,249	
Pass-Through from University of California at San Francisco	93.393	7,800	
Cancer Detection and Diagnosis Research	93.394	300,976	
Pass-Through from Washington University	93.394	9,742	

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RESEARCH AND DEVELOPMENT CLUSTER (continued)			
United States Department of Health and Human Services (continued)			
Cancer Treatment Research	93.395	$ 4,871,574	$ 339,542
Pass-Through from National Childhood Cancer Foundation	93.395	(1,093)	
Pass-Through from National Surgical Adjuvant Breast and Bowel Program	93.395	135,144	
Pass-Through from Southwest Oncology Group	93.395	71,065	
Pass-Through from University of Michigan	93.395	24,547	
Pass-Through from Washington University	93.395	25,795	
Cancer Biology Research	93.396	872,841	
Pass-Through from University of Alabama- Birmingham	93.396	108,953	
Cancer Research Manpower	93.398	89,026	
University Centers for Excellence in Developmental Diasbilies Education, Research and Service	93.632	461,432	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	140,863	
Cell Biology and Biophysics Research	93.821	147,083	
Heart and Vascular Diseases Research	93.837	457,499	
Lung Diseases Research	93.838	619,563	165,354
Blood Diseases and Resources Research	93.839	763,597	
Pass-Through from University of Iowa	93.839	330,077	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	708,005	56,296
Pass-Through from Columbia University	93.846	121,278	
Diabetes, Endocrinology and Metabolism Research	93.847	2,020,380	165,753
Pass-Through from University of Oxford	93.847	45,757	
Pass-Through from Medical College of Georgia	93.847	52,689	
Pass-Through from University of Kentucky Research Foundation	93.847	87,469	
Digestive Diseases and Nutrition Research	93.848	635,388	
Pass-Through from University of Vermont	93.848	262,536	
Kidney Diseases, Urology and Hematology Research	93.849	731,628	
Pass-Through from Wake Forest University	93.849	30,769	
Pass-Through from University of California at San Francisco	93.849	20,949	
Pass-Through from University of Alabama at Birmingham	93.849	1,138	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	3,390,428	60,343
Pass-Through from University of Alabama at Birmingham	93.853	5,016	
Pass-Through from Yale University	93.853	14,669	
Pass-Through from Columbia University	93.853	8,098	
Allergy, Immunology and Transplantation Research	93.855	1,769,284	49,123
Pass-Through from Duke Clinical Research Institute	93.855	(4,054)	
Pass-Through from Xenocept, Inc	93.855	(270)	
Pass-Through from Western Regional Center for Excellence	93.855	192,203	
Microbiology and Infectious Diseases Research	93.856	931,949	246,452
Pass-Through from University of Medicine and Dentistry of New Jersey	93.856	42,358	
Pass-Through from University of Alabama at Birmingham	93.856	3,034	
Biomedical Research and Research Training	93.859	1,421,947	113,960
Pass-Through from Mayo Clinic	93.859	(17,400)	
Pass-Through from Nanomaterials and Nanofabrication Lab	93.859	89,426	
Pass-Through from University of Texas Medical Branch - Galveston	93.859	20,365	

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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
United States Department of Health and Human Services (continued)			
Child Health and Human Development Extramural Research	93.865	$ 912,873	
Pass-Through from University of california at San Diego	93.865	4,988	
Pass-Through from University of Virginia	93.865	77	
Pass-Through from Mathematical Policy	93.865	21,208	
Aging Research	93.866	5,192,477	
Pass-Through from Duke Clinical Research Institute	93.866	222,344	
Pass-Through from Polisher Research Institute	93.866	5,664	
Pass-Through from RTI, International	93.866	111,454	
Pass-Through from University of Kentucky	93.866	129,818	
Pass-Through from University of Washington	93.866	(2,693)	
Vision Research	93.867	1,697,904	
Pass-Through from Potentia	93.867	29,464	
Medical Library Assistance	93.879	46,177	
Grants for Training in Primary Care Medicine and Dentistry	93.884	251,503	
Health Care and Other Facilities	93.887	(41)	
Resource and Manpower Development in the Environmental Health Sciences	93.894	(2,419)	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	51,929	
Geriatric Education Centers	93.969	206,443	
International Research and Research Training	93.989	28,917	
National Health Promotion	93.990	106,088	
Adolescent Family Life-Demonstration Projects			
Pass-Through from Healthy Connections, Inc.	93.995	39,097	
Other Department of Health and Human Services Research	N/A	19,345	
Pass-Through from Weill Medical College of Cornell University	N/A	111,264	
Pass-Through from Nanomaterials & Nanofabrication Lab	N/A	31,727	
Pass-Through from Case Western Reserve University	N/A	36,102	
Pass-Through from Cleveland Clinic Foundation	N/A	16,337	
Pass-Through from White River Bioscience	N/A	3,636	
Pass-Through from Houston Academy of Medicine - Texas Medical Center	N/A	6,275	
Pass-Through from Association of University Centers on Disability	N/A	15,540	
Pass-Through from Ekagra Software Technologies	N/A	5,734	
Pass-Through from Xtria LLC	N/A	27,745	
Pass-Through from Emmes Corporation	N/A	8,094	
Pass-Through from Jaeb Center for Health Research	N/A	5,540	
Pass-Through from University of Medicine/Dental, New Jersey	N/A	5,619	
Pass-Through from San Diego State University	N/A	8,204	
Pass-Through from University of Mississippi	N/A	37,177	
Total United States Department of Health and Human Services		53,958,330	$ 3,328,679
United States Agency for International Development			
USAID Foreign Assistance for Programs Overseas			
Pass-Through from NatureServe	98.001	8,805	
Total United States Agency for International Development		8,805	-
Total RESEARCH AND DEVELOPMENT CLUSTER		94,446,143	5,149,188

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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
STUDENT FINANCIAL ASSISTANCE CLUSTER			
United States Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	$ 4,367,415	
Federal Family Education Loans	84.032	1,024,570,455	
Federal Work-Study Program	84.033	5,853,790	
Federal Perkins Loan Program_Federal Capital Contributions	84.038	40,915,252	
Federal Pell Grant Program	84.063	143,941,661	
Federal Direct Student Loans	84.268	602,352	
Academic Competitiveness Grants	84.375	2,685,917	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	1,058,684	
Total United States Department of Education		1,223,995,526	
United States Department of Health and Human Services			
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	4,887,149	
Nursing Student Loans	93.364	312,627	
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	256,762	
Total United States Department of Health and Human Services		5,456,538	
Total STUDENT FINANCIAL ASSISTANCE CLUSTER		1,229,452,064	
United States Department of Agriculture			
Agricultural Research_Basic and Applied Research	10.001	153,698	
Plant and Animal Disease, Pest Control, and Animal Care	10.025	1,221,235	
Wildlife Services	10.028	141,949	
Livestock Assistance Program	10.066	3,737,972	$ 3,737,972
Conservation Reserve Program	10.069	23,760	
Inspection Grading and Standardization	10.162	22,520	
Market Protection and Promotion	10.163	85,709	
Grants For Agricultural Research, Special Research Grants	10.200	209,929	
Pass-Through from University of Georgia	10.200	79,546	28,404
Pass-Through from Iowa State University	10.200	80,073	
Grants for Agricultural Research_Competitive Research Grants	10.206	43,360	
Small Business Innovation Research	10.212	23,488	
1890 Institution Capacity Building Grants	10.216	153,908	62,000
Pass-Through from Tennessee State University	10.216	3,943	
Higher Education Multicultural Scholars Program	10.220	1,800	
Integrated Programs			
Pass-Through from University of Florida	10.303	17,299	
Pass-Through from North Carolina State University	10.303	6,124	
Pass-Through from Texas Cooperative Extension	10.303	75,492	
Organic Agriculture Research and Extension Initiative			
Pass-Through from University of Vermont	10.307	10,223	
Rural Housing Preservation Grants	10.433	152,981	
State Mediation Grants	10.435	64,460	64,460
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	141,669	5,000
Community Outreach and Assistance Partnership Program	10.455	158,720	58,568

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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Agriculture (continued)			
Cooperative Extension Service	10.500	$ 2,346,367	
Pass-Through from Auburn University	10.500	263	
Pass-Through from Kansas State University	10.500	62,789	
Pass-Through from Louisiana State University	10.500	1,136	
Pass-Through from Texas Cooperative Extension	10.500	17,395	
Pass-Through from University of Georgia	10.500	38,691	$ 3,513
Pass-Through from Cooperative State Research, Education and Extention Service	10.500	8,537,268	
Pass-Through from AR Women in Agriculture	10.500	5,269	
Pass-Through from National 4-H Council	10.500	25,838	
Pass-Through from University of Florida	10.500	29,370	
Pass-Through from University of Tennessee	10.500	15,031	
Food Donation	10.550	15,916,342	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	69,736,185	
Child and Adult Care Food Program	10.558	32,476,894	
State Administrative Expenses for Child Nutrition	10.560	2,392,316	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	190,785	
Senior Farmers Market Nutrition Program	10.576	99,987	99,986
Forestry Research	10.652	572,196	
Forest Land Enhancement Program (FLEP)	10.663	25,000	
Cooperative Forestry Assistance	10.664	4,026,163	934,907
Urban and Community Forestry Program	10.675	23,260	
Forest Legacy Program	10.676	525,000	
Rural Business Enterprise Grants	10.769	(70)	
Rural Business Opportunity Grants			
Pass-Through from Delta Regional Authority	10.773	170,420	
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856	100,000	
Resource Conservation and Development	10.901	1,634	
Soil and Water Conservation	10.902	287,632	287,632
Soil Survey	10.903	31,710	
Environmental Quality Incentives Program	10.912	73,160	67,243
Pass-Through from Clemson University	10.912	23,422	
Technical Agricultural Assistance			
Pass-Through from Partners of the Americas	10.960	8,292	
Other Department of Agriculture Assistance	N/A	90,500	
Total United States Department of Agriculture		144,460,103	5,349,685
United States Department of Commerce			
Economic Development_Technical Assistance	11.303	176,390	
Public Telecommunications Facilities Planning and Construction	11.550	64,327	
Public Safety Interoperable Communications Grant Program	11.555	253,330	
Manufacturing Extension Partnership	11.611	1,002,264	54,547
Total United States Department of Commerce		1,496,311	54,547
United States Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	316,298	
Flood Control Projects	12.106	37,681	
Planning Assistance to States	12.110	241,385	
Payments to States in Lieu of Real Estate Taxes	12.112	1,996,466	1,996,466
Collaborative Research and Development	12.114	133	
Military Construction, National Guard	12.400	10,467,961	

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FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Defense (continued)			
National Guard Military Operations and Maintenance (O&M) Projects	12.401	$ 36,443,108	
National Guard Civilian Youth Opportunities	12.404	1,300,443	
Community Economic Adjustment			
Pass-Through from Texas Cooperative Extension	12.600	28,764	$ 12,000
Mathmatical Sciences Grants Program	12.901	14,900	
Other Department of Defense Assistance	N/A	2,761,124	793,611
Pass-Through from Defense Activity for Non-traditional Education Support	N/A	75,618	
Pass-Through from South Dakota School of Mines and Technology	N/A	2,048	
Total United States Department of Defense		53,685,929	2,802,077
United States Department of Housing and Urban Development			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	23,463,527	23,029,420
Emergency Shelter Grants Program	14.231	1,112,808	
Shelter Plus Care	14.238	1,475,736	
HOME Investment Partnerships Program	14.239	14,037,010	13,539,097
Housing Opportunities for Persons with AIDS	14.241	684,996	669,598
Rural Housing and Economic Development	14.250	81,436	81,436
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	347,342	
Fair Housing Assistance Program_State and Local	14.401	66,191	
Historically Black Colleges and Universities Program	14.520	123,308	
Total United States Department of Housing and Urban Development		41,392,354	37,319,551
United States Department of the Interior			
Indian Education_Higher Education Grant Program	15.114	1,000	
Distribution of Receipts to State and Local Governments	15.227	3,935,020	1,965,529
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	275,895	
Abandoned Mine Land Reclamation (AMLR) Program	15.252	794,617	
Fish and Wildlife Management Assistance	15.608	44,050	
Cooperative Endangered Species Conservation Fund	15.615	1,239,989	125,028
Clean Vessel Act	15.616	43,273	43,273
Sportfishing and Boating Safety Act	15.622	122,791	
North American Wetlands Conservation Fund	15.623	68,517	
Partners for Fish and Wildlife	15.631	80,100	
Conservation Grants Private Stewardship for Imperiled Species	15.632	5,000	
Landowner Incentive Program	15.633	150,703	151,618
State Wildlife Grants	15.634	725,106	
Challenge Cost Share	15.642	298	
Federal Junior Duck Stamp Conservation and Design	15.644	5,851	
U.S. Geological Survey_Research and Data Collection	15.808	193,720	
National Cooperative Geologic Mapping Program	15.810	71,365	
Historic Preservation Fund Grants-In-Aid	15.904	585,106	119,450
National Historic Landmark	15.912	30,513	
Pass-Through from National Park Service	15.912	4,313	
Outdoor Recreation_Acquisition, Development and Planning	15.916	717,472	557,640
Save America's Treasures	15.929	40,202	
Other Department of the Interior Assistance	N/A	29,179	
Total United States Department of the Interior		9,164,080	2,962,538

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Justice			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	$ 416,611	
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203	72,141	
Juvenile Accountability Block Grants	16.523	908,594	$ 623,087
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	904,854	778,167
Missing Children's Assistance	16.543	118,537	
Victims of Child Abuse	16.547	53,254	
National Criminal History Improvement Program (NCHIP)	16.554	281,058	
Crime Victim Assistance	16.575	4,079,960	3,933,397
Crime Victim Compensation	16.576	1,325,672	
Edward Byrne Memorial Formula Grant Program	16.579	339,539	113,169
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	939,757	
Crime Victim Assistance/Discretionary Grants	16.582	68,690	
Violence Against Women Formula Grants	16.588	1,292,201	1,082,563
Residential Substance Abuse Treatment for State Prisoners	16.593	107,624	
State Criminal Alien Assistance Program	16.606	415,864	
Bulletproof Vest Partnership Program	16.607	12,546	
Public Safety Partnership and Community Policing Grants	16.710	467,778	
Enforcing Underage Drinking Laws Program	16.727	279,612	279,612
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2,742,758	2,719,854
National Prison Rape Statistics Program	16.739	49,082	
Statewide Automated Victim Information and Notification (SAVIN) Program	16.740	250,826	
Forensic DNA Capacity Enhancement Program	16.741	48,763	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	93,354	
Other Department of Justice Assistance	N/A	786,168	
Total United States Department of Justice		16,055,243	9,529,849
United States Department of Labor			
Labor Force Statistics	17.002	803,595	
Compensation and Working Conditions	17.005	100,486	
Unemployment Insurance	17.225	52,878,056	
Senior Community Service Employment Program	17.235	1,695,688	1,638,090
Trade Adjustment Assistance	17.245	5,550,158	
Employment Services and Job Training Pilots-Demonstrations and Research	17.249	9,519	
Attestations by Employers Using Non-Immigrant Aliens in Specialty Occupations	17.252	10,208	
One-Stop Career Center Initiative	17.257	305,874	294,918
WIA Pilots, Demonstrations, and Research Projects	17.261	5,207,780	632,953
Pass-Through from Little Rock Workforce Investment Board	17.261	(25)	
Youth Opportunity Grants	17.263	21,170	
National Farmworker Jobs Program	17.264	298,750	
H-1B Job Training Grants	17.268	1,866,328	1,290,812
Community Based Job Training Grants	17.269	1,542,981	
Consultation Agreements	17.504	937,941	
OSHA Data Initiative	17.505	16,963	
Mine Health and Safety Grants	17.600	105,710	
Other Department of Laobr Assistance	N/A	334,446	
Total United States Department of Labor		71,685,628	3,856,773

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of State			
Professional Exchanges_Annual Open Grant	19.415	$ 1,597	
Cooperative Grants	19.420	19,978	
Other Department of State Assistance	N/A	113,023	
Total United States Department of State		134,598	
United States Department of Transportation			
Airport Improvement Program	20.106	64,545	
Motor Carrier Safety	20.217	584,429	
National Motor Carrier Safety	20.218	2,594,080	
Recreational Trails Program	20.219	216,737	
Federal Transit_Metropolitan Planning Grants	20.505	1,937,688	$ 1,917,040
Formula Grants for Other Than Urbanized Areas	20.509	7,042,372	6,532,900
Alcohol Open Container Requirements	20.607	10,014,431	
Pipeline Safety	20.700	233,147	
University Transportation Centers Program	20.701	127,243	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	196,536	32,355
PHMSA Pipeline Safety Program One Call Grant	20.721	40,500	40,500
Other Department of Transportation Assistance	N/A	160,594	
Total United States Department of Transportation		23,212,302	8,522,795
United States Department of Treasury			
Low-Income Taxpayer Clinics	21.008	92,968	
Total United States Department of Treasury		92,968	
General Services Administration			
Donation of Federal Surplus Personal Property	39.003	5,405,765	
Total General Services Administration		5,405,765	
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	13,424	
Other National Aeronautics and Space Administration Assistance	N/A	46,934	
Total National Aeronautics and Space Administration		60,358	
National Foundation on the Arts and the Humanities			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	1,777	
Promotion of the Arts_Partnership Agreements	45.025	584,215	466,860
Promotion of the Humanities_Federal/State Partnership	45.129	13,100	
Pass-Through from Arkansas Humanities Council	45.129	3,769	
Promotion of the Humanities_Challenge Grants	45.130	48,423	
Promotion of the Humanities_Public Programs	45.164	764	
Promotion of the Humanities_Digital Humanities Initiative	45.169	5,939	
Museums for America	45.301	16,645	
Grants to States	45.310	1,817,212	
Other National Foundation on the Arts and the Humanities Assistance	N/A	4,759	
Total National Foundation on the Arts and Humanities		2,496,603	466,860
National Science Foundation			
Mathematical and Physical Sciences	47.049	28,425	
Pass-Through from American Physical Society	47.049	61,480	
Geosciences	47.050	350	

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
National Science Foundation (continued)			
Biological Sciences	47.074	$ 3,492	
Education and Human Resources	47.076	1,599,307	$ 27,517
International Science and Engineering (OISE)	47.079	1,885	
Other National Science Foundation Assistance	N/A	71,634	
Pass-Through from American Physical Society	N/A	80	
Total National Science Foundation		1,766,653	27,517
Small Business Administration			
Small Business Development Center	59.037	985,862	
Other Small Business Administration Assistance	N/A	662,134	
Total Small Business Administration		1,647,996	
Department of Veterans Affairs			
Veterans State Domiciliary Care	64.014	268,838	
Veterans State Nursing Home Care	64.015	2,342,152	
All-Volunteer Force Educational Assistance	64.124	238,394	
Total Department of Veterans Affairs		2,849,384	
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	1,925,761	
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	382,920	
Clean School Bus USA	66.036	58,106	
Congressionally Mandated Projects	66.202	68,574	
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	3,452,651	
State Public Water System Supervision	66.432	777,598	
State Underground Water Source Protection	66.433	107,170	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	33,669	
Targeted Watersheds Grants			
Pass-Through from Audubon Arkansas	66.439	40,545	
Water Quality Management Planning	66.454	604,352	
Capitalization Grants for Clean Water State Revolving Funds	66.458	12,047,110	10,730,489
Nonpoint Source Implementation Grants	66.460	4,582,669	2,889,235
Pass-Through from Illinois River Watershed Partnership	66.460	58,095	
Regional Wetland Program Development Grants	66.461	251,898	
Water Quality Cooperative Agreements	66.463	75,771	51,258
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	17,807	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,013,751	5,364,902
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	228,051	
Water Protection Grants to the States	66.474	17,121	
Gulf of Mexico Program	66.475	33,518	24,000
Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demostration Program	66.479	46,553	
Assessment and Watershed Protection Program Grants	66.480	12,884	
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510	1,833	
Greater Research Opportunities (GRO) Fellowships for Undergraduate/Graduate Environmental Study	66.513	11,636	

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CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
Environmental Protection Agency (continued)			
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	$ 148,080	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	532,650	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	25,580	
Pollution Prevention Grants Program	66.708	68,760	
Hazardous Waste Management State Program Support	66.801	1,722,055	
Superfund State, Political Subdivision, and Indian Tribe Site_Specific Cooperative Agreements	66.802	437,122	
State and Tribal Underground Storage Tanks Program	66.804	477,538	
Leaking Underground Storage Tank Trust Fund Program	66.805	780,253	
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements			
Pass-Through from Pulaski County Government	66.814	25,482	
Brownfield Job Training Cooperative Agreements			
Pass-Through from City of Camden	66.815	111,800	
State and Tribal Response Program Grants	66.817	689,782	
Environmental Education Grants	66.951	2,856	
Other Environmental Protection Agency Assistance	N/A	55,632	
Pass-Through from Santee Sioux Nation	N/A	49,769	
Total Environmental Protection Agency		36,977,402	$ 19,059,884
United States Department of Energy			
State Energy Program	81.041	481,860	
Weatherization Assistance for Low-Income Persons	81.042	1,794,796	
Office of Science Financial Assistance Program	81.049	457,728	
Other Department of Energy Assistance	N/A	49,438	
Total United States Department of Energy		2,783,822	
United States Department of Education			
Adult Education_State Grant Program	84.002	5,724,094	3,822,615
Title I Grants to Local Educational Agencies	84.010	123,840,832	117,874,822
Migrant Education_State Grant Program	84.011	4,767,312	4,721,861
Title I Program for Neglected and Delinquent Children	84.013	200,242	200,242
Undergraduate International Studies and Foreign Language Programs	84.016	77,193	
Overseas_Group Projects Abroad	84.021	141,295	
Higher Education_Institutional Aid	84.031	5,869,694	
Career and Technical Education -- Basic Grants to States	84.048	10,273,365	5,773,746
Leveraging Educational Assistance Partnership	84.069	35,272	
Fund for the Improvement of Postsecondary Education	84.116	474,058	55,228
Pass-Through from Unversity of Kansas	84.116	7,585	
Pass-Through from Troy University	84.116	1,898	
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	38,304,140	
Rehabilitation Long-Term Training	84.129	400,565	
Centers for Independent Living	84.132	159,433	
National Institute on Disability and Rehabilitation Research	84.133	341,620	
Migrant Education_Coordination Program	84.144	203,248	200,848
Migrant Education_College Assistance Migrant Program	84.149	267,779	
Business and International Education Projects	84.153	68,208	
Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind	84.160	296,787	165,072

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Education (continued)			
Independent Living_State Grants	84.169	$ 254,155	
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	348,784	
Special Education_Grants for Infants and Families with Disabilities	84.181	2,649,220	
Byrd Honors Scholarships	84.185	411,688	$ 211,688
Safe and Drug-Free Schools and Communities_State Grants	84.186	2,623,348	2,583,606
Supported Employment Services for Individuals with Severe Disabilities	84.187	354,373	
Bilingual Education-Professional Development	84.195	86,326	
Education for Homeless Children and Youth	84.196	414,203	394,856
Javits Gifted and Talented Students Education Grant Program	84.206	68,676	
Even Start_State Educational Agencies	84.213	771,121	668,950
Fund for the Improvement of Education	84.215	92,550	41,908
Assistive Technology	84.224	358,442	
Tech-Prep Education	84.243	1,232,704	1,232,704
Rehabilitation Training_Continuing Education	84.264	698,353	
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	182,130	
Charter Schools	84.282	1,955,375	1,955,375
Twenty-First Century Community Learning Centers	84.287	8,509,273	8,361,543
State Grants for Innovative Programs	84.298	858,617	858,617
Parental Assistance Centers			
Pass-Through from Jones Center for Families	84.310	338,555	
Education Technology State Grants	84.318	2,338,407	2,336,691
Special Education - State Personnel Development	84.323	1,413,656	1,163,654
Research in Special Education	84.324	34,502	
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	174,279	
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	94,660	
Pass-Through from Unversity of Tennessee - DOE-OSERS	84.326	79,267	
Grants to States for Incarcerated Youth Offenders	84.331	288,302	
Comprehensive School Reform Demonstration	84.332	83,508	83,508
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	167,263	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,002,146	
Child Care Access Means Parents in School	84.335	23,993	
Teacher Quality Enhancement Grants	84.336	2,333	
Transition to Teaching	84.350	87,001	
Reading First State Grants	84.357	11,698,964	11,516,376
Rural Education	84.358	3,484,019	3,520,665
English Language Acquisition Grants	84.365	2,747,749	2,747,749
Mathematics and Science Partnerships	84.366	2,032,478	1,121,086
Improving Teacher Quality State Grants	84.367	27,140,250	25,911,782
Grants for State Assessments and Related Activities	84.369	5,000,000	
Statewide Data Systems	84.372	866,571	770,500
School Improvement Grants	84.377	401,392	399,999
National Writing Project	84.928	120,177	
Civic Education: We the People Program	84.929	40,996	
Hurricane Education Recovery	84.938	70	

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Education (continued)			
Other Department of Education Assistance	N/A	$ 3,116,802	$ 318,779
Pass-Through from Independent Living Research Utilization	N/A	9,121	
Pass-Through from USDE Contrcts and Purchasing Operations	N/A	67,140	
Pass-Through from State of Washington	N/A	12,820	
Pass-Through from University of Kansas	N/A	3,971	
Total United States Department of Education		276,194,350	199,014,470
Delta Regional Authority			
Delta Area Economic Development	90.201	722	
Help America Vote Act Requirements Payments	90.401	1,135,510	
Total Delta Regional Authority		1,136,232	
United States Department of Health and Human Services			
Compassion Capital Fund	93.009	3,222	
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	56,325	
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	168,982	134,279
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	197,896	197,896
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	394,261	217,514
Alzheimer's Disease Demonstration Grants to States	93.051	391,804	329,833
National Family Caregiver Support, Title III, Part E	93.052	1,560,834	1,512,574
Public Health Emergency Preparedness	93.069	7,597,776	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,589,154	1,407,149
Model State-Supported Area Health Education Centers	93.107	558,391	
Maternal and Child Health Federal Consolidated Programs	93.110	182,501	-
Environmental Health	93.113	23,777	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	678,440	
Nurse Anesthetist Traineeships	93.124	26,590	
Emergency Medical Services for Children	93.127	27,019	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	155,658	
Injury Prevention and Control Research and State and Community Based Programs	93.136	442,214	5,700
Projects for Assistance in Transition from Homelessness (PATH)	93.150	295,270	294,661
Rural Health Research Centers	93.155	17,138	
Nursing Workforce Diversity	93.178	264,343	
Disabilities Prevention	93.184	397,975	
Urban Indian Health Services	93.193	92	
Family Planning_Services	93.217	33,934	
Pass-Through from Arkansas Children's Hospital	93.217	3,807,301	92,062
Traumatic Brain Injury State Demonstration Grant Program	93.234	82,444	
Abstinence Education Program	93.235	566,754	533,621
Grants for Dental Public Health Residency Training	93.236	89,056	66,051
State Capacity Building	93.240	215,511	
State Rural Hospital Flexibility Program	93.241	389,875	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	2,179,796	1,093,041
Pass-Through from Morehouse School of Medicine	93.243	4,782	

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Health and Human Services (continued)			
Advanced Education Nursing Grant Program	93.247	$ 23,001	
Universal Newborn Hearing Screening	93.251	139,089	
State Planning Grants Health Care Access for the Uninsured	93.256	36,681	
Immunization Grants	93.268	26,508,051	$ 38,000
Drug-Free Communities Support Program Grants	93.276	3,845	
Drug Abuse and Addiction Research Programs	93.279	74,596	
Mental Health National Research Service Awards for Research Training	93.282	82,952	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	16,022,478	668,029
Pass-Through from St. Louis University	93.283	8,434	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	15,851	
Small Rural Hospital Improvement Grant Program	93.301	235,874	220,011
Advanced Education Nursing Traineeships	93.358	110,801	
Nursing Research	93.361	(671)	
National Center for Research Resources	93.389	372,490	
Cancer Cause and Prevention Research	93.393	960,390	
Food Safety and Security Monitoring Project	93.448	4,255	
Promoting Safe and Stable Families	93.556	4,935,919	
Temporary Assistance for Needy Families	93.558	59,949,475	934,371
Family Support Payments to States_Assistance Payments	93.560	422,112	
Child Support Enforcement	93.563	24,966,173	
Refugee and Entrant Assistance_State Administered Programs	93.566	13,499	
Low-Income Home Energy Assistance	93.568	18,118,841	
Community Services Block Grant	93.569	9,159,996	8,699,547
Community Services Block Grant_Discretionary Awards	93.570	3,900	
State Court Improvement Program	93.586	259,695	
Community-Based Child Abuse Prevention Grants	93.590	191,049	
Grants to States for Access and Visitation Programs	93.597	73,005	
Chafee Education and Training Vouchers Program (ETV)	93.599	410,774	
Head Start	93.600	7,097,364	1,083
Voting Access for Individuals with Disabilities_Grants to States	93.617	132,668	132,668
Developmental Disabilities Basic Support and Advocacy Grants	93.630	707,185	101,687
Pass-Through from Arkansas Governor's Developmental Disabilities Council	93.630	56,902	
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	39	
Children's Justice Grants to States	93.643	253,024	
Child Welfare Services_State Grants	93.645	3,157,004	
Adoption Opportunities	93.652	243,996	
Foster Care_Title IV-E	93.658	37,248,698	
Adoption Assistance	93.659	11,673,923	
Social Services Block Grant	93.667	17,237,169	7,861,642
Child Abuse and Neglect State Grants	93.669	295,888	
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	997,220	941,667
Chafee Foster Care Independence Program	93.674	978,651	
State Children's Insurance Program	93.767	94,925,827	
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	412,856	223,812

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Health and Human Services (continued)			
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	$ 1,757,598	$ 258,298
Medicaid Transformation Grants	93.793	49,105	
Health Careers Opportunity Program	93.822	31,278	
Child Health and Human Development Extramural Research	93.865	24,039	
Health Care and Other Facilities	93.887	1,490,202	
National Bioterrorism Hospital Preparedness Program	93.889	5,784,339	2,904,297
Rural Health Care Services Outreach and Rural Health Network Development Program			
Pass-Through from Mid Delta Community Consortium	93.912	131,206	
Grants to States for Operation of Offices of Rural Health	93.913	172,822	
HIV Care Formula Grants	93.917	5,967,554	1,947,851
HIV Prevention Activities_Health Department Based	93.940	1,523,100	312,880
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	198,179	
Assistance Programs for Chronic Disease Prevention and Control	93.945	191,511	61,067
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	138,617	
Block Grants for Community Mental Health Services	93.958	3,708,179	3,708,179
Block Grants for Prevention and Treatment of Substance Abuse	93.959	18,300,506	11,766,885
Geriatric Education Centers	93.969	76,813	
Family Planning_Service Delivery Improvement Research Grants			
Pass-Through from University of Alabama at Birmingham	93.974	15,502	
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	1,231,236	65,503
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	496,868	47,605
Pass-Through from Friends of Congressional Glaucoma Caucus	93.988	150	
Preventive Health and Health Services Block Grant	93.991	1,053,038	
Maternal and Child Health Services Block Grant to the States	93.994	6,670,299	
Other Department of Health and Human Services Assistance	N/A	4,259,829	
Pass-Through from University of Kentucky	N/A	110,272	
Pass-Through from Decision Point, Inc.	N/A	71,898	
Total United States Department of Health and Human Services		414,374,224	46,779,463
Corporation for National and Community Service			
State Commissions	94.003	237,786	
Learn and Serve America_School and Community Based Programs	94.004	183,299	157,082
Learn and Serve America_Higher Education	94.005	500	
AmeriCorps	94.006	2,444,437	2,091,076
Planning and Program Development Grants	94.007	12,132	5,661
Training and Technical Assistance	94.009	101,790	
Total Corporation for National and Community Service		2,979,944	2,253,819
United States Department of Homeland Security			
Boating Safety Financial Assistance	97.012	1,336,158	
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	1,889,005	1,494,140
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	185,962	
Disaster Unemployment Assistance	97.034	115,518	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	9,729,635	9,332,054
Hazard Mitigation Grant	97.039	34,799	12,480

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Homeland Security (continued)			
Chemical Stockpile Emergency Preparedness Program	97.040	$ 9,383,903	$ 4,718,061
National Dam Safety Program	97.041	105,825	49,000
Emergency Management Performance Grants	97.042	1,805,145	404,029
State Fire Training Systems Grants	97.043	20,439	
Pre-Disaster Mitigation	97.047	1,038	
Emergency Operations Centers	97.052	1,168,361	
Map Modernization Management Support	97.070	53,550	
Buffer Zone Protection Program (BZPP)	97.078	348,441	348,441
Other Department of Homeland Security Assistance	N/A	1,736,511	
Total United States Department of Homeland Security		27,914,290	16,358,205
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 6,207,020,038	$ 644,456,943

STATE OF ARKANSAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the activity of all federal award programs administered by the State of Arkansas. We did not audit the entities and their federal financial assistance listed below. This report, insofar as it relates to these entities, is based solely on the report of other auditors.

ENTITY/Program	CFDA Number	Expenditures
DEPARTMENT OF WORKFORCE SERVICES:		
Trade Adjustment Assistance Administration	17.245	$ 5,549,788
Temporary Assistance for Needy Families	93.558	56,997,576
ARKANSAS DEVELOPMENT FINANCE AUTHORITY:		
HOME Investment Partnerships Program	14.239	14,037,010
STATE OF ARKANSAS SAFE DRINKING WATER FUND:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	8,474,994
STATE OF ARKANSAS CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND:		
Capitalization Grants for State Revolving Funds	66.458	11,071,339
SOCIAL SECURITY DISABILITY DETERMINATION:		
Disability Insurance/SSI Cluster	96.001, 96.006	22,063,874
ARKANSAS STUDENT LOAN AUTHORITY:		
Student Financial Assistance Cluster	Various	705,615,696
UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES:		
Head Start	93.600	6,835,878
Student Financial Assistance Cluster	Various	38,355,172

Federal award programs include expenditures, pass-throughs to non-state agencies (i.e., payments to subrecipients), non-monetary assistance, and loan programs.

(b) Basis of Presentation

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA).

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

The Schedule presents both Type A and Type B federal assistance programs administered by the State of Arkansas. OMB Circular A-133 establishes the formula for determining the level of expenditures or disbursements to be used in defining Type A and Type B federal financial assistance programs. For the State of Arkansas, Type A programs are those which exceed $16,691,032 in disbursements, expenditures, or distributions. The determination of major and nonmajor programs is based on the risk-based approach outlined in OMB Circular A-133.

(c) Basis of Accounting

The expenditures for each of the federal financial assistance programs are presented in the Schedule on a modified accrual basis. The modified accrual basis recognizes expenditures of federal awards when the related liability is incurred. Those federal programs presenting negative amounts on the Schedule are the result of prior year expenditures being overstated and/or reimbursements due back to the grantor.

(2) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in Note 1 (c).

(3) Federally Funded Loan Programs

The balances of loans as of June 30, 2008 for which the federal government imposes continuing compliance requirements are as follows. The current year disbursements are included in the Schedule.

CFDA Number	Program Name	Amount
84.038	Federal Perkins Loan Program_Federal Capital Contributions	$ 40,915,252
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	4,887,149
93.364	Nursing Student Loans	312,627
	Total	$ 46,115,028

(3) Federally Funded Loan Programs (Continued)

The State also participates in the Federal Direct Loan Program (Direct) and the Federal Family Education Loans Program (FFELP) which includes the Federal Stafford Loan Program and the Federal Parents' Loans for Undergraduate Students Program. The programs do not require the Universities to disburse the funds. The proceeds are disbursed by the federal government for direct loans and by lending institutions for FFELP. Loan guarantees are issued by the Arkansas Guaranteed Student Loan Corporation and other for-profit and not-for-profit guarantee agencies. The federal government reinsures these guarantee agencies. New loans were made to students enrolled at State Universities for $602,352 for Direct and $571,946,538 FFELP during the year ended June 30, 2008; accordingly, these amounts are included in the Schedule.

Education loans made or purchased by the Arkansas Student Loan Authority (the Authority) are guaranteed by the Student Loan Guarantee Foundation of Arkansas, United Student Aid Fund or the U.S. Department of Education. Student loans outstanding on the books of the Authority, which are guaranteed by the U.S. Department of Education are considered non-cash awards and amounted to approximately $506,000,000 at July 1, 2007, this amount is included in the schedule.

Expenditures reflected in CFDA 66.458, Capitalization Grants for State Revolving Funds, include loans to local governments for developing or constructing water treatment facilities. The funding source for these loans includes federal grant funds and State funds. In subsequent years, local governments will be required to repay these funds to the State of Arkansas. When received, these funds will be redistributed to local governments through new loans for additional water treatment facility projects. The outstanding loan balance for the year ended June 30, 2008, was $230,574,000. Total disbursements for new loans for the year ended June 30, 2008, totaled $23,091,000. Administrative costs associated with the program for the year ended June 30, 2008, totaled $290,000.

Expenditures reflected in CFDA 66.468, Capitalization Grants for Drinking Water State Revolving Fund, include loans to counties, municipalities and other tax-exempt water systems organizations for construction of new water systems, the expansion or repair of existing water systems, and/or the consolidation of new or existing water systems. The funding source for these loans includes federal grant funds and State funds. When received, these funds will be used to make new loans for the program activities. The outstanding loan balance for the year ended June 30, 2008 was $88,073,000. Total disbursements for new loans made during fiscal year 2008, totaled $8,213,000. Administrative costs associated with the program for the year ended June 30, 2008, totaled $117,000.

(4) Non-Monetary Assistance

The State is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Non-Cash awards received by the State are included in the Schedule as follows:

CFDA Number	Program Name	Grant Awards
10.550	Food Donation	$ 15,916,342
39.003	Donation of Federal Surplus Personal Property	5,405,765
93.268	Immunization Grants	26,508,051
	Total	$ 47,830,158

(5) Rebates from the Special Supplemental Food Program for Women, Infants, and Children (WIC)

During fiscal year 2008, the State received cash rebates totaling $25,381,381 from infant formula manufacturers on sales of formula to participants in the WIC program (CFDA 10.557) which are netted against total expenditures included in the Schedule. Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16a as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. Applying the rebates received to such costs enabled the State to extend program benefits to 376,210 more persons than could have been served this fiscal year in the absence of the rebate contract.

STATE OF ARKANSAS
Legislative Joint Auditing Committee
Division of Legislative Audit

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		no
Significant deficiency(s) identified not considered to be a material weakness(es)?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	no

FEDERAL AWARDS

Internal control over major programs:				
Material weakness(es) identified?	X	Yes		no
Significant deficiency(s) identified not considered to be a material weakness(es)?	X	Yes		None reported
Type of auditor's report issued on compliance for major programs:	Unqualified *			

* Except for the programs listed on page 3 of this report, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	X	Yes		None reported

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.550	Food Donation
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
14.239	HOME Investment Partnership Program
17.245	Trade Adjustment Assistance Administration
	Highway Planning and Construction Cluster
20.205	Highway Planning and Construction
23.003	Appalachian Development Highway System
20.607	Alcohol Open Container Requirements
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program_Federal Capital Contributions

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Identification of major programs: (continued)

CFDA Numbers	Name of Federal Program or Cluster
	Student Financial Assistance Cluster: (Continued)
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.375	Academic Competitiveness Grants
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students
93.364	Nursing Student Loans
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds
	Special Education Cluster
84.027	Special Education_Grants to States
84.173	Special Education_Preschool Grants
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States
84.369	Grants for State Assessments and Related Activities
	Aging Cluster
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.268	Immunization Grants
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
	CCDF Cluster
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.600	Head Start
93.658	Foster Care_Title IV-E
93.667	Social Services Block Grant
	Medicaid Cluster:
93.775	State Medicaid Fraud Control Units
93.776	Hurricane Katrina Relief Program
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
	Disability Insurance/SSI Cluster
96.001	Social Security_Disability Insurance
96.006	Supplemental Security Income
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Various	Research and Development Cluster

Dollar threshold used to distinguish between
Type A and Type B programs $ 16,691,032

Auditee qualified as low-risk auditee? ____ Yes __X__ no

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Actions – Due to the status of the development of the corrective action plan at the time of the release date of this report, the auditee's views and planned corrective action plan is presented as a separate document.

FS-08-01 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 again 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 continue to provide sufficient training to all financial accounting personnel to ensure adequate financial accountability to the citizens of the State.

FS-08-02 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 previous audits, 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:

- Computer program changes were placed into production without sufficient management review to ensure adequate testing and authorization.
- There was no written contingency plan that addresses the agency's procedures in the event of a short-term or long-term interruption of computer service.
- Password configuration settings were not structured to effectively reduce the risk of unauthorized access to the computer system.
- The ability to update cash control applications was not limited to authorized personnel.

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.
- Irretrievable 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, 2008.

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

FS-08-03 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.

As reported in the previous audit, 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.
- 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.
- Misappropriation of assets.
- Misstatement of the State's financial records and financial statements.

The Treasurer of State indicated that they have been working on corrective procedures on these control deficiencies subsequent to the prior year audit. However, complete corrective action had not been taken as of June 30, 2008.

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

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL/STATE/EDUCATIONAL AGENCY NAME	AGENCY IDENTIFICATION NUMBER	PAGE NUMBER
FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY		39
U.S. DEPARTMENT OF AGRICULTURE		
Arkansas Department of Health	645	59
Arkansas Department of Human Services	710	59
U.S. DEPARTMENT OF EDUCATION		
University of Arkansas at Pine Bluff	160	61
Arkansas Department of Workforce Education - Arkansas Rehabilitation Services	520	61
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Arkansas Department of Health	645	62
Arkansas Department of Human Services	710	63
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS		
FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY		78
U.S. DEPARTMENT OF EDUCATION		
University of Arkansas for Medical Sciences	150	81
Arkansas Student Loan Authority	347	81
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
University of Arkansas for Medical Sciences	150	82

Views of Responsible Officials and Planned Corrective Actions – Due to the status of the development of the corrective action plan at the time of the release date of this report, the auditee's views and planned corrective action plan is presented as a separate document.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER: **08-01**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER(S): **Various, see table below**
QUESTIONED COSTS: **None**

INTERNAL CONTROL OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - The Arkansas Department of Finance and Administration (DFA) is tasked with the responsibility of preparing the State's Schedule of Expenditures of Federal Awards (SEFA). In order to ensure timely and accurate reporting, as well as allow for adequate planning of the Single Audit, each State/Educational Agency is required to submit a *Federal Awards Data Collection Workbook* to DFA by a pre-determined date. Upon receipt of the workbook, DFA compiles, reviews and makes the necessary adjustments to prepare the SEFA. A review of this process revealed several late submissions. Of the ninety-three (93) submissions, only twenty-four (24) were submitted by the due dates established by DFA. The remaining sixty-nine (69) were submitted late, ranging from two (2) days late to sixty-seven (67) days late. Reasons for the delay include employee staffing and the inability of the Agencies' accounting staff to properly use AASIS to maintain, reconcile and report federal expenditures in a timely manner.

The audit for the year ended June 30, 2008 revealed that the Arkansas Department of Human Services incorrectly reported federal expenditures totaling $31,699,072 for the Child and Adult Care Food Program, CFDA 10.558, in the expenditure total of the National School Lunch Program, CFDA 10.555. The Arkansas Department of Health (ADH) incorrectly reported federal expenditures totaling $7,597,776 for the Public Health Emergency Preparedness Program, CFDA 93.069, in the expenditure total of Centers for Disease Control and Prevention_Investigations and Technical Assistance, CFDA 93.283. ADH also overstated expenditures by $2,012,207 in Special Supplemental Nutrition Program for Women, Infants and Children, CFDA 10.557, because of a miscalculation in the amount of infant formula rebates, which are used to pay for food instruments and should be excluded from federal expenditures reported on the SEFA. In addition, Arkansas State University omitted federal expenditures of $8,288,655 for the Federal Perkins Loan Program_Federal Capital Contributions program, CFDA 84.038. Appropriate audit adjustments have subsequently been made by DFA to correct the SEFA.

Failure to receive information promptly from the State/Educational Agencies hinders DFA's ability to adequately review the information and could cause the SEFA to be materially misstated.

We recommend the State develop and implement procedures to ensure the federal program information submitted to DFA is accurate, complete and timely.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0053	**Office of the Attorney General**		19
		Medicaid Cluster	
	16.576	Crime Victim Compensation	
0059	**Auditor of State**		33
		Schools and Roads Cluster	
	12.112	Payments to States in Lieu of Real Estate Taxes	
	15.227	Distribution of Receipts to State and Local Governments	
0080	**Arkansas Game and Fish Commission**		25
		Fish and Wildlife Cluster	
		Highway Planning and Construction Cluster	
	10.000	Other Department of Agriculture Assistance	
	10.025	Plant and Animal Disease, Pest Control, and Animal Care	
	10.028	Wildlife Services	
	10.069	Conservation Reserve Program	
	10.912	Environmental Quality Incentives Program	
	12.000	Other Department of Defense Assistance	
	15.608	Fish and Wildlife Management Assistance	
	15.615	Cooperative Endangered Species Conservation Fund	
	15.616	Clean Vessel Act	
	15.622	Sportfishing and Boating Safety Act	
	15.631	Partners for Fish and Wildlife	
	15.632	Conservation Grants Private Stewardship for Imperiled Species	
	15.633	Landowner Incentive Program	
	15.634	State Wildlife Grants	
	15.644	Federal Junior Duck Stamp Conservation and Design	
	15.929	Save America's Treasures	
	20.219	Recreational Trails Program	
	66.000	Other Environmental Protection Agency Assistance	
	66.461	Regional Wetland Program Development Grants	
	97.000	Other Department of Homeland Security Assistance	
	97.012	Boating Safety Financial Assistance	
0090	**Arkansas State Highway and Transportation Department**		2
		Highway Planning and Construction Cluster	
		Federal Transit Cluster	
		Transit Services Programs Cluster	
	12.106	Flood Control Projects	
	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	
	20.218	National Motor Carrier Safety	
	20.219	Recreational Trails Program	
	20.505	Federal Transit_Metropolitan Planning Grants	
	20.509	Formula Grants for Other Than Urbanized Areas	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.040	Chemical Stockpile Emergency Preparedness Program	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency		Cluster or CFDA Number/ Federal Program Name	Days Late
0100	**Henderson State University**		9
		TRIO Cluster	
		Student Financial Assistance Cluster	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	84.336	Teacher Quality Enhancement Grants	
	84.367	Improving Teacher Quality State Grants	
	93.887	Health Care and Other Facilities	
0105	**Southern Arkansas University**		23
		TRIO Cluster	
		Student Financial Assistance Cluster	
	10.000	Other Department of Agriculture Assistance	
	16.607	Bulletproof Vest Partnership Program	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.366	Mathematics and Science Partnerships	
	93.887	Health Care and Other Facilities	
0115	**Southern Arkansas University - Tech Branch**		14
		Student Financial Assistance Cluster	
	11.611	Manufacturing Extension Partnership	
	15.000	Other Department of the Interior Assistance	
	66.467	Wastewater Operator Training Grant Program (Technical Assistance)	
	66.815	Brownfield Job Training Cooperative Agreements	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.287	Twenty-First Century Community Learning Centers	
	93.558	Temporary Assistance for Needy Families	
	97.043	State Fire Training Systems Grants	
0120	**Arkansas State University - Beebe**		45
		Food Stamp Cluster	
		Child Nutrition Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0125	**Arkansas State University - Jonesboro**		25
		Child Nutrition Cluster	
		Public Works and Economic Development Cluster	
		WIA Cluster	
		Highway Planning and Construction Cluster	
		TRIO Cluster	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0125	**Arkansas State University - Jonesboro (Continued)**		25
		CCDF Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.000	Other Department of Agriculture Assistance	
	10.212	Small Business Innovation Research	
	10.558	Child and Adult Care Food Program	
	10.901	Resource Conservation and Development	
	11.303	Economic Development_Technical Assistance	
	11.611	Manufacturing Extension Partnership	
	12.000	Other Department of Defense Assistance	
	15.000	Other Department of Interior Assistance	
	43.000	Other National Aeronautics and Space Administration Assistance	
	45.130	Promotion of the Humanities_Challenge Grants	
	45.169	Promotion of the Humanities_Digital Humanities Initiative	
	45.301	Museums for America	
	47.049	Mathematical and Physical Sciences	
	47.076	Education and Human Resources	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	66.000	Other Environmental Protection Agency Assistance	
	66.202	Congressionally Mandated Projects	
	66.460	Nonpoint Source Implementation Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.153	Business and International Education Projects	
	84.215	Fund for the Improvement of Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.009	Compassion Capital Fund	
	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	
	93.124	Nurse Anesthetist Traineeships	
	93.241	State Rural Hospital Flexibility Program	
	93.279	Drug Abuse and Addiction Research Programs	
	93.358	Advanced Education Nursing Traineeships	
	93.389	National Center for Research Resources	
	93.558	Temporary Assistance for Needy Families	
	93.560	Family Support Payments to States_Assistance Payments	
	93.570	Community Services Block Grant_Discretionary Awards	
	93.658	Foster Care_Title IV-E	
	93.865	Child Health and Human Development Extramural Research	
	93.969	Geriatric Education Centers	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0128	**Arkansas State University - Mountain Home**		15
		Student Financial Assistance Cluster	
	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
	93.887	Health Care and Other Facilities	
0129	**Arkansas State University - Newport**		9
		Student Financial Assistance Cluster	
	17.252	Attestations by Employers Using Non-Immigrant Aliens in Specialty Occupations	
	84.002	Adult Education_State Grant Program	
	93.558	Temporary Assistance for Needy Families	
0130	**Arkansas Tech University**		47
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.652	Forestry Research	
	15.642	Challenge Cost Share	
	43.001	Aerospace Education Services Program	
	59.000	Other Small Business Administration Assistance	
	84.021	Overseas_Group Projects Abroad	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	
	84.367	Improving Teacher Quality State Grants	
	93.389	National Center for Research Resources	
	93.558	Temporary Assistance for Needy Families	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
0135	**University of Arkansas - Fayetteville**		11
		Child Nutrition Cluster	
		Federal Transit Cluster	
		Highway Safety Cluster	
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	11.611	Manufacturing Extension Partnership	
	12.901	Mathematical Sciences Grants Program	
	15.916	Outdoor Recreation_Acquisition, Development and Planning	
	16.000	Other Department of Justice Assistance	
	16.588	Violence Against Women Formula Grants	
	19.420	Cooperative Grants	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency / Cluster or CFDA Number/ Federal Program Name			Days Late
0135	**University of Arkansas - Fayetteville (Continued)**		11
	20.000	Other Department of Transportation Assistance	
	20.701	University Transportation Centers Program	
	43.000	Other National Aeronautics and Space Administration Assistance	
	45.000	Other National Foundation on the Arts and the Humanities Assistance	
	47.000	Other National Science Foundation Assistance	
	47.049	Mathematical and Physical Sciences	
	47.076	Education and Human Resources	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	66.000	Other Environmental Protection Agency Assistance	
	66.460	Nonpoint Source Implementation Grants	
	66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	
	66.513	Greater Research Opportunities (GRO) Fellowships for Undergraduate/Graduate Environmental Study	
	66.951	Environmental Education Grants	
	84.000	Other Department of Education Research	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.129	Rehabilitation Long-Term Training	
	84.132	Centers for Independent Living	
	84.133	National Institute on Disability and Rehabilitation Research	
	84.185	Byrd Honors Scholarships	
	84.264	Rehabilitation Training_Continuing Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	93.000	Other Department of Health and Human Services Assistance	
	93.136	Injury Prevention and Control Research and State and Community Based Programs	
	93.282	Mental Health National Research Service Awards for Research Training	
	93.630	Developmental Disabilities Basic Support and Advocacy Grants	
	94.006	AmeriCorps	
	97.000	Other Department of Homeland Security Assistance	
0135ext	**University of Arkansas - Cooperative Extension Service**		16
	10.001	Agricultural Research_Basic and Applied Research	
	10.025	Plant and Animal Disease, Pest Control, and Animal Care	
	10.200	Grants for Agricultural Research, Special Research Grants	
	10.206	Grants for Agricultural Research_Competitive Research Grants	
	10.303	Integrated Programs	
	10.307	Organic Agriculture Research and Extension Initiative	
	10.500	Cooperative Extension Service	
	10.664	Cooperative Forestry Assistance	
	10.912	Environmental Quality Incentives Program	
	12.002	Procurement Technical Assistance For Business Firms	
	66.460	Nonpoint Source Implementation Grants	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days Late
Cluster or CFDA Number/ Federal Program Name			
0135ext	**University of Arkansas - Cooperative Extension Service (Continued)**		16
	66.814	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	
	93.558	Temporary Assistance for Needy Families	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0145	**University of Arkansas at Little Rock**		13
		Public Works and Economic Development Cluster	
		TRIO Cluster	
		Special Education Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	11.303	Economic Development_Technical Assistance	
	11.611	Manufacturing Extension Partnership	
	15.912	National Historic Landmark	
	16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
	16.523	Juvenile Accountability Block Grants	
	16.582	Crime Victim Assistance/Discretionary Grants	
	19.000	Other Department of State Assistance	
	19.415	Professional Exchanges_Annual Open Grant	
	20.701	University Transportation Centers Program	
	21.008	Low-Income Taxpayer Clinics	
	47.000	Other Small Business Administration Assistance	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	66.439	Targeted Watersheds Grants	
	84.031	Higher Education_Institutional Aid	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.126	Rehabilitation Services_Vocation Rehabilitation Grants to States	
	84.129	Rehabilitation Long-Term Training	
	84.160	Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind	
	84.185	Byrd Honors Scholarships	
	84.186	Safe and Drug-Free Schools and Communities_State Grants	
	84.206	Javits Gifted and Talented Students Education Grant Program	
	84.324	Research in Special Education	
	84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	
	84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	
	84.333	Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	93.110	Maternal and Child Health Federal Consolidated Programs	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0145	**University of Arkansas at Little Rock (Continued)**		13
	93.136	Injury Prevention and Control Research and State and Community Based Programs	
	93.236	Grants for Dental Public Health Residency Training	
	93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	
	93.600	Head Start	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
0155	**University of Arkansas at Monticello**		12
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.263	Youth Opportunity Grants	
	45.129	Promotion of the Humanities_Federal/State Partnership	
	45.164	Promotion of the Humanities_Public Programs	
	59.037	Small Business Development Center	
	84.002	Adult Education_State Grant Program	
	84.021	Overseas_Group Projects Abroad	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.350	Transition to Teaching	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
	94.006	AmeriCorps	
0160	**University of Arkansas at Pine Bluff**		16
		Public Works and Economic Development Cluster	
		WIA Cluster	
		TRIO Cluster	
		CCDF Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.001	Agricultural Research_Basic and Applied Research	
	10.163	Market Protection and Promotion	
	10.200	Grants For Agricultural Research, Special Research Grants	
	10.216	1890 Institution Capacity Building Grants	
	10.220	Higher Education Multicultural Scholars Program	
	10.433	Rural Housing Preservation Grants	
	10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	
	10.455	Community Outreach and Assistance Partnership Program	
	10.500	Cooperative Extension Service	
	10.664	Cooperative Forestry Assistance	
	10.769	Rural Business Enterprise Grants	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0160	**University of Arkansas at Pine Bluff (Continued)**		16
	10.856	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	
	10.901	Resource Conservation and Development	
	10.903	Soil Survey	
	10.960	Technical Agricultural Assistance	
	12.600	Community Economic Adjustment	
	14.520	Historically Black Colleges and Universities Program	
	15.808	U.S. Geological Survey_Research and Data Collection	
	16.738	Edward Byrne Memorial Justice Assistance Grant Program	
	47.050	Geosciences	
	47.074	Biological Sciences	
	47.076	Education and Human Resources	
	84.031	Higher Education_Institutional Aid	
	84.215	Fund for the Improvement of Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.236	Grants for Dental Public Health Residency Training	
	93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
	93.600	Head Start	
0165	**University of Central Arkansas**		24
		Special Education Cluster	
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	12.000	Other Department of Defense Assistance	
	12.114	Collaborative Research and Development	
	16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
	43.001	Aerospace Education Services Program	
	45.129	Promotion of the Humanities_Federal/State Partnership	
	47.074	Biological Sciences	
	59.000	Other Small Business Administration Assistance	
	84.016	Undergraduate International Studies and Foreign Language Programs	
	84.021	Overseas_Group Projects Abroad	
	84.031	Higher Education_Institutional Aid	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.323	Special Education - State Personnel Development	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	84.929	Civic Education: We the People Program	
	93.000	Other Department of Health and Human Services Assistance	
	93.358	Advanced Education Nursing Traineeships	
	93.389	National Center for Research Resources	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
	93.969	Geriatric Education Centers	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0167	**University of Arkansas Community College at Hope**		15
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.335	Child Care Access Means Parents in School	
	93.558	Temporary Assistance for Needy Families	
0168	**University of Arkansas Community College at Batesville**		49
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0170	**East Arkansas Community College**		33
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0175	**National Park Community College**		9
		WIA Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0177	**Mid-South Community College**		35
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.268	H-1B Job Training Grants	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	90.201	Delta Area Economic Development	
	93.558	Temporary Assistance for Needy Families	
	94.006	AmeriCorps	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0180	**Arkansas Northeastern College**		9
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0185	**North Arkansas College**		15
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0190	**Phillips Community College**		46
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.287	Twenty-First Century Community Learning Centers	
	84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	
	93.558	Temporary Assistance for Needy Families	
0192	**Rich Mountain Community College**		13
		WIA Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.245	Trade Adjustment Assistance	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.335	Child Care Access Means Parents in School	
	93.558	Temporary Assistance for Needy Families	
0193	**South Arkansas Community College**		43
		Child Nutrition Cluster	
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0193	**South Arkansas Community College (Continued)**		43
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0195	**University of Arkansas at Fort Smith**		39
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.249	Employment Services and Job Training Pilots-Demonstrations and Research	
	43.001	Aerospace Education Services Program	
	45.025	Promotion of the Arts_Partnership Agreements	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.367	Improving Teacher Quality State Grants	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0198	**Northwest Arkansas Community College**		16
		TRIO Cluster	
		Homeland Security Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0229	**Arkansas Fair Housing Commission**		10
	14.401	Fair Housing Assistance Program_State and Local	
0264	**Workforce Investment Board**		67
		WIA Cluster	
0295	**Arkansas Spinal Cord Commission**		42
		Highway Safety Cluster	
	93.667	Social Services Block Grant	
0318	**Martin Luther King, Jr. Commission**		45
	93.569	Community Services Block Grant	
0319	**Arkansas Minority Health Commission**		27
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0324	**Arkansas Public Defender Commission**		3
	16.523	Juvenile Accountability Block Grants	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0327	**Arkansas Science and Technology Authority**		31
		Research and Development Cluster	
	11.611	Manufacturing Extension Partnership	
0385	**Arkansas Department of Veterans Affairs**		2
	64.014	Veterans State Domiciliary Care	
	64.015	Veterans State Nursing Home Care	
0400	**Arkansas Agriculture Department**		33
	10.066	Livestock Assistance Program	
0415	**Arkansas Forestry Commission**		39
	10.652	Forestry Research	
	10.663	Forest Land Enhancement Program (FLEP)	
	10.664	Cooperative Forestry Assistance	
	10.676	Forest Legacy Program	
	66.460	Nonpoint Source Implementation Grants	
0420	**Arkansas Geological Commission**		26
	15.808	U.S. Geological Survey_Research and Data Collection	
	15.810	National Cooperative Geologic Mapping Program	
0425	**State Insurance Department**		30
	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	
0470	**Department of Information Systems**		15
	11.555	Public Safety Interoperable Communications Grant Program	
	97.040	Chemical Stockpile Emergency Preparedness Program	
	97.070	Map Modernization Management Support	
0480	**Department of Correction**		9
	16.593	Residential Substance Abuse Treatment For State Prisoners	
	16.606	State Criminal Alien Assistance Program	
	16.607	Bulletproof Vest Partnership Program	
	16.739	National Prison Rape Statistics Program	
	16.740	Statewide Automated Victim Information Notification (SAVIN) Program	
	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
0506	**Department of Workforce Education - Federal Surplus Property**		17
	39.003	Donation of Federal Surplus Personal Property	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0510	**School for the Blind**		6
		Child Nutrition Cluster	
		Special Education Cluster	
	10.550	Food Donation	
	84.000	Other Department of Education Assistance	
0516	**Arkansas Educational Television Division**		12
	11.550	Public Telecommunications Facilities Planning and Construction	
0534	**Crowley's Ridge Technical Institute**		20
		Student Financial Assistance Cluster	
		CCDF Cluster	
	10.558	Child and Adult Care Food Program	
	84.002	Adult Education_State Grant Program	
0552	**Northwest Technical Institute**		45
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
0582	**Riverside Vocational Technical School**		53
	84.331	Grants to States for Incarcerated Youth Offenders	
0590	**Department of Workforce Education**		32
		WIA Cluster	
	64.124	All-Volunteer Force Educational Assistance	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.243	Tech-Prep Education	
	93.558	Temporary Assistance for Needy Families	
0610ap	**Department of Finance and Administration**		46
	20.218	National Motor Carrier Safety	
0610ebd	**Department of Finance and Administration - Revenue Division**		7
	93.000	Other Department of Health and Human Services Assistance	
0610igs	**Department of Finance and Administration - Intergovernmental Services**		12
	16.575	Crime Victim Assistance	
	16.579	Edward Byrne Memorial Formula Grant Program	
	16.588	Violence Against Women Formula Grants	
	16.738	Edward Byrne Memorial Justice Assistance Grant Program	
	93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0612	**Department of Finance and Administration - Alcohol Beverage Control - Enforcement Division**		50
	16.727	Enforcing Underage Drinking Laws Program	
0634	**Department of Finance and Administration - Office of Child Support Enforcement**		41
	93.563	Child Support Enforcement	
0665	**Health Services Permit Agency**		12
	93.630	Developmental Disabilities Basic Support and Advocacy Grants	
0675	**Black River Technical College**		42
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.249	Employment Services and Job Training Pilots-Demonstrations and Research	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0677	**University of Arkansas Cossatot Community College**		16
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.149	Migrant Education_College Assistance Migrant Program	
	84.195	Bilingual Education-Professional Development	
	93.558	Temporary Assistance for Needy Families	
0685	**Ouachita Technical College**		42
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education-Institution Aid	
	84.213	Even Start_State Educational Agencies	
	93.558	Temporary Assistance for Needy Families	
0687	**Ozarka College**		24
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	16.588	Violence Against Women Formula Grants	
	17.269	Community Based Job Training Grants	
	45.024	Promotion of the Arts_Grants to Organizations and Individuals	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0689	**University of Arkansas Community College at Morrilton**		16
		CCDF Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	12.000	Other Department of Defense Assistance	
	15.114	Indian Education_Higher Education Grant Program	
	84.002	Adult Education_State Grant program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.185	Byrd Honors Scholarships	
	93.276	Drug-Free Communities Support Program Grants	
	93.558	Temporary Assistance for Needy Families	
	94.005	Learn and Serve America_Higher Education	
	94.006	AmeriCorps	
0691	**Southeast Arkansas College**		15
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0693	**Pulaski Technical College**		5
		TRIO Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.269	Community Based Job Training Grants	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0700	**Department of Higher Education**		36
		WIA Cluster	
	15.227	Distribution of Receipts to State and Local Governments	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.069	Leveraging Educational Assistance Partnership	
	84.367	Improving Teacher Quality State Grants	
	93.558	Temporary Assistance for Needy Families	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name		Days Late
0710	**Department of Human Services**	27
	Food Stamp Cluster	
	Child Nutrition Cluster	
	Emergency Food Assistance Cluster	
	Special Education Cluster	
	Aging Cluster	
	CCDF Cluster	
	Medicaid Cluster	
	Foster Grandparent/Senior Companion Cluster	
10.550	Food Donation	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
10.558	Child and Adult Care Food Program	
10.560	State Administrative Expenses for Child Nutrition	
10.576	Senior Farmers Market Nutrition Program	
14.231	Emergency Shelter Grants Program	
14.238	Shelter Plus Care	
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
16.523	Juvenile Accountability Block Grants	
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	
17.235	Senior Community Service Employment Program	
81.042	Weatherization Assistance for Low-Income Persons	
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	
84.169	Independent Living_State Grants	
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	
84.181	Special Education_Grants for Infants and Families with Disabilities	
84.186	Safe and Drug-Free Schools and Communities_State Grants	
84.187	Supported Employment Services for Individuals with Severe Disabilities	
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	
93.051	Alzheimer's Disease Demonstration Grants to States	
93.052	National Family Caregiver Support, Title III, Part E	
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	
93.110	Maternal and Child Health Federal Consolidated Programs	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
93.556	Promoting Safe and Stable Families	
93.558	Temporary Assistance for Needy Families	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0710	**Department of Human Services (Continued)**		27
	93.566	Refugee and Entrant Assistance_State Administered Programs	
	93.568	Low-Income Home Energy Assistance	
	93.569	Community Services Block Grant	
	93.599	Chafee Education and Training Vouchers Program (ETV)	
	93.600	Head Start	
	93.645	Child Welfare Services_State Grants	
	93.652	Adoption Opportunities	
	93.658	Foster Care_Title IV-E	
	93.659	Adoption Assistance	
	93.667	Social Services Block Grant	
	93.669	Child Abuse and Neglect State Grants	
	93.674	Chafee Foster Care Independence Program	
	93.767	State Children's Insurance Program	
	93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	
	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	
	93.958	Block Grants for Community Mental Health Services	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
	93.994	Maternal and Child Health Services Block Grant to the States	
	94.003	State Commissions	
	94.006	AmeriCorps	
	94.007	Planning and Program Development Grants	
	94.009	Training and Technical Assistance	
0790	**Department of Economic Development**		2
	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	
	81.041	State Energy Program	
0950	**Commission on Law Enforcement Standards and Training**		6
	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	
0995	**Department of Emergency Management**		29
		Homeland Security Cluster	
	20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	
	97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.039	Hazard Mitigation Grant	
	97.040	Chemical Stockpile Emergency Preparedness Program	
	97.042	Emergency Management Performance Grants	
	97.047	Pre-Disaster Mitigation	
	97.052	Emergency Operations Centers	
	97.078	Buffer Zone Protection Program (BZPP)	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-645-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children** **93.069 - Public Health Emergency Preparedness** **93.268 - Immunization Grants**
QUESTIONED COSTS:	**Unknown**

ALLOWABLE COSTS/COST PRINCIPLES - The Agency did not allocate payroll costs in accordance with a methodology approved by the cognizant federal agency pursuant to OMB Circular A-87 Attachment B, Section 8 h. (4) and (5) for employees within the Arkansas Department of Health (ADH) expected to work on multiple activities. ADH became a separate agency on July 1, 2007 after having spent two years as a combined agency with the Arkansas Department of Human Services. The merger/demerger as well as management turnover has led to the noncompliance.

Failure to allocate costs properly has led to inaccurate reporting of grant expenditures to the federal grantor and could lead to possible misuse or misappropriation of federal monies.

This finding impacts grant #6AR700501, years 2007 and 2008 for CFDA number 10.557. The finding also impacts grant #5U90TP616974-08 for CFDA number 93.069. In addition, the finding impacts the 2007 grant #5H23IP622523 and the 2008 grant #2H23IP622523 for CFDA number 93.268.

We recommend the Agency continue to implement the methodology approved by the cognizant federal agency to be used for documentation of salary costs among affected federal programs.

FINDING NUMBER:	**08-645-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children** **93.069 - Public Health Emergency Preparedness** **93.268 - Immunization Grants**
QUESTIONED COSTS:	**None**

INTERNAL CONTROL OVER PROCUREMENT, SUSPENSION AND DEBARMENT - The Agency failed to establish internal controls to screen vendors for federal suspension and debarment, thus increasing the risk of the Agency doing business with prohibited parties. In accordance with 2 CFR 180, the Agency is required to verify that the vendor/person with whom they intend to do business is not excluded or disqualified. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). Employees responsible for managing the grant were not aware of the suspension and debarment and subrecipient monitoring requirements.

Without adequate internal controls, unallowable payments could be made to suspended or debarred subrecipients, which would require repayment to the grantor. However, we have not identified subrecipients during our audit period that were suspended or debarred and are not questioning these costs.

This finding impacts grant #6AR700501, years 2007 and 2008 for CFDA number 10.557. The finding also impacts grant #5U90TP616974-08 for CFDA number 93.069. In addition, the finding impacts the 2007 grant #5H23IP622523 and the 2008 grant #2H23IP622523 for CFDA number 93.268.

We recommend the Agency establish internal controls over procurement, suspension and debarment to ensure compliance with the applicable code of federal regulations.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-710-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **93.556 - Promoting Safe and Stable Families** **93.558 - Temporary Assistance for Needy Families** **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** **93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$2,000**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES – Eighty-three (83) transactions were tested for compliance with OMB Circular A-87 and the Agency's cost allocation plan. Inadequate supervisory review for eleven (11) of the eighty-three (83) transactions tested was noted. Ten (10) of the eleven (11) transactions represent travel reimbursements and occurred within the Division of County Operations and the Division of Child and Family Services. The travel reimbursement form received approval by the Travel Administrator and review by accounts payable staff. The review and approval was not adequate however, and resulted discrepancies that included:

- Four (4) instances lacked adequate information to identify the purpose which determines the validity of travel reimbursements totaling $1,086.
- Two (2) instances of incorrect cost center coding on travel reimbursement forms totaling $580,
- Two (2) instances of incorrect mileage/mileage rate resulting in underpayment of the TR-1 form, and
- Two (2) travel overpayments to employees totaling $271.
- In addition, several requests were made of the Agency to locate supporting documentation for one (1) transaction totaling $63. The Agency was unable to locate the documentation.

Lack of appropriate supervisory review led to miscalculation of travel reimbursement, improper coding, and inadequate documentation to determine validity of the reimbursement. Failure to properly review the travel reimbursement forms can lead to costs being incorrectly allocated to federal programs.

The lack of adequate supervisory review regarding travel reimbursements within the Division of Child and Family Services was noted as a significant deficiency in the 2007 State of Arkansas Single Audit report, specifically within the Foster Care program. As a result, additional testing regarding travel reimbursements was performed during the 2008 review of Foster Care. Finding 08-710-13, addresses the issues discovered during that review.

We recommend the Agency develop additional internal control procedures regarding supervisory review and provide adequate training concerning approval of travel reimbursements. In addition, we recommend the Agency recover the overpayments from the employees.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF AGRICULTURE

FINDING NUMBER:	**08-645-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**Unknown**

ACTIVITIES ALLOWED OR UNALLOWED - As required by 7 CFR 216 (b)(1), Special Supplement Nutrition Program for Women, Infants, and Children (WIC) funds must be used only for WIC related purposes. A review of sixty (60) administrative expenditures, of which twenty-two (22) were travel related, revealed three (3) travel reimbursements, or 14%, benefited programs other than WIC. The Agency's policies were designed in such a way that travel reimbursements were coded to programs based upon personnel positions rather than program activity, which could cause federal expenditures to be assigned to the wrong federal program.

This finding impacts grant #6AR700501, years 2007 and 2008.

We recommend the Agency strengthen internal controls related to activities allowed or unallowed by providing additional training to travel administrators regarding the proper coding of travel activity.

FINDING NUMBER:	**08-710-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**10.555 - National School Lunch Program (Child Nutrition Cluster)**
QUESTIONED COSTS:	**$30,573**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS AND REPORTING - As required by 7 CFR 3016.20, the Agency shall maintain adequate accountability of records to allow for the proper recording of transactions and subsequent reporting of activities as needed for the grant award. It was noted during the testing of program expenditures and related reports to the federal government that the Agency did not always report costs in the proper period. Two reimbursement claims from sub-recipients for September 2007 totaling $30,573 were charged to a federal grant that began in October 2007 because the Agency's coding of expenditures to specific grants was based upon when the reimbursements were paid instead of when the underlying meals were provided. Total expenditures for the program are correct, but charging costs to the incorrect grant year caused the reported federal expenditures for specific grant awards to be inaccurate.

This finding impacts grants #2007IN109946 and #2008(CN)IN109946.

We recommend the Agency strengthen internal control related to period of availability and reporting to ensure expenditures are assigned to the appropriate grant year so that costs can be properly reported.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**08-710-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**10.555 - National School Lunch Program (Child Nutrition Cluster)**
QUESTIONED COSTS:	**Unknown**

SUBRECIPIENT MONITORING - As required by 7 CFR 210.18 – 210.19, state agencies shall conduct an administrative review, known as a Coordinated Review Effort (CRE), and an evaluation of compliance with nutrition standards, known as a School Meals Initiative (SMI), at a School Food Authority (SFA) at least once every six years. Ten SFAs were selected for testing, and the Agency could not provide documentation of completion for one CRE and six SMIs. Additionally, of the reviews and evaluations that were performed, it was noted that one CRE and two SMIs were not completed during in the past six years. Failure to provide adequately trained staff to conduct reviews and evaluations could allow financial and programmatic errors at the SFA.

This finding impacts grants #2006IN109946, #2007IN109946 and #2008(CN)IN109946.

We recommend the Agency strengthen internal controls related to subrecipient monitoring by establishing a tracking system that specifically lists previous and future dates of reviews and evaluations. We also recommend the Agency provide adequate resources, training and personnel to ensure that such reviews and evaluations are completed in a proper and timely manner.

U.S. DEPARTMENT OF EDUCATION

FINDING NUMBER:	**08-160-01**
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 - To be considered administratively capable, a University must have a cohort default rate of 25% or less. The current year cohort default rate was 56%. This rate was significant because of the small population of borrowers. The University reported that fourteen (14) of twenty-five (25) borrowers who had entered repayment during the prescribed period were in default. A similar finding has been reported in previous audits.

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

FINDING NUMBER:	**08-520-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Workforce Education – Arkansas Rehabilitation Services**
CFDA NUMBER(S):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States**
QUESTIONED COSTS:	**None**

ELIGIBILITY - The Agency did not have appropriate internal controls to ensure client eligibility is determined within sixty (60) days of submission of an application as required by the Code of Federal Regulations for Vocational Rehabilitation Services (34 CFR 361.41). The regulations allow the deadline to be extended if there are exceptional and unforeseen circumstances and the counselor and the individual both agree to the extension. An analysis of the Arkansas Rehabilitation Integrated Management Information System (ARIMIS), the electronic system used to track client files, revealed 444 out of 1,098 or 40% of the case files in the application status exceeded the 60 day requirement.

Our review of 147 case files that exceeded the 60 day requirement confirmed that the Rehabilitation Counselors did not make an eligibility determination in accordance with program regulations. Additionally, the Agency's District Managers were not receiving case status expiration reports from ARIMIS necessary to monitor counselor caseloads and determine compliance. Failure to comply with program requirements could result in potential clients not receiving services in a timely manner.

This finding impacts grant #H126A080004.

We recommend the Agency develop appropriate internal controls to ensure client eligibility is determined in compliance with federal regulations so that client services can be provided in a timely manner.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER: **08-645-04**
STATE/EDUCATIONAL AGENCY: **Arkansas Department of Health**
CFDA NUMBER: **93.069 - Public Health Emergency Preparedness**
QUESTIONED COSTS: **None**

CASH MANAGEMENT - The Agency failed to reconcile cash draws to actual expenditures and as a result, a cash draw representing invoices totaling $100,644 was duplicated. The Agency is required by 45 CFR 92.21 to minimize the time between the draw of federal funds and the disbursement of those funds. Upon being notified of this error during the audit, the Agency reduced a subsequent draw for the grant so that the total costs charged to the grant were appropriate. Failure to comply with cash management requirements could cause excessive cash balances to be retained by the Agency.

This finding impacts grant #5U90TP616974-08.

We recommend the Agency establish controls to ensure that cash draws are made only for the immediate needs of allowable costs.

FINDING NUMBER: **08-645-05**
STATE/EDUCATIONAL AGENCY: **Arkansas Department of Health**
CFDA NUMBER: **93.268 - Immunization Grants**
QUESTIONED COSTS: **$3,098**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - Adequate internal control procedures, including lack of supervisory review, were not in place to ensure that expenditures charged to the 2007 grant were obligated and liquidated within the period of availability parameters. The 2007 grant stipulates that expenditures must be obligated prior to December 31, 2007 and liquidated by March 31, 2008. Our testing of twenty-five (25) expenditure transactions revealed that ten (10) transactions totaling $3,098 were obligated after the end of the obligation period. Additionally, three (3) of those transactions, which totaled $1,472, were paid subsequent to the end of the liquidation period. Failure to comply with the requirements could lead to unauthorized expenditures.

This finding impacts the 2007 grant #5H23IP622523.

We recommend the Agency strengthen internal controls to ensure expenditures charged to grants are obligated and liquidated within the period of availability parameters.

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

FINDING NUMBER:	**08-710-04**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program (Aging Cluster)**
QUESTIONED COSTS:	**None**

MATCHING, LEVEL OF EFFORT, EARMARKING - The Agency failed to adequately train staff responsible for the level of effort calculation. In accordance with 45 CFR 1321.49, "the State agency…shall spend under the State plan for both services and administration at least the average amount of State funds it spent under the plan for the three previous fiscal years." The level of effort amount being disclosed annually to the Regional Administrator of the Administration on Aging could not be recalculated and the Agency could not provide documentation to support the calculation. Failure to accurately calculate level of effort could reduce the Agency's allotment for services.

This finding impacts grants #07AAART3SP and #08AAART3SP.

We recommend the Agency develop internal controls to ensure the level of effort calculation is accurate, properly documented and in accordance with 45 CFR 1321.49.

FINDING NUMBER:	**08-710-05**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program (Aging Cluster)**
QUESTIONED COSTS:	**$26,814**

MATCHING, LEVEL OF EFFORT, EARMARKING - The Agency failed to adequately monitor earmarking requirements for State administrative expenses and area plan administrative costs for grant award 07AAART3SP. In accordance with 42 USC 3028(b)(2)(A), the State's administrative expenses are "...the greater of 5 percent of the allotment to a State under section 3024(a)(1) of this title or $500,000." The Agency exceeded this allowance by $17,495.

In addition, 42 USC 3024(d)(1)(A) stipulates that administrative costs for area plans be calculated "from any State's allotment, after the application of section 3028(b) of this title, under this section for any fiscal year such amount as the State agency determines, but not more than 10 percent." The Agency exceeded this allowance by $9,319.

We recommend the Agency strengthen internal controls to provide adequate monitoring of earmarking expenditures to ensure allowances are not exceeded.

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

FINDING NUMBER:	**08-710-06**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program** **(Aging Cluster)**
QUESTIONED COSTS:	**Unknown**

REPORTING - The Agency submits SF-269, Financial Status Reports and SF-272, Federal Cash Transaction Reports to the federal grantor quarterly, as required by 45 CFR 92.41. However, lack of appropriately trained accounting staff led to the expenditures reflected in those reports for several grant awards not being supported by the Agency's cost allocation system. In addition, the Agency could not provide a reconciliation from the federal financial reports to the cost allocation reports. Failure to reconcile reports leads to inaccurate reporting of program activity to the federal grantor agency.

This finding impacts grants #07AAART3SP and #08AAART3SP.

We recommend the Agency develop internal control procedures to ensure that submitted financial reports are supported by the expenditures recorded in the cost allocation system.

FINDING NUMBER:	**08-710-07**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.558 - Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**Unknown**

CASH MANAGEMENT - Documentation supporting cash draws for the first three quarters of the fiscal year was not made available to the auditor. 31 CFR 205.29(b) requires that records supporting the Treasury-State agreement be maintained. Lack of record retention reflects a weakness in internal control over cash management. Additionally, Agency personnel were not adequately trained to ensure cash draws were made in accordance with the Treasury-State agreement. Draws for administrative cost were not bi-weekly draws coinciding with employee payroll, as prescribed per the agreement. Instead, they were made daily, which resulted in the noncompliance.

Failure to request funds in accordance with the procedures established in the Treasury-State agreement can lead to denial by the U.S. Treasury of payment or credit for the resulting Federal interest liability as stated in 31 CFR 205.29(d).

This finding impacts grants #G-0301ARTANF, #G-0401ARTANF and #G-0501ARTANF.

We recommend the Agency strengthen internal controls to ensure proper maintenance of documentation supporting cash draws and to promote better adherence to the Treasury-State Agreement.

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

FINDING NUMBER:	**08-710-08**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**Unknown**

ALLOWABLE COSTS/COST PRINCIPLES - Between July 1, 2007 and November 30, 2008 the Division of Child Care and Early Childhood Education identified 59 possible cases of provider overpayments or fraud totaling $29,551. The Agency also identified 343 possible cases of client overpayments or fraud totaling $525,952. These instances of noncompliance were determined using the eligibility criteria outlined in the State Plan. Failure to report changes in client eligibility criteria and/or misrepresentations of client eligibility status have caused these overpayments. The Agency made childcare payments to 1,295 providers on behalf of 12,790 case-heads from this program during the fiscal year ending June 30, 2008. Additional investigations and review for many of these cases are still ongoing.

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

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 fraud caseload.

FINDING NUMBER:	**08-710-09**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT - The Agency did not have adequate internal controls in place for the majority of the fiscal year ended June 30, 2008 that would ensure that drawdowns were made in accordance with the Treasury-State agreement. 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.

Additionally, failure to reconcile expenditures to federal draws in a timely manner and inadequate communication regarding transfers from the Temporary Assistance for Needy Families program has led to federal funds totaling $3,491,638 being drawn prior to their expenditure.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to request funds in accordance with the procedures established in the Treasury-State agreement can lead to denial by the U.S. Treasury of payment or credit for the resulting Federal interest liability as stated in 31 CFR 205.29(d).

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

We recommend the Agency strengthen internal controls to ensure that the proper reconciliations between CCDF expenditures and CCDF cash draws are made in a timely manner.

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

FINDING NUMBER:	**08-710-10**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**Unknown**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - 42 USC 9858 states discretionary funds must be obligated by the end of the succeeding year after award, and expended by the end of the third fiscal year after award. The lack of training of appropriate personnel reading expenditure coding has lead to separate grant-year awards not correctly identified in AASIS. As a result, disbursement activity could not be associated with specific grant-year awards and we were unable to determine if an obligation for a disbursement was within the period of availability parameters.

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

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

FINDING NUMBER:	**08-710-11**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department 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**

REPORTING - The lack of training of appropriate personnel and adequate supervisory review has led to unreconciled variances totaling $445,390 between the PSC-272 reports, the ACF-696 reports, and AASIS. 45 CFR 98.67(c)(1) states that fiscal control and accounting procedures shall be sufficient to permit accurate preparation of reports ACF-696 and SF-272.

This finding impacts grants #G-0701ARCCDF and #G-0801ARCCDF.

We recommend the Agency establish proper internal control procedures that would allow for accurate and timely preparation of federal financial reports, as well as procedures allowing adequate supervisory review of the expenditure documentation supporting those reports.

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

FINDING NUMBER:	**08-710-12**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**$1,255**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Agency failed to provide adequate supervisory review of expenses charged to the program and as a result, the following discrepancies were found during our review:

- The Agency paid vendors $1,080 for medical and educational expenses which are unallowable activities according to 42 USC 675 (4)(A).

- The Agency improperly reimbursed foster parents for transporting ineligible children totaling $175. Funds may be expended only on behalf of eligible children as noted at 42 USC 675(4).

Failure to properly review Foster Care expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency develop internal control procedures and train the applicable Agency employees to ensure only allowable costs are charged to the program.

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

FINDING NUMBER:	**08-710-13**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Agency again failed to provide adequate supervisory review of travel reimbursements to foster parents, Agency employee's and non-state employees. The Agency addressed this issue in 2007 by notifying the travel administrators of their responsibility when approving a TR-1. The Agency's anticipated completion date for corrective action was March 14, 2008. Because the anticipated completion date was nine (9) months into fiscal year 2008, two (2) separate tests were performed. The first test included twenty-three (23) travel reimbursements for the entire fiscal year. Thirteen (13) of these reimbursements had numerous exceptions and are noted as follows:

- Children meeting the criteria in 42 USC 672(a) and (b) are eligible to receive Foster Care benefits. Our test revealed:
  - Foster parents were reimbursed for transporting ineligible children in ten (10) instances. The federal portion of these costs totaled $274. Two (2) non-state employees were also reimbursed for transporting ineligible children. The federal portion of these costs totaled $254.
  - An Agency employee was reimbursed for transporting and purchasing a meal for an ineligible child totaling $44.
- In accordance with 42 USC 675(4) "reasonable travel to a child's home for visitation" is considered a maintenance payment. We noted two (2) instances where the Agency coded these payments as administrative. These costs are allowable uses of IV-E funds, but are improperly coded. Proper coding would result in a higher federal reimbursement.

Also, a review of twenty-four (24) travel reimbursements *after* the Agency's anticipated completion date for corrective action, March 14, 2008. There were numerous exceptions noted on all twenty-four (24) reimbursements as follows:

- Children meeting the criteria in 42 USC 672(a) and (b) are eligible to receive Foster Care benefits. Our test revealed:
  - Foster parents were reimbursed for transporting ineligible children in eleven (11) instances. The federal portion of these costs totaled $609.
  - An Agency employee was reimbursed for the cost of a biological parent's meal. Additionally, Agency employees and non-state employees were reimbursed for transporting ineligible children in five (5) instances totaling $225.
- In accordance with 42 USC 675(4) "reasonable travel to a child's home for visitation" is considered a maintenance payment. We noted eight (8) instances where the Agency coded these payments as administrative.
- The Agency miscalculated reimbursements in five (5) instances. These miscalculations resulted in three (3) invoices being underpaid by $112 and two (2) invoices overpaid by $43.
- One (1) reimbursement was directly charged to Foster Care but should have been allocated between several federal programs operated by the Agency. The invoice totaled $170.
- In two (2) instances, the TR-1 form did not contain adequate documentation to support the reason for travel.

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

FINDING NUMBER: **08-710-13 (continued)**
STATE/EDUCATIONAL AGENCY: **Arkansas Department of Human Services**
CFDA NUMBER(S): **93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS: **Unknown**

Although the exceptions noted are not considered monetarily material to the Agency, lack of training of Family Services workers and adequate review of travel reimbursements are necessary to ensure that Foster Care funds are only used for allowable purposes. Improper review caused multiple errors and misuse of Foster Care funds. Failure to properly review Foster Care travel expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency establish proper internal control procedures to provide adequate review of travel reimbursement forms to ensure the expenditures are allowable uses of the IV-E administrative funds and that travel forms are properly coded as Administrative or Maintenance expenditures.

FINDING NUMBER: **08-710-14**
STATE/EDUCATIONAL AGENCY: **Arkansas Department of Human Services**
CFDA NUMBER(S): **93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS: **Unknown**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Division of Children and Family Services utilizes procurement cards (P-Cards) as a means of purchasing necessary items for foster children such as clothing, food, and school supplies. The P-Cards are provided to Family Service Workers who have direct contact with foster children. According to 42 USC 672(a) and 42 USC 675(4)(A), "funds may be expended for Foster Care Maintenance on behalf of eligible children" which include the cost of "food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation."

The Agency failed to properly implement internal controls over procurement card purchases and as a result, six (6) of the twenty-five (25) purchases reviewed contained errors as follows:

- Agency employees made purchases for ineligible children in four (4) instances totaling $225.
- One (1) purchase exceeded the Agency-imposed maximum allowance available by $30.
- One (1) purchase was not approved by the Financial Support Unit as required totaling $17.

Although the exceptions noted are not considered monetarily material to the Agency, lack of training of Family Service workers and adequate review of procurement card purchases are necessary to ensure that Foster Care funds are only used for allowable purposes. Improper review caused errors and misuse of Foster Care funds. Failure to properly review Foster Care procurement card purchases has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency implement internal control procedures to ensure procurement cards purchases are adequately documented, reviewed and authorized.

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

FINDING NUMBER:	**08-710-15**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT - The Agency failed to establish adequate internal controls over implementation of the Treasury-State Agreement (TSA). Employees responsible for requesting draws were not provided with training concerning the TSA requirements, nor were they provided with a copy of the TSA. As a result, cash draws for payroll and administrative costs were not in accordance with the funding techniques outlined in the TSA. According to the TSA, payroll draws are to be made upon the estimated clearance technique and administrative draws are to be made based on pro-rated draws on payday. The Agency instead made bi-weekly draws based on allocated percentages of actual indirect costs. Failure to establish sound internal control practices could lead to excess Federal funds on hand at the Agency.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to cash management could result in excess Federal Funds on hand.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency provide training to employees responsible for carrying out the requirements outlined within the Treasury-State Agreement. We also recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that drawdowns are made in compliance with the agreement.

FINDING NUMBER:	**08-710-16**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**None**

REPORTING - The required financial report for Foster Care is the ACF-IV-E Quarterly Report of Expenditures. Our examination revealed that the ACF-IV-E quarterly report is not reviewed by someone other than the preparer. The Agency was unable to provide adequate documentation to verify that supervisory reviews were performed on the ACF-IV-E quarterly reports prior to submission to the federal awarding agency. Foster Care allotments are granted based on the expenditure information reported on the ACF-IV-E. Without adequate review, inaccurate expenditure information could be submitted to the federal awarding agency and as a result, allotments could be made based on inaccurate data.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency develop internal control procedures which would clearly document that supervisory reviews have been performed on quarterly reports prior to submission to the federal awarding agency.

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

FINDING NUMBER:	**08-710-17**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.667 – Social Services Block Grant**
QUESTIONED COSTS:	**Unknown**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS – 42 USC 1397 states Social Services Block Grant funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year. New internal orders codes were applied incorrectly which caused difficulty in identifying disbursements of specific federal grant awards. As a result, we were unable to determine if an obligation for a disbursement was within the period of availability parameters.

This finding impacts grants #G0701ARSOSR and #G0801ARSOSR.

We recommend the Agency implement procedures to ensure adequate review of internal order assignment. In addition, the Agency should provide additional training to ensure employees assign the new internal order codes properly.

FINDING NUMBER:	**08-710-18**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$19,826**

ACTIVITIES ALLOWED OR UNALLOWED/SPECIAL TESTS AND PROVISIONS – PAYMENTS MADE FOR MEDICAID SERVICES AFTER RECIPIENTS DATE OF DEATH - The Agency has implemented a process of electronically matching social security numbers (SSNs) of Medicaid recipients with SSNs of persons with a date of death recorded in the Arkansas Department of Health's vital statistics database. The Agency provides the exception listing of matched records to each county office. The county office staff is responsible for recording the date of death in Arkansas' Networked System for Welfare Eligibility Reporting (ANSWER). Through data analysis, a comparison was made of a listing of Medicaid recipients from ANSWER for state fiscal year 2008 to a listing of deceased individuals downloaded from the Arkansas Department of Health's vital statistics database by SSN and/ or name and date of birth. This comparison revealed three hundred thirty-one (331) cases where claims, totaling $19,826, were made for dates of service after the date of death. The types of claims paid varied, but the majority were for managed care capitated payments. States should ensure capitated payments are discontinued when a beneficiary is no longer enrolled for services. Deceased recipients should not be enrolled for services in the Medicaid program. Failure to enter the recipient's date of death into ANSWER in a timely manner could result in the misappropriation of Medicaid funds.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency continue to strengthen internal controls and review policies and procedures with appropriate office personnel to ensure that dates of death are accurately recorded in ANSWER and that any improper payments are corrected in a timely manner.

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

FINDING NUMBER:	**08-710-19**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT – The Agency failed to establish adequate internal controls related to cash management, and as a result, did not 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 each day during the fiscal year.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to cash management could result in excess Federal Funds on hand.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that draw-downs 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.

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

FINDING NUMBER:	**08-710-20**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

ELIGIBILITY - The results of testing of one hundred ninety-two (192) recipients for the proper determination of eligibility revealed the following deficiencies:

- The Agency failed to deny Medicaid coverage to four (4) clients who were not eligible for the Medical Assistance Program resulting in claims paid totaling $611. One (1) client was not eligible due to their Food Stamp case being closed after a fraud referral investigation had been conducted. New information showed that the family was over the income limit for both ARKids A and B. According to the Medical Services Policy Manual, the income limit is 100% of the Federal Poverty Level (FPL) for ARKids A and 200% of the FPL for ARKids B. One (1) client was not eligible due to non-compliance with the Office of Child Support Enforcement (OCSE). According to the Transitional Employment Assistance (TEA) Policy Manual section 2142, individuals must cooperate with OCSE unless good cause for refusal to cooperate exists. Two (2) clients were not eligible due to other insurance coverage. According to the Medical Services Policy Manual, a child is not eligible for ARKids B if the child has comprehensive group or employer-based insurance.

- The Agency failed to perform annual redeterminations of eligibility on nineteen (19) or 10% of the clients tested. 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 nine (9) or 5% of the client files tested. 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 sixteen (16) or 8% of the clients tested. 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.

- Seven (7) or 4% of the client files tested did not contain documentation such as re-evaluations, eligibility determinations, changes in coverage, or determination of resources 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.

Agency personnel indicated that the cause for the deficiencies is directly related to a large backlog of Medicaid case redeterminations, which resulted from increased caseloads of the caseworker and the lack of adequate staff. Agency personnel went on to say that this is most problematic in large county offices that experience high staff turnover. The lack of sound internal controls related to eligibility jeopardizes program resources and could lead to services being provided to individuals who are not eligible recipients.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

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.

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

FINDING NUMBER:	**08-710-21**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

ELIGIBILITY - The Agency's county offices failed to submit the required error response documentation within thirty (30) days to the Quality Assurance Unit to report on the findings of errors identified for three (3) of the eleven (11) tested cases. According to the Agency's Medicaid Services Policy Manual, county office personnel are to complete and submit the DCO-29 Quality Control Error Response form within thirty (30) days of receiving notice of the error found by the Quality Assurance Unit.

The Agency's county offices also failed to submit the DHHS-199 Benefit Overpayment report to the Overpayment Unit as required by the Medicaid Services Policy Manual for three (3) of the eleven (11) tested cases. The Agency's policy contains no time-frame for which submission of this report is to be completed within. Therefore, the three (3) errors noted here were for cases where a DHHS-199 report was required, but was never submitted to the Overpayment Unit.

The lack of compliance with Agency policy along with the lack of monitoring the submission of DCO-29 Quality Control Error Response forms to the Quality Assurance Unit and DHHS-199 Benefit Overpayment reports to the Overpayment Unit has put program resources at risk and could lead to overpayments being made to eligible recipients or services being provided to individuals who are not eligible recipients.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

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

FINDING NUMBER:	**08-710-22**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.777 – State Survey and Certification of Health Care Providers and Suppliers (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – The Agency is required by 45 CFR 74.52 (a)(2) to submit a PMS-272, *Quarterly Cash Transactions Report.* The report allows the federal awarding agency to monitor cash advanced and obtain disbursement information for each federal award granted to the Agency. The Agency failed to properly reconcile the PMS-272 reports to Agency records before submitting the reports to the U.S. Department of Health and Human Services' Division of Payment Management and as a result, failed to report $3,905,300 in federal expenditures.

Agency employees responsible for the reporting of federal expenditures were not properly supervised by Agency management. The lack of management oversight along with failure to allocate costs properly has led to inaccurate reporting of grant expenditures to the federal cognizant agency.

This finding impacts grants #05-0705AR5001 and #05-0805AR5001.

We recommend the Agency strengthen internal controls related to reporting requirements by developing and implementing procedures to ensure that PMS-272 reports are properly completed and reviewed before being submitted.

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

FINDING NUMBER:	**08-710-23**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – The Agency failed to provide adequate reconciliation of the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program* report to the Agency's cost allocation system before submitting the report to the Centers for Medicare and Medicaid Services (CMS) for all four (4) quarters of State fiscal year 2008. As a result, we were unable to determine if the Agency complied with 42 CFR 430.30 (c)(2) which states the "report is the State's accounting of actual recorded expenditures."

The Agency also failed to submit the CMS-64 report within thirty (30) days after the end of the quarter for all four (4) quarters of State fiscal year 2008. According to 42 CFR 430.30 (c), the CMS-64 reports are required and are to be submitted within thirty (30) days after the end of the quarter.

Agency employees responsible for the reporting of federal expenditures have not been properly informed and trained on the reporting requirements of the CMS-64 report and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to reporting could lead to inaccurate reporting of grant expenditures to the federal cognizant agency and could result in misuse or misappropriation of federal monies.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency strengthen internal controls related to reporting requirements by developing and implementing procedures that ensure that CMS-64 reports are properly prepared, reconciled, reviewed, and submitted to the Centers for Medicare and Medicaid Services (CMS) within thirty (30) days after the end of the quarter.

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

FINDING NUMBER:	**08-710-24**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$18,633**

SPECIAL TESTS AND PROVISIONS – PAYMENTS MADE FOR MEDICAID SERVICES AFTER RECIPIENTS INCARCERATION DATE - According to section 1348 of the DHS Medical Services Manual, inmates of public institutions are not eligible for Medicaid. This is in compliance with 42 CFR 435.1009, which states that Federal Financial Participations (FFP) is not available for expenditures paid for services provided to inmates of public institutions. The Agency has implemented a process of electronically matching Medicaid recipients with inmates of state correction facilities based on social security numbers (SSNs) and/or name and date of birth. However, at this time, matches are not reviewed by the county offices due to the amount of time that it takes to investigate the matches. Through data analysis, a comparison was made between a listing of recipients from Arkansas' Networked System for Welfare Eligibility Reporting (ANSWER) during state fiscal year 2008 and listings of individuals who were incarcerated during state fiscal year 2008, which were provided by the Arkansas Department of Correction and the Arkansas Department of Community Corrections, by SSN and/or name and date of birth. The comparison revealed ninety-one (91) cases where claims, totaling $18,633, were paid for dates of service during the recipients' incarceration periods.

Agency personnel indicated that the Agency was receiving a file of all inmates from both the Arkansas Department of Correction (DOC) and from the Arkansas Department of Community Correction (DCC). These files were matched against a current recipient listing to identify recipients with open cases who had been incarcerated. The Agency is still completing the match process; however, the results are not being forwarded to the county offices due to the excess workload that it causes. Failure to identify recipients who have been incarcerated in a timely manner could result in the misappropriation of Medicaid funds.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency review policies and procedures with appropriate office personnel to ensure that recipients who have been incarcerated are identified, and that their Medicaid cases are closed in a timely manner.

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

FINDING NUMBER:	**08-710-25**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS – PROVIDER ELIGIBILITY – The Agency failed to effectively monitor the provider enrollment process and provider file maintenance, which is performed by Electronic Data Systems (EDS). The A-102 Common Rule and OMB Circular A-110 states that non-Federal entities, which receive Federal awards, are required to establish and maintain internal controls to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. According to 42 CFR 431.107 and 42 CFR 447.10, providers of medical services are required to be licensed in accordance with Federal, State, and local laws and regulations in order to be eligible for participation in the Medicaid program. In addition, 42 CFR 455, subpart B requires providers to make certain disclosures to the State.

The auditor reviewed the Agency's monitoring process, which includes monthly reviews of new and updated provider files, to determine if all necessary documentation was provided and keyed into the MMIS system correctly. The list of monthly review results provided to the auditor covered the period of November 2007 through August 2008. Seventy (70) provider files were selected from this time frame. The Agency's monitoring process had identified errors either in documentation maintained in the provider file or in information keyed into the MMIS system for thirty (30) of the selected providers. EDS responses and corrections to the provider file or MMIS system were only noted in eleven (11) of the thirty (30) provider files that contained errors, and these responses were not provided until September 2008 or later. Based on the above, the Agency is not performing follow-up reviews to ensure that missing documentation has been received and added to the provider's file.

In addition to the review stated above, the auditor also selected thirty (30) providers, who received payment for services during FY2008, for review of the provider files. The purpose of this review was to determine whether providers were eligible for participation in the Medicaid program and whether their file contained all of the required documentation for enrollment in the Medicaid program. The auditor identified the following deficiencies in nine (9) provider files, one (1) of which contained two (2) deficiencies:

- Eight (8) provider files 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 Nurse Practitioner license.
- One (1) provider file did not contain documentation of enrollment in the Medicare program.

The Agency did not properly inform EDS personnel on the documentation requirements for provider files and information keyed into the MMIS system, and Agency personnel did not perform follow-up reviews to ensure that missing documentation had been received and added to the provider's file. Failure to ensure that problems identified during the monthly file reviews are corrected could result in ineligible providers receiving payments from the Medicaid program for an extended period of time.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend that the Agency review its EDS provider enrollment monitoring process and follow-up with EDS to ensure that all deficiencies identified have been corrected. Furthermore, we recommend that the Agency's supervisory staff follow-up with personnel responsible for conducting the reviews to ensure that the reviews are being conducted and that EDS responses are being received in a timely manner.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER:	**08-150-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.007- Federal Supplemental Educational Opportunity Grants** **84.032- Federal Family Education Loans** **84.033- Federal Work-Study Program** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **93.925- Scholarships for Health Professions Students from Disadvantaged Backgrounds** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

ELIGIBILITY, SPECIAL TESTS AND PROVISIONS - VERIFICATION, DISBURSEMENTS TO OR ON BEHALF OF STUDENTS, RETURN OF TITLE IV FUNDS, STUDENT STATUS CHANGES - During our testing, we noted Financial Aid Officers determine eligibility, process awards, complete verification, calculate return of funds, disburse funds and perform other procedures without review and oversight from management. Because of this, errors and noncompliance with program regulations have been noted during the audit process.

We recommend the Student Financial Aid Director implement procedures for review and oversight of the awarding process by management.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-150-02**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.032- Federal Family Education Loans** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS - DISBURSEMENT TO OR ON BEHALF OF STUDENTS - During our test of forty (40) students, we noted the following exceptions:

- We noted seven (7) students representing 12 different loans totaling $84,502 in which the students' accounts were credited with the loan funds more than ten (10) days prior to the first day of class. Six (6) students' loans were processed by the College of Medicine Student Financial Aid Office and one (1) was processed by the Student Financial Aid Office for non-College of Medicine students.

- We noted six (6) students (of the seven noted above) for which the loan funds were requested more than thirteen (13) days prior to being disbursed to the students' accounts. Five (5) for the six (6) students were processed by the College of Medicine Student Financial Aid office and one (1) was processed by the Student Financial Aid office for non-College of Medicine students.

- We noted two (2) students representing 4 different loans totaling $12,726 in which the loans funds were received more than three (3) days before the funds were posted to the students' accounts. The funds were processed by the Student Financial Aid office for non-College of Medicine students.

We recommend the current Student Financial Aid staff attend training on the current compliance regulations. We also recommend that both Student Financial Aid offices develop written policies on processes to ensure compliance with regulations, proper oversight and review.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-150-03**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.007- Federal Supplemental Educational Opportunity Grants** **84.032- Federal Family Education Loans** **84.033- Federal Work-Study Program** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**$66.92**

SPECIAL TESTS AND PROVISIONS - RETURN OF TITLE IV FUNDS - During our testwork, we noted 23 exceptions out of 42 sampled items as follows:

- Nineteen (19) students did not enroll in the period the loan was made and the funds were not returned to the lenders within 10 business days as required per 34 CFR 668.167(b).

- Four (4) students withdrew during the semester and the funds were not returned to the lenders within 45 days as required per 34 CFR 668.22).

We recommend the current Student Financial Aid staff attend training on the current compliance regulations. We recommend Management ensure college registrars are trained on the compliance regulations and understand the time period funds must be returned to the lenders. We also recommend the Student Financial Aid Office develop written policies on processes to ensure compliance with regulations, proper oversight and review.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF EDUCATION

FINDING NUMBER:	**08-150-04**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.032 – Federal Family Education Loans (Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS - STUDENT STATUS CHANGES - During our test of thirty (30) students, four (4) exceptions were noted. In all four cases, the student had a change of status that was not reported within the required time period. Three (3) of the four (4) were related to the College of Medicine students and one was a non-College of Medicine student. We also noted that SFA staff does not add students to the report who are not already listed on the NSLDS report. We noted that in one case, a student had graduated, but was still listed on the NSLDS report as withdrawn from UAMS.

We recommend the Student Financial Aid staff implement procedures to review and verify that student status changes are correctly updated and reported on a periodic basis. The verification should be documented.

FINDING NUMBER:	**08-347-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Student Loan Authority**
CFDA NUMBER:	**84.032 – Federal Family Education Loans (Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – During the audit, we noted one bank account which had a material variance on the reconciliation. The variance had not been adjusted and recorded by management in the general ledger due to the timing of the receipt of information regarding these funds. However, the balance was controlled by the Authority and, accordingly, should be reflected on its financial statements.

We recommend the Authority implement internal control procedures to ensure all bank account activity is properly recorded in the general ledger.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER:	**08-150-05**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**93.600 – Head Start**
QUESTIONED COSTS:	**$14,390**

EQUIPMENT AND REAL PROPERTY MANAGEMENT - During our testwork, we noted two exceptions out of two sample items (100% of population) as follows:

- One (1) out of the two (2) equipment purchases was paid for and recorded as an expense on the grant in October 2007; however, the asset has never been received. The amount paid for the asset was $14,390.

- One (1) out of the two (2) equipment purchases had an acquisition date of December 14, 2007; however, the asset was not set up in the fixed asset sub ledger until August 22, 2008, which was the next fiscal year.

- It was also noted that a laptop noted on the physical inventory exception report as being stolen, was not removed from the fixed asset system within SAP.

We recommend Management perform a detailed reconciliation of asset additions on a monthly basis to ensure corrections are identified and made in a timely manner. Assets not received can be followed up timely and expenses on the grant adjusted prior to closeout. Assets not capitalized when acquired will be identified and recorded in the proper period during this process.

ARKANSAS
Legislative Joint Auditing Committee
Division of Legislative Audit

SCHEDULE OF PRIOR AUDIT FINDINGS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER:	**07-710-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**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)**
QUESTIONED COSTS:	**Unknown**

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:

CONDITION #1:
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).

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

CONDITION #2:
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.

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

CURRENT STATUS:
Corrective action taken.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**07-710-01 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**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)
QUESTIONED COSTS:	**Unknown**

CONDITION #3:
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.

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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**07-710-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children** **93.268 - Immunization Grants** **93.283 - Centers for Disease Control and Prevention_Investigations and Technical Assistance**
QUESTIONED COSTS:	**Unknown**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**07-710-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**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**
QUESTIONED COSTS:	**None**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**06-710-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children** **93.268 - Immunization Grants** **93.283 - Centers for Disease Control and Prevention_Investigations and Technical Assistance**
QUESTIONED COSTS:	**Unknown**

CONDITION:
ALLOWABLE COSTS/COST PRINCIPLES – The Agency failed to provide personnel activity reports or equivalent documentation approved by the cognizant Federal agency pursuant to OMB 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.

RECOMMENDATION:
Implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**05-645-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children** **93.268 – Immunization Grants** **93.283 - Centers for Disease Control and Prevention_Investigations and Technical Assistance**
QUESTIONED COSTS:	**None**

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

RECOMMENDATION:
Implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**04-645-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children** **93.268 – Immunization Grants** **93.283 - Centers for Disease Control and Prevention_Investigations and Technical Assistance**
QUESTIONED COSTS:	**None**

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

RECOMMENDATION:
Implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF AGRICULTURE

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

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**06-710-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**$388,267**

CONDITION:
INADEQUATE INTERNAL CONTROLS – The Agency failed to establish adequate internal controls regarding cash draws of federal funds. The following weaknesses were identified:

- The Agency coded $388,267 of expenditures to the WIC 2005 grant, but incorrectly paid for these costs with federal funds from the WIC 2006 grant. The Agency requested the funds after September 30, 2005, which was the end of the grant period for the 2005 grant. It is allowable to charge expenditures to a grant after the end of the grant period provided that the expenditures were obligated as of the end of the grant period. Prior to our audit, the Agency became aware that cash was drawn from the incorrect grant year and contacted the USDA. The Agency and USDA are working to resolve this issue.

RECOMMENDATION:
Provide additional training to employees and establish procedures to ensure an appropriate and recurring level of supervisory review of cash management activities.

CURRENT STATUS:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**06-710-04**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**$181,437**

CONDITION:
PERIOD OF AVAILABILITY OF FEDERAL FUNDS – 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 twelve (12) expenditures or 13.6% of the number of sampled items coded to the incorrect grant year totaling $4,758. In addition, from October 1, 2005 through December 31, 2005, indirect costs of $176,722 were charged to the incorrect grant year. The Agency was aware that cash was drawn from the incorrect grant year subsequent to September 30, 2005 and contacted the USDA. The Agency and the USDA are working to resolve the issue.

RECOMMENDATION:
Establish internal controls to ensure that expenditures are coded and charged to the correct grant year in order to limit obligation of federal funds to expenditures occurring within the period of availability of the grant.

CURRENT STATUS:
Corrective action taken.

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

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

RECOMMENDATION:
Implement procedures to allocate payroll costs to the appropriate grant in accordance with an approved cost allocation plan.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**02-645-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**None**

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

RECOMMENDATION:
Implement procedures to allocate payroll costs to the appropriate grant in accordance with the approved cost allocation plan.

CURRENT STATUS:
After the demerger of Department of Health and Department of Human Services effective July 1, 2007, the federal grantor agency determined that the Arkansas Department of Health does not administer any program listed in 45 CFR Part 95.503 and is not required to prepare and submit a Public Assistance Cost Allocation Plan.

The Dallas Regional Office of Health and Human Services, Division of Cost Allocation (DCA) has approved the Department of Health's selection of a substitute system pursuant to OMB Circular A-87 Attachment B for employees within the Department of Health expected to work on multiple activities. A 100% time study was implemented in November 2007, tested in December 2007 and implemented Agency wide in January 2008. The Agency is now compiling information for DCA review. The Agency continues to work to implement the methodology approved by DCA to be used for documentation of salary costs among benefiting federal programs.

While corrective action has not been taken, the finding is no longer applicable.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FEDERAL EMERGENCY MANAGEMENT AGENCY

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

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

The December 2000 ice storm disaster was by far the largest disaster, in terms of costs, in the history of the State. Federal funds totaling $174,366,729 were obligated and disbursed to 534 applicants. The volume of requests, the complexity of multi-million dollar projects and the Agency's lack of an employee experienced in the Public Assistance Grants program contributed to inaccurate and improperly documented disbursements to subrecipients.

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

CURRENT STATUS:
Corrective action has been taken on two (2) of the three (3) overpayments to counties. In January 2004, Lonoke County repaid the entire $1,986. In November 2004, Ouachita County submitted additional expenditures of $21,084 that were approved by FEMA and repaid the remaining balance of $10,180.

Sharp County also submitted additional expenditures of $27,115 that were approved by FEMA, reducing their overpayment to $88,071. On November 9, 2004, ADEM officials and the Sharp County judge met and came to an agreement to allow the county to repay the overpayment over four (4) years.

In April of 2005, Sharp County made their first payment of $20,000, leaving a balance of $68,071 for the year ended June 30, 2005.

In March of 2006, Sharp County made their second payment of $20,000, leaving a balance of $48,071 for the year ended June 30, 2006.

In February of 2007, Sharp County made their third payment of $20,000, leaving a balance of $28,071 for the year ended June 30, 2007.

In June of 2008, Sharp County made their fourth payment of $14,035, leaving a balance of $14,035 for the year ended June 30, 2008.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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**

CONDITION:
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.

RECOMMENDATION:
The University of Arkansas at Fayetteville and the University of Arkansas at Little Rock should develop and implement procedures to ensure the federal program information submitted to DFA is accurate and complete.

CURRENT STATUS:
Corrective action taken.

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**

CONDITION:
COHORT DEFAULT RATE – To be considered administratively capable, an institution must have a cohort default rate of 25% or less. The current year cohort default was 57.14%. A similar finding has been reported in previous audits.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05, the University's cohort default rate is above 25%.

U.S. DEPARTMENT OF EDUCATION (Continued)

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**

CONDITION:
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.

RECOMMENDATION:
Strengthen internal controls to ensure that obligated funds are expended during the period of availability.

CURRENT STATUS:
Corrective action has been taken to strengthen internal controls relating to the obligation of funds. However, the Agency was unable to provide documentation of any guidance or approval from the grantor concerning unused postage of $28,319.

U.S. DEPARTMENT OF EDUCATION (Continued)

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

CONDITION:
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.

RECOMMENDATION:
Strengthen 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.

CURRENT STATUS:
The Agency was unable to provide documentation of approval from the federal grantor that the allocation and payment of certain special education funds was in accordance with federal guidelines.

U.S. DEPARTMENT OF EDUCATION (Continued)

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

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
The Agency again failed to establish adequate controls to ensure the complete and accurate reporting of subrecipient activity, including the calculation of carryover funds. Expenditure reports from five (5) subrecipients were selected for review, and errors were detected on all five (5) reports. The beginning carryover funds did not agree with the ending carryover funds, as reflected on expenditure reports in the previous year, for two (2) of the subrecipients. Furthermore, the amount of program revenues recognized by the subrecipient did not agree with the amount of funding provided by the Agency for all five (5) subrecipients. These errors contribute to the inability of the Agency to ensure that grants funds are spent appropriately.

FINDING NUMBER:	**06-160-02**
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**

CONDITION:
COHORT DEFAULT RATE – For the sixth consecutive year, the University, again, did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 44.66% exceeded the allowable rate of 25%.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05, the University's cohort default rate is above 25%.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**06-500-01**
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:	**None**

CONDITION:
INADEQUATE INTERNAL CONTROLS – The Agency was unable to provide explanations and/or documentation regarding the allocation of federal funds to local educational agencies in a timely manner. The Agency indicated that electronic files were lost due to a computer failure in April 2006. The normal procedures of the Agency related to backing up electronic data were not followed; therefore, documentation was not readily available. Adequate training of personnel and proper retention of records are crucial for ensuring that the administration of the program is appropriate and in compliance with regulations and guidelines established by the federal grantor.

RECOMMENDATION:
Strengthen controls to ensure that documentation is retained and available for audit purposes and that Agency personnel are adequately trained for the proper administration of the program.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**06-500-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Education**
CFDA NUMBER:	**84.027 - Special Education_Grants to States** **(Special Education Cluster)**
QUESTIONED COSTS:	**Unknown**

CONDITION:
MATCHING, LEVEL OF EFFORT, EARMARKING – The federal grant award requires that a portion of the federal funds available for distribution to local educational agencies (LEA) be based upon (1) the relative numbers of children enrolled in public and private elementary and secondary schools within each LEA's jurisdiction and (2) the relative numbers of children living in poverty within the LEA. However, the Agency distributed $2,326,050 to educational service cooperatives for preschool services based only upon the number of preschool children with disabilities. The Agency could not provide any authority or approval for its deviation from the distribution method prescribed in the applicable federal program regulations.

RECOMMENDATION:
Strengthen procedures to ensure that all distributions to local educational agencies are appropriate.

CURRENT STATUS:
The Agency was unable to provide documentation of approval from the federal grantor that the allocation and payment of certain special education funds was in accordance with federal guidelines.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**05-160-02**
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**

CONDITION:
COHORT DEFAULT RATE – For the fifth consecutive year, the University, again, did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 41.66% exceeded the allowable rate of 25%.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 06-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05, the University's cohort default rate is above 25%.

FINDING NUMBER:	**04-160-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER:	**84.038 – Federal Perkins Loan Program_Federal Capital Contributions (Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

CONDITION:
COHORT DEFAULT RATE – The University, again, did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 50.44% exceeded the allowable rate of 25%.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 06-160-02, 05-160-02, 03-160-01, 02-160-06 and 01-160-05, the University's cohort default rate is above 25%.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**03-160-01**
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**

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

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 02-160-06 and 01-160-05, the University's cohort default rate is above 25%.

FINDING NUMBER:	**02-160-06**
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**

CONDITION:
COHORT DEFAULT RATE - The University did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 59.61% exceeded the allowable rate of 25%.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01 and 01-160-05, the University's cohort default rate is above 25%.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**01-160-05**
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**

CONDITION:
COHORT DEFAULT RATE - The University did not receive a Federal Capital Contribution (FCC) because their cohort default rate of 40.47% exceeded the allowable rate of 25%.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in findings 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01 and 02-160-06, the University's cohort default rate is above 25%.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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**

CONDITION:
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.

RECOMMENDATION:
Establish internal control procedures to ensure that expenditures are charged to the appropriate grant award.

CURRENT STATUS:
Corrective action taken.

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**

CONDITION:
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.

RECOMMENDATION:
Review the corrective action plan from the 2006 Statewide Single Audit and reevaluate existing procedures regarding cash management policies.

CURRENT STATUS:
Corrective action taken.

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

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

CONDITION:
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.

RECOMMENDATION:
Strengthen internal controls over matching, level of effort and earmarking by establishing a coding system to identify LIHEAP expenditures for weatherization by grant award.

CURRENT STATUS:
Corrective action taken.

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**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

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

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**

CONDITION:
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 await 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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken. The Agency monitoring of possible provider and client frauds and overpayments is always ongoing. The Agency has created two positions dedicated to randomly monitor case records. High dollars case files will be a priority.

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**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
As noted in finding 08-710-09 and 06-710-15, the Agency's controls over drawdowns are not adequate to ensure compliance with the Treasury-State Agreement.

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

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**

CONDITION:
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.
- 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.

RECOMMENDATION:
Strengthen internal controls over activities allowed or unallowed to ensure travel expenses are adequately monitored and reviewed.

CURRENT STATUS:
As noted in finding 08-710-13, the Agency failed to establish adequate internal controls to ensure travel reimbursements were adequately reviewed.

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

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

CONDITION:
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) 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.

RECOMMENDATION:
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.

CURRENT STATUS:
As noted in finding 08-710-15, the Agency did not establish adequate internal controls to ensure compliance with the Treasury-State Agreement.

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

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

CONDITION:
CASH MANAGEMENT – The Agency failed to make cash draws for administrative costs in accordance with the Treasury-State Agreement, "TSA". According to the TSA, 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.

RECOMMENDATION:
Review the TSA 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 TSA.

CURRENT STATUS:
Agency management has recently submitted a request to the U.S. Department of the Treasury to make a revision in the TSA to change the requirements of cash draws for administrative expenditures from being drawn bi-weekly to being drawn daily. If approved, this change will bring the Agency into compliance with the TSA.

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

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

CONDITION:
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).

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

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

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

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

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

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**

CONDITION:
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.

RECOMMENDATION:
Review and strengthen internal controls related to the record retention practices in place in county offices and train personnel on requirements of the program.

CURRENT STATUS:
As noted in finding 08-710-20, the Agency continues to have problems in the areas of denying Medicaid coverage to ineligible recipients, performing annual re-evaluations, locating client files, maintaining documentation of citizenship verification, and maintaining client files with enough documentation to enable the auditor to complete their review.

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**

CONDITION:
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.

RECOMMENDATION:
Review and strengthen internal controls related to the Quality Assurance process and train personnel on requirements of the program.

CURRENT STATUS:
As noted in finding 08-710-21, failure to take corrective action and failure to submit appropriate documentation continues to occur in various county offices.

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

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**

CONDITION:
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:

- 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.

RECOMMENDATION:
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.

CURRENT STATUS:
Although we did not review client case files at all five (5) Pulaski County offices during the current audit, we did review client case files at the Pulaski County-Southwest office. As noted in finding 08-710-20, the Agency continues to have problems in the areas of performing annual re-evaluations, locating client files, maintaining documentation of citizenship verification, and maintaining documentation of resource verification.

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

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

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
As noted in finding 08-710-25, missing documentation in provider files continues to be a problem. The Agency's process for monitoring provider enrollment at EDS was ineffective during fiscal year 2008. However, the Agency did implement a new process for monitoring EDS provider enrollment in October 2008. This process will be reviewed during the 2009 State of Arkansas Single Audit.

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**

CONDITION:
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.

RECOMMENDATION:
Establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards.

CURRENT STATUS:
Corrective action taken.

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**

CONDITION:
SPECIAL TESTS AND PROVISIONS - According to 45 CFR 96.136, "the State must provide for independent peer reviews which access 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.

RECOMMENDATION:
Establish policies and procedures to include written and signed documentation of independence for personnel assigned to provider peer reviews.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**06-710-06**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**93.558 – Temporary Assistance for Needy Families** **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)** **93.659 – Adoption Assistance** **93.959 – Block Grant for Prevention and Treatment of Substance Abuse**
QUESTIONED COSTS:	**Unknown**

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

RECOMMENDATION:
Establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**06-710-07**
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:	**Unknown**

CONDITION:
ALLOWABLE COSTS/COST PRINCIPLES – The Agency collected excess indirect costs totaling $36,549. The Agency incurred expenses for the Hurricane Katrina Relief Project and applied an allowable 10.9% indirect cost rate to those expenses. However, on June 22, 2006, the Agency received a $335,315 reimbursement for a portion of those expenses from the Federal Emergency Management Agency (FEMA) and failed to adjust the indirect cost calculation accordingly.

RECOMMENDATION:
Adjust the indirect cost calculation for the Hurricane Katrina Relief Project and improve indirect cost calculation procedures to ensure accurate and timely reporting.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**06-710-09**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**93.558 – Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**None**

CONDITION:
CASH MANAGEMENT – As a result of the Agency's inadequate internal controls regarding bank account activity and the recording of transfers and as was stated in the previous four (4) audit reports, the Agency continues to struggle reducing cash balances in the Electronics Benefits Transfer (EBT) bank account. Although the Agency made an effort to reduce the bank balance in fiscal year 2005, the EBT account increased by $158,184 to $2,298,892 at June 30, 2006.

RECOMMENDATION:
Establish adequate internal controls and procedures for implementing required cash management policies.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**06-710-15**
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**

CONDITION:
CASH MANAGEMENT – The Agency failed to make cash draws for payroll expenditures and administrative (non-payroll) costs in accordance with 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 expenditures are to be drawn based on the pro-rated draws on payday technique. The Agency instead made draws for actual expenditures at irregular intervals.

RECOMMENDATION:
Review and modify current procedures for implementing the Treasury-State Agreement. In addition, training should be provided to Agency personnel responsible for ensuring adherence to the Treasury-State Agreement.

CURRENT STATUS:
As noted in finding 08-710-09 and 07-710-10, the Agency's controls over drawdowns are not adequate to ensure compliance with the Treasury-State Agreement.

FINDING NUMBER:	**06-710-19**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$3,562**

ELIGIBILITY - The results of testing of two hundred forty (240) recipients for the proper determination of eligibility revealed the following deficiencies:

CONDITION #3:
The Agency failed to maintain documentation showing that the SSN had been verified for thirty-five (35) clients, and for five (5) clients, the documentation of the SSN included in the case file did not match the SSN recorded in the eligibility system. According to 42 CFR 435.910, the Agency is required to verify the social security number of each client.

RECOMMENDATION:
Review and strengthen the record retention practices in place in the county offices and train personnel on requirements of the program.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**06-710-20**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$59,661**

CONDITION:
ELIGIBILITY - The Agency failed to take corrective action in accordance with 42 CFR 431.836 for three (3) of fifteen (15) cases selected for review on which the Quality Assurance unit (Medicaid Eligibility Quality Control System or MEQC) found errors. In one (1) case, the Quality Assurance Unit determined that the client was never eligible for Medicaid coverage. A total of $59,661 in claims were paid for this recipient.

In addition, the Agency failed to submit appropriate documentation to report on the findings of errors detected by the Quality Assurance Unit for eight (8) of the fifteen (15) tested cases. According to the policies set forth by the Agency, county office personnel are to complete the specified documentation with thirty (30) days of receiving notice of the error found by the Quality Assurance Unit.

RECOMMENDATION:
Review and strengthen the record retention practices in place in the county offices and train personnel on requirements of the program.

CURRENT STATUS:
As noted in findings 08-710-21 and 07-710-17, failure to take corrective action and failure to submit appropriate documentation continues to occur in various county offices.

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

FINDING NUMBER:	**06-710-22**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health and Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

CONDITION:
SPECIAL TESTS AND PROVISIONS - The Agency did not reconcile and resolve social security number (SSN) discrepancies between the Arkansas Networked System for Welfare Eligibility and Reporting (ANSWER), which is the Agency's database used to maintain recipient information, and the Medicaid Management Information System (MMIS). According to 42 CFR 435.910, the Agency is required to verify the SSN of each Medicaid recipient. To be eligible for Medicaid assistance, recipients are required to have a valid SSN and provide their SSN to the District County Office (DOC), where recipient information is entered into ANSWER. In the absence of a valid SSN, the DOC assigns a pseudo number to recipients. We noted 7,893 recipient records on file in the MMIS where the SSN did not match the SSN in ANSWER. Of these 7,893 discrepancies, approximately 5,100 were pseudo numbers which had not been updated in MMIS.

RECOMMENDATION:
Establish internal control procedures to ensure the SSN in ANSWER and MMIS databases agree and pseudo numbers are updated.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**06-710-24**
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:	**Unknown**

CONDITION:
MATCHING, LEVEL OF EFFORT, EARMARKING - The Agency failed to separately identify administrative and prevention program expenditures by grant award. As a result, we were unable to determine if earmarking requirements had been met.

RECOMMENDATION:
Establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**06-710-25**
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**

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

RECOMMENDATIONS:
Establish policies and procedures to include written and signed documentation of independence for personnel assigned to provider reviews.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**05-710-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.044 – Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 – Special Programs for the Aging_Title III, Part C_Nutrition Services** **93.053 – Nutrition Services Incentive Program (Aging Cluster)** **93.558 – Temporary Assistance for Needy Families** **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)** **93.568 – Low-Income Home Energy Assistance** **93.569 – Community Services Block Grant** **93.658 – Foster Care_Title IV-E** **93.667 – Social Services Block Grant**
QUESTIONED COSTS:	**Unknown**

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

RECOMMENDATION:
Establish proper internal control procedures to separately identify disbursement activity in AASIS to specific federal grant awards.

CURRENT STATUS:
As noted in finding 07-710-03 and 06-710-06, the Agency did not establish internal control procedures to separately identify disbursement activity. Although corrective action was not taken during 2007, as of July 1, 2007, the Agency revised existing internal order numbers to include a field to be used to identify expenditures by grant year. Testing will be conducted during the 2008 Single Audit to ensure the Agency is in compliance with this requirement.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**05-710-06**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.558 – Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT – As the result of the Agency's inadequate internal controls regarding bank account activity and the recording of transfers, the following deficiencies were noted:

CONDITION #1:
As stated in the previous three (3) audit reports, the Agency has struggled to reduce the cash balances in the Electronics Benefits Transfer (EBT) bank account and the TEA Employment Services and Employment and Training (E&T) Jobs bank account. Although the Agency did reduce cash balances at the end of fiscal year 2004, by end of fiscal year 2005, cash balances were again excessive increasing by $604,995 to $6,465,473 at June 30, 2005.

RECOMMENDATION:
Establish adequate internal controls and procedures for cash management.

CURRENT STATUS:
Corrective action taken.

FINDING NUMBER:	**05-710-19**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

ELIGIBILITY - The results of testing of two hundred fifty six (256) recipients for the proper determination of eligibility revealed the following deficiencies:

CONDITION #2:
The Agency failed to maintain documentation of the verification of the fifty-three (53) clients' social security numbers. According to 42 CFR 435.910, the Agency is required to verify the social security number of each client.

RECOMMENDATION:
Review and strengthen current record retention practices in county offices and train personnel on requirements of the program.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**05-710-23**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$186,374**

CONDITION:
SPECIAL TESTS AND PROVISIONS – PAYMENTS FOR SERVICES AFTER INCARCERATION DATE – Using computer assisted analysis techniques, we discovered sixty-four (64) Medicaid recipients for whom services were paid for a date of service after the recipient was incarcerated in a State correctional facility totaling $186,374. The failure to properly monitor and annually redetermine the eligibility of a recipient could result in the misappropriation of Medicaid funds.

RECOMMENDATION:
Establish internal controls and procedures to prevent payments for services for ineligible Medicaid recipients.

CURRENT STATUS (as reported in the 2007 Statewide Single Audit):
A test match was made with the Arkansas Department of Correction (ADC) and the Arkansas Department of Community Correction (DCC) in February 2007. A formal match was made in July 2007, with the results being provided to the county offices. During the match, county employees discovered that the file received from ADC/DCC included individuals who were not actually residing in an institutional facility. This information was re-verified with the appropriate correctional facility and/or law enforcement before any action was taken. The Agency requested that changes be made to the existing match file to exclude those individuals so that future match results can be considered verified upon receipt with no re-verification necessary. On September 27, 2007, a Memorandum of Understanding between ADC, DCC and the Agency was signed which incorporates the necessary changed described above. The change is in progress and the Agency expects to resume the match and provide results to the county offices by January 31, 2008.

2008 UPDATE:
As noted in finding 08-710-24, the Agency continues to have problems identifying and closing cases of recipients who have been incarcerated. As of December 2008, the Agency is performing the match referenced above, but the results are not being provided to the county offices due to the amount of time needed to investigate the incarceration date. The Agency has stated that they plan to provide the matches to a Central Processing Unit, who will perform the verification of the match. The Agency did not provide an anticipated implementation date for this process.

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

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

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

CONDITION #2:
As stated in the previous two (2) audit reports, the Agency has struggled to reduce the cash balances in the Electronics Benefits Transfer (EBT) bank account and the TEA Employment Services and Employment and Training (E&T) Jobs bank account. Although the Agency did reduce the cash balances at the end of fiscal year 2004 by $2,360,716, excessive cash balances still exist.

RECOMMENDATION:
Establish adequate internal controls and procedures for implementing required cash management policies.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**04-710-19**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

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

CONDITION #2:
Thirty-three (33) client cases did not contain documentation verifying the social security number listed for the client.

RECOMMENDATION:
Review and strengthen the record retention practices in place in the county offices and train personnel on requirements of the program.

CURRENT STATUS:
Corrective action taken.

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

CONDITION #3:
The Agency's internal policy is to minimize the cash balance in the Electronic Benefits Transfer (EBT) bank account. During fiscal year 2002, the average month ending cash balance increased by $627,921. In an attempt to reduce the EBT bank account cash balance, the Agency did not draw $5,524,499 of federal funds to which the Agency was entitled in fiscal year 2003. However, for the 2003 fiscal year, the average month ending cash balance **increased** by $833,290.

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

RECOMMENDATION:
Establish reconciliation procedures to provide assurance that federal funds represented in Agency bank accounts are adequately safeguarded.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**02-710-09**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.558 – Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**Unknown**

CASH MANAGEMENT – The Agency failed to comply with certain terms and conditions of the Cash Management Improvement Act (CMIA) agreement between the State of Arkansas and the United States Treasury. Deficiencies in cash management activities include the following:

CONDITION #4:
The Agency's internal policy is to minimize the cash balance in the EBT checking account. However, a review of the account revealed the average month ending cash balance during state fiscal year 2002 was $2,283,355, an increase of $627,921from state fiscal year 2001. The Agency's failure to reconcile the cash assistance benefits paid to the Electronic Benefit Transfers (EBT) checking account continues to contribute to this problem.

Failure by the Agency to properly manage the program cash results in improper utilization of resources to provide client benefits.

RECOMMENDATION:
Establish proper internal controls and procedures for cash management to minimize occurrence of these types of errors.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**01-710-04**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.558 – Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT – The Agency failed to comply with certain terms and conditions of the Cash Management Improvement Act agreement (Treasury-State agreement) between the State of Arkansas and the United States Treasury. Deficiencies in the cash management activities include the following:

CONDITION #1:
Recording discrepancies, miscalculations, and the Agency's failure to perform reconciliation between the cash assistance benefits paid and the Electronic Benefit Transfers (EBT) checking account resulted in unnecessary Federal draws. The Agency's internal policy is to minimize the cash balance in the EBT checking account, however, a review of the account revealed that the average month ending cash balance during the State fiscal year 2001 was $2,574,036. Also, we noted that the Agency earned interest income totaling $160,120 on the TANF checking accounts during State fiscal year 2001.

RECOMMENDATION:
Strengthen internal controls by implementing policies and procedures that ensure compliance with the Cash Management Improvement Act agreement. Also contact the federal funding agency of the above awards to determine the amount of State interest liabilities due the Federal government.

CURRENT STATUS:
Corrective action taken.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

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**

CONDITION:
ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES **-** During our testwork, 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.

RECOMMENDATION:
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.

CURRENT STATUS:
Training was presented in January 2008 by the Director of Cost Accounting. In addition, the program used to calculate and post the indirect cost was reviewed to be sure all exempt items were properly identified and excluded. We also worked with the specific department involved to make them aware of the proper classification of exempt and non-exempt items.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

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

CONDITION:
EQUIPMENT AND REAL PROPERTY MANAGEMENT - During our testwork, 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 9th floor to the 4th floor without updating its location within the University's records.

- Two (2) equipment purchases did not include shipping charges into the total amounts capitalized.

RECOMMENDATION:
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.

CURRENT STATUS:
Property Services has upgraded their Inventory system, and is working with the Information Technology (IT) Department to facilitate regular system updates. UAMS is in the process of implementing a new reporting system. We will be working with the IT Department to create a report that will allow us to review electronically paid invoices for shipping charges.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

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

CONDITION:
ELIGIBILITY AND SUBRECIPIENT 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.

RECOMMEDATION:
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.

CURRENT STATUS:
Corrective action taken.

State of Arkansas

Corrective Action Plan

For the year ending June 30, 2008

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FS-08-01 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 again 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 continue to 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 continued to work with State agencies to hire Certified Public Accountants to improve the quality of financial reporting. 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. Several classes were held in 2008. Additional fiscal management training classes have been developed for new hire and intermediate level staff within the State. These classes will begin in May of 2009. DFA has provided an opportunity for forty hours of professional training for agency accounting staff members each of the last three years. DFA will continue to encourage State agencies to attend this training.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FS-08-02 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 previous audits, 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:

- Computer program changes were placed into production without sufficient management review to ensure adequate testing and authorization.
- There was no written contingency plan that addresses the agency's procedures in the event of a short-term or long-term interruption of computer service.
- Password configuration settings were not structured to effectively reduce the risk of unauthorized access to the computer system.
- The ability to update cash control applications was not limited to authorized personnel.

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.
- Irretrievable 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, 2008.

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

Program change process controls have been implemented to address the issues raised by Legislative Audit. Changes to program source codes are tracked through a management process so that changes are made in a separate environment from production, reviewed by management and then migrated back into production.

DFA - OIS is developing a contingency processing plan that will be modeled after the federally approved DR plan of the DFA - Office of Child Support and Enforcement. The first draft of the plan was submitted to the DFA Director for his review on May 1, 2008. The plan was designed to accommodate separation by the division and administrative sections within DFA to minimize the time to complete the plan. Upon completion of the plan on or about March 31, 2010, DFA will have a plan that can be continually adapted to business process and legislative changes as they occur. DFA has completed the change in password methodology for approximately eighty (80) percent of system users. The anticipated completion date for all system users is September 30, 2009.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FS-08-03 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.

As reported in the previous audit, 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.
- 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.
- Misappropriation of assets.
- Misstatement of the State's financial records and financial statements.

The Treasurer of State indicated that they have been working on corrective procedures on these control deficiencies subsequent to the prior year audit. However, complete corrective action had not been taken as of June 30, 2008.

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

Response

As of September, 2008, the following corrective action has been taken on these items:

- A contingency plan for disaster recovery has been written in addition to coordinating with the Auditor of State's office and the Department of Finance and Administration using the State's Living Disaster Recovery Planning System (LDRPS) which has identified and documented critical processes.
- Password configuration changes have been made using all recommended security settings.
- Duties related to payments to counties and municipalities have been segregated to eliminate transaction control by any individual person.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER: **08-01**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER(S): **Various, see table below**
QUESTIONED COSTS: **None**

INTERNAL CONTROL OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - The Arkansas Department of Finance and Administration (DFA) is tasked with the responsibility of preparing the State's Schedule of Expenditures of Federal Awards (SEFA). In order to ensure timely and accurate reporting, as well as allow for adequate planning of the Single Audit, each State/Educational Agency is required to submit a *Federal Awards Data Collection Workbook* to DFA by a pre-determined date. Upon receipt of the workbook, DFA compiles, reviews and makes the necessary adjustments to prepare the SEFA. A review of this process revealed several late submissions. Of the ninety-three (93) submissions, only twenty-four (24) were submitted by the due dates established by DFA. The remaining sixty-nine (69) were submitted late, ranging from two (2) days late to sixty-seven (67) days late. Reasons for the delay include employee staffing and the inability of the Agencies' accounting staff to properly use AASIS to maintain, reconcile and report federal expenditures in a timely manner.

The audit for the year ended June 30, 2008 revealed that the Arkansas Department of Human Services incorrectly reported federal expenditures totaling $31,699,072 for the Child and Adult Care Food Program, CFDA 10.558, in the expenditure total of the National School Lunch Program, CFDA 10.555. The Arkansas Department of Health (ADH) incorrectly reported federal expenditures totaling $7,597,776 for the Public Health Emergency Preparedness Program, CFDA 93.069, in the expenditure total of Centers for Disease Control and Prevention_Investigations and Technical Assistance, CFDA 93.283. ADH also overstated expenditures by $2,012,207 in Special Supplemental Nutrition Program for Women, Infants and Children, CFDA 10.557, because of a miscalculation in the amount of infant formula rebates, which are used to pay for food instruments and should be excluded from federal expenditures reported on the SEFA. In addition, Arkansas State University omitted federal expenditures of $8,288,655 for the Federal Perkins Loan Program_Federal Capital Contributions program, CFDA 84.038. Appropriate audit adjustments have subsequently been made by DFA to correct the SEFA.

Failure to receive information promptly from the State/Educational Agencies hinders DFA's ability to adequately review the information and could cause the SEFA to be materially misstated.

We recommend the State develop and implement procedures to ensure the federal program information submitted to DFA is accurate, complete and timely.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days
	Cluster or CFDA Number/ Federal Program Name		Late
0053	**Office of the Attorney General**		19
		Medicaid Cluster	
	16.576	Crime Victim Compensation	
0059	**Auditor of State**		33
		Schools and Roads Cluster	
	12.112	Payments to States in Lieu of Real Estate Taxes	
	15.227	Distribution of Receipts to State and Local Governments	
0080	**Arkansas Game and Fish Commission**		25
		Fish and Wildlife Cluster	
		Highway Planning and Construction Cluster	
	10.000	Other Department of Agriculture Assistance	
	10.025	Plant and Animal Disease, Pest Control, and Animal Care	
	10.028	Wildlife Services	
	10.069	Conservation Reserve Program	
	10.912	Environmental Quality Incentives Program	
	12.000	Other Department of Defense Assistance	
	15.608	Fish and Wildlife Management Assistance	
	15.615	Cooperative Endangered Species Conservation Fund	
	15.616	Clean Vessel Act	
	15.622	Sportfishing and Boating Safety Act	
	15.631	Partners for Fish and Wildlife	
	15.632	Conservation Grants Private Stewardship for Imperiled Species	
	15.633	Landowner Incentive Program	
	15.634	State Wildlife Grants	
	15.644	Federal Junior Duck Stamp Conservation and Design	
	15.929	Save America's Treasures	
	20.219	Recreational Trails Program	
	66.000	Other Environmental Protection Agency Assistance	
	66.461	Regional Wetland Program Development Grants	
	97.000	Other Department of Homeland Security Assistance	
	97.012	Boating Safety Financial Assistance	
0090	**Arkansas State Highway and Transportation Department**		2
		Highway Planning and Construction Cluster	
		Federal Transit Cluster	
		Transit Services Programs Cluster	
	12.106	Flood Control Projects	
	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	
	20.218	National Motor Carrier Safety	
	20.219	Recreational Trails Program	
	20.505	Federal Transit_Metropolitan Planning Grants	
	20.509	Formula Grants for Other Than Urbanized Areas	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.040	Chemical Stockpile Emergency Preparedness Program	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency		Cluster or CFDA Number/ Federal Program Name	Days Late
0100	**Henderson State University**		9
		TRIO Cluster	
		Student Financial Assistance Cluster	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	84.336	Teacher Quality Enhancement Grants	
	84.367	Improving Teacher Quality State Grants	
	93.887	Health Care and Other Facilities	
0105	**Southern Arkansas University**		23
		TRIO Cluster	
		Student Financial Assistance Cluster	
	10.000	Other Department of Agriculture Assistance	
	16.607	Bulletproof Vest Partnership Program	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.366	Mathematics and Science Partnerships	
	93.887	Health Care and Other Facilities	
0115	**Southern Arkansas University - Tech Branch**		14
		Student Financial Assistance Cluster	
	11.611	Manufacturing Extension Partnership	
	15.000	Other Department of the Interior Assistance	
	66.467	Wastewater Operator Training Grant Program (Technical Assistance)	
	66.815	Brownfield Job Training Cooperative Agreements	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.287	Twenty-First Century Community Learning Centers	
	93.558	Temporary Assistance for Needy Families	
	97.043	State Fire Training Systems Grants	
0120	**Arkansas State University - Beebe**		45
		Food Stamp Cluster	
		Child Nutrition Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0125	**Arkansas State University - Jonesboro**		25
		Child Nutrition Cluster	
		Public Works and Economic Development Cluster	
		WIA Cluster	
		Highway Planning and Construction Cluster	
		TRIO Cluster	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days
	Cluster or CFDA Number/	Federal Program Name	Late
0125	**Arkansas State University - Jonesboro (Continued)**		25
		CCDF Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.000	Other Department of Agriculture Assistance	
	10.212	Small Business Innovation Research	
	10.558	Child and Adult Care Food Program	
	10.901	Resource Conservation and Development	
	11.303	Economic Development_Technical Assistance	
	11.611	Manufacturing Extension Partnership	
	12.000	Other Department of Defense Assistance	
	15.000	Other Department of Interior Assistance	
	43.000	Other National Aeronautics and Space Administration Assistance	
	45.130	Promotion of the Humanities_Challenge Grants	
	45.169	Promotion of the Humanities_Digital Humanities Initiative	
	45.301	Museums for America	
	47.049	Mathematical and Physical Sciences	
	47.076	Education and Human Resources	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	66.000	Other Environmental Protection Agency Assistance	
	66.202	Congressionally Mandated Projects	
	66.460	Nonpoint Source Implementation Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.153	Business and International Education Projects	
	84.215	Fund for the Improvement of Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.009	Compassion Capital Fund	
	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	
	93.124	Nurse Anesthetist Traineeships	
	93.241	State Rural Hospital Flexibility Program	
	93.279	Drug Abuse and Addiction Research Programs	
	93.358	Advanced Education Nursing Traineeships	
	93.389	National Center for Research Resources	
	93.558	Temporary Assistance for Needy Families	
	93.560	Family Support Payments to States_Assistance Payments	
	93.570	Community Services Block Grant_Discretionary Awards	
	93.658	Foster Care_Title IV-E	
	93.865	Child Health and Human Development Extramural Research	
	93.969	Geriatric Education Centers	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days
	Cluster or CFDA Number/ Federal Program Name		Late
0128	**Arkansas State University - Mountain Home**		15
		Student Financial Assistance Cluster	
	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
	93.887	Health Care and Other Facilities	
0129	**Arkansas State University - Newport**		9
		Student Financial Assistance Cluster	
	17.252	Attestations by Employers Using Non-Immigrant Aliens in Specialty Occupations	
	84.002	Adult Education_State Grant Program	
	93.558	Temporary Assistance for Needy Families	
0130	**Arkansas Tech University**		47
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.652	Forestry Research	
	15.642	Challenge Cost Share	
	43.001	Aerospace Education Services Program	
	59.000	Other Small Business Administration Assistance	
	84.021	Overseas_Group Projects Abroad	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	
	84.367	Improving Teacher Quality State Grants	
	93.389	National Center for Research Resources	
	93.558	Temporary Assistance for Needy Families	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
0135	**University of Arkansas - Fayetteville**		11
		Child Nutrition Cluster	
		Federal Transit Cluster	
		Highway Safety Cluster	
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	11.611	Manufacturing Extension Partnership	
	12.901	Mathematical Sciences Grants Program	
	15.916	Outdoor Recreation_Acquisition, Development and Planning	
	16.000	Other Department of Justice Assistance	
	16.588	Violence Against Women Formula Grants	
	19.420	Cooperative Grants	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days Late
Cluster or CFDA Number/ Federal Program Name			
0135	**University of Arkansas - Fayetteville (Continued)**		11
	20.000	Other Department of Transportation Assistance	
	20.701	University Transportation Centers Program	
	43.000	Other National Aeronautics and Space Administration Assistance	
	45.000	Other National Foundation on the Arts and the Humanities Assistance	
	47.000	Other National Science Foundation Assistance	
	47.049	Mathematical and Physical Sciences	
	47.076	Education and Human Resources	
	59.000	Other Small Business Administration Assistance	
	59.037	Small Business Development Center	
	66.000	Other Environmental Protection Agency Assistance	
	66.460	Nonpoint Source Implementation Grants	
	66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	
	66.513	Greater Research Opportunities (GRO) Fellowships for Undergraduate/Graduate Environmental Study	
	66.951	Environmental Education Grants	
	84.000	Other Department of Education Research	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.129	Rehabilitation Long-Term Training	
	84.132	Centers for Independent Living	
	84.133	National Institute on Disability and Rehabilitation Research	
	84.185	Byrd Honors Scholarships	
	84.264	Rehabilitation Training_Continuing Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	93.000	Other Department of Health and Human Services Assistance	
	93.136	Injury Prevention and Control Research and State and Community Based Programs	
	93.282	Mental Health National Research Service Awards for Research Training	
	93.630	Developmental Disabilities Basic Support and Advocacy Grants	
	94.006	AmeriCorps	
	97.000	Other Department of Homeland Security Assistance	
0135ext	**University of Arkansas - Cooperative Extension Service**		16
	10.001	Agricultural Research_Basic and Applied Research	
	10.025	Plant and Animal Disease, Pest Control, and Animal Care	
	10.200	Grants for Agricultural Research, Special Research Grants	
	10.206	Grants for Agricultural Research_Competitive Research Grants	
	10.303	Integrated Programs	
	10.307	Organic Agriculture Research and Extension Initiative	
	10.500	Cooperative Extension Service	
	10.664	Cooperative Forestry Assistance	
	10.912	Environmental Quality Incentives Program	
	12.002	Procurement Technical Assistance For Business Firms	
	66.460	Nonpoint Source Implementation Grants	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0135ext	**University of Arkansas - Cooperative Extension Service (Continued)**		16
	66.814	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	
	93.558	Temporary Assistance for Needy Families	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0145	**University of Arkansas at Little Rock**		13
		Public Works and Economic Development Cluster	
		TRIO Cluster	
		Special Education Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	11.303	Economic Development_Technical Assistance	
	11.611	Manufacturing Extension Partnership	
	15.912	National Historic Landmark	
	16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
	16.523	Juvenile Accountability Block Grants	
	16.582	Crime Victim Assistance/Discretionary Grants	
	19.000	Other Department of State Assistance	
	19.415	Professional Exchanges_Annual Open Grant	
	20.701	University Transportation Centers Program	
	21.008	Low-Income Taxpayer Clinics	
	47.000	Other Small Business Administration Assistance	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	66.439	Targeted Watersheds Grants	
	84.031	Higher Education_Institutional Aid	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.126	Rehabilitation Services_Vocation Rehabilitation Grants to States	
	84.129	Rehabilitation Long-Term Training	
	84.160	Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind	
	84.185	Byrd Honors Scholarships	
	84.186	Safe and Drug-Free Schools and Communities_State Grants	
	84.206	Javits Gifted and Talented Students Education Grant Program	
	84.324	Research in Special Education	
	84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	
	84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	
	84.333	Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	93.110	Maternal and Child Health Federal Consolidated Programs	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0145	**University of Arkansas at Little Rock (Continued)**		13
	93.136	Injury Prevention and Control Research and State and Community Based Programs	
	93.236	Grants for Dental Public Health Residency Training	
	93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	
	93.600	Head Start	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
0155	**University of Arkansas at Monticello**		12
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.263	Youth Opportunity Grants	
	45.129	Promotion of the Humanities_Federal/State Partnership	
	45.164	Promotion of the Humanities_Public Programs	
	59.037	Small Business Development Center	
	84.002	Adult Education_State Grant Program	
	84.021	Overseas_Group Projects Abroad	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.350	Transition to Teaching	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
	94.006	AmeriCorps	
0160	**University of Arkansas at Pine Bluff**		16
		Public Works and Economic Development Cluster	
		WIA Cluster	
		TRIO Cluster	
		CCDF Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	10.001	Agricultural Research_Basic and Applied Research	
	10.163	Market Protection and Promotion	
	10.200	Grants For Agricultural Research, Special Research Grants	
	10.216	1890 Institution Capacity Building Grants	
	10.220	Higher Education Multicultural Scholars Program	
	10.433	Rural Housing Preservation Grants	
	10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	
	10.455	Community Outreach and Assistance Partnership Program	
	10.500	Cooperative Extension Service	
	10.664	Cooperative Forestry Assistance	
	10.769	Rural Business Enterprise Grants	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days Late
Cluster or CFDA Number/ Federal Program Name			
0160	**University of Arkansas at Pine Bluff (Continued)**		16
	10.856	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	
	10.901	Resource Conservation and Development	
	10.903	Soil Survey	
	10.960	Technical Agricultural Assistance	
	12.600	Community Economic Adjustment	
	14.520	Historically Black Colleges and Universities Program	
	15.808	U.S. Geological Survey_Research and Data Collection	
	16.738	Edward Byrne Memorial Justice Assistance Grant Program	
	47.050	Geosciences	
	47.074	Biological Sciences	
	47.076	Education and Human Resources	
	84.031	Higher Education_Institutional Aid	
	84.215	Fund for the Improvement of Education	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	93.236	Grants for Dental Public Health Residency Training	
	93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
	93.600	Head Start	
0165	**University of Central Arkansas**		24
		Special Education Cluster	
		TRIO Cluster	
		Research and Development Cluster	
		Student Financial Assistance Cluster	
	12.000	Other Department of Defense Assistance	
	12.114	Collaborative Research and Development	
	16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
	43.001	Aerospace Education Services Program	
	45.129	Promotion of the Humanities_Federal/State Partnership	
	47.074	Biological Sciences	
	59.000	Other Small Business Administration Assistance	
	84.016	Undergraduate International Studies and Foreign Language Programs	
	84.021	Overseas_Group Projects Abroad	
	84.031	Higher Education_Institutional Aid	
	84.116	Fund for the Improvement of Postsecondary Education	
	84.323	Special Education - State Personnel Development	
	84.366	Mathematics and Science Partnerships	
	84.367	Improving Teacher Quality State Grants	
	84.928	National Writing Project	
	84.929	Civic Education: We the People Program	
	93.000	Other Department of Health and Human Services Assistance	
	93.358	Advanced Education Nursing Traineeships	
	93.389	National Center for Research Resources	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
	93.969	Geriatric Education Centers	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0167	**University of Arkansas Community College at Hope**		15
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.335	Child Care Access Means Parents in School	
	93.558	Temporary Assistance for Needy Families	
0168	**University of Arkansas Community College at Batesville**		49
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0170	**East Arkansas Community College**		33
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0175	**National Park Community College**		9
		WIA Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0177	**Mid-South Community College**		35
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.268	H-1B Job Training Grants	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	90.201	Delta Area Economic Development	
	93.558	Temporary Assistance for Needy Families	
	94.006	AmeriCorps	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency			Days
	Cluster or CFDA Number/ Federal Program Name		Late
0180	**Arkansas Northeastern College**		9
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0185	**North Arkansas College**		15
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0190	**Phillips Community College**		46
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.287	Twenty-First Century Community Learning Centers	
	84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	
	93.558	Temporary Assistance for Needy Families	
0192	**Rich Mountain Community College**		13
		WIA Cluster	
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.245	Trade Adjustment Assistance	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.335	Child Care Access Means Parents in School	
	93.558	Temporary Assistance for Needy Families	
0193	**South Arkansas Community College**		43
		Child Nutrition Cluster	
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0193	**South Arkansas Community College (Continued)**		43
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0195	**University of Arkansas at Fort Smith**		39
		TRIO Cluster	
		Student Financial Assistance Cluster	
	17.249	Employment Services and Job Training Pilots-Demonstrations and Research	
	43.001	Aerospace Education Services Program	
	45.025	Promotion of the Arts_Partnership Agreements	
	47.076	Education and Human Resources	
	59.037	Small Business Development Center	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.367	Improving Teacher Quality State Grants	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0198	**Northwest Arkansas Community College**		16
		TRIO Cluster	
		Homeland Security Cluster	
		Student Financial Assistance Cluster	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	47.076	Education and Human Resources	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.241	State Rural Hospital Flexibility Program	
	93.558	Temporary Assistance for Needy Families	
0229	**Arkansas Fair Housing Commission**		10
	14.401	Fair Housing Assistance Program_State and Local	
0264	**Workforce Investment Board**		67
		WIA Cluster	
0295	**Arkansas Spinal Cord Commission**		42
		Highway Safety Cluster	
	93.667	Social Services Block Grant	
0318	**Martin Luther King, Jr. Commission**		45
	93.569	Community Services Block Grant	
0319	**Arkansas Minority Health Commission**		27
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0324	**Arkansas Public Defender Commission**		3
	16.523	Juvenile Accountability Block Grants	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0327	**Arkansas Science and Technology Authority**		31
		Research and Development Cluster	
	11.611	Manufacturing Extension Partnership	
0385	**Arkansas Department of Veterans Affairs**		2
	64.014	Veterans State Domiciliary Care	
	64.015	Veterans State Nursing Home Care	
0400	**Arkansas Agriculture Department**		33
	10.066	Livestock Assistance Program	
0415	**Arkansas Forestry Commission**		39
	10.652	Forestry Research	
	10.663	Forest Land Enhancement Program (FLEP)	
	10.664	Cooperative Forestry Assistance	
	10.676	Forest Legacy Program	
	66.460	Nonpoint Source Implementation Grants	
0420	**Arkansas Geological Commission**		26
	15.808	U.S. Geological Survey_Research and Data Collection	
	15.810	National Cooperative Geologic Mapping Program	
0425	**State Insurance Department**		30
	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	
0470	**Department of Information Systems**		15
	11.555	Public Safety Interoperable Communications Grant Program	
	97.040	Chemical Stockpile Emergency Preparedness Program	
	97.070	Map Modernization Management Support	
0480	**Department of Correction**		9
	16.593	Residential Substance Abuse Treatment For State Prisoners	
	16.606	State Criminal Alien Assistance Program	
	16.607	Bulletproof Vest Partnership Program	
	16.739	National Prison Rape Statistics Program	
	16.740	Statewide Automated Victim Information Notification (SAVIN) Program	
	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
0506	**Department of Workforce Education - Federal Surplus Property**		17
	39.003	Donation of Federal Surplus Personal Property	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency		Cluster or CFDA Number/ Federal Program Name	Days Late
0510	**School for the Blind**		6
		Child Nutrition Cluster	
		Special Education Cluster	
	10.550	Food Donation	
	84.000	Other Department of Education Assistance	
0516	**Arkansas Educational Television Division**		12
	11.550	Public Telecommunications Facilities Planning and Construction	
0534	**Crowley's Ridge Technical Institute**		20
		Student Financial Assistance Cluster	
		CCDF Cluster	
	10.558	Child and Adult Care Food Program	
	84.002	Adult Education_State Grant Program	
0552	**Northwest Technical Institute**		45
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
0582	**Riverside Vocational Technical School**		53
	84.331	Grants to States for Incarcerated Youth Offenders	
0590	**Department of Workforce Education**		32
		WIA Cluster	
	64.124	All-Volunteer Force Educational Assistance	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.243	Tech-Prep Education	
	93.558	Temporary Assistance for Needy Families	
0610ap	**Department of Finance and Administration**		46
	20.218	National Motor Carrier Safety	
0610ebd	**Department of Finance and Administration - Revenue Division**		7
	93.000	Other Department of Health and Human Services Assistance	
0610igs	**Department of Finance and Administration - Intergovernmental Services**		12
	16.575	Crime Victim Assistance	
	16.579	Edward Byrne Memorial Formula Grant Program	
	16.588	Violence Against Women Formula Grants	
	16.738	Edward Byrne Memorial Justice Assistance Grant Program	
	93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0612	**Department of Finance and Administration - Alcohol Beverage Control - Enforcement Division**		50
	16.727	Enforcing Underage Drinking Laws Program	
0634	**Department of Finance and Administration - Office of Child Support Enforcement**		41
	93.563	Child Support Enforcement	
0665	**Health Services Permit Agency**		12
	93.630	Developmental Disabilities Basic Support and Advocacy Grants	
0675	**Black River Technical College**		42
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.249	Employment Services and Job Training Pilots-Demonstrations and Research	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0677	**University of Arkansas Cossatot Community College**		16
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.149	Migrant Education_College Assistance Migrant Program	
	84.195	Bilingual Education-Professional Development	
	93.558	Temporary Assistance for Needy Families	
0685	**Ouachita Technical College**		42
		TRIO Cluster	
		Student Financial Assistance Cluster	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education-Institution Aid	
	84.213	Even Start_State Educational Agencies	
	93.558	Temporary Assistance for Needy Families	
0687	**Ozarka College**		24
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	16.588	Violence Against Women Formula Grants	
	17.269	Community Based Job Training Grants	
	45.024	Promotion of the Arts_Grants to Organizations and Individuals	
	84.002	Adult Education_State Grant Program	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0689	**University of Arkansas Community College at Morrilton**		16
		CCDF Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	12.000	Other Department of Defense Assistance	
	15.114	Indian Education_Higher Education Grant Program	
	84.002	Adult Education_State Grant program	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.185	Byrd Honors Scholarships	
	93.276	Drug-Free Communities Support Program Grants	
	93.558	Temporary Assistance for Needy Families	
	94.005	Learn and Serve America_Higher Education	
	94.006	AmeriCorps	
0691	**Southeast Arkansas College**		15
		TRIO Cluster	
		CCDF Cluster	
		Student Financial Assistance Cluster	
	17.269	Community Based Job Training Grants	
	84.002	Adult Education_State Grant Program	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
0693	**Pulaski Technical College**		5
		TRIO Cluster	
		Student Financial Assistance Cluster	
	10.558	Child and Adult Care Food Program	
	17.261	WIA Pilots, Demonstrations, and Research Projects	
	17.269	Community Based Job Training Grants	
	84.031	Higher Education_Institutional Aid	
	84.048	Career and Technical Education -- Basic Grants to States	
	93.558	Temporary Assistance for Needy Families	
	93.945	Assistance Programs for Chronic Disease Prevention and Control	
0700	**Department of Higher Education**		36
		WIA Cluster	
	15.227	Distribution of Receipts to State and Local Governments	
	84.048	Career and Technical Education -- Basic Grants to States	
	84.069	Leveraging Educational Assistance Partnership	
	84.367	Improving Teacher Quality State Grants	
	93.558	Temporary Assistance for Needy Families	

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0710	**Department of Human Services**		27
		Food Stamp Cluster	
		Child Nutrition Cluster	
		Emergency Food Assistance Cluster	
		Special Education Cluster	
		Aging Cluster	
		CCDF Cluster	
		Medicaid Cluster	
		Foster Grandparent/Senior Companion Cluster	
	10.550	Food Donation	
	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
	10.558	Child and Adult Care Food Program	
	10.560	State Administrative Expenses for Child Nutrition	
	10.576	Senior Farmers Market Nutrition Program	
	14.231	Emergency Shelter Grants Program	
	14.238	Shelter Plus Care	
	16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	
	16.523	Juvenile Accountability Block Grants	
	16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	
	17.235	Senior Community Service Employment Program	
	81.042	Weatherization Assistance for Low-Income Persons	
	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	
	84.169	Independent Living_State Grants	
	84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	
	84.181	Special Education_Grants for Infants and Families with Disabilities	
	84.186	Safe and Drug-Free Schools and Communities_State Grants	
	84.187	Supported Employment Services for Individuals with Severe Disabilities	
	84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	
	93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	
	93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	
	93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	
	93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	
	93.051	Alzheimer's Disease Demonstration Grants to States	
	93.052	National Family Caregiver Support, Title III, Part E	
	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	
	93.110	Maternal and Child Health Federal Consolidated Programs	
	93.150	Projects for Assistance in Transition from Homelessness (PATH)	
	93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
	93.556	Promoting Safe and Stable Families	
	93.558	Temporary Assistance for Needy Families	

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER: **08-01 (Continued)**
STATE/EDUCATIONAL AGENCY: **Various, see table below**
CFDA NUMBER: **Various, see table below**
QUESTIONED COSTS: **None**

Business Area Number/State/Educational Agency Cluster or CFDA Number/ Federal Program Name			Days Late
0710	**Department of Human Services (Continued)**		
	93.566	Refugee and Entrant Assistance_State Administered Programs	
	93.568	Low-Income Home Energy Assistance	
	93.569	Community Services Block Grant	
	93.599	Chafee Education and Training Vouchers Program (ETV)	
	93.600	Head Start	
	93.645	Child Welfare Services_State Grants	
	93.652	Adoption Opportunities	
	93.658	Foster Care_Title IV-E	
	93.659	Adoption Assistance	
	93.667	Social Services Block Grant	
	93.669	Child Abuse and Neglect State Grants	
	93.674	Chafee Foster Care Independence Program	
	93.767	State Children's Insurance Program	
	93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	
	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	
	93.958	Block Grants for Community Mental Health Services	
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	
	93.994	Maternal and Child Health Services Block Grant to the States	
	94.003	State Commissions	
	94.006	AmeriCorps	
	94.007	Planning and Program Development Grants	
	94.009	Training and Technical Assistance	
0790	**Department of Economic Development**		2
	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	
	81.041	State Energy Program	
0950	**Commission on Law Enforcement Standards and Training**		6
	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	
0995	**Department of Emergency Management**		29
		Homeland Security Cluster	
	20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	
	97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.039	Hazard Mitigation Grant	
	97.040	Chemical Stockpile Emergency Preparedness Program	
	97.042	Emergency Management Performance Grants	
	97.047	Pre-Disaster Mitigation	
	97.052	Emergency Operations Centers	
	97.078	Buffer Zone Protection Program (BZPP)	

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-01 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Various, see table below**
CFDA NUMBER(S):	**Various, see table below**
QUESTIONED COSTS:	**None**

Response

DFA will assign a staff member to send periodic reminders to all agencies that are late on their workbook submissions. The Arkansas Department of Human Services (DHS) was one of the agencies that did not meet the SEFA reporting deadline established by DFA. The agency has added several employees (Controller/Assistant Controller positions) to the area responsible for grant reporting. With these additions, DHS should be able to meet future deadlines for the SEFA reporting.

DHS agrees that a classification error in reporting expenses for the Child and Adult Care Food Program, CFDA 10.558, was made. Agency personnel were attempting to match expenses with the grant award amounts as shown on Federal Report 374 (Letter of Credit authorized amounts by CFDA #). Authorized amounts for CFDA 10.558 were shown as $671,001. Authorized amounts for the National School Lunch Program, CFDA 10.555, were shown as $33,225,236. Agency personnel preparing the report did not realize that award amounts for CFDA 10.558 were included in the amounts shown as CFDA 10.555 and therefore misclassified the expense. Agency personnel have now been made aware of the fact that the Federal Report 374 cannot be relied upon to give the correct grant award amount by CFDA #. Also, the agency has taken steps to add an additional level of review before submitting SEFA information to DFA.

The Department of Health agrees with the finding that ADH incorrectly reported expenditures to the wrong CFDA account for the Public Health Emergency Preparedness Program. However, all expenditures were appropriate for the federal grant requirements. DFA is developing a procedure to check CFDA numbers reported by the various agencies against the list of deleted and changed CFDA numbers posted at WWW.CFDA.gov. This procedure will be active for the FY2009 SEFA Data Collection process.

ADH also agrees expenditures in the Special Supplemental Nutrition Program for Women, Infants and Children were overstated due to a miscalculation in the infant formula rebates still on deposit at year end but corrected by DFA. Staff involved has been counseled with and additional internal controls at the program level and at the Department level have been put in place for monitoring all expenditures for Department grants. Individual training and technical assistance is available and ongoing. DFA is examining the Department of Health recording and reporting procedures for WIC rebates to determine how the reviewer of the SEFA Data Collection Workbook can verify the agency reported data. A procedure will be active for the FY2009 Data Collection process.

Arkansas State University concurs with the finding Related to the Perkins Loan Program and regrets the error. The University has developed and implemented procedures to ensure all federal program information is reported to the Arkansas Department of Finance and Administration in an accurate, complete, and timely manner. DFA has established the procedure of requiring the institutions of higher education to indicate, on a checklist of student financial aid programs, in which programs their school participates. The SEFA data collection reviewer will compare the responses to the programs reported on the SEFA Data Collection Workbook and resolve any discrepancies. This procedure will be active for the FY2009 SEFA Data Collection process.

Anticipated completion date:

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-645-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children** **93.069 - Public Health Emergency Preparedness** **93.268 - Immunization Grants**
QUESTIONED COSTS:	**Unknown**

ALLOWABLE COSTS/COST PRINCIPLES - The Agency did not allocate payroll costs in accordance with a methodology approved by the cognizant federal agency pursuant to OMB Circular A-87 Attachment B, Section 8 h. (4) and (5) for employees within the Arkansas Department of Health (ADH) expected to work on multiple activities. ADH became a separate agency on July 1, 2007 after having spent two years as a combined agency with the Arkansas Department of Human Services. The merger/demerger as well as management turnover has led to the noncompliance.

Failure to allocate costs properly has led to inaccurate reporting of grant expenditures to the federal grantor and could lead to possible misuse or misappropriation of federal monies.

This finding impacts grant #6AR700501, years 2007 and 2008 for CFDA number 10.557. The finding also impacts grant #5U90TP616974-08 for CFDA number 93.069. In addition, the finding impacts the 2007 grant #5H23IP622523 and the 2008 grant #2H23IP622523 for CFDA number 93.268.

We recommend the Agency continue to implement the methodology approved by the cognizant federal agency to be used for documentation of salary costs among affected federal programs.

Response

The Department of Health is currently working with the Dallas Regional Office of The U.S. Department 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, January 2008 and December 2008 to provide updates on our intended methods and time frames for implementation of a cost allocation plan for the Department. A 100% time study was implemented in November 2007, tested in December 2007, and then 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 was submitted for SFY2008 in December 2008 for review and approval. We will continue to work closely with DCA until this process is completed for the Department.

Anticipated completion date: Begin July 2009 and on

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-645-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children** **93.069 - Public Health Emergency Preparedness** **93.268 - Immunization Grants**
QUESTIONED COSTS:	**None**

INTERNAL CONTROL OVER PROCUREMENT, SUSPENSION AND DEBARMENT - The Agency failed to establish internal controls to screen vendors for federal suspension and debarment, thus increasing the risk of the Agency doing business with prohibited parties. In accordance with 2 CFR 180, the Agency is required to verify that the vendor/person with whom they intend to do business is not excluded or disqualified. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). Employees responsible for managing the grant were not aware of the suspension and debarment and subrecipient monitoring requirements.

Without adequate internal controls, unallowable payments could be made to suspended or debarred subrecipients, which would require repayment to the grantor. However, we have not identified subrecipients during our audit period that were suspended or debarred and are not questioning these costs.

This finding impacts grant #6AR700501, years 2007 and 2008 for CFDA number 10.557. The finding also impacts grant #5U90TP616974-08 for CFDA number 93.069. In addition, the finding impacts the 2007 grant #5H23IP622523 and the 2008 grant #2H23IP622523 for CFDA number 93.268.

We recommend the Agency establish internal controls over procurement, suspension and debarment to ensure compliance with the applicable code of federal regulations.

Response

When it was brought to the Department's attention that there is a requirement for reviewing suspension and debarment listings for federally funded contracts, the following process was immediately established in the Procurement Branch for both the ADH Contract Support Section as well as the ADH Purchasing Section:

Buyers are to review EPLS when processing federally funded contracts exceeding $25,000. If the vendor is suspended or debarred, the buyer will stop processing the purchase order or contract. The buyer will print and attach the report to the documentation, sign and date, and notify the Procurement Branch Chief of the finding. The Procurement Branch Chief will contact the program regarding the finding and advise that the identified vendor does not qualify for participation in the purchasing process.

If the vendor is not suspended or debarred, the printout of the report is initialed and dated by the buyer. The report is then attached to the documentation as either an AASIS attachment or stapled as an attachment to the purchase order or contract that will be kept in the ADH files. Additionally, the buyer will put a note in the header text of the purchase order or contract referencing the check.

This process is currently underway at the Department and appears to be effective. Continued monitoring will be ongoing, with adjustments in the process made as necessary.

Anticipated completion date: Began November 2008 and on

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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-710-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **93.556 - Promoting Safe and Stable Families** **93.558 - Temporary Assistance for Needy Families** **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** **93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$2,000**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES – Eighty-three (83) transactions were tested for compliance with OMB Circular A-87 and the Agency's cost allocation plan. Inadequate supervisory review for eleven (11) of the eighty-three (83) transactions tested was noted. Ten (10) of the eleven (11) transactions represent travel reimbursements and occurred within the Division of County Operations and the Division of Child and Family Services. The travel reimbursement form received approval by the Travel Administrator and review by accounts payable staff. The review and approval was not adequate however, and resulted discrepancies that included:

- Four (4) instances lacked adequate information to identify the purpose which determines the validity of travel reimbursements totaling $1,086.
- Two (2) instances of incorrect cost center coding on travel reimbursement forms totaling $580,
- Two (2) instances of incorrect mileage/mileage rate resulting in underpayment of the TR-1 form, and
- Two (2) travel overpayments to employees totaling $271.
- In addition, several requests were made of the Agency to locate supporting documentation for one (1) transaction totaling $63. The Agency was unable to locate the documentation.

Lack of appropriate supervisory review led to miscalculation of travel reimbursement, improper coding, and inadequate documentation to determine validity of the reimbursement. Failure to properly review the travel reimbursement forms can lead to costs being incorrectly allocated to federal programs.

The lack of adequate supervisory review regarding travel reimbursements within the Division of Child and Family Services was noted as a significant deficiency in the 2007 State of Arkansas Single Audit report, specifically within the Foster Care program. As a result, additional testing regarding travel reimbursements was performed during the 2008 review of Foster Care. Finding 08-710-13, addresses the issues discovered during that review.

We recommend the Agency develop additional internal control procedures regarding supervisory review and provide adequate training concerning approval of travel reimbursements. In addition, we recommend the Agency recover the overpayments from the employees.

Response

- Four (4) instances lacked adequate information to identify the client which determines the validity of travel reimbursements totaling $1,086:

  No client travel was involved in these instances. These reimbursements related to administrative travel and were allocated to various benefitting programs.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-710-01 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **93.556 - Promoting Safe and Stable Families** **93.558 - Temporary Assistance for Needy Families** **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** **93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$2,000**

Response (Continued)

- Two (2) instances of incorrect cost center coding on travel reimbursement forms totaling $580:
  Division of Children and Family Services (DCFS) agrees that both of these reimbursements had the incorrect cost center, but the internal order charged was assigned to the same cost pool as it would have if the correct cost center was used, so the monies were charged to the correct programs.

- Two (2) instances of incorrect mileage/mileage rate resulting in underpayment of the TR-1 form:
  Additional training has been provided to staff regarding the utilization of appropriate mileage rates and the verification of information reflected on travel reimbursement documents. In addition, the implementation of an automated DHS Travel Reimbursement system will reduce the possibility of such errors that were cited through the populating of the appropriate mileage rate for reimbursement based upon dates of travel and the performance of the mathematical calculations electronically on reimbursement requests.

- Two (2) travel overpayments to employees totaling $271.
  DCFS agrees that two overpayments were made. Documentation has been provided to Accounts Receivable to begin the collection process to recoup the overpayments that occurred in processing the above travel reimbursements. Additional training has been provided to staff regarding the proper verification procedures relating to travel documents. As stated above, the implementation of an automated DHS Travel Reimbursement system will reduce the possibility of such errors.

- In addition, several requests were made of the Agency to locate supporting documentation for one (1) transaction totaling $63. The Agency was unable to locate the documentation.
  This particular document was for payment to Northwest Arkansas Solid Waste, however the corporation operates under the DBA of Nabors Sanitation, Inc. Documentation reflects the invoice, Nabors Sanitation Inc., was provided for review of the Auditor on October 13, 2008. A copy of the invoice and documentation is available upon request.

- Lack of appropriate supervisory review led to miscalculation of travel reimbursement, improper coding, and inadequate documentation to determine validity of the reimbursement. Failure to properly review the travel reimbursement forms can lead to costs being incorrectly allocated to federal programs.
  The lack of adequate supervisory review regarding travel reimbursements within the Division of Child and Family Services was noted as a significant deficiency in the 2007 State of Arkansas Single Audit report, specifically within the Foster Care program. As a result, additional testing regarding travel reimbursements was performed during the 2008 review of Foster Care. Finding 08-710-13, addresses the issues discovered during that review.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-710-01 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **93.556 - Promoting Safe and Stable Families** **93.558 - Temporary Assistance for Needy Families** **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** **93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$2,000**

Response (Continued)

We recommend the Agency develop additional internal control procedures regarding supervisory review and provide adequate training concerning approval of travel reimbursements. In addition, we recommend the Agency recover the overpayments from the employees.

On January 14, 2009, DHS began a pilot program to test a new automated DHS Travel Reimbursement system. This system will automatically populate a number of fields on the TR-1 form. This should reduce errors in coding, misapplication of rates, and mathematical calculations. The system is scheduled for department wide implementation April 2009.

Anticipated completion date: April 2009

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF AGRICULTURE

FINDING NUMBER:	**08-645-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**Unknown**

ACTIVITIES ALLOWED OR UNALLOWED - As required by 7 CFR 216 (b)(1), Special Supplement Nutrition Program for Women, Infants, and Children (WIC) funds must be used only for WIC related purposes. A review of sixty (60) administrative expenditures, of which twenty-two (22) were travel related, revealed three (3) travel reimbursements, or 14%, benefited programs other than WIC. The Agency's policies were designed in such a way that travel reimbursements were coded to programs based upon personnel positions rather than program activity, which could cause federal expenditures to be assigned to the wrong federal program.

This finding impacts grant #6AR700501, years 2007 and 2008.

We recommend the Agency strengthen internal controls related to activities allowed or unallowed by providing additional training to travel administrators regarding the proper coding of travel activity.

Response

The Department has relayed to Regional and District administrators the importance of coding travel reimbursements to the program activity. This will be reinforced to travelers and travel administrators in the field. The agency is also looking at the feasibility of cost allocating travel for field personnel based on time studies being conducted for cost allocation beginning July 2009. We will continue to monitor for compliance of this finding.

Anticipated completion date: Began March 2009 and ongoing

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**08-710-02**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**10.555 - National School Lunch Program (Child Nutrition Cluster)**
QUESTIONED COSTS:	**$30,573**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS AND REPORTING - As required by 7 CFR 3016.20, the Agency shall maintain adequate accountability of records to allow for the proper recording of transactions and subsequent reporting of activities as needed for the grant award. It was noted during the testing of program expenditures and related reports to the federal government that the Agency did not always report costs in the proper period. Two reimbursement claims from sub-recipients for September 2007 totaling $30,573 were charged to a federal grant that began in October 2007 because the Agency's coding of expenditures to specific grants was based upon when the reimbursements were paid instead of when the underlying meals were provided. Total expenditures for the program are correct, but charging costs to the incorrect grant year caused the reported federal expenditures for specific grant awards to be inaccurate.

This finding impacts grants #2007IN109946 and #2008(CN)IN109946.

We recommend the Agency strengthen internal control related to period of availability and reporting to ensure expenditures are assigned to the appropriate grant year so that costs can be properly reported.

Response

The Division of Child Care and Early Childhood Education agrees that controls should be strengthened with regard to proper coding of expenditures for the National School Lunch Program. We will train the staff responsible for coding in an effort to highlight the importance of tracking expenses based on date of service in order to generate accurate data for federal reporting purposes. In addition, we will monitor such expenses at a supervisory level during the period of transition from one grant year to the next.

Anticipated completion date: Ongoing

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**08-710-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**10.555 - National School Lunch Program (Child Nutrition Cluster)**
QUESTIONED COSTS:	**Unknown**

SUBRECIPIENT MONITORING - As required by 7 CFR 210.18 – 210.19, state agencies shall conduct an administrative review, known as a Coordinated Review Effort (CRE), and an evaluation of compliance with nutrition standards, known as a School Meals Initiative (SMI), at a School Food Authority (SFA) at least once every six years. Ten SFAs were selected for testing, and the Agency could not provide documentation of completion for one CRE and six SMIs. Additionally, of the reviews and evaluations that were performed, it was noted that one CRE and two SMIs were not completed during in the past six years. Failure to provide adequately trained staff to conduct reviews and evaluations could allow financial and programmatic errors at the SFA.

This finding impacts grants #2006IN109946, #2007IN109946 and #2008(CN)IN109946.

We recommend the Agency strengthen internal controls related to subrecipient monitoring by establishing a tracking system that specifically lists previous and future dates of reviews and evaluations. We also recommend the Agency provide adequate resources, training and personnel to ensure that such reviews and evaluations are completed in a proper and timely manner.

Response

The Division of Child Care and Early Childhood Education agrees that controls should be strengthened with regard to compliance with administrative review requirements of the National School Lunch Program. The Division has equipped its review staff with new tablet computers allowing immediate access to Division information systems as well as updates in real time as individual reviews are completed. In addition, through the use of this technology in concert with the Outlook calendar system used within the division, alerts will be issued sixty days in advance of final review dates allowing adequate time for scheduling and completion of the required reviews. The new system will track the type of review, last review date, and the next scheduled review date, and will be used in the Summer Food Service Program as well. The Division believes this system will ensure required reviews are submitted in a timely and accurate manner.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF EDUCATION

FINDING NUMBER:	**08-160-01**
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 - To be considered administratively capable, a University must have a cohort default rate of 25% or less. The current year cohort default rate was 56%. This rate was significant because of the small population of borrowers. The University reported that fourteen (14) of twenty-five (25) borrowers who had entered repayment during the prescribed period were in default. A similar finding has been reported in previous audits.

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

Response

The University is liquidating the Federal Perkins Loan Program and no longer offering loans to students. All existing loans will be assigned to the U. S. Department of Education. Every effort will be made to complete this process by June 30, 2009. Additionally, the following procedures are in place to insure compliance with the due diligence collection requirements:

- The University utilizes an outside agency, Campus Partners, to service the Perkins Loan Program to insure billing and due diligence.
- Past due accounts are routinely submitted to collection agencies.
- The University participates in the State of Arkansas tax offset program which permits the submission of delinquent accounts to the Department of Revenue and Administration.

Anticipated Completion Date: June 2009

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**08-520-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Workforce Education – Arkansas Rehabilitation Services**
CFDA NUMBER(S):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States**
QUESTIONED COSTS:	**None**

ELIGIBILITY - The Agency did not have appropriate internal controls to ensure client eligibility is determined within sixty (60) days of submission of an application as required by the Code of Federal Regulations for Vocational Rehabilitation Services (34 CFR 361.41). The regulations allow the deadline to be extended if there are exceptional and unforeseen circumstances and the counselor and the individual both agree to the extension. An analysis of the Arkansas Rehabilitation Integrated Management Information System (ARIMIS), the electronic system used to track client files, revealed 444 out of 1,098 or 40% of the case files in the application status exceeded the 60 day requirement.

Our review of 147 case files that exceeded the 60 day requirement confirmed that the Rehabilitation Counselors did not make an eligibility determination in accordance with program regulations. Additionally, the Agency's District Managers were not receiving case status expiration reports from ARIMIS necessary to monitor counselor caseloads and determine compliance. Failure to comply with program requirements could result in potential clients not receiving services in a timely manner.

This finding impacts grant #H126A080004.

We recommend the Agency develop appropriate internal controls to ensure client eligibility is determined in compliance with federal regulations so that client services can be provided in a timely manner.

Response

The Agency agrees with the finding that ARIMIS system prompts and reports were insufficient for monitoring of case status time frames by managers and counselors and the Agency has taken immediate corrective action to remedy the problem. Beginning in January 09, counselors and managers must follow up on those cases exceeding established times frames by implementing corrected updates and/or corrective action.

The ARIMIS system had been modified to provide reminders of the need for updates. Moreover, case expiration notification alerts have been installed into the ARIMIS system and case management policy requires district managers to review the expiration reports weekly.

Currently, the Agency IT team has begun the process of reviewing commercial vocational rehabilitation case management system applications and plans to prepare an RFP for purchase of a comprehensive system that will address all aspects of case management and monitoring.

Anticipated Completion Date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER:	**08-645-04**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**93.069 - Public Health Emergency Preparedness**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT - The Agency failed to reconcile cash draws to actual expenditures and as a result, a cash draw representing invoices totaling $100,644 was duplicated. The Agency is required by 45 CFR 92.21 to minimize the time between the draw of federal funds and the disbursement of those funds. Upon being notified of this error during the audit, the Agency reduced a subsequent draw for the grant so that the total costs charged to the grant were appropriate. Failure to comply with cash management requirements could cause excessive cash balances to be retained by the Agency.

This finding impacts grant #5U90TP616974-08.

We recommend the Agency establish controls to ensure that cash draws are made only for the immediate needs of allowable costs.

Response

The Department's Funds Management Section of the Office of Finance has established the following procedure: Prior to drawing funds and posting to AASIS each day, the supervisor compares the daily cash needs in AASIS to cash draws from federal grantors ensuring funds are requested only for the current day's requirements. The Banking Operations Section of the Office of Finance has established the additional procedure of reconciling cash draws to expenditures per the AASIS ZWarrant Detail on a bi-weekly basis and works closely with the Funds Management Section to insure cash draws are based on immediate needs of allowable cost, as authorized by 45 CFR 92.20.

Anticipated completion date: Began July 2008 and on going

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER:	**08-645-05**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER:	**93.268 - Immunization Grants**
QUESTIONED COSTS:	**$3,098**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - Adequate internal control procedures, including lack of supervisory review, were not in place to ensure that expenditures charged to the 2007 grant were obligated and liquidated within the period of availability parameters. The 2007 grant stipulates that expenditures must be obligated prior to December 31, 2007 and liquidated by March 31, 2008. Our testing of twenty-five (25) expenditure transactions revealed that ten (10) transactions totaling $3,098 were obligated after the end of the obligation period. Additionally, three (3) of those transactions, which totaled $1,472, were paid subsequent to the end of the liquidation period. Failure to comply with the requirements could lead to unauthorized expenditures.

This finding impacts the 2007 grant #5H23IP622523.

We recommend the Agency strengthen internal controls to ensure expenditures charged to grants are obligated and liquidated within the period of availability parameters.

Response

The Department has implemented procedures for liquidation timeframes related to personnel, purchasing and payables transactions. Department personnel continue to monitor transactions for appropriate use of funding codes. 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 grant close out period have been implemented. Individual training and technical assistance has occurred and will be ongoing. Future period of availability issues are expected to be significantly minimized.

Anticipated completion date: Began July 2008 and on going

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER:	**08-710-04**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program** **(Aging Cluster)**
QUESTIONED COSTS:	**None**

MATCHING, LEVEL OF EFFORT, EARMARKING - The Agency failed to adequately train staff responsible for the level of effort calculation. In accordance with 45 CFR 1321.49, "the State agency…shall spend under the State plan for both services and administration at least the average amount of State funds it spent under the plan for the three previous fiscal years." The level of effort amount being disclosed annually to the Regional Administrator of the Administration on Aging could not be recalculated and the Agency could not provide documentation to support the calculation. Failure to accurately calculate level of effort could reduce the Agency's allotment for services.

This finding impacts grants #07AAART3SP and #08AAART3SP.

We recommend the Agency develop internal controls to ensure the level of effort calculation is accurate, properly documented and in accordance with 45 CFR 1321.49.

Response

States must spend, "at least the average amount of State funds it spent under the plan for the three previous fiscal years." For reporting purposes, States are only required to show they meet the minimum required amount. DAAS will calculate the minimum required amount each year and report the previous 3 year's average

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER:	**08-710-05**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program** **(Aging Cluster)**
QUESTIONED COSTS:	**$26,814**

MATCHING, LEVEL OF EFFORT, EARMARKING - The Agency failed to adequately monitor earmarking requirements for State administrative expenses and area plan administrative costs for grant award 07AAART3SP. In accordance with 42 USC 3028(b)(2)(A), the State's administrative expenses are "...the greater of 5 percent of the allotment to a State under section 3024(a)(1) of this title or $500,000." The Agency exceeded this allowance by $17,495.

In addition, 42 USC 3024(d)(1)(A) stipulates that administrative costs for area plans be calculated "from any State's allotment, after the application of section 3028(b) of this title, under this section for any fiscal year such amount as the State agency determines, but not more than 10 percent." The Agency exceeded this allowance by $9,319.

We recommend the Agency strengthen internal controls to provide adequate monitoring of earmarking expenditures to ensure allowances are not exceeded.

Response

Legislative audit included Ombudsman Program (PKX) expenses with the Division's AoA Administrative (9VX, SHX, NZX) expenditures. Administration on Aging considers the Ombudsman program a service and should be calculated separately from the 5%/$500,000 rule. Removing the $53,879.04 of expenditures for PKX brings administrative expenditures well below the maximum allowance. The ruling from AoA has been forwarded to Legislative Audit.

Legislative audit did not compute grant award for Title IIID (PJX) and Title IIIE (PMX) when figuring available funding for Area Plan administration; however, Title IIIE administrative expenditures were included in the Actual Federal Area Plan Administration. Removing the $125,371 of expenditures for PMX brings DHS well within the maximum area plan administrative allowance.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-06**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.044 - Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers** **93.045 - Special Program for the Aging_Title III, Part C_Nutrition Services** **93.053 - Nutrition Services Incentive Program** **(Aging Cluster)**
QUESTIONED COSTS:	**Unknown**

REPORTING - The Agency submits SF-269, Financial Status Reports and SF-272, Federal Cash Transaction Reports to the federal grantor quarterly, as required by 45 CFR 92.41. However, lack of appropriately trained accounting staff led to the expenditures reflected in those reports for several grant awards not being supported by the Agency's cost allocation system. In addition, the Agency could not provide reconciliation from the federal financial reports to the cost allocation reports. Failure to reconcile reports leads to inaccurate reporting of program activity to the federal grantor agency.

This finding impacts grants #07AAART3SP and #08AAART3SP.

We recommend the Agency develop internal control procedures to ensure that submitted financial reports are supported by the expenditures recorded in the cost allocation system.

Response

Due to the fact that DHS uses a Cost Allocation Plan approved by the DHHS-Division of Cost Allocation, expenditures will not match AASIS. DHS considers our cost allocation system a part of our official accounting system. Grant expenditures should match the Cost Allocation Reports.

A recent directive has been issued and procedures have been implemented that require submission of all Quarterly Reports to the Grants Management Controller/Assistant Controller. The reports along with the reconciled supporting documentation will be reviewed prior to submission of the report to the Cognizant Federal Agency. A dated copy of each report, approved as indicated by signature, and all documentation will be maintained by the Controller/Assistant Controller.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-07**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.558 - Temporary Assistance for Needy Families**
QUESTIONED COSTS:	**Unknown**

CASH MANAGEMENT - Documentation supporting cash draws for the first three quarters of the fiscal year was not made available to the auditor. 31 CFR 205.29(b) requires that records supporting the Treasury-State agreement be maintained. Lack of record retention reflects a weakness in internal control over cash management. Additionally, Agency personnel were not adequately trained to ensure cash draws were made in accordance with the Treasury-State agreement. Draws for administrative cost were not bi-weekly draws coinciding with employee payroll, as prescribed per the agreement. Instead, they were made daily, which resulted in the noncompliance.

Failure to request funds in accordance with the procedures established in the Treasury-State agreement can lead to denial by the U.S. Treasury of payment or credit for the resulting Federal interest liability as stated in 31 CFR 205.29(d).

This finding impacts grants #G-0301ARTANF, #G-0401ARTANF and #G-0501ARTANF.

We recommend the Agency strengthen internal controls to ensure proper maintenance of documentation supporting cash draws and to promote better adherence to the Treasury-State Agreement.

Response

Management was not made aware of the request for the documentation supporting the cash draws. Upon receiving draft findings, all information was collected and provided to Legislative Audit.

DHS agrees that the CMIA agreement was not followed during the entire period of the audit. Internally discussed changes to the agreement were implemented prior to approval of the new technique. A copy of the agreement has been provided to the Grants Staff and reviewed to ensure requirements of the agreement are known by staff and they have been instructed to follow those requirements.

The 2009 Treasury State Agreement as amended was received on February 4 reflecting a change in the techniques for Administrative draws to daily Actual Costs to cover the items ready to pay. A directive was issued on 2/19/2009 instructing all staff be provided another copy of the current Agreement along with additional training occurring on 2/23/2009 to help ensure requirements of the Agreement are followed as required.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-08**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**Unknown**

ALLOWABLE COSTS/COST PRINCIPLES - Between July 1, 2007 and November 30, 2008 the Division of Child Care and Early Childhood Education identified 59 possible cases of provider overpayments or fraud totaling $29,551. The Agency also identified 343 possible cases of client overpayments or fraud totaling $525,952. These instances of noncompliance were determined using the eligibility criteria outlined in the State Plan. Failure to report changes in client eligibility criteria and/or misrepresentations of client eligibility status have caused these overpayments. The Agency made childcare payments to 1,295 providers on behalf of 12,790 case-heads from this program during the fiscal year ending June 30, 2008. Additional investigations and review for many of these cases are still ongoing.

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

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 fraud caseload.

Response

The Division of Child Care and Early Childhood Education has reviewed the schedule provided by Legislative Audit detailing the possible client overpayments and fraud referenced above. It should be noted that the schedule in question was incomplete at the time of their review, due to a staffing vacancy. No programmatic deficiencies occurred as a result of this vacancy, but there was a lag in posting new data to the monitoring schedule. We have reviewed the updated data and make the following comments:

For the period under review the Division processed $72,999,202 in voucher childcare services. The actual proven fraud for the period was $32,730 representing .04% of the total funds processed while total proven and/or possible fraud for the period was $143,113 representing .20% of total funds processed. Total possible fraud or overpayment represented only .65% of the total program.

The Division of Child Care and Early Childhood Education considers the information detailed above to be necessary to provide proper perspective for judging the prevalence and consequences of the questioned costs noted as required by the Circular A-133 Compliance Supplement of the Office of Management and Budget. We consider the figures detailed above to be evidence of the efficacy of the internal control structure currently in place. The Division, in concert with Northrop Grumman, has been working on an additional internal control modification linking other state government databases to the KIDCare system in an effort to further reduce overpayments by flagging changes in client status affecting eligibility. This change will allow overpayments, which would otherwise not be discovered until the client reauthorization process is due, to be addressed in real time. We believe this linkage will have a meaningful impact on client overpayments.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-09**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT - The Agency did not have adequate internal controls in place for the majority of the fiscal year ended June 30, 2008 that would ensure that drawdowns were made in accordance with the Treasury-State agreement. 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.

Additionally, failure to reconcile expenditures to federal draws in a timely manner and inadequate communication regarding transfers from the Temporary Assistance for Needy Families program has led to federal funds totaling $3,491,638 being drawn prior to their expenditure.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to request funds in accordance with the procedures established in the Treasury-State agreement can lead to denial by the U.S. Treasury of payment or credit for the resulting Federal interest liability as stated in 31 CFR 205.29(d).

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

We recommend the Agency strengthen internal controls to ensure that the proper reconciliations between CCDF expenditures and CCDF cash draws are made in a timely manner.

Response

DHS agrees that the CMIA agreement was not followed during the entire period of the audit. Internally discussed changes to the agreement were implemented prior to approval of the new technique. A copy of the agreement has been provided to the Grants Staff and reviewed to ensure requirements of the agreement are known by staff and they have been instructed to follow those requirements.

The Division of Child Care and Early Childhood Education changed eligibility requirements during SFY2008 resulting in a need for additional funding. Federal regulations allow transfers up to 30% of the current year TANF award to the Child Care and Development Fund (CCDF). DHS management negotiated a transfer of TANF funds with the Department of Workforce Services and $5 million was transferred to DHS to be used in the CCDF program. This program allows two year for obligation of the funds and one additional year for liquidation. The calculation of $3,491,638 includes this transfer.

The 2009 Treasury State Agreement as amended was received on February 4 reflecting a change in the techniques for Administrative draws to daily Actual Costs to cover the items ready to pay. A directive was issued on 2/19/2009 instructing all staff be provided another copy of the current Agreement along with additional training occurring on 2/23/2009 to help ensure requirements of the Agreement are followed as required.

New positions (Controllers and Assistant Controllers) have been created in the department to assist with the reconciliation of expenditures to cash draws.

Anticipated completion date: Completed

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-09 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**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**

Response (Continued)

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

FINDING NUMBER:	**08-710-10**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
QUESTIONED COSTS:	**Unknown**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS - 42 USC 9858 states discretionary funds must be obligated by the end of the succeeding year after award, and expended by the end of the third fiscal year after award. The lack of training of appropriate personnel reading expenditure coding has lead to separate grant-year awards not correctly identified in AASIS. As a result, disbursement activity could not be associated with specific grant-year awards and we were unable to determine if an obligation for a disbursement was within the period of availability parameters.

This finding impacts grants #G-0501ARCCDF, #G-0601ARCCDF, #G-0701ARCCDF and #G-0801ARCCDF.

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

Response

DHS agrees that disbursement activity could not be associated with specific grant-year awards in AASIS for the period in question. However, the KIDCare system does maintain service and grant year dating documentation, allowing us to properly report the disbursements at the federal level. The agency has continued to improve the aforementioned KIDCare system and a new release is scheduled for May of 2009 which ties an internal order and cost center together as a unique item appropriately reflecting costs and disbursements for applicable obligation and liquidation periods. In addition, the new internal order/cost center item concept will also pass through into the AASIS system, thereby increasing its accuracy and transparency.

As recommend, DHS requested a field in AASIS for dates of service. Currently no field is available in AASIS.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-11**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department 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**

REPORTING - The lack of training of appropriate personnel and adequate supervisory review has led to unreconciled variances totaling $445,390 between the PSC-272 reports, the ACF-696 reports, and AASIS. 45 CFR 98.67(c)(1) states that fiscal control and accounting procedures shall be sufficient to permit accurate preparation of reports ACF-696 and SF-272.

This finding impacts grants #G-0701ARCCDF and #G-0801ARCCDF.

We recommend the Agency establish proper internal control procedures that would allow for accurate and timely preparation of federal financial reports, as well as procedures allowing adequate supervisory review of the expenditure documentation supporting those reports.

Response

A recent directive has been issued and procedures have been implemented that require submission of all Quarterly Reports to the Grants Management Controller/Assistant Controller. The reports along with the reconciled supporting documentation will be reviewed prior to submission of the report to the Cognizant Federal Agency. A dated copy of each report, approved as indicated by signature, and all documentation will be maintained by the Controller/Assistant Controller.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-12**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**$1,255**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Agency failed to provide adequate supervisory review of expenses charged to the program and as a result, the following discrepancies were found during our review:

- The Agency paid vendors $1,080 for medical and educational expenses which are unallowable activities according to 42 USC 675 (4)(A).

- The Agency improperly reimbursed foster parents for transporting ineligible children totaling $175. Funds may be expended only on behalf of eligible children as noted at 42 USC 675(4).

Failure to properly review Foster Care expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency develop internal control procedures and train the applicable Agency employees to ensure only allowable costs are charged to the program.

Response

The Division of Children and Family Services agree with this finding. The Division sent a reminder email out to the area managers and financial coordinators to reiterate that medical and educational expenses are not Title IV-E eligible. The Divisional Chief Fiscal Officer also has informed the staff in the financial support unit to be diligent in their review of the agency's requisition form to check for proper coding.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-13**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Agency again failed to provide adequate supervisory review of travel reimbursements to foster parents, Agency employee's and non-state employees. The Agency addressed this issue in 2007 by notifying the travel administrators of their responsibility when approving a TR-1. The Agency's anticipated completion date for corrective action was March 14, 2008. Because the anticipated completion date was nine (9) months into fiscal year 2008, two (2) separate tests were performed. The first test included twenty-three (23) travel reimbursements for the entire fiscal year. Thirteen (13) of these reimbursements had numerous exceptions and are noted as follows:

- Children meeting the criteria in 42 USC 672(a) and (b) are eligible to receive Foster Care benefits. Our test revealed:
  - Foster parents were reimbursed for transporting ineligible children in ten (10) instances. The federal portion of these costs totaled $274. Two (2) non-state employees were also reimbursed for transporting ineligible children. The federal portion of these costs totaled $254.
  - An Agency employee was reimbursed for transporting and purchasing a meal for an ineligible child totaling $44.
- In accordance with 42 USC 675(4) "reasonable travel to a child's home for visitation" is considered a maintenance payment. We noted two (2) instances where the Agency coded these payments as administrative. These costs are allowable uses of IV-E funds, but are improperly coded. Proper coding would result in a higher federal reimbursement.

Also, a review of twenty-four (24) travel reimbursements *after* the Agency's anticipated completion date for corrective action, March 14, 2008. There were numerous exceptions noted on all twenty-four (24) reimbursements as follows:

- Children meeting the criteria in 42 USC 672(a) and (b) are eligible to receive Foster Care benefits. Our test revealed:
  - Foster parents were reimbursed for transporting ineligible children in eleven (11) instances. The federal portion of these costs totaled $609.
  - An Agency employee was reimbursed for the cost of a biological parent's meal. Additionally, Agency employees and non-state employees were reimbursed for transporting ineligible children in five (5) instances totaling $225.
- In accordance with 42 USC 675(4) "reasonable travel to a child's home for visitation" is considered a maintenance payment. We noted eight (8) instances where the Agency coded these payments as administrative.
- The Agency miscalculated reimbursements in five (5) instances. These miscalculations resulted in three (3) invoices being underpaid by $112 and two (2) invoices overpaid by $43.
- One (1) reimbursement was directly charged to Foster Care but should have been allocated between several federal programs operated by the Agency. The invoice totaled $170.
- In two (2) instances, the TR-1 form did not contain adequate documentation to support the reason for travel.

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

FINDING NUMBER:	**08-710-13 (continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

Although the exceptions noted are not considered monetarily material to the Agency, lack of training of Family Services workers and adequate review of travel reimbursements are necessary to ensure that Foster Care funds are only used for allowable purposes. Improper review caused multiple errors and misuse of Foster Care funds. Failure to properly review Foster Care travel expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency establish proper internal control procedures to provide adequate review of travel reimbursement forms to ensure the expenditures are allowable uses of the IV-E administrative funds and that travel forms are properly coded as Administrative or Maintenance expenditures.

Response

The Division of Children and Family Services agrees with the above findings. Travel to a child's home for visitation is eligible to be reimbursed as a maintenance payment, but the Division has decided to code it as administration. The volume of work required to look up if a child is IV-E eligible is monumental, and foster parents are not in a position to know if a child is eligible or not, so the cost benefit rule has been applied to charge at the administration rate. DCFS would have to hire a significant number of people and charge them with just verifying whether a child is currently IV-E eligible or not, and the costs of this far outweigh the benefit to the division. Approximately 70% of children in foster care are IV-E eligible and this percentage is known as the penetration rate. If you apply the penetration rate to the maintenance federal participation percentage of 75%, approximately 52.5% of the travel would be eligible at the 75% reimbursement rate, we are currently receiving a 50% federal participation rate on the administration dollars. The Division will explore a cost allocation amendment to establish a cost pool to code all foster parent travel to, and the pool would allocation between IV-E and state general revenue based on the penetration rate.

Employee reimbursements charged directly to foster care should be eliminated as of January 14, 2009 with the implementation of the online TR-1 reimbursement system. The system supplies the correct cost center and internal order combination for each employee and does not allow the user to change.

Anticipated Completion Date: The completion date for a possible cost allocation amendment is unknown at this time.

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-14**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES - The Division of Children and Family Services utilizes procurement cards (P-Cards) as a means of purchasing necessary items for foster children such as clothing, food, and school supplies. The P-Cards are provided to Family Service Workers who have direct contact with foster children. According to 42 USC 672(a) and 42 USC 675(4)(A), "funds may be expended for Foster Care Maintenance on behalf of eligible children" which include the cost of "food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation."

The Agency failed to properly implement internal controls over procurement card purchases and as a result, six (6) of the twenty-five (25) purchases reviewed contained errors as follows:

- Agency employees made purchases for ineligible children in four (4) instances totaling $225.
- One (1) purchase exceeded the Agency-imposed maximum allowance available by $30.
- One (1) purchase was not approved by the Financial Support Unit as required totaling $17.

Although the exceptions noted are not considered monetarily material to the Agency, lack of training of Family Service workers and adequate review of procurement card purchases are necessary to ensure that Foster Care funds are only used for allowable purposes. Improper review caused errors and misuse of Foster Care funds. Failure to properly review Foster Care procurement card purchases has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency implement internal control procedures to ensure procurement cards purchases are adequately documented, reviewed and authorized.

Response

The Division has internal control procedures in place for the approval process and confirming a child is IV-E eligible before charging the IV-E grant award. An email has been sent to the area financial coordinators and the financial support unit reminding them to verify eligibility and that the necessary authorizations are received before purchase.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-15**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT - The Agency failed to establish adequate internal controls over implementation of the Treasury-State Agreement (TSA). Employees responsible for requesting draws were not provided with training concerning the TSA requirements, nor were they provided with a copy of the TSA. As a result, cash draws for payroll and administrative costs were not in accordance with the funding techniques outlined in the TSA. According to the TSA, payroll draws are to be made upon the estimated clearance technique and administrative draws are to be made based on pro-rated draws on payday. The Agency instead made bi-weekly draws based on allocated percentages of actual indirect costs. Failure to establish sound internal control practices could lead to excess Federal funds on hand at the Agency.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to cash management could result in excess Federal Funds on hand.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency provide training to employees responsible for carrying out the requirements outlined within the Treasury-State Agreement. We also recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that drawdowns are made in compliance with the agreement.

Response

DHS agrees that the CMIA agreement was not followed during the entire period of the audit. Internally discussed changes to the agreement were implemented prior to approval of the new technique. A copy of the agreement has been provided to the Grants Staff and reviewed to ensure requirements of the agreement are known by staff and they have been instructed to follow those requirements.

The 2009 Treasury State Agreement as amended was received on February 4 reflecting a change in the techniques for Administrative draws to daily Actual Costs to cover the items ready to pay. A directive was issued on 2/19/2009 instructing all staff be provided another copy of the current Agreement along with additional training occurring on 2/23/2009 to help ensure requirements of the Agreement are followed as required.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-16**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.658 – Foster Care_Title IV-E**
QUESTIONED COSTS:	**None**

REPORTING - The required financial report for Foster Care is the ACF-IV-E Quarterly Report of Expenditures. Our examination revealed that the ACF-IV-E quarterly report is not reviewed by someone other than the preparer. The Agency was unable to provide adequate documentation to verify that supervisory reviews were performed on the ACF-IV-E quarterly reports prior to submission to the federal awarding agency. Foster Care allotments are granted based on the expenditure information reported on the ACF-IV-E. Without adequate review, inaccurate expenditure information could be submitted to the federal awarding agency and as a result, allotments could be made based on inaccurate data.

This finding impacts grants #0701AR1401 and #0801AR1401.

We recommend the Agency develop internal control procedures which would clearly document that supervisory reviews have been performed on quarterly reports prior to submission to the federal awarding agency.

Response

A recent directive has been issued and procedures have been implemented that require submission of all Quarterly Reports to the Grants Management Controller/Assistant Controller. The reports along with the reconciled supporting documentation will be reviewed prior to submission of the report to the Cognizant Federal Agency. A dated copy of each report, approved as indicated by signature, and all documentation will be maintained by the Controller/Assistant Controller. In addition, the Chief Fiscal Officer of the Division of Children and Family Services will review the report prior to submission to the Cognizant Federal Agency.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-17**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.667 – Social Services Block Grant**
QUESTIONED COSTS:	**Unknown**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS – 42 USC 1397 states Social Services Block Grant funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year. New internal orders codes were applied incorrectly which caused difficulty in identifying disbursements of specific federal grant awards. As a result, we were unable to determine if an obligation for a disbursement was within the period of availability parameters.

This finding impacts grants #G0701ARSOSR and #G0801ARSOSR.

We recommend the Agency implement procedures to ensure adequate review of internal order assignment. In addition, the Agency should provide additional training to ensure employees assign the new internal order codes properly.

Response

A new internal order structure was implemented at the beginning of SFY2008. DHS agrees that some confusion did exist in the use of the new coding. The staff is continuing to learn how to monitor for specified grant periods, liquidation periods and cut off dates. There will be continued training in the use of the new internal orders. The importance of the proper grant period, liquidation periods, and monitoring transactions for accuracy is communicated to staff frequently. We will make this an agenda item for CFO meetings to ensure wide dissemination and discussions.

Anticipated completion date: Ongoing

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

FINDING NUMBER:	**08-710-18**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$19,826**

ACTIVITIES ALLOWED OR UNALLOWED/SPECIAL TESTS AND PROVISIONS – PAYMENTS MADE FOR MEDICAID SERVICES AFTER RECIPIENTS DATE OF DEATH - The Agency has implemented a process of electronically matching social security numbers (SSNs) of Medicaid recipients with SSNs of persons with a date of death recorded in the Arkansas Department of Health's vital statistics database. The Agency provides the exception listing of matched records to each county office. The county office staff is responsible for recording the date of death in Arkansas' Networked System for Welfare Eligibility Reporting (ANSWER). Through data analysis, a comparison was made of a listing of Medicaid recipients from ANSWER for state fiscal year 2008 to a listing of deceased individuals downloaded from the Arkansas Department of Health's vital statistics database by SSN and/ or name and date of birth. This comparison revealed three hundred thirty-one (331) cases where claims, totaling $19,826, were made for dates of service after the date of death. The types of claims paid varied, but the majority were for managed care capitated payments. States should ensure capitated payments are discontinued when a beneficiary is no longer enrolled for services. Deceased recipients should not be enrolled for services in the Medicaid program. Failure to enter the recipient's date of death into ANSWER in a timely manner could result in the misappropriation of Medicaid funds.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency continue to strengthen internal controls and review policies and procedures with appropriate office personnel to ensure that dates of death are accurately recorded in ANSWER and that any improper payments are corrected in a timely manner.

Response

A review of the process used to close cases for deceased persons revealed that our automated match process inserts a date of death in ANSWER for an individual once a match with the Department of Health's (DOH) Vital Statistics system indicates a death has occurred. The system also generates a Death Match report for county office staff instructing them to close the case. The majority of the records investigated were primarily SSI cases. Our county office staff cannot close SSI cases because these records are opened and closed automatically by the system from data provided by SSA.

To correct this finding the following procedures have been implemented:

1. A file of all cases found to be open for a deceased individual was provided to our contracted IT vendor, Northrop Grumman (NG). NG ran a batch job to close these records on the ANSWER system and Medicaid coverage was closed retroactive back to the Date of Death.
2. The automated process to send a matching file to DOH to determine if an individual appeared in the Vital Statistics system was modified to resend all open individuals, regardless of whether a date of death was already populated. The new process will ensure that the county office receives a match on the Death Match report until the individual's eligibility is closed.
3. In the case of SSI records, a new process has been instituted to send all records of this type to ANSWER System Support to close manually because the system will not allow a county office worker to change an SSI case. This will cease eligibility and a record will not be resent to DOH for match against Vital Statistics.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-19**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

CASH MANAGEMENT – The Agency failed to establish adequate internal controls related to cash management, and as a result, did not 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 each day during the fiscal year.

Agency employees responsible for the draws of administrative expenditures have not been properly informed and trained on the requirements of the Treasury-State Agreement and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to cash management could result in excess Federal Funds on hand.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency review the Treasury-State Agreement and strengthen internal controls to ensure that draw-downs 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

DHS agrees that the CMIA agreement was not followed during the entire period of the audit. Internally discussed changes to the agreement were implemented prior to approval of the new technique. A copy of the agreement has been provided to the Grants Staff and reviewed to ensure requirements of the agreement are known by staff and they have been instructed to follow those requirements.

The 2009 Treasury State Agreement as amended was received on February 4 reflecting a change in the techniques for Administrative draws to daily Actual Costs to cover the items ready to pay. A directive was issued on 2/19/2009 instructing all staff be provided another copy of the current Agreement along with additional training occurring on 2/23/2009 to help ensure requirements of the Agreement are followed as required.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-20**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

ELIGIBILITY - The results of testing of one hundred ninety-two (192) recipients for the proper determination of eligibility revealed the following deficiencies:

- The Agency failed to deny Medicaid coverage to four (4) clients who were not eligible for the Medical Assistance Program resulting in claims paid totaling $611. One (1) client was not eligible due to their Food Stamp case being closed after a fraud referral investigation had been conducted. New information showed that the family was over the income limit for both ARKids A and B. According to the Medical Services Policy Manual, the income limit is 100% of the Federal Poverty Level (FPL) for ARKids A and 200% of the FPL for ARKids B. One (1) client was not eligible due to non-compliance with the Office of Child Support Enforcement (OCSE). According to the Transitional Employment Assistance (TEA) Policy Manual section 2142, individuals must cooperate with OCSE unless good cause for refusal to cooperate exists. Two (2) clients were not eligible due to other insurance coverage. According to the Medical Services Policy Manual, a child is not eligible for ARKids B if the child has comprehensive group or employer-based insurance.

- The Agency failed to perform annual redeterminations of eligibility on nineteen (19) or 10% of the clients tested. 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 nine (9) or 5% of the client files tested. 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 sixteen (16) or 8% of the clients tested. 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.

- Seven (7) or 4% of the client files tested did not contain documentation such as re-evaluations, eligibility determinations, changes in coverage, or determination of resources 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.

Agency personnel indicated that the cause for the deficiencies is directly related to a large backlog of Medicaid case redeterminations, which resulted from increased caseloads of the caseworker and the lack of adequate staff. Agency personnel went on to say that this is most problematic in large county offices that experience high staff turnover. The lack of sound internal controls related to eligibility jeopardizes program resources and could lead to services being provided to individuals who are not eligible recipients.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

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

- **Redeterminations/Eligibility/Documentation**
  - Additional employees have been hired to process overdue Medicaid Re-evaluations. As a result, the number of overdue re-evaluations has greatly decreased and case accuracy has been increased.

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

FINDING NUMBER:	**08-710-20 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

Response (Continued)

- **Redeterminations/Eligibility/Documentation (Continued)**
  - Recipients of the nineteen (19) cases that did not have an annual redetermination were all sent a re-evaluation packet for completion. All of these cases have been closed for failure to return requested information to complete the re-evaluation.
  - Increased case reviews are conducted by supervisors and the Program Support Specialists to determine performance level proficiency of staff and increase case accuracy.
  - The Division's Policy Unit conducted a training session on ARKids Medicaid for the DCO Program Support field staff in November 2008. The Program Support Specialists presented the training to caseworkers and supervisors in the local DHS offices.
  - Verification of citizenship on cases that remain open has been obtained.
  - A Human Resource (HR) Hiring Specialist was employed on 02/09/09 for the Pulaski Offices to reduce the number of vacant positions. This individual's primary job functions are to interview, hire and select job applicants for placement in the Pulaski offices. This new process will expedite the hiring process and relieve supervisors to concentrate on monitoring and reviewing case actions.

- **Electronic Case Records**

  The Agency is in the process of implementing electronic case records. The first phase of the pilot, conducted in two counties, was to electronically scan documents received from clients for viewing by caseworkers. The pilot for electronic case records has proven to be a success and all objectives were met. As a result of the pilot accomplishments, the State is continuing to implement the integration of electronic documents into ANSWER, our automated eligibility system, thereby creating an electronic case record. The staff from the two pilot counties played major roles in the creation of functional requirements and improved processes. We are currently on schedule to begin statewide roll-out of electronic case records in March 2009 and expand to all counties by June 30, 2009, assuming no unforeseen circumstances affecting implementation occur.

  The following interim procedures have been implemented in Pulaski County to reduce the number of lost records and improve productivity:
  - Counties have developed tracking systems on their local server to log the transfer of cases as they are shifted from one worker and county to another for processing.
  - The following interim processes to eliminate lost information are being put into place in the Pulaski offices effective February 2009 while this new imaging process is being developed. These initiatives should improve the productivity of the Pulaski County staff.
    - A full-time employee has been stationed in the lobby of four offices to receive and route incoming information and to assist with the flow of customers.
    - Each of the Pulaski offices has implemented a process to provide clients with a receipt to verify information delivered in-person. The documents submitted by clients are logged on a spreadsheet along with information received by mail creating a tracking system.
    - A Multi-functional Device (MFD) scanning machine has been located in each of the Pulaski offices that will be connected to the network for staff to scan incoming documents to minimize the number of lost documents.

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

FINDING NUMBER:	**08-710-20 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

Response (Continued)

- **Web Based Applications**
  The Agency is continuing to make modifications to the eligibility intake system by implementing a web based application process called "ACCESS Arkansas". The implementation of functionality for clients to submit online applications for the ARKids Program is in process with the first phase (an online application) to be implemented in March 2009. The second phase will allow online annual redeterminations. Future updates will be provided in subsequent responses.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-21**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

ELIGIBILITY - The Agency's county offices failed to submit the required error response documentation within thirty (30) days to the Quality Assurance Unit to report on the findings of errors identified for three (3) of the eleven (11) tested cases. According to the Agency's Medicaid Services Policy Manual, county office personnel are to complete and submit the DCO-29 Quality Control Error Response form within thirty (30) days of receiving notice of the error found by the Quality Assurance Unit.

The Agency's county offices also failed to submit the DHHS-199 Benefit Overpayment report to the Overpayment Unit as required by the Medicaid Services Policy Manual for three (3) of the eleven (11) tested cases. The Agency's policy contains no time-frame for which submission of this report is to be completed within. Therefore, the three (3) errors noted here were for cases where a DHHS-199 report was required, but was never submitted to the Overpayment Unit.

The lack of compliance with Agency policy along with the lack of monitoring the submission of DCO-29 Quality Control Error Response forms to the Quality Assurance Unit and DHHS-199 Benefit Overpayment reports to the Overpayment Unit has put program resources at risk and could lead to overpayments being made to eligible recipients or services being provided to individuals who are not eligible recipients.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

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. This new procedure was implemented in May 2007 based on an audit finding from State Fiscal Year2006. 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 QA tracking log has been placed on the Division's Share website for accessibility to all staff for monitoring and tracking of cases routed to QA, DCO-29 processing and the associated overpayments/underpayments. The Program Support Specialists also monitor the completion of this task. The tracking log indicates the Quality Assurance Unit received DCO-29's for all cases found in error in SFY 2008. However, there were three instances where the DCO-29 was not received until 34 days instead of thirty days. The following actions will be taken to address this finding:

- By the end of SFY 09, DCO will provide additional training to staff on computing and timely submitting overpayments.
- Increased monitoring will be implemented to assure the timely submission of DCO-29's and completion of over/under payments or vendor adjustments.

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

FINDING NUMBER:	**08-710-21 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S):	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

Response (Continued)

Anticipated completion date: June 30,2009

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-22**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.777 – State Survey and Certification of Health Care Providers and Suppliers (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – The Agency is required by 45 CFR 74.52 (a)(2) to submit a PMS-272, *Quarterly Cash Transactions Report.* The report allows the federal awarding agency to monitor cash advanced and obtain disbursement information for each federal award granted to the Agency. The Agency failed to properly reconcile the PMS-272 reports to Agency records before submitting the reports to the U.S. Department of Health and Human Services' Division of Payment Management and as a result, failed to report $3,905,300 in federal expenditures.

Agency employees responsible for the reporting of federal expenditures were not properly supervised by Agency management. The lack of management oversight along with failure to allocate costs properly has led to inaccurate reporting of grant expenditures to the federal cognizant agency.

This finding impacts grants #05-0705AR5001 and #05-0805AR5001.

We recommend the Agency strengthen internal controls related to reporting requirements by developing and implementing procedures to ensure that PMS-272 reports are properly completed and reviewed before being submitted.

Response

Prior to 2008, Arkansas DHHS-Division of Health prepared the PSC-272 reports on the Title XVIII portion of federal expenditures related to CMS-435. DHS agrees that these expenditures were not reported timely in 2008. Corrections to the PSC 272 were made on the September 30, 2008 report.

A recent directive has been issued and procedures have been implemented that require submission of all Quarterly Reports to the Grants Management Controller/Assistant Controller. The reports along with the reconciled supporting documentation will be reviewed prior to submission of the report to the Cognizant Federal Agency. A dated copy of each report, approved as indicated by signature, and all documentation will be maintained by the Controller/Assistant Controller.

Anticipated completion date: Completed

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

FINDING NUMBER:	**08-710-23**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – The Agency failed to provide adequate reconciliation of the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program* report to the Agency's cost allocation system before submitting the report to the Centers for Medicare and Medicaid Services (CMS) for all four (4) quarters of State fiscal year 2008. As a result, we were unable to determine if the Agency complied with 42 CFR 430.30 (c)(2) which states the "report is the State's accounting of actual recorded expenditures."

The Agency also failed to submit the CMS-64 report within thirty (30) days after the end of the quarter for all four (4) quarters of State fiscal year 2008. According to 42 CFR 430.30 (c), the CMS-64 reports are required and are to be submitted within thirty (30) days after the end of the quarter.

Agency employees responsible for the reporting of federal expenditures have not been properly informed and trained on the reporting requirements of the CMS-64 report and have not been properly supervised by Agency management. Failure to maintain adequate internal controls related to reporting could lead to inaccurate reporting of grant expenditures to the federal cognizant agency and could result in misuse or misappropriation of federal monies.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency strengthen internal controls related to reporting requirements by developing and implementing procedures that ensure that CMS-64 reports are properly prepared, reconciled, reviewed, and submitted to the Centers for Medicare and Medicaid Services (CMS) within thirty (30) days after the end of the quarter.

Response

During the 86th General Assembly, the Division of Administrative Services requested and received an additional 14 positions to improve the accounting function at DHS. Five of these positions (two Controllers and three Assistant Controllers) were assigned to Managerial Accounting and have been filled. One Controller has been assigned the specific duty of reconciliation of the CMS 64. On February 10, 2009, staff personnel completing the CMS 64 report along with the Controller attended formal training provided by CMS. This training included instruction on completion and submission of the CMS 64 report. Effective 2/23/09, the administrative portion of the CMS 64 has been reconciled. Reconciliation of the program portion is currently in process.

A new document is being developed to track due dates as well as report submission dates. This will be reviewed by management on a monthly basis.

Anticipated completion date: Training is complete, reconciliation ongoing.

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

FINDING NUMBER:	**08-710-24**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$18,633**

SPECIAL TESTS AND PROVISIONS – PAYMENTS MADE FOR MEDICAID SERVICES AFTER RECIPIENTS INCARCERATION DATE - According to section 1348 of the DHS Medical Services Manual, inmates of public institutions are not eligible for Medicaid. This is in compliance with 42 CFR 435.1009, which states that Federal Financial Participations (FFP) is not available for expenditures paid for services provided to inmates of public institutions. The Agency has implemented a process of electronically matching Medicaid recipients with inmates of state correction facilities based on social security numbers (SSNs) and/or name and date of birth. However, at this time, matches are not reviewed by the county offices due to the amount of time that it takes to investigate the matches. Through data analysis, a comparison was made between a listing of recipients from Arkansas' Networked System for Welfare Eligibility Reporting (ANSWER) during state fiscal year 2008 and listings of individuals who were incarcerated during state fiscal year 2008, which were provided by the Arkansas Department of Correction and the Arkansas Department of Community Corrections, by SSN and/or name and date of birth. The comparison revealed ninety-one (91) cases where claims, totaling $18,633, were paid for dates of service during the recipients' incarceration periods.

Agency personnel indicated that the Agency was receiving a file of all inmates from both the Arkansas Department of Correction (DOC) and from the Arkansas Department of Community Correction (DCC). These files were matched against a current recipient listing to identify recipients with open cases who had been incarcerated. The Agency is still completing the match process; however, the results are not being forwarded to the county offices due to the excess workload that it causes. Failure to identify recipients who have been incarcerated in a timely manner could result in the misappropriation of Medicaid funds.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend the Agency review policies and procedures with appropriate office personnel to ensure that recipients who have been incarcerated are identified, and that their Medicaid cases are closed in a timely manner.

Response

DCO worked with the Departments of Corrections and Community Corrections to refine the data match that was originally implemented. DCO paid for changes to be made to the file and match that would result in a more reliable match, i.e., that those reported as being incarcerated were actually living in a correctional institution and not at home awaiting space in the institution. These changes did result in a higher degree of reliability (90%) but still not high enough for DCO to consider the match verified upon receipt so that additional contact or investigation was not required before county staff could take action to close the individual. Because of the workload this would cause on county staff at a time of staff vacancies and increasing caseloads, alternative methods of verifying the match results before sending them to the counties were explored. The DCO Special Investigations Unit will assume the responsibility to determine if the client is actually incarcerated. Once verified, the match results will then be provided to county staff to take appropriate action, i.e., send an adverse action notice of closure and close the case at the end of the notice period.

Anticipated completion date: Completed

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

FINDING NUMBER:	**08-710-25**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS – PROVIDER ELIGIBILITY – The Agency failed to effectively monitor the provider enrollment process and provider file maintenance, which is performed by Electronic Data Systems (EDS). The A-102 Common Rule and OMB Circular A-110 states that non-Federal entities, which receive Federal awards, are required to establish and maintain internal controls to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. According to 42 CFR 431.107 and 42 CFR 447.10, providers of medical services are required to be licensed in accordance with Federal, State, and local laws and regulations in order to be eligible for participation in the Medicaid program. In addition, 42 CFR 455, subpart B requires providers to make certain disclosures to the State.

The auditor reviewed the Agency's monitoring process, which includes monthly reviews of new and updated provider files, to determine if all necessary documentation was provided and keyed into the MMIS system correctly. The list of monthly review results provided to the auditor covered the period of November 2007 through August 2008. Seventy (70) provider files were selected from this time frame. The Agency's monitoring process had identified errors either in documentation maintained in the provider file or in information keyed into the MMIS system for thirty (30) of the selected providers. EDS responses and corrections to the provider file or MMIS system were only noted in eleven (11) of the thirty (30) provider files that contained errors, and these responses were not provided until September 2008 or later. Based on the above, the Agency is not performing follow-up reviews to ensure that missing documentation has been received and added to the provider's file.

In addition to the review stated above, the auditor also selected thirty (30) providers, who received payment for services during FY2008, for review of the provider files. The purpose of this review was to determine whether providers were eligible for participation in the Medicaid program and whether their file contained all of the required documentation for enrollment in the Medicaid program. The auditor identified the following deficiencies in nine (9) provider files, one (1) of which contained two (2) deficiencies:

- Eight (8) provider files 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 Nurse Practitioner license.
- One (1) provider file did not contain documentation of enrollment in the Medicare program.

The Agency did not properly inform EDS personnel on the documentation requirements for provider files and information keyed into the MMIS system, and Agency personnel did not perform follow-up reviews to ensure that missing documentation had been received and added to the provider's file. Failure to ensure that problems identified during the monthly file reviews are corrected could result in ineligible providers receiving payments from the Medicaid program for an extended period of time.

This finding impacts grants #05-0705AR5028, #05-0705AR5048, #05-0805AR5028 and #05-0805AR5048.

We recommend that the Agency review its EDS provider enrollment monitoring process and follow-up with EDS to ensure that all deficiencies identified have been corrected. Furthermore, we recommend that the Agency's supervisory staff follow-up with personnel responsible for conducting the reviews to ensure that the reviews are being conducted and that EDS responses are being received in a timely manner.

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

FINDING NUMBER:	**08-710-25 (Continued)**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER:	**93.778 – Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

Response

The Division of Medical Services is reviewing the monitoring process for provider enrollment and provider file maintenance performed by EDS and developing some changes to ensure that items identified during a review are followed-up on and corrected in a timely manner. This process is being implemented in SFY 2009.

The division has requested Form W-9 from the eight providers whose files were incomplete.

The certification for the Nurse Practitioner was on file and keyed in MMIS on 6/24/08.

Documentation of enrollment in the Medicare program is being requested for the incomplete file.

Anticipated completion date: December 2009

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

FINDING NUMBER:	**08-150-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.007- Federal Supplemental Educational Opportunity Grants** **84.032- Federal Family Education Loans** **84.033- Federal Work-Study Program** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **93.925- Scholarships for Health Professions Students from Disadvantaged Backgrounds** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

ELIGIBILITY, SPECIAL TESTS AND PROVISIONS - VERIFICATION, DISBURSEMENTS TO OR ON BEHALF OF STUDENTS, RETURN OF TITLE IV FUNDS, STUDENT STATUS CHANGES - During our testing, we noted Financial Aid Officers determine eligibility, process awards, complete verification, calculate return of funds, disburse funds and perform other procedures without review and oversight from management. Because of this, errors and noncompliance with program regulations have been noted during the audit process.

We recommend the Student Financial Aid Director implement procedures for review and oversight of the awarding process by management.

Response

The University has restructured the Student Financial Aid Office to provide additional staff and oversight as well as naming a new Director of Student Financial Aid for the University Student Financial Aid Office (not College of Medicine). All policies and procedures will be evaluated to ensure they are accurate and provide the needed structure and guidance to staff. Controls will be established to ensure federal regulations are followed according to federal guidelines. Time frames will be identified and reviewed by management to secure the proper award/disbursements of financial aid. Emphasis will be placed on oversight to affirm programs are administered according to all required regulations. All staff, including the Directors, will be evaluated periodically to ensure they are performing satisfactorily. The University of Arkansas System Office will provide additional support, training and oversight.

Anticipated Completion Date: December 2009 and Ongoing

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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-150-02**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.032- Federal Family Education Loans** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS - DISBURSEMENT TO OR ON BEHALF OF STUDENTS - During our test of forty (40) students, we noted the following exceptions:

- We noted seven (7) students representing 12 different loans totaling $84,502 in which the students' accounts were credited with the loan funds more than ten (10) days prior to the first day of class. Six (6) students' loans were processed by the College of Medicine Student Financial Aid Office and one (1) was processed by the Student Financial Aid Office for non-College of Medicine students.

- We noted six (6) students (of the seven noted above) for which the loan funds were requested more than thirteen (13) days prior to being disbursed to the students' accounts. Five (5) for the six (6) students were processed by the College of Medicine Student Financial Aid office and one (1) was processed by the Student Financial Aid office for non-College of Medicine students.

- We noted two (2) students representing 4 different loans totaling $12,726 in which the loans funds were received more than three (3) days before the funds were posted to the students' accounts. The funds were processed by the Student Financial Aid office for non-College of Medicine students.

We recommend the current Student Financial Aid staff attend training on the current compliance regulations. We also recommend that both Student Financial Aid offices develop written policies on processes to ensure compliance with regulations, proper oversight and review.

Response

The College of Medicine Student Financial Aid Office has already changed the date disbursements are requested based on the first day of classes instead of the day of registration which will correct the majority of the problems identified in this finding.

University officials will develop a training program to ensure all staff is provided needed information to perform required tasks and remain compliant. Policies and procedures will be developed and reviewed to reinforce regulations.

Anticipated Completion Date: December 2008 and Ongoing

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STATE OF ARKANSAS
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

FINDING NUMBER:	**08-150-03**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.007- Federal Supplemental Educational Opportunity Grants** **84.032- Federal Family Education Loans** **84.033- Federal Work-Study Program** **84.038-Federal Perkins Loan Program_Federal Capital Contributions** **84.063- Federal Pell Grant Program** **93.342- Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students** **93.364- Nursing Student Loans** **(Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**$66.92**

SPECIAL TESTS AND PROVISIONS - RETURN OF TITLE IV FUNDS - During our testwork, we noted 23 exceptions out of 42 sampled items as follows:

- Nineteen (19) students did not enroll in the period the loan was made and the funds were not returned to the lenders within 10 business days as required per 34 CFR 668.167(b).

- Four (4) students withdrew during the semester and the funds were not returned to the lenders within 45 days as required per 34 CFR 668.22).

We recommend the current Student Financial Aid staff attend training on the current compliance regulations. We recommend Management ensure college registrars are trained on the compliance regulations and understand the time period funds must be returned to the lenders. We also recommend the Student Financial Aid Office develop written policies on processes to ensure compliance with regulations, proper oversight and review.

Response

The University will take immediate steps to comply with the requirement to return funds timely and ensure all staff including Student Financial Aid staff and Registrars are fully aware of the requirements. Ongoing training will be provided to staff. Procedures will be developed to monitor return of funds beginning with the spring 2009 semester to enable staff to return funds in the required timeframe. All policies are currently being examined to determine where changes can best be made to facilitate compliance. The University intends to enhance its automated processes to assist with this requirement including the acquisition of ad administrative software system.

The Division of Academic Affairs has noticed through this audit that organizational changes are necessary to strengthen the Student Financial Services Department. The Division of Academic Affairs has already joined with Finance and created a new department that combines Student Financial Service and Student Financial Aid. The department has hired one director who reports both to Academic Affairs and Finance. The director will focus on strengthening controls and processes. The two closely aligned processes of determining financial aid and distributing financial aid will function as one and be strengthened by one very organized director. This will enable successful completion of all the other areas of improvement.

Anticipated Completion Date: December 2008 and Ongoing

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STATE OF ARKANSAS
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF EDUCATION

FINDING NUMBER:	**08-150-04**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**84.032 – Federal Family Education Loans (Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

SPECIAL TESTS AND PROVISIONS - STUDENT STATUS CHANGES - During our test of thirty (30) students, four (4) exceptions were noted. In all four cases, the student had a change of status that was not reported within the required time period. Three (3) of the four (4) were related to the College of Medicine students and one was a non-College of Medicine student. We also noted that SFA staff does not add students to the report who are not already listed on the NSLDS report. We noted that in one case, a student had graduated, but was still listed on the NSLDS report as withdrawn from UAMS.

We recommend the Student Financial Aid staff implement procedures to review and verify that student status changes are correctly updated and reported on a periodic basis. The verification should be documented.

Response

According to the Non College of Medicine NSLDS Enrollment Reporting Summary Report, all submissions were processed within the required timeframe. The College of Medicine staff failed to submit their data within the required timeframe. However, the guarantor/lender was notified regarding two of the four exceptions cited within the required 30 day timeframe. Policies and procedures will be established to conform to compliance regulations.

Another exception cited was the result of a student not listed on the NSLDS disbursement file. NSLDS has not been able to determine why a student that UAMS certified did not appear on their disbursement file. Submissions are now carefully monitored to detect any future NSLDS discrepancies.

Additional training will be provided to ensure staff is aware of the importance of timely reporting to NSLDS. Policies and procedures will be updated to guarantee compliance in the future. Staff will work with the Director of Academic Computing to detect any future discrepancies in submissions. Furthermore, the University plans to enhance the automated process used to complete the SSCR to facilitate accurate and timely reports.

Anticipated Completion Date: January 2009 and Ongoing

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STATE OF ARKANSAS
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**08-347-01**
STATE/EDUCATIONAL AGENCY:	**Arkansas Student Loan Authority**
CFDA NUMBER:	**84.032 – Federal Family Education Loans (Student Financial Assistance Cluster)**
QUESTIONED COSTS:	**None**

REPORTING – During the audit, we noted one bank account which had a material variance on the reconciliation. The variance had not been adjusted and recorded by management in the general ledger due to the timing of the receipt of information regarding these funds. However, the balance was controlled by the Authority and, accordingly, should be reflected on its financial statements.

We recommend the Authority implement internal control procedures to ensure all bank account activity is properly recorded in the general ledger.

Response

Facts regarding Audit Finding:
A material variance existed on a reconciliation of a particular bank account at June 30, 2008. A variance in this account has existed each month and year-end since the opening of the account in February 1981. Management and the independent auditors have been aware of this variance each month and year-end. I have discussed this variance with the independent auditors each year since I have been here. (Start date of January 2005) A joint decision has been made each year to not record the variance in the financial statements. The particular account is an "in and out" account. Payments collected by our loan servicers and loan cancellations are wired to this account on a daily basis. We receive a detailed report several business days later giving us specific information we need to post the funds to the proper bond series/trust account. The account always has un-reconciled funds in it at any given month-end or year-end. The detailed report is often pending at month-end or year-end. (At the end of a month) and at this point and we do not have the necessary information to post the payments to the correct bond series/trust account. In the past, we did not record the variance because it changes each month.

Action taken:
The decision to record the June 30, 2008, variance in the June 30, 2008, financial statement was a joint decision between our management and the independent auditors. The entry was a debit to Cash and a credit to Accounts Payable-Bond Series. We both agreed that the payments were in our possession at month-end, so they needed to be recorded.

Final Action to be taken:
Management decided, after discussions with the independent auditors, to record the variance each month during the fiscal year. The Comptroller will calculate and record the variance each month. The Chief Fiscal Officer will review the reconciliation and entry each month. Management implemented this policy effective July 1, 2008. We do not expect any findings related to this matter in subsequent years.

Anticipated Completion Date: July 1, 2008

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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING NUMBER:	**08-150-05**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**93.600 – Head Start**
QUESTIONED COSTS:	**$14,390**

EQUIPMENT AND REAL PROPERTY MANAGEMENT - During our testwork, we noted two exceptions out of two sample items (100% of population) as follows:

- One (1) out of the two (2) equipment purchases was paid for and recorded as an expense on the grant in October 2007; however, the asset has never been received. The amount paid for the asset was $14,390.

- One (1) out of the two (2) equipment purchases had an acquisition date of December 14, 2007; however, the asset was not set up in the fixed asset sub ledger until August 22, 2008, which was the next fiscal year.

- It was also noted that a laptop noted on the physical inventory exception report as being stolen, was not removed from the fixed asset system within SAP.

We recommend Management perform a detailed reconciliation of asset additions on a monthly basis to ensure corrections are identified and made in a timely manner. Assets not received can be followed up timely and expenses on the grant adjusted prior to closeout. Assets not capitalized when acquired will be identified and recorded in the proper period during this process.

Response

The expenditure has been transferred from the grant period in question and will be recorded in the proper grant period when the van is actually received. Future transactions of this nature will be monitored very closely and followed up more stringently, and better care will be taken to ensure that the transaction is recorded in the proper grant period.

Vehicle purchases for state institutions such as UAMS must be made through the Arkansas Department of Finance and Administration (DFA). DFA's procedures for vehicle purchases include:

- receipt of a check from the applicable state institution (UAMS) before ordering the vehicle
- the UAMS check is then deposited into a holding account
- DFA then issues its own purchase order to the vendor
- DFA places the vehicle order with the vendor, and finally
- DFA issues its own check to the vendor upon receipt of the vehicle.

Within this established set of DFA procedures, an expenditure must be made by the end user before receipt (and ordering) of the vehicle. Only in rare circumstances does the DFA system fail and the vehicle does not arrive in an acceptable timeframe. The status of this order was determined on numerous occasions during the course of this anticipated transaction, but the net result is that DFA system did not produce a van for UAMS Head Start prior to the grant close-out. Many follow up calls via telephone were made to determine the status of the Purchase Order and each time the program was assured that the van would be arriving. The vendor failed to honor the Purchase Order and they did not notify the agency in a timely manner, adding to the dilemma of the delay.

A quarterly reconciliation process will be established to review all entries related to grants in the movable equipment general ledger accounts to ensure that assets are received and capitalized in a timely manner. Additionally staff from Grants Accounting and Fixed Asset Accounting will meet quarterly to analyze and discuss the reconciliation.

STATE OF ARKANSAS
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FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

FINDING NUMBER:	**08-150-05 (Continued)**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas for Medical Sciences**
CFDA NUMBER:	**93.600 – Head Start**
QUESTIONED COSTS:	**$14,390**

Response (Continued)

Anticipated Completion Date: January 2009

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