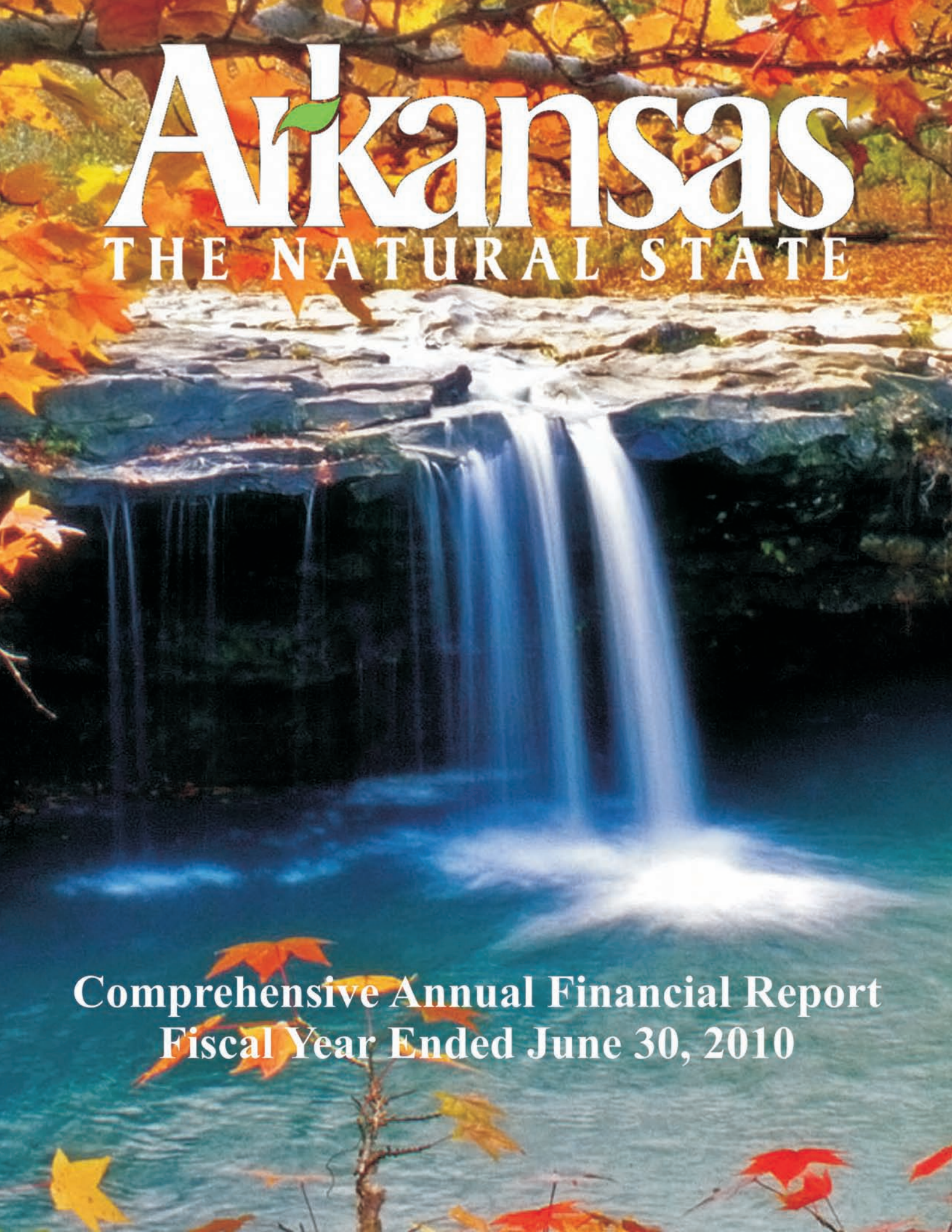

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2010

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

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 Arkansass Department of Parks and Tourism. The photograph of Governor Mike Beebe is courtesy of the Governor's Office.

The photograph on the cover is of Falling Water Falls at Richland Creek in the Ozark National Forest.

Governor Mike Beebe

STATE OF ARKANSAS
MIKE BEEBE
GOVERNOR

December 22, 2010

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 demonstrates our commitment to accurate and timely financial reporting. The financial statements and accompanying disclosures provide detailed information about Arkansas's financial status to the national credit markets on an annual basis.

I am pleased to report that the Fiscal Year 2009 CAFR received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The State has received this prestigious award twelve 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, 2010

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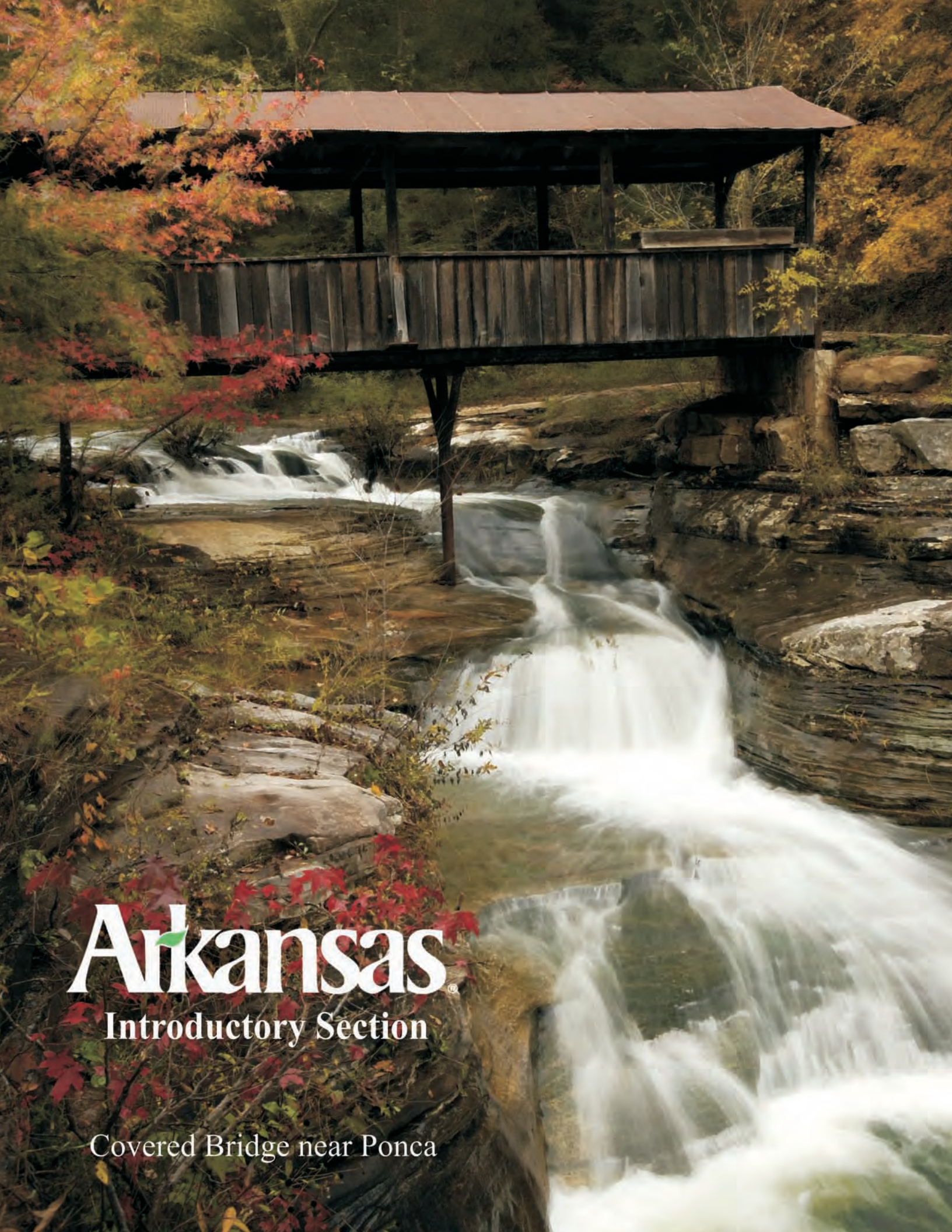

Arkansas®

Introductory Section

Covered Bridge near Ponca

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

STATE OF ARKANSAS
Department of Finance
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December 22, 2010

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, 2010.

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, 2010. 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 auditor.

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 2.9 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 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.

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 nationwide economic downturn, Arkansas has continued to attract new businesses. Wind turbine manufacturer Mitsubishi Power Systems Americas, Inc.; Allied Wireless; HVAC manufacturer Airtherm; automotive supplier Saint Jean Industries; manufacturer of major steel component for wind turbines, Beckmann Volmer; manufacturer of highly conductive, ultralite ceramic proppants OxFrac™ and OxBall™, Oxane Materials, Inc.; as well as Evergreen Packaging; A Briggs Passport and Visa Expeditors; DAD'S Pet Care, REXAM; and Welspun Corp, LTD are some of the corporations that took action to locate or expand facilities in Arkansas during fiscal year 2010.

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, 22 businesses have signed financial incentive agreements with the State, bringing in a total investment of $68.1 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 $94.762 billion in fiscal year 2010. This represented an increase of $1.135 billion or 1.2 percent over fiscal year 2009.

Fiscal year 2011 is estimated at $98.269 billion (current dollars), an increase of $3.506 billion or 3.7 percent over fiscal year 2010.

Arkansas Wage and Salary Disbursements: Measured in current dollars, wage and salary disbursements fell to $44.097 billion in fiscal year 2010, a decrease of $352.7 million or -0.8 percent over fiscal year 2009.

Fiscal year 2011 is estimated at $45.217 billion (current dollars), an increase of $1.120 million or 2.5 percent from fiscal year 2010.

Employment: In fiscal year 2010, wage and salary employment in Arkansas fell to 1,158,170 jobs. This represented a decrease of 33,510 jobs or -2.8 percent compared to fiscal year 2009. In fiscal year 2011, wage and salary employment is expected to average 1,165,680 jobs. This represents a projected increase of 7,510 jobs or 0.6 percent from fiscal year 2010.

Fiscal Year 2010 Net Available General Revenues: Actual net available general revenues collected totaled $4,323.1 million. The net available distribution was $111.6 million or -2.5 percent below the net available distribution of fiscal year 2009. The general revenue distribution in fiscal year 2010 included a one-time transfer of $61.0 million from the Revenue Allotment Reserve Fund and a one-time deposit of $10 million from Unclaimed Property proceeds.

Fiscal year 2011 net available general revenue collections are estimated at $4,478.9 million, an increase of $155.8 million or 3.6 percent from fiscal year 2010.

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 Educational Adequacy Fund to provide an adequate education system. In fiscal year 2010, $411.3 million was distributed to the Education Adequacy Fund, with the fiscal year 2011 distribution estimated to be $429.1 million.

American Recovery and Reinvestment Act: On February 13, 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009. Four days later, the President signed the legislation into law. The Recovery Act's three main goals are: create and save jobs, spur economic activity and invest in long-term economic growth and foster unprecedented levels of accountability and transparency in government spending. The state of Arkansas is expected to receive $3.17 billion in one-time additional federal revenues, as administered by the state government, over the life of the Recovery Act. As of June 30, 2010, the state of Arkansas has received $1 billion in ARRA funds. The Recovery Act requires states like Arkansas meet unprecedented standards for accountability and transparency in tracking where and how Recovery Act funds are spent. Much of the funding made available to Arkansas must flow through existing federal programs, which limits where and how these funds can be used. Where possible, the state government has invested funds in projects and initiatives that will lay the groundwork for future economic growth in Arkansas.

Department of Workforce Services: The primary impact to the Department of Workforce Services (DWS) in regards to ARRA in fiscal year 2010 was in the Unemployment Insurance Program. The ARRA established or extended several programs to aid unemployed Arkansans to include the $25 Federal Additional Compensation program, the Emergency Unemployment Compensation 08 program, the Extended Benefits program and the Unemployment Insurance Modernization Benefits and Administration program. With the exception of the Extended Benefits program and the Unemployment Insurance Modernization Benefits program, all other ARRA programs were extended through most of fiscal year 2010. Other DWS programs impacted by the ARRA were the Workforce Investment Act program, which received additional funding for Youth, Adult and Dislocated Worker services, the Wagner-Peyser Employment Service program, the Re-employment Service program, which provides employment related services to unemployed Arkansans, and the Temporary Assistance for Needy Families program, which will benefit from the extension of supplemental funding that was set to expire at September 30, 2010.

Department of Education: The Arkansas Department of Education (ADE) received and distributed to the local education agencies $254 million of ARRA funding during the 2010 fiscal year, in addition to almost $1 million distributed during the latter part of the 2009 fiscal year when the funds first became available.

Total formula-based ARRA funding allocated for use by the local education agencies before September 30, 2011 will amount to approximately $622 million. (For comparative purposes, the total amount of non-ARRA Federal funds received in fiscal year 2009 was $492 million and in fiscal year 2010 was $462 million.) The majority of the ARRA funds to be distributed by the ADE are allocated to local education agencies by formula and must be used for the following purposes: improving academic performance for underperforming students in accordance with Title I guidelines ($111 million); providing additional special education and related services to students with disabilities ($118 million); and creative and innovative projects leading to academic achievements for all students, including enhancements to existing programs and new construction, modernization, renovation and repair of education facilities ($341 million).

In addition to the formula-based funds, other ARRA funds are made available to the states on a competitive basis. These include $34 million in school improvement grants available for low-performing schools, $7.1 million in education technology grants, $1.2 million in school lunch equipment grants, and $645,000 in grants to school districts to serve homeless children. A grant for use at the State Education Agency level in the amount of $9.8 million was received for the purpose of improving statewide data systems. Other competitive grants for which award amounts are not currently available include Race to the Top funding (targets improved graduation rates and enhanced preparation for post secondary education) and Education Jobs Funding (purpose is to save and create education jobs).

Department of Highway and Transportation: Since ARRA became law in February of 2009, the Arkansas State Highway and Transportation Department has utilized $421 million in funding to improve 296 miles of highways. The improvements come as the result of 130 projects to date.

Department of Human Services: Since ARRA became law in February of 2009, the Department of Human Services (DHS) received $526 million dollars to help stimulate the economy and to support the increased demand in social services. Because of this infusion of funding, DHS was able to shore up the budget demands in Medicaid as well as invest in systems transformation. Core automation projects such as document imaging and electronic health records will be completed much sooner than originally expected. Other reform measures in child welfare and juvenile justice have also been expedited by this funding.

Department of Finance and Administration - Office of Child Support Enforcement: The Office of Child Support Enforcement (OCSE) was able to use the funding provided through ARRA in fiscal year 2010 to begin an Information Systems project that focused on the following primary objectives:

1) Electronic Case Management-Green Initiative – to minimize the manual paper files that are created as a by-product of the child support enforcement workflow and to increase the efficiency of the Arkansas Child Support Information System in support of the child support enforcement casework.

2) Customer Service Website Project – to increase communication between OCSE and its customers, improve security processes, reduce the cost and effort of the state by sending and receiving forms electronically and increase the efficiency of the Arkansas Child Support Information System application in its support of case work.

3) Ease of Use / Americans with Disabilities Act (ADA) Compliance – to maximize the usability of the Arkansas Child Support Information System including increased usability by taking advantage of the new features provided in Internet Explorer 8, enabling users to maximize the Arkansas Child Support Information System windows to take advantage of the entire width of the 22" monitors.

4) Distribution of Child Support Collections – to increase the efficiency of the current distribution processes and minimize the number of exceptions and holds. In addition, the tasks in this project will simplify the distribution process, making the logic easier for the user to understand. As the project reduces the number of exceptions and holds, this will in turn streamline the flow of collections from the state disbursement unit to the customer and lessen the amount of time spent by field staff in handling the collections manually.

Arkansas State Police: The Arkansas State Police (ASP) was the recipient of $3.643 million from ARRA funds during 2010.

Of that amount, $3.5 million was used to purchase a new ASP helicopter. The new helicopter increases the number of missions ASP can accept to protect life, health and safety for the benefit of Arkansas citizens. ASP's capacity to respond to missions to fight crime, assist victims, search for missing persons and provide life-saving capabilities during critical incidents has been greatly enhanced with the acquisition of the new helicopter.

The remaining $143 thousand primarily funded three new investigator positions in the Internet Crimes Against Children Division. The project is crucial to ASP's ability to develop effective responses to online enticement of children by sexual predators, child exploitation and child obscenity/exploitation cases.

Department of Information Systems: The Department of Information Systems (DIS) received ARRA funding to increase the reliability of the Arkansas Wireless Information Network (AWIN). The amount expended during fiscal year 2010 totaled $1 million with a projected total grant award of $5.5 million, of which the majority of funds will be expended in fiscal year 2011.

The ARRA funds are being used to implement central call processing equipment for AWIN, upgrade the AWIN operating system and add capacity to AWIN. Voice traffic on AWIN is controlled by call processing equipment located at ASP Headquarters and DIS. In the event of failure at either of these locations, one half of the sites on AWIN revert to local traffic only with no statewide call processing capability. Of the $5.5 million above, $4.1 million is for the installation of additional controller equipment at the Arkansas Department of Emergency Management (ADEM) compound at Camp Robinson. The upgrade to the AWIN operating system consists of a software upgrade to the call processing equipment. Of the $5.5 million in ARRA funds, $650 thousand will go towards the system upgrade. Finally, capacity has been added to the remote AWIN sites that serve the central Arkansas metropolitan area to help ease the call congestion that can occur during high traffic hours. ARRA funding for this project is $750 thousand. These three ARRA projects will help to significantly increase the reliability of the AWIN system.

Department of Correction: The Arkansas Department of Correction (DOC) was awarded $4 million in ARRA funds, which was used to implement energy efficiency projects including replacement of old inefficient lamps/ballasts with more energy efficient lighting, as well as replacement of old HVAC systems with more efficient units at the Tucker, Wrightsville, Varner and Cummins Units. The lighting retrofits and HVAC upgrades identified qualified DOC to receive a rebate of $119 thousand from Entergy Arkansas's Large Commercial and Industrial Incentive Program that seeks energy savings in peak demand times. In addition, these improvements are projected to save DOC up to $700 thousand in annual energy costs.

Arkansas Rehabilitation Services: The Arkansas Rehabilitation Services was the recipient of $1.2 million in ARRA funds. The funding is being used to provide independent living services for individuals with disabilities. Funding is also being used in vocational rehabilitation services to states for new client software packages, new healthcare manager system software, as well as obtaining updated computers and related hardware to allow for adaption of systems in the central office, as well as out in the twenty offices throughout the state. The Vocational rehabilitation services hospital is also undergoing extensive renovation and the ARRA grant has provided for architectural services to manage the construction project.

Military Department: The State Military Department received an estimated $12.8 million in stimulus funding from ARRA. The majority of this money was used to fund needed renovations and updates to energy management control systems for several buildings and armories located on Camp Robinson and Fort Chaffee. In addition to the updates, lighting was renovated in several barracks, hot water heaters replaced and windows were replaced at Truman Hall. To date the stimulus package has provided funding for an estimated 41 projects some at 100% funding, while others provided 75% with 25% state funding. ARRA enabled the military department to accomplish these necessary projects in a much timelier manner.

Arkansas Natural Resources Commission: The Arkansas Natural Resources Commission (ANRC) was the recipient of $25.6 million in ARRA funds for the U.S. Environmental Protection Agency's Clean Water State Revolving Fund (CWSRF) program and $24.5 million in ARRA funds for the Drinking Water State Revolving Fund (DWSRF) program.

The CWSRF base program provides below market interest rate loans to qualifying entities for wastewater projects. The DWSRF base program provides below market interest rate loans to qualifying entities for water projects. The ARRA funding included new types of funding (additional subsidization) and new types of projects eligible for funding (Green Project Reserve). The subrecipient, their construction contractor and consulting engineer were required to comply with federal requirements that were not part of the base program (Buy American and Davis-Bacon). ARRA also required that entities receiving the funding sign a construction contract for the work within one year of enactment of ARRA (February 17, 2010).

ANRC was able to solicit for projects, complete all required reviews, bid the projects, close the loans and sign the construction contracts for all of the ARRA funds within the February 17, 2010 deadline. There are six wastewater projects receiving funding from the CWSRF (Batesville, Little Rock, Newport, Prairie Grove, Siloam Springs and U of A) and seven DWSRF projects (Buffalo Island RWD, Central Arkansas Water, Cotton Plant, East Prairie Co WA, Franklin Sebastian PWA, Glenwood and Hot Springs) receiving funding.

Arkansas Agriculture Department: The Aquaculture Division of the Arkansas Agriculture Department received $7.8 million of ARRA funding to assist aquaculture producers in recovering from losses associated with high feed costs during the 2008 calendar year. Previously, a number of catfish operations have exited the business since the department administered a similar program for catfish in 2007. This program extended to baitfish, goldfish, tilapia, hybrid, striped and largemouth bass, as well as catfish. This input of funding from ARRA grants helped Arkansas's aquaculture to begin to revitalize. It was determined that there were 65 jobs created and 255 jobs retained within the state's aquaculture industry in rural Arkansas.

The Forestry Commission (Forestry) received $3.6 million to reduce wildfire risk in north Arkansas. The funds allowed Forestry to contract for single engine air tankers, which dropped water on 46 wildfires that threatened 161 structures. Firefighting equipment was purchased for 285 volunteer fire departments. Arkansas Forestry Commission contracted with 11 private foresters who worked with 93 landowners to reduce wildfire hazard. This work included installing over 10 miles of fire lanes, reducing forest slash on 2,662 acres and prescribed burned 1,357 acres. Forestry conducted 16 wild land firefighting courses for fire departments. Six "tractor/plow units" (firefighting bulldozers with transport trucks) were purchased for Forestry Commission use.

Department of Finance and Administration's Office of Intergovernmental Services: The Office for Victims of Crime (VOCA) and the Office on Violence Against Women (STOP) made available $2.1 million (*excludes administrative funds*) in formula grant funds through ARRA. The funds enabled the Victims Justice Assistance to increase services to victims of crime by funding eight new subgrant organizations and to enhance/expand the services of 17 existing subgrant organizations. Services funded through ARRA began at the end of fiscal year 2009 and will continue until March 2011.

The ARRA Justice Assistance Grant (JAG) Program supported the cost of operations of 19 multi-jurisdictional Drug Task Forces (DTFs) throughout the state of Arkansas. These DTFs are specially equipped to conduct overt and covert operations aimed at decreasing drug trafficking and illegal drug abuse. So far ARRA JAG has been used to fund over 160 local and state-level projects.

The Arkansas Department of Finance and Administration's Office of Intergovernmental Services (DFA-IGS) is responsible for managing the ARRA State Fiscal Stabilization Fund-Government Services Fund formula grant for the Office of the Governor. Out of the $80.8 million Arkansas received for the program, which may fund public safety and other government services, including support for local education agencies (LEAs) and institutions of higher education (IHEs), $33.9 million is managed directly through DFA-IGS. Projects include construction, modernization, renovation, and repair projects for the Arkansas School for the Blind and Visually Impaired, Arkansas School for the Deaf, and the ACTI project for the Arkansas Department of Rehabilitation Services. Four private Universities also received funding for capital improvements. Capital projects were selected based on significant energy efficiency savings and those providing solid long term investments while creating and saving jobs. There were other sub-recipients whose projects consisted of various infrastructure and community support programs.

Department of Environmental Quality: In April of 2009, the Air Division of the Arkansas Department of Environmental Quality (ADEQ) received a total of $1.7 million in funds from ARRA State Clean Diesel Grant Program. These funds were administered through the U.S. Environmental Protection Agency (EPA), Region VI, in order to implement a diesel emissions reduction program for on-road and non-road vehicles/equipment. In July of 2009, ADEQ announced the grant program via press release. Funding was made available to public, private and nonprofit organizations through a competitive application process. 16 projects were funded and consisted of vehicle/equipment replacements, engine replacements, engine upgrades and the installation of idle reduction technology. To date, 12 projects are complete and the applicants with completed projects have been reimbursed.

ADEQ also received funds of $793 thousand under the EPA, Region VI, ARRA for the National Clean Diesel Funding Assistance Program in July of 2009. These funds are being used to reduce diesel emissions throughout the state. In administering these programs, ADEQ partnered with one city and fourteen counties to upgrade the engines of 24 types of vehicles/equipment consisting of motor graders, crawler tractors and loaders to meet Tier I emission levels. 13 projects have been completed, and the entities with these completed projects have been reimbursed. ADEQ has received positive responses from the entities the Department has worked with. These projects would not have occurred without the stimulus funding the Department received.

The Regulated Storage Tanks Division was awarded an ARRA grant in the amount of $1.7 million in July of 2009. The ARRA funds provide additional funding for either direct site work or for management/oversite activities at what are typically orphaned or abandoned sites where there are no viable responsible parties. ARRA funds have been used at the former Godsey's Exxon site in Osceola where a state contractor excavated and disposed of approximately 3,600 cubic yards of contaminated soils and purchased and installed a dual-phase extraction system and soil vapor extraction system. The construction/installation phase was completed on time and for a cost of approximately $650 thousand. A state contract was issued in July 2010 for operation and maintenance of the systems. Work plans have been approved to conduct a site investigation at the former Bobby's BP in Rector and for Free Product Removal at the former "The Fuel Stop" in Hot Springs Village. Work plans and cost estimates have been requested at three other petroleum release sites where ARRA funds will be used to investigate the level and extent of soil and ground water contamination. Without the ARRA grant, existing funding would not have been sufficient to address cleanup and investigations at these sites now or in the near future.

Arkansas Department of Higher Education: The Arkansas Department of Higher Education (ADHE) received $17.3 million in ARRA funds for the purpose of allocating these funds to public institutions of higher education to restore State support for the institutions to the greater of the fiscal year 2009 level. $12.9 million of these funds distributed to the institutions of higher education shall be used for education and general operating expenditures to help mitigate the need to raise tuition and fees for education of in-state students. $4.4 million of these funds distributed to the institutions of higher education shall be used for modernization, renovation and repairs consistent with a recognized green building rating system. The funds allocated shall be targeted for facilities whose primary mission is related to instruction, research or student housing. No funds shall be used for maintenance of facilities, systems, equipment or facilities primarily used for athletic contests or sectarian instruction.

Arkansas Development Finance Authority: The Arkansas Development Finance Authority (ADFA), a component unit of the state, has awarded over $113 million in ARRA funds. The funds comprised two programs offering to assist low income housing tax credit developments throughout the state. The first is the Tax Credit Assistance Program (TCAP). The TCAP utilizes HOME Housing Investment Partnerships funds to be used in conjunction with the Low Income Housing Tax Credit Program as cash equity. The second is the Exchange/Section 1602 Program. Under the Exchange/Section 1602 Program, ADFA swapped certain previous and current year Low Income Housing Tax Credits for cash to be infused into projects as equity.

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 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 the year, 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 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: Creating a Smart Arkansas is what the Arkansas Department of Education is all about. By supporting students, teachers and school district administrators through top-notch curriculum development and ongoing, research-based learning opportunities for educators, the state has already witnessed unprecedented gains in educational attainment of students.

- In 2010, scores on both the Arkansas Augmented Benchmark exams and Stanford Achievement Test again improved, with more than 60 percent of Arkansas's public school students at all grade levels scoring at grade level or higher on the benchmark exams. At some grades, more than 80 percent are scoring at grade level or higher.
- The achievement gap between majority and minority students narrowed for the fourth year in a row on the 2010 Arkansas Augmented Benchmark Exams.
- Scores and participation on the College Board's Advanced Placement exams continue to climb for students as a whole and within subgroups.

In addition to repeated recognition from national organizations – Education Trust, the Council for Chief State School Officers, Achieve and the National Governors Association – all have lauded Arkansas for being a leader in successful education reform. Education Week's Quality Counts issue for the last two years has ranked Arkansas 10th overall in terms of education policy when compared with all states and the District of Columbia.

Highways and Transportation: Arkansas's Blue Ribbon Committee on Highway Finance held discussions on proposals, reports and concepts as it studied the best methods for raising adequate revenues to address growing transportation needs in the state. Five public meetings were also held by the committee. The committee divided itself into two subcommittees: The Revenue Transfer Subcommittee and the New Revenue Subcommittee. Subcommittee recommendations have been discussed but not fully debated by the full group. In addition, the group received a discussion paper from member Madison Murphy that included five options for gaining additional revenue for highways. The committee turned in an Interim Report to the Governor in July.

The Arkansas State Highway and Transportation Department completed a number of construction projects this year in each of its ten Districts across the state. Among the projects completed were a joint project with the Mississippi Department of Transportation to open the new Highway 82 Bridge over the Mississippi River near Lake Village, a railroad overpass on Highway 35 in Benton, the widening of four miles of Highway 412 east of Paragould and a new Arkansas Welcome Center at Lake Village.

State Parks: There are 52 state parks encompassing 54,146 acres of wetlands, forests, fish and wildlife habitat, recreational facilities and unique historic and cultural resources. Within the parks are 1,799 campsites, four lodges, over 191 fully equipped cabins, nine marinas, 11 swimming pools, eight restaurants, 18 and 27 hole golf courses, over 120 miles of roads, hundreds of miles of utilities and an assortment of 129 hiking, mountain bike, backpack and multi-use trails covering 361 miles. Over 8.3 million visitors came to the state parks in fiscal year 2010. Over 928,138 visitors participated in more than 66,681 educational and recreational programs and special events throughout the park system.

Over $126.2 million in capital improvements and major maintenance projects have been completed throughout the Arkansas State Park system, funded by Amendment 75, the ⅛ % Conservation Tax.

20 construction and major renovation projects were completed in fiscal year 2010 totaling $11.4 million. A few examples of projects include: five new full service housekeeping cabins, parking and utilities at Moro Bay; log restoration and repair of various Civilian Conservation Corps (CCC) structures at Petit Jean; new fire station at Mt. Magazine; complete renovation of Area A campground at Bull Shoals; barrier free trail at Hobbs; and various road, parking and utilities improvements systemwide.

The popularity of our family of websites and social networking connecting friends, families and visitors to Arkansas State Parks (ASP) continues to grow, bringing visitors to park programs, events, etc. On Facebook, ASP has over 40,000 "friends" taking advantage of the benefits and values of their state park system. In regards to America's State Parks, ASP is second only to California in Facebook friends and that is California state parks foundation and not their agency. The social networking sites are great marketing tools that help utilization of park facilities, provide testimonials to others and connect visitors and stakeholders to program opportunities, etc.

Tourism: Fiscal year 2010 was a challenging one for Arkansas's tourism industry. While the national recession had ended, nobody bothered to tell the traveling public – and collections of the state's 2% tourism tax showed a decline of approximately 4.6%. As a result, the Tourism Division had to curtain some of its planned marketing activities in the last quarter of the fiscal year.

Several new attractions were unveiled last year. A new country music theater opened in Jonesboro and Texarkana began operation of an equine center which has drawn crowds from the four-state area. In north central Arkansas, a French couple began construction of the Ozark Medieval Fortress, an authentic 13th-century castle, using period tools and techniques.

Two new welcome centers, a joint effort with the Arkansas State Highway & Transportation Department, were announced. Also, several other major projects – to include the U. S. Marshals Museum in Fort Smith and the Crystal Bridges Museum of American Art in Bentonville – are moving forward. In addition, two pilot projects for tourism development – one targeting the Arkansas River Corridor and the other concentrating on southeast Arkansas – are underway.

Human Services: The Department of Human Services (DHS) serves more than 1.3 million Arkansans each year with 7,500 employees located in 86 sites around the state.

In 2010, Congress passed a piece of health care reform legislation titled the Patient Protection and Affordable Care Act. The new legislation introduces many changes to Medicaid. Provisions for this program will be largely federally funded but will also require increased financial obligations for states. The changes to public health insurance coverage outlined in the new law will expand eligibility, add new benefits, and change the structure of public health financing. It is anticipated that an estimated $250 thousand Arkansans will be added to the Medicaid system beginning in 2014.

In addition to the major changes to the national health landscape, the department continues to leverage the limited resources to maintain the current array of services but also to invest in strategies that improve services and generate savings. Some of these include:

Reform in Child Welfare – During the 2009 regular session, legislators approved $4.3 million dollars in additional funding for the Division of Children and Family Services (DCFS). The Governor has since released another $13.6 million in stimulus and other one-time funds. These resources will assist DCFS in many ways including putting 143 more staff in the field, funding a Structured Decision Making model for workers, accelerating new training, recruiting and retaining foster homes and offering Intensive Family Services to 500 families at imminent risk of separation.

Systems Transformation **–** The department is using some stimulus funding to invest in program upgrades that will continue to yield savings over time. Expansion of home and community based options for long term care for the elderly and people with disabilities is just one example of this initiative. Projects such as online application (Access Arkansas), automated travel reimbursement and document imaging are all part of a broader effort to reduce errors and manpower by using technology to maximize productivity.

System of Care – Since 2006, the department has led a broad-based stakeholder planning effort that created the Children's Behavioral Health Commission. A family-centered effort, the commission is addressing gaps in children's mental health services.

Quality Assurance – the Office of Quality Assurance brings together and analyzes quantitative program data housed in multiple databases and divisions across DHS to identify trends, performance and links across multiple programs. The office is constructing a data warehouse that will enable DHS to look across different data systems to spot emerging trends or issues.

DHS is investing in technology and prevention to maximize limited resources while maintaining quality services that support the welfare of all Arkansans.

Information Technology: Arkansas remains a leader in digital government. The Arkansas Department of Information Systems (DIS) is consistently working to improve access to new technologies for state agencies, boards and commissions, work more efficiently across state government, and use our state IT dollars more wisely.

DIS has identified and is addressing several trends in today's world of technology. There is currently a need for highly reliable technology, protecting critical information, sharing information across state government, applying green IT initiatives and providing services for every generation. There are several key initiatives underway within DIS to address these needs that include: improving the State Data Center; using satellite technology; providing redundant email services; implementing and providing content management and collaboration services; utilizing unified communications; connecting rural areas of the state through broadband; incorporating virtualization; and establishing Enterprise Architecture.

The Arkansas Wireless Information Network (AWIN) is a multi-phased program to leverage new and existing wireless resources to create a statewide interoperable wireless communication system for emergency responders and Arkansas public service entities. In fiscal year 2010, the AWIN system demonstrated consistent reliability during winter storms in January, tornadoes in April and flooding in May.

The State Cyber Security Office of DIS continues to oversee the Arkansas Continuity of Operations Program (ACOOP) to ensure that state government is prepared for any potential disaster, whether natural or man-made. All DIS 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 over 400 public entities at 800 locations. ACOOP staff trains and supports over 1,800 planners for the development and maintenance of their continuity of operations and pandemic plans and exercises. DIS is the lead agency for the state Emergency Support Function (ESF2) related to the restoration of communications for first responders, local governments and hurricane evacuee support. DIS responded to several tornado, ice and flooding events in fiscal years 2009 and 2010, providing computer, telephone and radio communications equipment and support to first responders and providing a call center infrastructure for disaster victims. The State Cyber Security Office (SCSO) also serves as the focal point for all cyber security issues and also monitors organizations on the state network for the presence of malware and infected computers. The SCSO maintains over 1,100 firewalls for public organizations on the state network in order to protect sensitive state information.

After President Obama signed the American Recovery and Reinvestment Act (ARRA) in 2009, DIS went to work collaborating with other state agencies to assist in the state's ARRA efforts. DIS worked closely with the Department of Finance and Administration (DFA) to develop a system to meet federal reporting requirements and track recovery dollars received and spent on state projects. DIS developed an application for state agencies to enter information and report on ongoing projects using recovery dollars. Arkansas was one of the few states that developed its own application, doing so at a very reasonable cost. The application tracks 157 prime projects and more than 1,000 subprime projects. Through December 2009, the system tracked more than $160 million recovery dollars expended for projects within the state. The DIS ARRA Team also developed an interactive map search for the application using geospatial information to retrieve projects according to location or area of interest.

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. In fiscal year 2010, the Arkansas.gov portal was named one of the best web sites in the nation receiving a second-place ranking by the Center for Digital Government in its annual competition, Best of the Web. In fiscal year 2009, the portal received a third-place ranking in the competition. Government web sites are evaluated based on innovation, web-based delivery of public services, efficiency, economy and functionality.

Arkansas Scholarship Lottery: In November 2008, Amendment 3 passed authorizing the legislature to establish a lottery, from which the proceeds would be used to fund scholarships for Arkansas students to Arkansas two-year and four-year higher education institutions. Acts 605 and 606 of the 87th General Assembly established the Arkansas Lottery Commission (ALC) for the purpose of establishing, operating and regulating State lotteries as authorized by the Arkansas Constitution. The ALC is charged with overseeing the lottery operations of the state and consists of nine members with three members appointed by each of the following: the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. ALC commenced sales of instant scratch-off tickets, Powerball®, Cash 3 and Mega Millions®, on September 28, October 31, December 14, 2009 and January 31, 2010, respectively. From the start of operations to June 30, 2010, ALC had operating revenues of $384.5 million, paid gaming prizes of $247.7 million, paid selling commissions to Arkansas retailers of $21.6 million and provided $82.8 million in scholarship funds, after payment of other lottery expenses.

Statewide Trauma System: Act 180 of the 2009 regular session established an increase of the tax on cigarettes and other tobacco products. The tax increase took effect March 1, 2009. The increased tax revenue will be used to fund a statewide trauma system for the state of Arkansas. Act 393 of the 2009 regular session charged the Arkansas Department of Health with the responsibility of implementing the Trauma System. Funding commenced on July 1, 2009. The trauma system will be an organized and coordinated plan within the state that is integrated with the local public health system and delivers the full range of care to patients with severe or life-threatening injuries. The care of the injured patients requires a system approach to ensure optimal care. A systematic approach is necessary within a facility; no one trauma center can do everything alone. The Trauma Section has a number of other tasks which must be completed in order to have a fully functioning Trauma System. Some of these include: ensuring that grant funds reach hospitals and emergency service (EMS) providers; creating policies and procedures regarding both internal operation of the Section as well as the operation of the Trauma System throughout the State; creating a communications system to be used by hospitals and EMS providers (a contract is in place with Motorola, Inc. for this purpose); providing for an Arkansas Trauma Call Center to complete the communications component; ensuring that education is provided to those individuals and entities that will play crucial roles in the Trauma System; working closely with the Trauma Advisory Council, which provides guidance and advice to the ADH regarding Trauma System implementation; and conducting other liaison activities with a wide variety of individuals and groups having an interest in the new Trauma System.

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, 2009. This was the twelfth 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

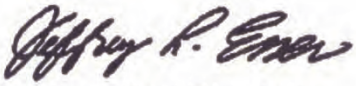
Presented to

State of Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

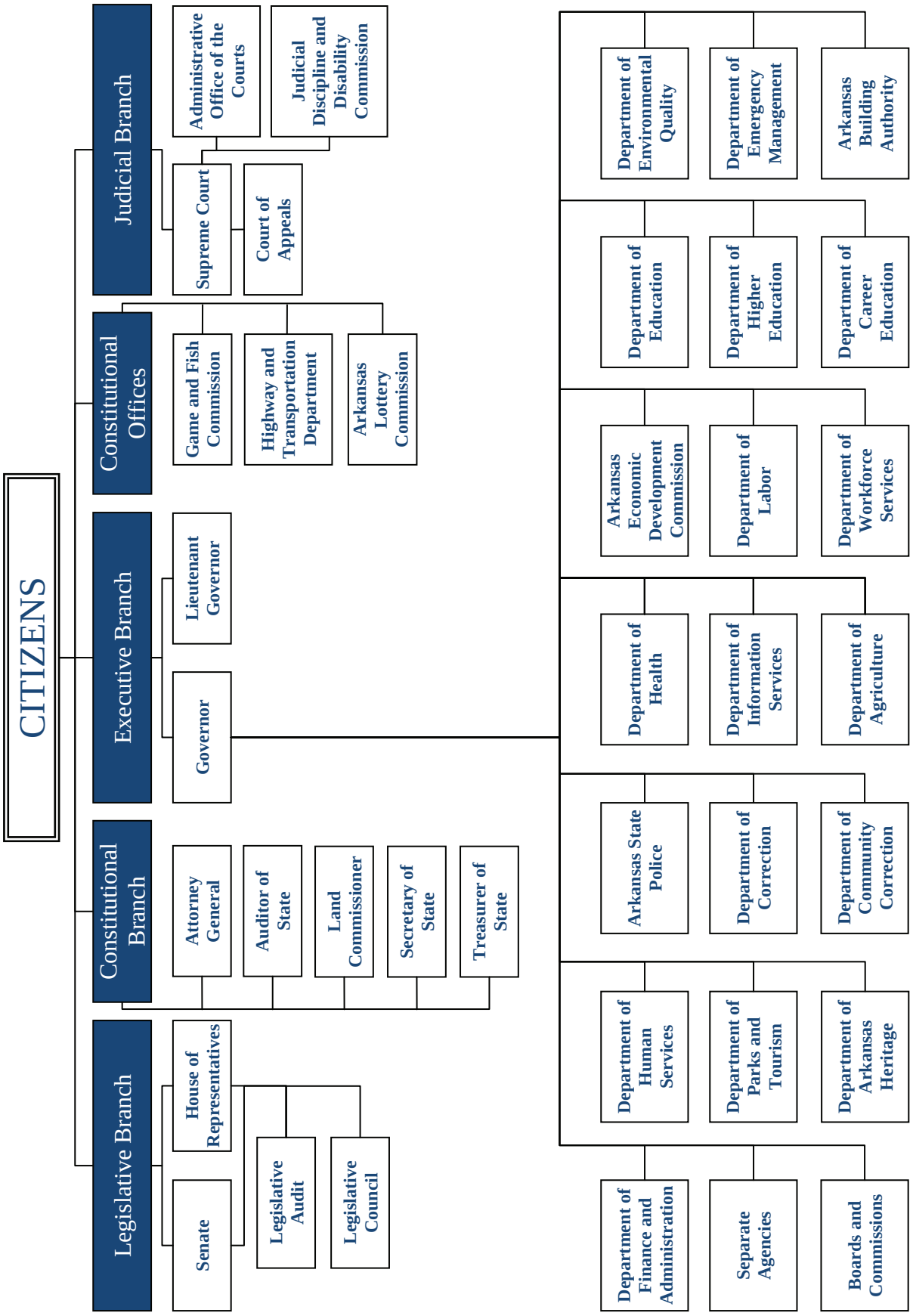
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President



Executive Director

Organizational Chart



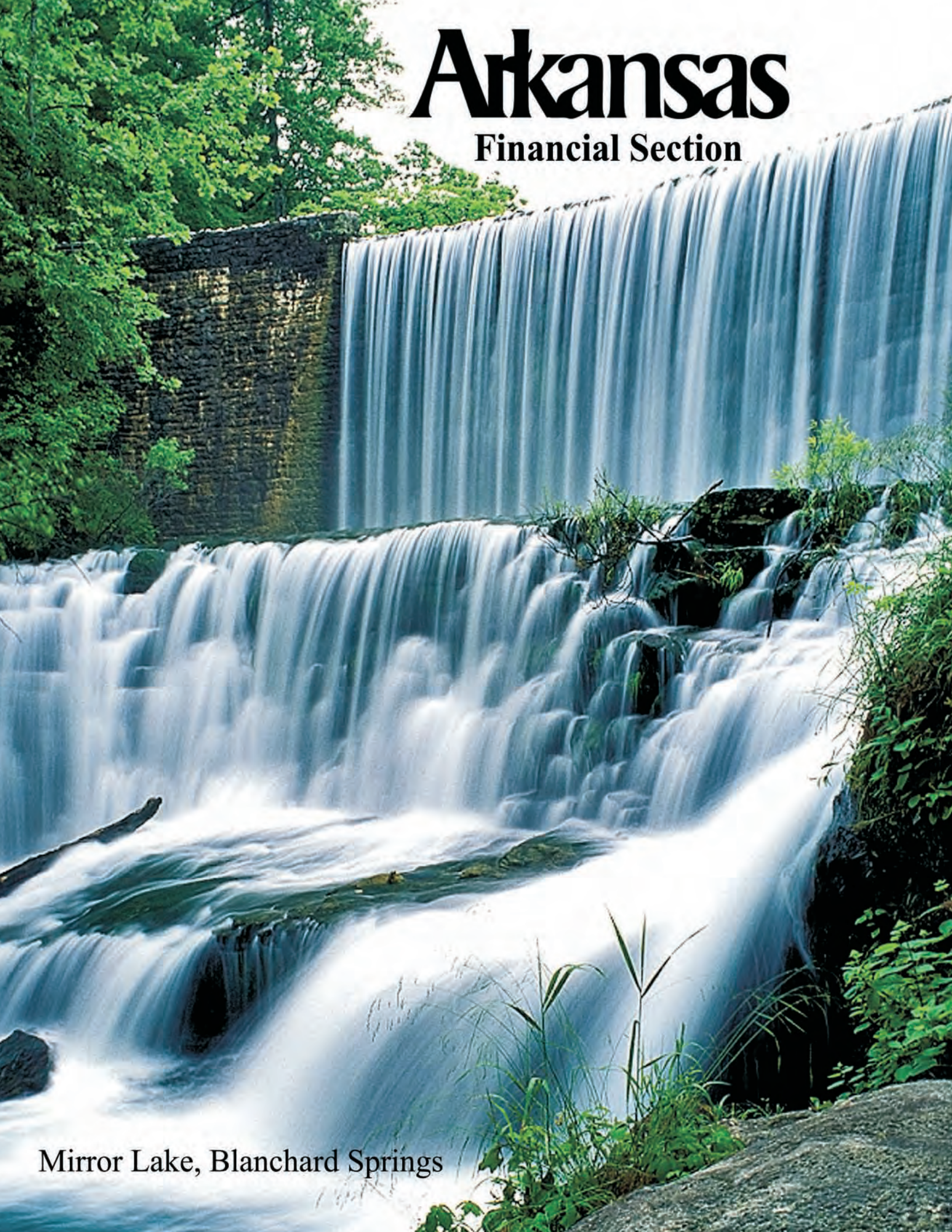
Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor	***President Pro Tempore***	***Chief Justice***
Mike Beebe	Senator Bob Johnson	Jim Hannah
Lieutenant Governor	***Speaker of the House***	***Associate Justice***
Bill Halter	Representative Robbie Wills	Robert L. Brown
Attorney General		***Associate Justice***
Dustin McDaniel		Donald L. Corbin
Auditor of State		***Associate Justice***
Jim Wood		Elana Cunningham Wills
Land Commissioner		***Associate Justice***
Mark Wilcox		Jim Gunter
Secretary of State		***Associate Justice***
Charlie Daniels		Ron Sheffield
Treasurer of State		***Associate Justice***
Martha Shoffner		Paul E. Danielson

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

Arkansas

Financial Section



Mirror Lake, Blanchard Springs

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

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

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 (the State), as of and for the year ended June 30, 2010, 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's 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

- The University of Arkansas for Medical Sciences, a portion of the Higher Education Fund, which represents 17% of the assets and 27% of the revenues of the business-type activities opinion unit and 21% of the assets and 48% of the revenues of the Higher Education major enterprise fund opinion unit

- The Department of Workforce Services, a major enterprise fund, which represents 4% of the assets and 26% of the revenues of the business-type activities opinion unit and 100% of the assets and revenues of the Department of Workforce Services major enterprise fund opinion unit

- The Construction Assistance Revolving Loan Fund or the Other Revolving Loan Funds (non-major enterprise funds), which on a combined basis represent 8% of the assets and 1% of the revenues of the business-type activities opinion unit and 3% of the assets and 1% of the revenues of the aggregate remaining fund information opinion unit

Financial statements for the above 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 funds and entities, are based solely 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010 on our consideration of the State of Arkansas's 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's 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.

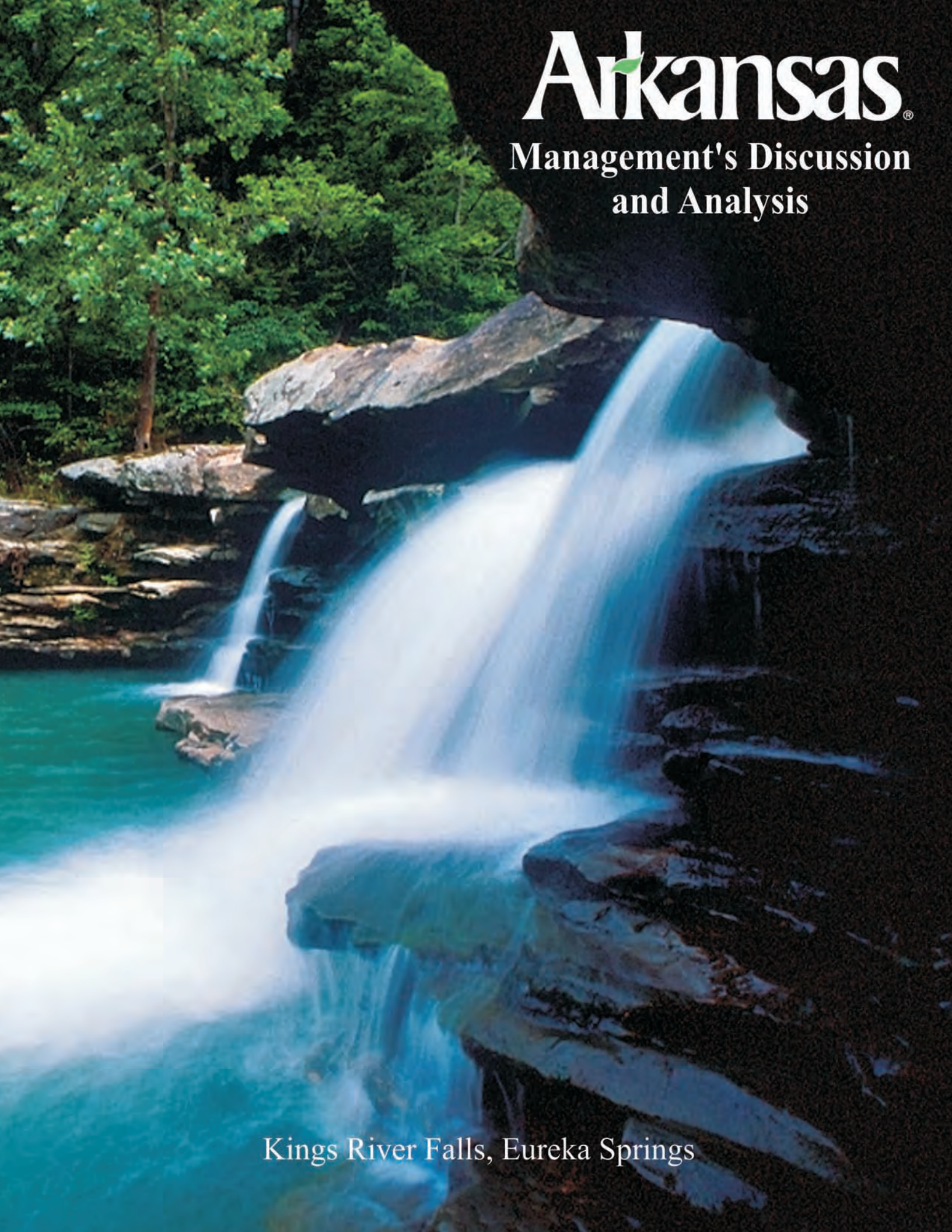
DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, AR
December 22, 2010
CAFR00110

Arkansas®

Management's Discussion and Analysis



Kings River Falls, Eureka Springs

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

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, 2010. The State's June 30, 2010, 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 the 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, 2010 by $14.3 billion (presented as "Total net assets"). The net assets of the State increased $154.9 million during the year. The governmental activities net assets increased by $40 million, while the business-type activities increased by $114.9 million. Of the total net assets, $1.7 billion (11.7%) 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, $2 billion (14%), 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, $10.6 billion (74.3%), reflects its investment in capital assets such as land, buildings, equipment, intangibles 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, 2010 was $2.8 billion. Additional debt totaling $606 million was entered into during the year. $230 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, 2010, the State's General Fund reported a fund balance of $3.7 billion. Of this balance, $1.9 billion or 50.3% of the total fund balance is reserved and $1.8 billion or 49.7% of the total fund balance is unreserved. The fund balance in the General Fund increased $120.2 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, Arkansas Lottery 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. 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 eight 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, Other Revolving Loan Funds (Safe Drinking Water, Community/Technical College, Brownfields, CDBG for Affordable Housing Disaster, Assisted Living Incentive, Industrial Energy Technology and Venture Capital Investment Trust Fund) and the Arkansas Lottery Commission.

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, Teacher, and Arkansas Public Employees Retirement Systems (which include Arkansas State Police Retirement System and District Judges); 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 schedules of funding progress, a schedule 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	
	2010	2009 (Restated)	2010	2009 (Restated)	2010	2009 (Restated)
Current assets	$ 4,509,123	$ 4,375,049	$ 1,454,917	$ 1,244,553	$ 5,964,040	$ 5,619,602
Noncurrent assets	250,477	234,155	1,886,846	1,693,451	2,137,323	1,927,606
Capital assets	9,545,677	9,377,426	3,156,494	3,004,362	12,702,171	12,381,788
Total Assets	14,305,277	13,986,630	6,498,257	5,942,366	20,803,534	19,928,996
Current liabilities	1,336,182	1,176,554	807,493	551,920	2,143,675	1,728,474
Long-Term liabilities	1,505,605	1,386,561	2,833,256	2,647,889	4,338,861	4,034,450
Total Liabilities	2,841,787	2,563,115	3,640,749	3,199,809	6,482,536	5,762,924
Net assets						
Invested in capital assets, net of related debt	8,867,290	8,766,290	1,768,138	1,690,161	10,635,428	10,456,451
Restricted	1,253,570	734,837	760,352	726,800	2,013,922	1,461,637
Unrestricted	1,342,630	1,922,388	329,018	325,596	1,671,648	2,247,984
Total Net Assets	$ 11,463,490	$ 11,423,515	$ 2,857,508	$ 2,742,557	$ 14,320,998	$ 14,166,072

The net assets of the governmental activities increased $40 million, while the net assets of the business-type activities increased $114.9 million. Although the economy has slowed down, both the governmental and business-type activities continue to show an increase. Personal and corporate income taxes have decreased as evidenced by the decline in personal and corporate income in fiscal year 2010. Revenue from Federal grants has grown, indicating the additional services provided by the State as a result of increased funding provided by the American Recovery and Reinvestment Act. Revenue from sales and use tax has declined due to economy and market downturns. The offsets to the growth in revenue in fiscal year 2010 are: expenses associated with the growth of Federal grants, increased salary costs and professional services. The business-type activities saw an increase in tuition received and operating grants and contributions.

The book value of capital assets as of June 30, 2010, was $9.5 billion for governmental activities and $3.2 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 increased the State's net assets by $40 million and business-type activities increased the State's net assets by $114.9 million. Key elements of these changes are as follows:

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009 (Restated)	2010	2009 (Restated)	2010	2009 (Restated)
Program Revenues:						
Charges for services	$ 1,035,351	$ 999,135	$ 2,187,805	$ 1,682,434	$ 3,223,156	$ 2,681,569
Operating grants and contributions	5,868,623	4,943,264	1,498,215	928,570	7,366,838	5,871,834
Capital grants and contributions	493,064	455,765	33,052	52,438	526,116	508,203
General Revenues:						
Personal and corporate taxes	2,468,798	2,507,368			2,468,798	2,507,368
Sales and use taxes	2,376,891	2,487,944			2,376,891	2,487,944
Motor fuel taxes	449,274	444,496			449,274	444,496
Other taxes	903,113	815,206	377,460	320,271	1,280,573	1,135,477
Total Revenues	13,595,114	12,653,178	4,096,532	2,983,713	17,691,646	15,636,891
Expenses:						
Education	3,605,065	3,338,002			3,605,065	3,338,002
Health and human services	6,144,706	5,457,305			6,144,706	5,457,305
Transportation	731,317	699,737			731,317	699,737
Law, justice and public safety	779,374	820,960			779,374	820,960
Recreation and resources development	277,402	243,419			277,402	243,419
General government	1,356,657	1,310,341			1,356,657	1,310,341
Regulation of business and professionals	105,968	107,347			105,968	107,347
Business-type expenses:						
Higher Education			3,191,697	3,021,439	3,191,697	3,021,439
Workers' Compensation Commission			15,918	29,349	15,918	29,349
Department of Workforce Services			1,211,812	901,064	1,211,812	901,064
Lottery Commission			302,579	16	302,579	16
War Memorial Stadium Commission			3,439	2,585	3,439	2,585
Public School Employee Health and Life Benefit Plan			260,194	259,385	260,194	259,385
Revolving loans			18,675	3,941	18,675	3,941
Interest expense	52,145	55,193			52,145	55,193
Total Expenses	13,052,634	12,032,304	5,004,314	4,217,779	18,056,948	16,250,083
Other:						
Unrestricted investment earnings	52,809	82,681	54,846	(8,628)	107,655	74,053
Miscellaneous Income	330,397	286,173	82,176	108,788	412,573	394,961
Total Other	383,206	368,854	137,022	100,160	520,228	469,014
Increase (decrease) in net assets before transfers and restatements	925,686	989,728	(770,760)	(1,133,906)	154,926	(144,178)
Transfers - internal activities	(885,711)	(955,484)	885,711	955,484		
Restatements		(34,379)		6,223		(28,156)
Total Transfers and Restatements	(885,711)	(989,863)	885,711	961,707		(28,156)
Increase (decrease) in net assets	39,975	(135)	114,951	(172,199)	154,926	(172,334)
Net Assets - Beginning, as restated	11,423,515	11,423,650	2,742,557	2,914,756	14,166,072	14,338,406
Net Assets - Ending	$ 11,463,490	$ 11,423,515	$ 2,857,508	$ 2,742,557	$ 14,320,998	$ 14,166,072

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.

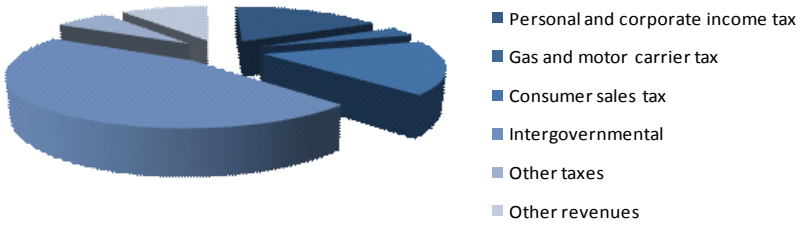
FUND HIGHLIGHTS AND ANALYSIS

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 law, justice and public safety and health and human services. The following charts present actual General Fund revenues and expenditures for the fiscal years ended June 30, 2010 and 2009 (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

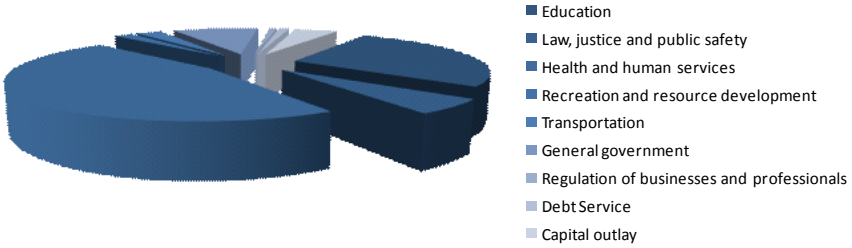
Revenues	2010	2009	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,471,420	$ 2,549,965	-3.08%
Gas and motor carrier tax	449,754	444,573	1.17%
Consumer sales tax	2,390,819	2,502,403	-4.46%
Intergovernmental	6,364,695	5,394,538	17.98%
Other taxes	903,618	813,733	11.05%
Other revenues	1,445,277	1,392,295	3.81%
Total	$ 14,025,583	$ 13,097,507	7.09%



Governmental revenues increased by 7.09%. Personal and corporate income tax revenue decreased by $78.5 million due to decline in personal and corporate income as a result of economic and market downturns. Consumer sales tax decreased by $111.6 million also as a result of economic and market downturns. Federal grant revenue and reimbursements increased by $970.2 million primarily because of increased Medicaid revenues through the Department of Human Services, federal grant revenue to the Arkansas Highway and Transportation Department and federal grant revenue to the Department of Education, all of which were a result of increased utilization of the program provided for by the American Recovery and Reinvestment Act (ARRA). Other taxes increased by $89.9 million primarily as a result of increased tobacco tax and natural gas severance tax revenue.

Expenditures by Source - General Fund

Expenditures	2010	2009	Increase (Decrease) Percent
Education	$ 3,600,560	$ 3,333,875	8.00%
Law, justice and public safety	747,379	794,793	-5.97%
Health and human services	6,129,257	5,441,822	12.63%
Recreation and resource development	258,322	225,461	14.58%
Transportation	365,980	348,665	4.97%
General government	1,237,895	1,190,436	3.99%
Regulation of businesses and professionals	108,748	105,752	2.83%
Debt Service	150,902	157,226	-4.02%
Capital outlay	614,241	561,354	9.42%
Total	$ 13,213,284	$ 12,159,384	8.67%



The State's agencies expenditures increased for the fiscal year 2010 by 8.67%. Generally there were three areas of growth: grants and aid, personnel expenses and professional services. Health and Human Services increased $687 million with Medicaid expenditures accounting for most of the change which was a result of increased utilization of the program provided for by the ARRA. Education increased $267 million, with ARRA grant disbursements to the Local Education Agency's (LEA's) and network services accounting for most of the changes. General government increased by $47 million with an increase in large tax refunds, increase in health claims, increased general improvement payments and increased disaster relief efforts accounting for most of the change. Capital outlay increased by $53 million as a result of the Department of Human Services, Arkansas State Police, Arkansas Military Department, Arkansas Building Authority and Highway and Transportation Department having large capital asset purchases in the current year without equivalent acquisitions in the prior year.

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 2010, the State's General Fund reported an ending fund balance of $3.7 billion, which is an increase of $120.2 million in comparison to fiscal year 2009.

Approximately $1.9 billion or 50.3% 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 $1.8 billion or 49.7%, 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, intangibles, 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 $21 billion and the accumulated depreciation was $8.3 billion at June 30, 2010. The net book value was $12.7 billion. Depreciation expense was $443.6 million for the governmental activities and $201.5 million for the business-type activities.

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

- The Arkansas Building Authority purchased a building located at 900 W. Capitol for $19.2 million.
- The Department of Human Services expended $1.3 million of ARRA funds for the construction of the Division of Youth Services Juvenile Treatment Center.
- The Department of Human Services capitalized $4.9 million of internally generated software costs (intangibles) as required by implementation of GASB 51.
- The Department of Human Services purchased computer and equipment for $2.4 million with ARRA funds.
- The Arkansas State Police completed construction of Troop K Headquarters for $1.5 million.
- The Arkansas State Police purchased a helicopter for $3.7 million with ARRA funds.
- The Department of Highway and Transportation constructed roads, bridges and overlays for $417 million and purchased right-of-ways for $31 million.
- The State Military Department expended $7.9 million for the construction of the Northwest Arkansas Reserve Center.

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 Aaa 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, Mid-South Community College, Arkansas Northeastern College, North Arkansas College, Rich Mountain Community College, South Arkansas Community College, Black River Technical College, Pulaski Technical College and Ozarka College.

Governmental Activities

The State's governmental activities had $1.207 billion in bonds, notes payable, installment sales payable and capital leases outstanding at June 30, 2010, versus $1.115 billion at June 30, 2009. The net increase is approximately $92 million. Significant increases in bonds, notes payable, installment sales payable and capital leases are as follows:

- The Arkansas Natural Resources Commission issued $70.1 million of Series 2010 Pollution General Obligation Bonds.
- The Arkansas Highway and Transportation Department issued $253.2 million of Series 2010 Federal Highway General Obligation Bonds to refund old issues 2000A, 2001A and 2002.

Notes payable, installment sales payable and capital leases to component units had a net increase of $4.6 million in fiscal year 2010. During fiscal year 2010, bonds payable had a net increase of $91.2 million with $239.6 million paid toward principal payments and refinancing. Notes payable and capital leases to outside entities had a net decrease of $3.5 million.

The State's governmental activities had approximately $113.6 million of claims and judgments outstanding at June 30, 2010, compared to $117.6 million at June 30, 2009. Other obligations include accrued sick leave and vacation pay of $140.9 million at June 30, 2010. The State's governmental activities also had $364 million recorded for net postemployment benefits obligation at June 30, 2010 as a result of implementing GASB Statement No. 45. In fiscal year 2010, governmental activities included $16.8 million recorded for pollution remediation as a result of implementing GASB Statement No. 49.

Business-type Activities

The State's business-type activities had $1.561 billion in bonds, notes payable, and capital leases outstanding at June 30, 2010, versus $1.484 billion at June 30, 2009. The net increase was approximately $77 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:

- The University of Arkansas Fayetteville Campus issued $52.4 million in Various Facilities Revenue Bonds, Series 2009A to finance the construction and or renovation of the Nanoscale Science and Engineering Building, Garland Avenue parking garage and retail shops, Peabody Hall, Pomfret, classroom and labs, Davis, Darby & Sharp Halls and various property purchases.
- The University of Arkansas Little Rock Campus issued $32.3 million in Capital Improvement Revenue Bonds, Series 2009 to finance the completion of the Engineering and Information Technology Building, modifications to elevator and HVAC systems and renovation of the Stella Boyle Smith Concert Hall.
- The University of Arkansas Fort Smith Campus issued $29.9 million in Student Fee Refunding Revenue Bonds, Series 2010 to refund Student Fee Revenue Bonds, Series 2001.
- The University of Arkansas Little Rock Campus issued $29.5 million in Auxiliary Enterprises Revenue Bonds, Series 2009 for construction of a 400-bed student housing complex and construction of a student recreation and sports complex.
- The University of Arkansas Fayetteville Campus issued $24 million in Athletic Facilities Revenue Refunding Bonds, Series 2010 (taxable) to refund Athletic Facilities Revenue Bonds, Series 1999.
- Southern Arkansas University issued $10.1 million in Auxiliary Revenue Secured Improvement and Refunding Bonds, Series 2010 to refund prior bond issues Series 1999, 2001 and 2003.

The colleges and universities also entered into capital leases totaling $3.5 million, as well as notes payable totaling $13.7 million. Bonds, notes payable and capital leases decreased $172.4 million due to principal payments and refinancing made during the year.

The State's business-type activities had approximately $281.9 million of claims and judgments outstanding at June 30, 2010, compared to $290.7 million at June 30, 2009. Other obligations included accrued sick leave and vacation pay of $96.5 million at June 30, 2010. The State's business-type activities also had $51.1 million recorded for net postemployment benefits obligation at June 30, 2010 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	$ 5,457,453	$ 5,702,362	$ 1,869,735
Education	4,358,579	4,399,930	3,637,878
Health and human services	6,114,440	6,029,625	5,504,995
Law, justice and public safety	919,701	1,000,680	806,497
Recreation and resources development	405,102	414,987	291,680
Regulation of business and professionals	244,598	268,900	166,865
Transportation	564,688	566,474	356,637
Debt service	163,656	170,807	127,466
Capital outlay	1,066,823	1,071,386	519,772
Total	$ 19,295,040	$ 19,625,151	$ 13,281,525

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.

The final budget exceeded the original budget by $330.1 million. The increases in Education, General government and Law, justice and public safety were primarily due to unanticipated federal grants received by the State after the original budget was established. The decrease in Health and human services was predominately due to excess appropriation that was included in the original budget for which sufficient funding was never received, therefore the excess appropriation was blocked.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Arkansas's finances for all of Arkansas's 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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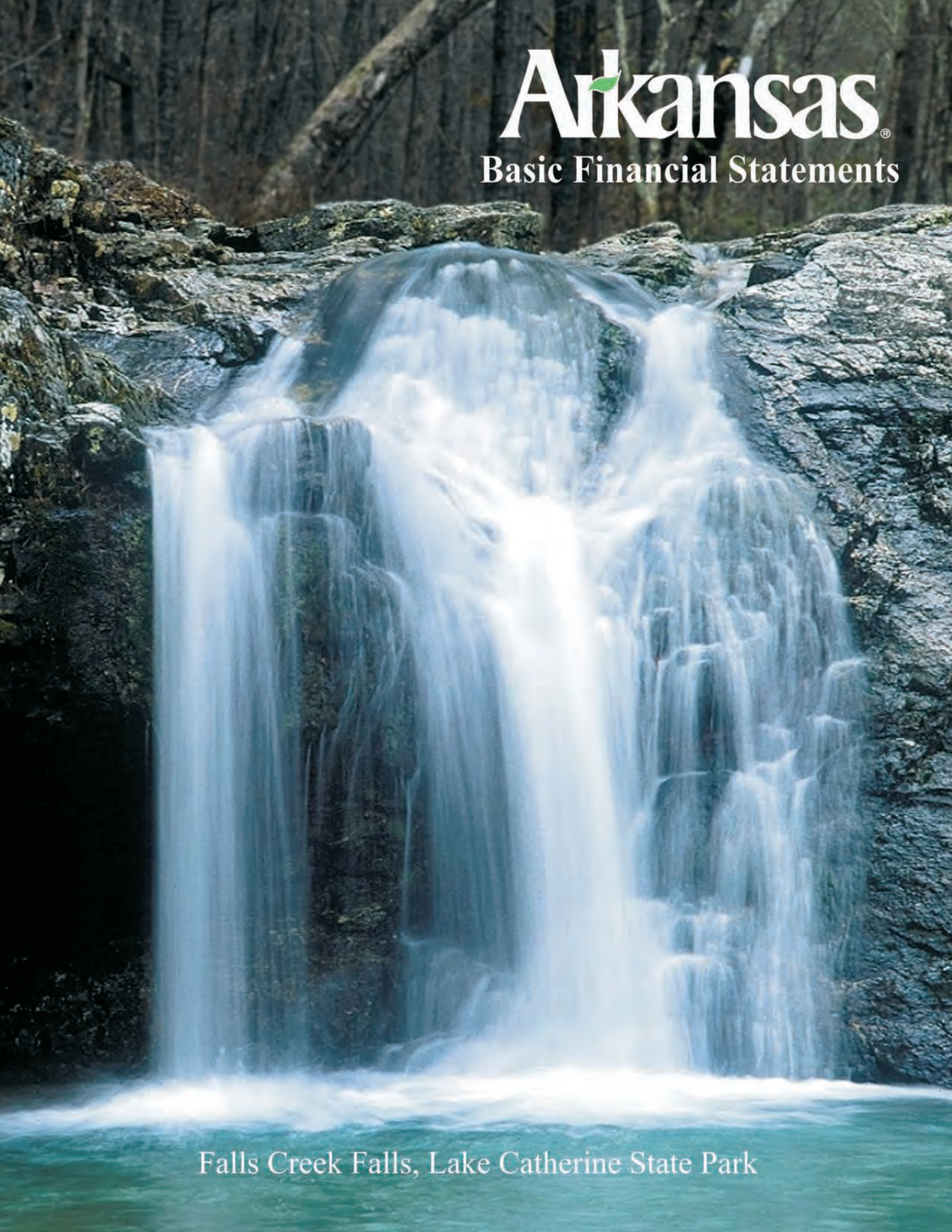
Basic Financial Statements



Falls Creek Falls, Lake Catherine State Park

Statement of Net Assets
June 30, 2010
(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	$ 651,879	$ 654,809	$ 1,306,688	$ 1,971	$ 340,818
Cash and cash equivalents - restricted		76,741	76,741		
Investments	2,722,820	347,520	3,070,340	266,178	2,074
Receivables, net:					
Accounts	121,928	377,215	499,143		818
Taxes	407,998		407,998		
Medicaid	244,715		244,715		
Loans	17,911	11,889	29,800	13,619	1,048
Leases	65		65		
Interest	21,194	2,069	23,263	13,428	4,196
Other	27,401		27,401	162	
Internal balances	76,739	(76,739)			
Note receivable component unit	24,000		24,000		
Due from other governments	117,543	15,142	132,685		
Prepaid items	16,650	3,099	19,749		
Inventories	57,553	30,013	87,566		
Deposits with bond trustee		4,882	4,882		
Current deferred charges	708		708		
Other current assets	19	8,277	8,296		
Total current assets	4,509,123	1,454,917	5,964,040	295,358	348,954
Noncurrent assets:					
Cash and cash equivalents, restricted		93,331	93,331		
Deposits with component unit	23,732	201	23,933		
Deposits with bond trustee		138,441	138,441		
Deposits with Multi-State Lottery Association		458	458		
Investments		282,830	282,830	12,280	643,283
Receivables, net		61,399	61,399		
Loans and mortgages receivable	219,564	358,132	577,696	536,186	188,496
Loans and capital leases receivable from primary government					241,907
Capital leases receivable	824		824		6,061
External portion of investment pool		935,111	935,111		
Installment sale agreement with primary government					12,340
Deferred charges	6,357		6,357	9,452	4,967
Financial assurance instruments		8,150	8,150		
Other noncurrent assets		8,793	8,793	338	928
Total noncurrent assets	250,477	1,886,846	2,137,323	558,256	1,097,982
Capital assets (net of accumulated depreciation):					
Land	675,562	113,380	788,942	670	
Land improvements	72,200		72,200		
Infrastructure	6,274,209	142,264	6,416,473		
Buildings	776,671	2,274,646	3,051,317	1,854	
Equipment	229,672	179,152	408,824	482	180
Improvements other than building		9,090	9,090		
Leasehold improvements		1,581	1,581		
Construction in progress	1,483,952	340,771	1,824,723		
Other capital assets	33,411	95,610	129,021		
Total capital assets, net of depreciation	9,545,677	3,156,494	12,702,171	3,006	180
Total noncurrent assets and capital assets	9,796,154	5,043,340	14,839,494	561,262	1,098,162
Total assets	$ 14,305,277	$ 6,498,257	$ 20,803,534	$ 856,620	$ 1,447,116

Statement of Net Assets
June 30, 2010
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Accounts payable	$ 46,289	$ 157,064	$ 203,353	$ 7,008	$ 9,316
Prizes payable		14,150	14,150		
Accrued interest	10,201	7,054	17,255		15,545
Accrued and other current liabilities	144,149	100,316	244,465		
Medicaid payable	349,114		349,114		
Income tax refunds payable	360,394		360,394		
Due to other governments	65,147	333,203	398,350		
Workers' compensation benefits payable		16,395	16,395		
Funds held in trust for others		10,011	10,011		
Bonds, notes and leases payable	212,659	69,741	282,400		46,098
Installment sales payable	470		470		
Note payable to primary government				24,000	
Claims, judgments, arbitrage and compensated absences	123,025	52,189	175,214		
Pollution remediation obligation	892		892		
Deferred revenue	23,842	47,370	71,212		
Total current liabilities	1,336,182	807,493	2,143,675	31,008	70,959
Long-term liabilities:					
Workers' compensation benefits payable		225,943	225,943		
External portion of investment pool		935,111	935,111		
Bonds, notes, and leases payable	982,073	1,491,717	2,473,790	774,150	1,113,570
Installment sales payable	11,870		11,870		
Claims, judgments, arbitrage and compensated absences	131,457	83,919	215,376		
Pollution remediation obligation	15,863		15,863		
Net post employment benefits obligation	364,342	51,146	415,488	65	672
Deposits held on behalf of primary government					23,933
Other noncurrent liabilities		8,764	8,764		6,718
Deferred revenue		36,656	36,656		5,852
Total long-term liabilities	1,505,605	2,833,256	4,338,861	774,215	1,150,745
Total liabilities	2,841,787	3,640,749	6,482,536	805,223	1,221,704
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	8,867,290	1,768,138	10,635,428	3,006	180
Restricted for:					
Debt service	235,092	19,149	254,241		
Other capital projects	176,764	31,962	208,726		
Bond and resolution program					124,483
Program requirements	736,714	433,144	1,169,858		
Tobacco settlement	105,000		105,000		
Non-expendable - endowment		77,039	77,039		
Expendable-capital projects, debt service, loans, and other		199,058	199,058	48,391	
Unrestricted	1,342,630	329,018	1,671,648		100,749
Total net assets	11,463,490	2,857,508	14,320,998	51,397	225,412
Total liabilities and net assets	$ 14,305,277	$ 6,498,257	$ 20,803,534	$ 856,620	$ 1,447,116

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, 2010
(Expressed in thousands)

Assets		
Contributions receivable, net of allowance for doubtful accounts of $1,293	$	78,610
Interest receivable		2,076
Cash value of life insurance		644
Land, buildings and equipment net of accumulated depreciation of $256		391
Investments		571,799
Total assets	$	653,520
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	5,681
Annuity obligations		16,669
Total liabilities		22,350
Net Assets:		
Unrestricted		69,626
Temporarily restricted		151,489
Permanently restricted		410,055
Total net assets		631,170
Total liabilities and net assets	$	653,520

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, 2010
(Expressed in thousands)

Assets	
Investments	$ 389,876
Liabilities and Net Assets	
Liabilities:	
Accounts Payable	$ 96
Total liabilities	96
Net Assets:	
Temporarily restricted	$ 21,401
Permanently restricted	368,379
Total net assets	389,780
Total liabilities and net assets	$ 389,876

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

Statement of Activities
For the Fiscal Year Ended June 30, 2010
(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	$ 1,356,657	$ 325,072	$ 345,589	$ 1,739
Education	3,605,065	6,469	667,401	1,139
Health and human services	6,144,706	362,532	4,588,046	118
Transportation	731,317	107,818	29,244	461,599
Law, justice and public safety	779,374	73,601	196,596	25,586
Recreation and resources development	277,402	79,780	39,289	2,883
Regulation of business and professionals	105,968	80,079	2,458	
Interest expense	52,145			
Total governmental activities	13,052,634	1,035,351	5,868,623	493,064
Business-type activities:				
Higher Education	3,191,697	1,529,344	709,336	33,044
Workers' Compensation Commission	15,918			
Department of Workforce Services	1,211,812		750,533	8
Lottery Commission	302,579	384,565		
War Memorial Stadium Commission	3,439	1,852	132	
Public School Employee Health and Life Benefit Plan	260,194	268,312		
Revolving Loans	18,675	3,732	38,214	
Total business-type activities	5,004,314	2,187,805	1,498,215	33,052
Total primary government	$ 18,056,948	$ 3,223,156	$ 7,366,838	$ 526,116
Component units:				
Arkansas Student Loan Authority	$ 25,540	$ 26,829	$	
Arkansas Development Finance Authority	93,685	85,521	45,067	
Total component units	$ 119,225	$ 112,350	$ 45,067	

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
$ (684,257)	$	$ (684,257)		
(2,930,056)		(2,930,056)		
(1,194,010)		(1,194,010)		
(132,656)		(132,656)		
(483,591)		(483,591)		
(155,450)		(155,450)		
(23,431)		(23,431)		
(52,145)		(52,145)		
(5,655,596)		(5,655,596)		
	(919,973)	(919,973)		
	(15,918)	(15,918)		
	(461,271)	(461,271)		
	81,986	81,986		
	(1,455)	(1,455)		
	8,118	8,118		
	23,271	23,271		
	(1,285,242)	(1,285,242)		
(5,655,596)	(1,285,242)	(6,940,838)		
			$ 1,289	$
				36,903
			1,289	36,903
2,468,798		2,468,798		
2,376,891		2,376,891		
449,274		449,274		
903,113	377,460	1,280,573		
6,198,076	377,460	6,575,536		
52,809	54,846	107,655		
330,397	82,176	412,573	1,702	
(885,711)	885,711			
5,695,571	1,400,193	7,095,764	1,702	
39,975	114,951	154,926	2,991	36,903
11,423,515	2,742,557	14,166,072	48,406	188,509
$ 11,463,490	$ 2,857,508	$ 14,320,998	$ 51,397	$ 225,412

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$ 12,126	$ 59,301	$ 20,380	$ 91,807
Sponsored programs	1,231	400		1,631
Interest and dividends	5,801	5,277	339	11,417
Net realized and unrealized gains on investments	17,194	15,096	28,656	60,946
Other	270	124		394
Net assets released from restrictions	49,614	(49,614)		
Total revenues, gains and other support	86,236	30,584	49,375	166,195
Expenses and losses:				
Program services:				
Construction	21,455			21,455
Research	10,242			10,242
Faculty/staff support	14,368			14,368
Scholarships and awards	6,954			6,954
Public/staff relations	2,538			2,538
Equipment	2,875			2,875
Sponsored programs	1,573			1,573
Other	12,592			12,592
Total program services	72,597			72,597
Supporting services:				
Management and general	351			351
Fund raising	2,193			2,193
Change in value of split-interest agreements			79	79
Provision for loss on uncollectible pledges	73	1,960	375	2,408
Total supporting services	2,617	1,960	454	5,031
Total expenses and losses	75,214	1,960	454	77,628
Change in net assets	11,022	28,624	48,921	88,567
Net assets - beginning	58,604	122,865	361,134	542,603
Net assets - ending	$ 69,626	$ 151,489	$ 410,055	$ 631,170

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, 2010
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Interest and dividends	$	$ 3,190	$ 220	$ 3,410
Net realized and unrealized gains on investments		14,735	29,522	44,257
Net assets released from restrictions	14,523	(14,523)		
Total revenues, gains and other support	14,523	3,402	29,742	47,667
Expenses and losses:				
Program services:				
Research	1,225			1,225
Faculty/staff support	2,046			2,046
Scholarships and awards	9,632			9,632
Equipment and technology	1,299			1,299
Other	321			321
Total program services	14,523			14,523
Change in net assets		3,402	29,742	33,144
Net assets - beginning		17,999	338,637	356,636
Net assets - ending	$	$ 21,401	$ 368,379	$ 389,780

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

Balance Sheet
Governmental Fund
June 30, 2010
(Expressed in thousands)

		General Fund
Assets		
Cash and cash equivalents	$	651,879
Investments		2,722,820
Receivable, net:		
Accounts		121,849
Taxes		407,998
Medicaid		244,715
Loans		237,475
Leases		889
Interest		21,194
Other		27,401
Note receivable from component unit		24,000
Due from other funds		86,603
Due from other governments		117,543
Prepaid items		16,650
Inventories		57,553
Deposits with component unit		23,732
Other assets		19
Total assets	$	4,762,320
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	43,936
Accrued and other current liabilities		144,149
Deferred revenue		129,213
Income tax refunds payable		360,394
Due to other governments		65,147
Due to other funds		12,138
Advances from other funds		5,172
Medicaid claims payable		349,114
Total liabilities		1,109,263
Fund balance:		
Reserved for:		
Prepaid items		16,650
Inventories		57,553
Debt service		243,153
Loans		237,475
Leases		889
Note receivable from component unit		24,000
Grant programs		676,352
Capital projects		92,566
Transportation programs		325,943
Tobacco settlement		163,745
Unreserved		1,814,731
Total fund balance		3,653,057
Total liabilities and fund balance	$	4,762,320

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, 2010
(Expressed in thousands)

Total fund balances:		
Governmental fund		$ 3,653,057
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	$ 825,379	
Infrastructure assets	11,436,029	
Other capital assets	3,486,811	
Accumulated depreciation	(6,202,542)	
Total capital assets		9,545,677
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.		7,065
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.		105,371
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	$ (1,182,151)	
Installment sales payable	(12,340)	
Claims, judgments, arbitrage and compensated absences	(254,482)	
Net OPEB obligation	(364,342)	
Pollution remediation obligation	(16,755)	
Loss of early retirement	20,593	
Unamortized bond issue premium	(30,947)	
Accrued interest on bonds, notes, installment sales payable and leases	(10,201)	
Unamortized bond issue discounts	2,945	
Total long-term liabilities		(1,847,680)
Net assets of governmental activities		$ 11,463,490

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, 2010
(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,471,420
Consumers sales and use		2,390,819
Gas and motor carrier		449,754
Other		903,618
Intergovernmental		6,364,695
Licenses, permits and fees		1,055,693
Investment earnings		52,809
Miscellaneous		336,775
Total revenues		14,025,583
Expenditures:		
Current:		
General government		1,237,895
Education		3,600,560
Health and human services		6,129,257
Transportation		365,980
Law, justice and public safety		747,379
Recreation and resources development		258,322
Regulation of business and professionals		108,748
Debt service:		
Principal retirement		95,924
Interest		53,303
Bond issuance costs		1,675
Capital outlay		614,241
Total expenditures		13,213,284
Excess of revenues over expenditures		812,299
Other financing sources (uses):		
Issuance of debt		71,520
Issuance of refunding bonds		253,225
Bond discounts and premiums		21,045
Payment to refunding escrow agent		(174,165)
Capital leases		19,520
Sale of capital assets		2,476
Transfers in		160,402
Transfers out		(1,046,121)
Total other financing sources and uses		(692,098)
Net change in fund balance		120,201
Fund balance - beginning as restated		3,532,856
Fund balance - ending	$	3,653,057

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, 2010
(Expressed in thousands)

Net change in fund balance-governmental fund		$ 120,201
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	$ 614,241	
Depreciation expense	(443,649)	
Excess of capital outlay over depreciation expense		170,592
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to increase net assets.		33
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(324,745)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(21,383)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		338
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		1,675
Loss on early retirement of bonds		(1,495)
Payments to refunding escrow agent use current financial resources to governmental funds but reduce long-term liabilities in the statement of net assets.		174,165
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.		(19,520)
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		95,924
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.		(18,005)
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	$ (814)	
Increase in claims, judgments, arbitrage and compensated absences	(4,368)	
Change in net pension assets	(2,707)	
Amortization of bond premium and discount	2,846	
Amortization of bond issuance costs	(467)	
Increase in pollution remediation obligations	(1,052)	
Loss on sale of capital assets	(2,126)	
Decrease in accrued interest	220	
Increase in other postemployment benefits obligations	(129,337)	
Total additional expenditures		(137,805)
Change in net assets of governmental activities		$ 39,975

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

Statement of Net Assets
Proprietary Funds
June 30, 2010
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 399,305	$ 19,721	$ 128,658	$ 6,758	$ 100,367	$ 654,809
Cash and cash equivalents - restricted				76,741		76,741
Investments	194,689	132,666			20,165	347,520
Receivables, net						
Accounts	243,173	7,946	110,638	14,290	1,168	377,215
Loans	7,966				3,923	11,889
Interest	472	880	21		696	2,069
Due from other funds	7,119	525	1,787	5	628	10,064
Due from other governments	6,754		8,388			15,142
Advances to other funds					634	634
Inventories	30,006				7	30,013
Prepaid items	2,722	58	318		1	3,099
Deposits with bond trustee	4,882					4,882
Other current assets	8,277					8,277
Total current assets	905,365	161,796	249,810	97,794	127,589	1,542,354
Noncurrent assets:						
Cash and cash equivalents - restricted	93,313			18		93,331
Deposits with Multi-State Lottery Association				458		458
Investments						
Endowment	15,697					15,697
Restricted	1,334	106			80,458	81,898
Unrestricted	185,235					185,235
Receivables, net	61,399					61,399
Capital assets:						
Land	109,827	580	2,973			113,380
Infrastructure	257,037		22			257,059
Buildings	3,521,719	2,272	9,461		14,728	3,548,180
Equipment	614,995	793	6,671	509	1,062	624,030
Improvements other than building	15,864				446	16,310
Leasehold improvements	1,100			481		1,581
Construction in progress	334,306		662		5,803	340,771
Other depreciable assets	349,814	553	5,452		240	356,059
Less accumulated depreciation	(2,079,953)	(2,538)	(10,950)	(123)	(7,312)	(2,100,876)
External portion of investment pool	935,111					935,111
Advances to other funds					5,632	5,632
Loans receivable - restricted					358,132	358,132
Deposits with bond trustee	138,441					138,441
Deposits with component unit		201				201
Financial assurance instruments		8,150				8,150
Other noncurrent assets	8,357				436	8,793
Total noncurrent assets	4,563,596	10,117	14,291	1,343	459,625	5,048,972
Total assets	$ 5,468,961	$ 171,913	$ 264,101	$ 99,137	$ 587,214	$ 6,591,326

Statement of Net Assets
Proprietary Funds
June 30, 2010
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Liabilities						
Current liabilities:						
Accounts payable	$ 62,731	$ 3	$ 83,739	$ 746	$ 9,845	$ 157,064
Prizes payable				14,150		14,150
Accrued interest	6,786	9			259	7,054
Accrued and other current liabilities	96,827	388	2,153	925	23	100,316
Advances from other funds	634					634
Due to other funds	2,741	20	593	83,171	278	86,803
Due to other governments			333,203			333,203
Funds held in trust for others	10,011					10,011
Workers' compensation benefits payable		16,395				16,395
Bonds, notes and leases payable	60,862	200			8,679	69,741
Claims, judgments and compensated absences	23,909	99	465	483	27,233	52,189
Deferred revenue	42,686			274	4,410	47,370
Total current liabilities	307,187	17,114	420,153	99,749	50,727	894,930
Noncurrent liabilities:						
Workers' compensation benefits payable		225,943				225,943
External portion of investment pool	935,111					935,111
Advances from other funds	5,632					5,632
Bonds, notes and leases payable	1,440,029	420			51,268	1,491,717
Net postemployment benefits payable	43,337	1,659	5,845	230	75	51,146
Claims, judgments and compensated absences	80,040	573	2,674		632	83,919
Deferred revenue	35,864				792	36,656
Other noncurrent liabilities	614	8,150				8,764
Total noncurrent liabilities	2,540,627	236,745	8,519	230	52,767	2,838,888
Total liabilities	2,847,814	253,859	428,672	99,979	103,494	3,733,818
Net Assets						
Net assets:						
Invested in capital assets, net of related debt	1,738,807	1,040	14,291	867	13,133	1,768,138
Restricted for:						
Expendable						
Debt service	19,149					19,149
Capital projects	31,962					31,962
Program requirements	1,977				431,167	433,144
Other	198,582			476		199,058
Nonexpendable - endowments	77,039					77,039
Unrestricted	553,631	(82,986)	(178,862)	(2,185)	39,420	329,018
Total net assets (deficit)	2,621,147	(81,946)	(164,571)	(842)	483,720	2,857,508
Total liabilities and net assets	$ 5,468,961	$ 171,913	$ 264,101	$ 99,137	$ 587,214	$ 6,591,326

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, 2010
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-Major Enterprise Funds	Total
Operating revenues:						
Charges for sales and services	$ 1,226,294	$	$	$	$ 270,164	$ 1,496,458
Lottery Collections				383,698		383,698
Licenses, permits and fees	303,050			867	3,732	307,649
Grants and contributions	364,443					364,443
Investment earnings					9,125	9,125
Miscellaneous	74,788	84	7,228	6	4	82,110
Total operating revenues	1,968,575	84	7,228	384,571	283,025	2,643,483
Operating expenses:						
Cost of sales and services				42,027	4,071	46,098
Lottery prize payments				247,723		247,723
Compensation and benefits	1,902,883	9,132	37,626	6,118	537	1,956,296
Supplies and services	811,947	1,927	21,548	4,747	17,342	857,511
General and administrative expenses	712	456	4,382	1,841	602	7,993
Scholarships and fellowships	191,793	5				191,798
Benefit and aid payments		4,220	1,147,573		256,154	1,407,947
Depreciation and amortization	200,017	146	654	123	587	201,527
Amortization of bond costs					44	44
Interest					2,927	2,927
Total operating expenses	3,107,352	15,886	1,211,783	302,579	282,264	4,919,864
Operating income (loss)	(1,138,777)	(15,802)	(1,204,555)	81,992	761	(2,276,381)
Nonoperating revenues (expenses):						
Investment earnings	41,925	2,089	956	182	309	45,461
Unrealized gains/losses on investments	260					260
Taxes	29,837		331,227			361,064
Insurance tax		16,396				16,396
Grants and contributions	344,893		750,533		38,346	1,133,772
Interest and amortization expense	(63,581)	(32)				(63,613)
Loss on sale of fixed assets	(2,599)		(7)		(44)	(2,650)
Other nonoperating revenue (expense)	(18,164)		(22)		65	(18,121)
Total nonoperating revenues (expenses)	332,571	18,453	1,082,687	182	38,676	1,472,569
Income (loss) before transfers and contributions	(806,206)	2,651	(121,868)	82,174	39,437	(803,812)
Transfers in	1,034,060	3	571		14,083	1,048,717
Transfers out	(72,570)	(1)	(2,566)	(83,000)	(4,861)	(162,998)
Capital grants and contributions	33,044					33,044
Change in net assets	188,328	2,653	(123,863)	(826)	48,659	114,951
Total net assets(deficit) - beginning restated	2,432,819	(84,599)	(40,708)	(16)	435,061	2,742,557
Total net assets(deficit) - ending	$ 2,621,147	$ (81,946)	$ (164,571)	$ (842)	$ 483,720	$ 2,857,508

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, 2010
(Expressed in thousands)

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:						
Cash received from customers	$ 1,242,132	$	$	$ 370,120	$ 270,050	$ 1,882,302
Cash received from other government agencies	349,508					349,508
Auxiliary enterprise charges	229,124					229,124
Payments to employees	(1,723,600)	(8,484)	(34,225)	(5,115)	(548)	(1,771,972)
Payments of benefits	(173,082)	(15,484)	(1,164,619)		(237,521)	(1,590,706)
Payments to suppliers	(806,972)	(2,433)	(27,493)	(46,876)	(19,691)	(903,465)
Payments for lottery prizes				(231,877)		(231,877)
Interest received (paid)					5,729	5,729
Loan administration received (paid)	(4,037)				(30,266)	(34,303)
Federal grant funds expended					(15,293)	(15,293)
Other receipts (payments)	(56,727)	84	7,228	(1,915)	(106)	(51,436)
Net cash provided by (used in) operating activities	(943,654)	(26,317)	(1,219,109)	84,337	(27,646)	(2,132,389)
Cash flows from noncapital financing activities:						
Gifts and grants	243,899					243,899
Direct lending receipts	187,662				1,700	189,362
Direct lending payments	(188,194)				(7,310)	(195,504)
Taxes	32,717	17,865	307,228			357,810
Grants and contributions	37,223		1,012,901		38,550	1,088,674
Advances from other funds (repayments)				(6,000)		(6,000)
Other receipts (payments)	2,307		912			3,219
Tranfers in	1,034,060	3	571		14,083	1,048,717
Transfers out	(72,569)	(1)	(2,566)		(4,805)	(79,941)
Net cash provided by (used in) noncapital financing activities	1,277,105	17,867	1,319,046	(6,000)	42,218	2,650,236
Cash flows from capital and related financing activities:						
Principal paid on capital debts and leases	(76,200)	(190)				(76,390)
Interest paid on capital debts and leases	(72,715)	(35)				(72,715)
Acquisition and construction of capital assets	(308,719)	(8)	(3,566)	(990)	(3,976)	(317,259)
Proceeds from governmental sources	30,868					30,868
Proceeds from long-term borrowings	110,761					110,761
Proceeds from sale of capital assets	3,107					3,107
Other receipts (payments) *	39,942					39,942
Net cash used in capital and related financing activities	(272,956)	(233)	(3,566)	(990)	(3,976)	(281,721)
Cash flows from investing activities:						
Purchase of investments	(167,642)				(58,018)	(225,660)
Proceeds from sale and maturities of investments	213,269	6,517			47,994	267,780
Interest and dividends on investments	7,812	2,170	960	182	405	11,529
Advance disbursements					(1,000)	(1,000)
Advance repayments					1,139	1,139
Net cash provided by (used in) investing activities	53,439	8,687	960	182	(9,480)	53,788
Net increase (decrease) in cash and cash equivalents	113,934	4	97,331	77,529	1,116	289,914
Cash and cash equivalents – beginning restated	378,684	19,717	31,327	5,988	99,251	534,967
Cash and cash equivalents (cash overdrafts) - ending	$ 492,618	$ 19,721	$ 128,658	$ 83,517	$ 100,367	$ 824,881

* 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, 2010
(Expressed in thousands)

Continued from the previous page

	Enterprise Funds					
	Higher Education	Workers' Compensation Commission	Department of Workforce Services	Lottery Commission	Non-major Enterprise Funds	Total
Reconciliation of operating loss to net cash used in operating activities:						
Operating income (loss)	$ (1,138,777)	$ (15,802)	$ (1,204,555)	$ 81,992	$ 761	$ (2,276,381)
Adjustments to reconcile operating loss to net cash used in operating activities:						
Depreciation	199,784	146	654	123	587	201,294
Amortization	247				(121)	126
Net appreciation (depreciation) of investments					(179)	(179)
Other operating activities	(21)					(21)
Prior year adjustment for capital asset capitalization		(22)			(170)	(192)
Net changes in assets and liabilities:						
Accounts receivable	(22,749)			(14,295)	(6)	(37,050)
Loans receivable	361				(30,275)	(29,914)
Inventory	(2,815)				4	(2,811)
Prepaid items		(20)	72			52
Other current assets	112				(266)	(154)
Other assets				(457)		(457)
Current liabilities	394				32	426
Accounts payable and other accrued liabilities	2,336	(11,222)	(18,288)	16,217	2,215	(8,742)
Net other postemployment benefits	9,050	576	2,134		26	11,786
Compensated absences	2,386	27	874	483	(35)	3,735
Deferred revenue	6,038			274	(219)	6,093
Net cash used in operating activities	$ (943,654)	$ (26,317)	$ (1,219,109)	$ 84,337	$ (27,646)	$ (2,132,389)
Non-cash investing, capital, and financing activities:						
Decrease in fair value of investments	$ 163					$ 163
Donated capital assets	666					666
Captial assets donated by other state agencies	50					50
Capital gifts	11,984					11,984
Fixed asset acquisition paid for by the State of Arkansas	113					113
Fixed asset acquisition directly from bond proceeds	2,158					2,158
Payments to bond escrow directly from bond proceeds	180,072					180,072
Payments to bond trustee directly from bond proceeds	(6,829)					(6,829)
Proceeds from bond issue	10,661					10,661
Bond discount and issue costs	1,434					1,434
Capital assets acquired by incurring capital leases and notes payable	2,902					2,902
Principal on LTD paid directly by UA Foundation, Inc.	1,404					1,404
Principal on capital debt paid by trustee	2,080					2,080
Interest on capital debt paid by trustee	5,555					5,555
Accrued interest	27					27
Capital outlay paid directly from proceeds of Act 1282 of 2005	2,514					2,514
Loss on disposal of capital assets	257					257
Archives	16					16
Valuation adjustment to capital assets	72					72

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 355,209	$ 26,408
Receivables:		
Employee	13,888	
Employer	47,200	
Interest and dividends	38,887	53
Advances to other funds	5,172	
Other	164,057	27
Due from other funds	2,353	
Total receivables	271,557	80
Investments at fair value:		
Certificates of deposit		37,186
U.S. government securities	453,258	
Bonds, notes, mortgages and preferred stock	533,215	76,259
Common stock	4,378,564	
Real estate	268,272	
International investments	4,106,210	
Mutual funds	579,621	
Pooled investment funds	1,474,157	
Corporate obligations	1,380,814	
Asset and mortgage-backed securities	299,453	
Other	2,139,998	
Total investments	15,613,562	113,445
Securities lending collateral	1,207,382	
Financial assurance instruments		316,370
Capital assets	358	
Other assets	156	
Total assets	17,448,224	456,303
Liabilities		
Accounts payable and other liabilities	20,997	
Investment principal payable	214,725	
Obligations under securities lending	1,232,410	
Postemployment benefit liability	1,669	
Due to other governments		114,683
Due to other funds	79	
Due to third parties		341,620
Total liabilities	1,469,880	456,303
Net Assets		
Held in trust for employees' pension benefits	15,978,344	
Total net assets	$ 15,978,344	$

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, 2010
(Expressed in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	157,367
Employers		585,180
Supplemental contributions		17,022
Court fees		2,421
Reinstatement fees		1,194
Total contributions		763,184
Investment income:		
Net increase (decrease) in fair value of investments		1,652,029
Interest, dividends and other		264,190
Real estate operating income		6,950
Securities lending income		5,202
Total investment (loss)		1,928,371
Less investment expense		54,558
Net investment (loss)		1,873,813
Miscellaneous		8,988
Total additions		2,645,985
Deductions:		
Benefits paid to participants or beneficiaries		1,123,658
Refunds of employee/employer contributions		11,569
Administrative expenses		10,168
Total deductions		1,145,395
Change in net assets held in trust for employees' pension benefits		1,500,590
Net assets - beginning		14,477,754
Net assets - ending	$	15,978,344

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

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(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 also 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 transaction (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
900 West Capitol, Suite 310
Little Rock, AR 72203

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 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.
535 Research Center Blvd.
Suite 120
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 Activities for 2009, have been decreased by $34.4 million as follows (expressed in thousands):

Beginning net assets	$	11,457,894
Federal receivable/unearned income		(9,282)
Tax incentive refunds payable		(23,747)
Accounts/grants payable		(9,297)
GASB 51 adjustment		4,064
Other capital assets and long-term debt		3,883
Restated beginning net assets	$	11,423,515

Fund balance for the General Fund as previously reported on the Statement of Revenues, Expenditures and Changes in Fund Balance for 2009 have been decreased by $42.3 million as follows (expressed in thousands):

Beginning fund balance	$	3,575,182
Federal receivable/unearned income		(9,282)
Tax incentive refunds payable		(23,747)
Accounts/grants payable		(9,297)
Restated beginning fund balance	$	3,532,856

Enterprise Funds net assets, as previously reported on the Statement of Revenues, Expenses and Changes in Fund Net Assets for 2009 have been increased by $6.2 million as follows (expressed in thousands):

Beginning net assets	$	2,736,334
GASB 51 adjustment		3,223
Addition of venture capital investement trust revolving loan fund		3,000
Restated beginning net assets	$	2,742,557

GASB 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 provisions of this statement generally must be applied retroactively to years ending after June 30, 1980. The enterprise funds and Government-wide financial statements have been restated for this new standard.

(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 and State Children's Health Insurance Program 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, Workers' Compensation Commission, Department of Workforce Services and the Arkansas Lottery 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.

Department of Workforce Services Fund

The Department of Workforce Services Fund 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.

Arkansas Lottery Commission Fund

The Arkansas Lottery Commission Fund's primary purpose is to supplement higher education scholarships with net proceeds from the State lotteries.

Non-Major Enterprise Funds

The non-major enterprise funds consist of the War Memorial Stadium Commission, which is responsible for the operation of the War Memorial Stadium, a facility available for use to all the schools, colleges and universities in the State under the supervision of the agency; 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; 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. Other non-major enterprise funds are the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping and/or rehabilitation for water systems; for the financing of capitalizable educational and general projects for community and technical colleges; to prevent, assess, safely clean up, and sustainably reuse brownfields; the development and redevelopment of affordable rental housing related to the five Presidentially-Declared Disaster areas; to incentivize development of affordable Assisted Living housing in Arkansas and to strengthen the financial feasibility of such developments; finance energy efficiency retrofits and green energy implementation for industries; and to hold equity investments made by the Risk Capital Matching Fund.

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 System, The Arkansas State Highway Employees Retirement System, the Arkansas Teacher Retirement System and the Arkansas Public Employee Retirement System, 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. These funds account for the collection and disbursement of sales and use tax to local governments within the State, the collection of assets of bankrupt insurance companies and payment of claims against those companies and other miscellaneous accounts for the benefit of other parties.

(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. Participation in the Pool is voluntary. At June 30, 2010, five universities, the University of Arkansas Cooperative Extension Service and four foundations participated in the Pool. The foundations hold approximately $935 million (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, to maintain sinking or reserve funds or to 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, infrastructure items (e.g., roads, bridges, ramps and similar items) and intangible assets 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 cost of an individual item's cost exceeds $2,500 and the estimated useful life exceeds one year.

The costs 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.

The State implemented GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal year 2010 which requires the capitalization of intangible assets by local and state govenments. The provisions of this statement generally were retroactive to years ending after June 30, 1980. The State's current policy is to record these assets at historical cost and to use the depreciation method in the current capitalization policy for other tangible and intangible assets. It is the State's policy to capitalize when the individual item's cost exceeds $100 thousand for internally generated software or $2,500 for all other intangible assets, and the estimated useful life exceeds one year.

The University of Arkansas adopted the following separate policy for capitalization of intangible assets:

Asset Class	Capitalization Threshold	Useful Life
Software – Purchased	$500,000	5 years
Software – Internally Developed	$1,000,000	10 years
Easements	$250,000	15 years
Land Use Rights	$250,000	15 years
Trademarks and Copyrights	$250,000	15 years
Patents	$250,000	20 years

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, 2010, is $54.6 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:

Assets	Years
Equipment	5-20
Buildings & building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Intangibles	4-99
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 provision 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, 2010, is related to projected refund estimates attributable to fiscal year 2010 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 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 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 financing 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 provision 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 restriction "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, 2010, the government-wide statement of net assets reported $1.3 billion in restricted net assets for governmental activities, of which $181 million were restricted by enabling legislation.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $41.1 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 statement 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. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* establishes accounting and financial reporting standards for all governments that report governmental funds. The statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions of governmental fund types. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010 (i.e., fiscal year 2011).

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employer Plans,* establishes guidance for measurement of other post-employment benefit (OPEB) obligations by certain employers participating in agent multiple-employer OPEB plans. The statement enables certain agent employers to use the alternative measurement method and clarifies that agent multiple-employer plans and their participating employers are to use the same frequency and timing of determining OPEB measurements. The requirements of this statement regarding use of the alternative measurement method were effective immediately upon issuance of this Statement (fiscal year 2010). The provisions related to the frequency and timing of OPEB measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2012).

GASB Statement No. 59, *Financial Instruments Omnibus,* updates existing standards regarding financial reporting of certain financial instruments and external investment pools. The statement clarifies the definition of 2a7-like pools; clarifies the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments;* and applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* to unallocated insurance contracts. The requirements of this statement are effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010 (i.e., fiscal year 2011).

(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, 2010, the reported bank balances of the general fund were $1,117,263,670. Of this amount, $382,818 was uninsured and uncollateralized, $6,815,378 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 $95,432,023 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2010, the reported bank balances of the enterprise funds were $786,001,393. Of this amount, $648,742 was uninsured and uncollateralized, $24,942,588 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 $93,184,448 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2010, the reported bank balances of the fiduciary funds were $99,225,413. Of this amount, $6,936,562 was uninsured and uncollateralized and $3,431,500 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2010, the reported bank balances of the component units were $8,860,458. Of this amount, $2,759,000 was uninsured and uncollateralized and $911,000 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, 2010, 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					
Municipal Bonds	$ 13,463	$	$ 13,463	$	$
Negotiable Certificates of Deposit	3,461	788	2,673		
Other Loans	37,789	7	10,069	27,713	
U.S. Government Agencies	1,387,961	10,419	1,369,346		8,196
U.S. Treasuries	90,282	84,219	6,063		
Subtotal	1,532,956	95,433	1,401,614	27,713	8,196
Enterprise Funds					
Corporate Bonds	11,954	2,333	7,410	1,925	286
Guaranteed Investment Contracts	2,097		531	1,566	
Municipal Bonds	1,047		1,047		
Mutual Bond Fund	2,250	2,037	213		
Negotiable Certificates of Deposit	1,055	1,055			
Other Loans	13,455	1,852	9,434	2,169	
Preferred Stock	5				5
U.S. Government Agencies	161,232	24,692	132,719	3,405	416
U.S. Treasuries	9,397	3,509	4,032		1,856
Subtotal	202,492	35,478	155,386	9,065	2,563
Fiduciary Funds					
Asset Backed Securities	206,988	8,849	29,906	44,010	124,223
Bonds and Notes	901,864	28,239	330,809	218,285	324,531
Certificates of Deposits	19,081	19,081			
Collateralized Obligations	6,757		523		6,234
Commercial Loans	36,915	329	35,287	1,299	
Commercial Paper	66,394	66,394			
Commingled Funds	1,852,105	74,304	149,303	889,685	738,813
Convertible Bonds	34,551	13,097	21,454		
Conventional Mortgages	44,089		10	18,924	25,155
Corporate Bonds	1,057,032	35,500	572,396	193,208	255,928
External Investment Pools	775,718	775,718			
International Investments	22,822	3,408	10,655	6,863	1,896
Investment Derivatives	1,161			18	1,143
High Yield Income Funds	12,597		11,280	1,317	
Municipal Bonds	12,321	703	3,074	1,353	7,191
Mutual Funds	52,870		35,443	17,427	
Other Loans	1,373		366	1,007	
Repurchase Agreements	83,222	83,222			
Short-term Investments	209,124	209,124			
Time Deposits	48,536	48,536			
U.S. Corporate Floating Rate	181,683	89,547	92,136		
U.S. Government Agencies	395,690	835	155,092	42,656	197,107
U.S. Government TIPS	7,770	2,547	647	4,576	
Subtotal	6,030,663	1,459,433	1,448,381	1,440,628	1,682,221
Component Units					
Guaranteed Investment Contracts	30,472		6,953	10,094	13,425
Mortgage Backed Securities	583,782			4,881	578,901
Municipal Bonds	239		239		
Mutual Bond Funds	989	989			
Other Loans & Notes	4		1	3	
U.S. Government Agencies	13,448	1,085	10,937	1,426	
U.S. Treasuries	24,506	10,828	11,076	2,602	
Subtotal	653,440	12,902	29,206	19,006	592,326
Total	$ 8,419,551	$ 1,603,246	$ 3,034,587	$ 1,496,412	$ 2,285,306

Corporate Bonds

As of June 30, 2010, the Arkansas Public Employees Retirement System (APERS) and Arkansas Highway Retirement System both held corporate bonds with a fair value of $517,506,749 and $265,608,980, respectively. 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. As of June 30, 2010, none of the Highway Retirement System's bonds were considered highly sensitive to interest rate changes and APERS held the following security that was considered highly sensitive to changes in interest rates.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
Bear Stearns	1/19/2007	$ 995,000	2/2/2017	*	*	$ 1,140,700

* The coupon was fixed at 7% until February 2009 and reset 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, 2010, APERS and the Arkansas Highway Retirement System held convertible bonds with a fair value of $180,825,380 and $34,551,250, respectively. 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. As of June 30, 2010, neither retirement system held convertible securities that were considered highly sensitive to changes in interest rates.

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 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, 2010, is as follows (expressed in thousands):

Standard and Poor's		Moody's Investor's Service	
Rating	**Fair Value**	**Rating**	**Fair Value**
General Fund			
AAA	$ 2,226,467	Aaa	$ 2,226,467
Unrated	115,020	Unrated	115,020
Subtotal	2,341,487		2,341,487
Enterprise Funds			
AAA	401,513	Aaa	330,532
AA	4,697	Aa	1,335
A	6,505	A	1,648
BBB	713	Baa and Below	562
BB	483	Unrated	120,657
B and Below	1,068		
Unrated	39,755		
Subtotal	454,734		454,734
Fiduciary Funds			
AGY	214,764	AGY	214,764
AAA	451,314	Aaa	418,610
AA	216,553	Aa	285,165
A	640,044	A	380,847
BBB	562,183	Baa	530,775
BB	280,245	Ba	282,865
B	276,638	B	170,090
CCC or Lower	84,421	Caa or Lower	55,209
P-1		P-1	134,011
Unrated	3,237,947	Unrated	3,491,773
Subtotal	5,964,109		5,964,109
Component Units			
AAA	1,025,931	Aaa	1,215,747
AA	7,161	Aa	5,721
A	8,089	A	8,356
Unrated	194,397	P-1	246
		Unrated	5,508
Subtotal	1,235,578		1,235,578
Total	$ 9,995,908		$ 9,995,908

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, 2010, the reported amount of the enterprise funds' investments was $832,100,104. Of this amount $1,193,023 was uninsured and unregistered with securities held by the counterparty's trust department but not in the government's name, and $20,435 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% 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 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 total investments in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank securities represented $1,379,328,979 or 56.51% of the general fund and $158,198,366 or 21.49% of the enterprise funds' total investments.

The 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 FNMA-mortgage backed securities represented $66,069,000 or 5.24% 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, 2010, is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Forward Currency Contract	Cash
Australian Dollar	$ 29,624	$ 4,756	$ 29,887	$ (5,022)	$ 3
Brazilian Real	15,995		15,285	689	21
British Pound Sterling	239,702	1,170	259,916	(23,311)	1,927
Canadian Dollar	26,630	12,240	16,246	(1,903)	47
Danish Krone	5,651		3,993	1,656	2
Euro	183,952	953	227,430	(45,863)	1,432
Hong Kong Dollar	92,517		98,994	(7,129)	652
Hungarian Forint	7	1,573		(1,684)	118
Indian Rupee	8,093	7,369			724
Indonesian Rupiah	16,611	4,194	12,417		
Israeli Shekel	4,119		4,119		
Japanese Yen	113,311	5,400	113,857	(6,375)	429
Malaysian Ringgit	11,643	1,349	10,294		
Mexico Nuevo Peso	16,470	6,390	3,541	6,249	290
New Taiwan Dollar	6,466		6,216		250
New Zealand Dollar	8,607	5,459		3,132	16
Norwegian Krone	8,170	1,262	10,842	(4,008)	74
Polish Zloty	805	1,481		(676)	
Singapore Dollar	17,816	439	5,451	11,922	4
South African Rand	2,868		5,103	(2,235)	
South Korean Won	15,461	4,941	10,520		
Swedish Krona	29,617	386	13,858	15,353	20
Swiss Franc	85,494		67,387	17,259	848
Thailand Baht	3,958		7,471	(3,513)	
Turkish Lira	2,075		2,075		
Total Fair Value	$ 945,662	$ 59,362	$ 924,902	$ (45,459)	$ 6,857

Note - For Forward 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 Teacher Retirement System (ATRS) 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, 2010, the retirement systems referred to above were party to outstanding foreign exchange currency contracts to purchase foreign currencies with contract amounts of $101.0 million, collectively. Market values of these outstanding contracts were $102.4 million resulting in an unrealized gain of $1.4 million. The retirement systems also had outstanding foreign exchange currency contracts to sell foreign currencies with contract amounts of $146.4 million at June 30, 2010. Market values of these contracts were $147.9 million resulting in an unrealized loss of approximately $1.5 million.

Mortgage-Backed Securities

APERS, ATRS, Arkansas State Highway Employees Retirement System (ASHERS) and Arkansas Judicial Retirement System (AJRS) invest in various asset-backed securities, mortgage-backed securities and structured corporate debt. These investments are reported at fair value in the balance sheet as government securities and asset and mortgage-backed securities. 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, 2010, the retirement systems held $261.5 million of mortgage-backed securities.

Asset-Backed Securities

As of June 30, 2010, APERS, ATRS, ASHERS and AJRS held asset-backed securities with the combined fair value of $109.4 million. 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 and AJRS had approximately $520.1 million and $19.6 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.

Derivatives

Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts and forward foreign currency exchange. ATRS investment guidelines state that derivatives may be used to reduce the risk in a portfolio but should not be used to create a position of leverage or substantially increase the risk of the overall portfolio. Futures and options should be matched by cash or cash equivalent securities, and all short futures positions should be matched by equivalent long security positions. Each investment manager's derivative usage is specified in the investment management agreement or specific guidelines. APERS, through its external investment managers, could hold such instruments. The external investment managers could enter into swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and use forward foreign exchange contracts primarily to hedge foreign currency exposure. APERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. APERS' external investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. APERS' external investment managers anticipate that the counterparties will be able to satisfy their obligations under the contracts.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (expressed in thousands):

Type	Changes in Fair Value *		Fair Value at June 30, 2010		Notional
	Classification	Amount	Classification	Amount	Amount
Foreign Currency Forwards					
	Investment revenue	$ 82	Investments	$ 82	$ (6,284)
	Investment revenue	(229)	Investments	(229)	(7,980)
	Investment revenue		Investments		1,241
	Investment revenue	115	Investments	115	3,380
	Investment revenue	601	Investments	601	18,589
	Investment revenue	(11)	Investments	(11)	10,070
	Investment revenue	591	Investments	591	(36,790)
	Investment revenue	(527)	Investments	(527)	(13,820)
	Investment revenue	12	Investments	12	(55,489)
	Investment revenue	(792)	Investments	(792)	(563,612)
	Investment revenue	37	Investments	37	87,730
	Investment revenue	7	Investments	7	(25,770)
	Investment revenue	146	Investments	146	119,830
	Investment revenue	28	Investments	28	16,640
	Investment revenue	(25)	Investments	(25)	(113,810)
	Investment revenue	(3)	Investments	(3)	(17,330)
Total Foreign Currency Forwards		$ 32		$ 32	$ (583,405)
Futures					
U.S. 10-year treasury note	Investment revenue	$ (46)	Investments	$ (46)	$ (5,346)
U.S. 2-year treasury note	Investment revenue	36	Investments	36	12,875
U.S. 5-year treasury note	Investment revenue	206	Investments	206	21,334
U.S. treasury bond	Investment revenue	581	Investments	581	20,202
U.S. Ultra long bond	Investment revenue	(8)	Investments	(8)	(807)
90-day Austalian bill	Investment revenue		Investments		824
90-day Banker's Acceptance	Investment revenue	1	Investments	1	245
Australian 10-year bond	Investment revenue	355	Investments	355	(351)
New Zealand 3-month bill	Investment revenue		Investments		667
U.K. Short Gilt	Investment revenue	5	Investments	5	2,019
U.K. Long Gilt	Investment revenue	3	Investments	3	1,448
Total Futures		$ 1,133		$ 1,133	$ 53,110
"To be announced" (TBA) securities					
FNMA SF Mortgage	Investment revenue	$ 65	Investments	$ 65	$ 1,190
FNMA SF Mortgage	Investment revenue	78	Investments	78	1,340
GNMA SF Mortgage	Investment revenue	588	Investments	588	9,630
GNMA II Jumbo	Investment revenue	39	Investments	39	1,000
FHLMC Gold SFM	Investment revenue	81	Investments	81	2,500
FNMA SF Mortgage	Investment revenue	147	Investments	147	2,100
	Investment revenue	163	Investments	163	37,700
Total TBA Securities		$ 1,161		$ 1,161	$ 55,460

* These amounts denote the net realized and unrealized gains and losses recognized during the period.

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, 2010, ADFA held $583.8 million of mortgage-backed securities.

(4) Securities Lending Transactions

Arkansas Public Employees Retirement System (APERS) and Arkansas Teacher Retirement System (ATRS) participate in securities lending programs, as authorized by Arkansas Code Annotated § 24-3-412 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 100% of the fair value of the securities loaned for ATRS and equal to at least 102% of domestic loans and 105% of international loans for APERS. 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 programs are administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The types of securities on loan at June 30, 2010, include U.S. Government securities, corporate securities and international securities. With the exception of cash collateral, the pensions do 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 statements 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. As of June 30, 2010, the carrying value and fair value of the underlying securities is $1.2 billion. At June 30, 2010, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

(5) Receivables

Receivables at June 30, 2010, 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	$ 245,608 (3)	$ 744,433 (1)	$	$ 244,715	$ 889 (2)	$ 299,842	$ 21,194	$ 30,980	$ (502,140)	$ 1,085,518
Higher Education Fund	751,334					78,653	472	8,296	(525,745)	313,010
Workers' Compensation Commission	7,946						880			8,826
Dept of Workforce Services	149,221						21		(38,583)	110,659
Lottery Commission	14,290									14,290
Non-major Enterprise Funds	1,256					362,055	696		(88)	363,919
Pension Trust			61,088				38,887	164,057		264,032
Agency							53	27		80
Total	$ 1,169,655	$ 744,433	$ 61,088	$ 244,715	$ 889	$ 740,550	$ 62,203	$ 203,360	$ (1,066,556)	$ 2,160,337

(1) Receivable balances of $13,085 are not expected to be collected within one year of the date of the financial statements.
(2) See Note 11 - Leases.
(3) $79 Interfund receivable due to the General Fund from the Pension Trust Fund was reclassified as Accounts Receivable on the Government-wide Statement of Net Assets.

Component Units

	Accounts	Loans	Capital Lease Receivable	Investment-Related	Contributions	Other Receivables	Allowance for Uncollectibles	Net Receivable by Component Unit
Arkansas Student Loan Authority	$	$ 551,467	$	$ 13,428	$	$ 162	$ (1,662)	$ 563,395
Arkansas Development Finance Authority	818	337,699	144,630	4,196		12,340	(44,817)	454,866
University of Arkansas Foundation				2,076	79,903		(1,293)	80,686
Total	$ 818	$ 889,166	$ 144,630	$ 19,700	$ 79,903	$ 12,502	$ (47,772)	$ 1,098,947

(6) Intergovernmental Activity

Interfund Receivables and Payables (expressed in thousands):

	Due From							
Due To	General Fund	Higher Education Fund	Workers' Compensation Commission	Department of Workforce Services	Arkansas Lottery Commission	Non-major Enterprise Funds	Pension Trust	Total
General Fund	$	$ 2,469	$ 20	$ 587	$ 83,171	$ 278	$ 78	$ 86,603
Higher Education Fund	7,119							7,119
Workers' Compensation Commission	246	272		6			1	525
Dept of Workforce Services	1,787							1,787
Lottery Commission	5							5
Non-major Enterprise Funds	628							628
Pension Trust	2,353							2,353
Total	$ 12,138	$ 2,741	$ 20	$ 593	$ 83,171	$ 278	$ 79	$ 99,020

Interfund receivables and payables include: (1) $2.5 million due from the Higher Education Fund to the General Fund for workers' compensation unemployment contributions, information technology services and grants; (2) $1.8 million due from the General Fund to the Department of Workforce Services for unemployment insurance program contributions; 3) $7.1 million due to the Higher Education Fund from the General Fund for college Technical Bond payment requisitions and grants; (4) $.6 million due from Department of Workforce Services to the General Fund for information technology services and (5) $2.4 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 To		
Advances From	General Fund	Higher Education Fund	Total
Non-Major Enterprise Funds	$	$ 6,266	$ 6,266
Pension Trust Funds	5,172		5,172
Total	$ 5,172	$ 6,266	$ 11,438

Advances include: (1) an outstanding balance of $5.2 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 from the Community/Technical College Revolving Loan program of $6.3 million providing low interest loans to community and technical colleges for capitalizable education and general projects with variable interest rates.

Transfers (expressed in thousands):

	Transfer In					
Transfers Out	General Fund	Higher Education Fund	Workers' Compensation Commission	Department of Workforce Services	Non-major Enterprise Funds	Total
General Fund	$	$ 1,031,494	$ 3	$ 541	$ 14,083	$ 1,046,121
Higher Education Fund	72,540			30		72,570
Workers' Compensation Commission	1					1
Department of Workforce Services		2,566				2,566
Lottery Commission	83,000					83,000
Non-Major Enterprise Funds	4,861					4,861
Total	$ 160,402	$ 1,034,060	$ 3	$ 571	$ 14,083	$ 1,209,119

Transfers include: (1) the transfer of $1.031 billion from the General Fund to the Higher Education Fund for state funding of higher education institutions; (2) the transfer of $72.5 million from the Higher Education Fund includes $57.4 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 $1.1 million from the Construction Assistance Loan Fund. $2 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. Another transfer of $3.3 million was from the Non-Major Enterprise Funds to reimburse $2.8 million to the Department of Health and $.5 million to Arkansas Natural Resources Commission for assistance in building clean drinking water facilities. $9.7 million was transferred to the Non-Major Enterprise Funds to reimburse $.8 million from the Department of Science and Technology for the Venture Capital Investment Trust, $3.9 million from the Arkansas Economic Development Commission for the Industrial Energy Technology Loan Program and $5 million from the Department of Human Services for the Assisted Living Incentive Fund.

On the Government-wide financial statements, additional transfers are reported which represents: $25 thousand of capital assets and $33 thousand of compensated absences balances transferred from the General Fund to the Department of Workforce Services. On the Enterprise Fund financial statements, the transfer in amounts were reported as capital contributions.

(7) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2010, was as follows (expressed in thousands):

	Balance July 1, 2009 as restated (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2010
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 638,085	$ (27)	$ 37,506	$ (2)	$ 675,562
Construction in progress	1,761,144	(745,593)	468,663	(262)	1,483,952
Other non-depreciable assets	6,942	26	7,372		14,340
Total capital assets, not being depreciated	2,406,171	(745,594)	513,541	(264)	2,173,854
Capital assets, being depreciated:					
Land improvements	145,496	1,896	2,470	(45)	149,817
Infrastructure	10,716,222	728,062	2,136	(10,391)	11,436,029
Buildings	1,226,568	12,121	29,773	(2,038)	1,266,424
Equipment	643,762	2,054	58,887	(32,525)	672,178
Other depreciable assets	39,144	3,396	7,434	(57)	49,917
Total capital assets, being depreciated	12,771,192	747,529	100,700	(45,056)	13,574,365
Subtotal	15,177,363	1,935	614,241	(45,320)	15,748,219
Less accumulated depreciation for:					
Land improvements	(72,091)	1,116	(6,681)	39	(77,617)
Infrastructure	(4,815,299)	(1,163)	(355,652)	10,294	(5,161,820)
Buildings	(466,592)	(242)	(24,866)	1,947	(489,753)
Equipment	(423,889)	(2)	(48,945)	30,330	(442,506)
Other depreciable assets	(22,315)	(1,063)	(7,505)	37	(30,846)
Total accumulated depreciation	(5,800,186)	(1,354)	(443,649)	42,647	(6,202,542)
Governmental activities capital assets, net	$ 9,377,177	$ 581	$ 170,592	$ (2,673)	$ 9,545,677

(1) Balance July 1, 2009, restated by $7,698.

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

	Balance July 1, 2009 as restated (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2010
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 115,488	$ (2,415)	$ 2,346	$ (2,039)	$ 113,380
Construction in progress	327,012	(125,227)	243,316	(104,330)	340,771
Total capital assets, not being depreciated	442,500	(127,642)	245,662	(106,369)	454,151
Capital assets, being depreciated:					
Improvements other than building	14,556	(150)	1,909	(5)	16,310
Leasehold improvements	1,100		481		1,581
Buildings	3,334,871	130,696	86,730	(4,117)	3,548,180
Equipment	663,442	(80,830)	57,487	(16,069)	624,030
Infrastructure	225,232	24,371	12,839	(5,383)	257,059
Intangibles	7,873	90,230	11,495		109,598
Art/Historic Treasures		68			68
Library Holdings	186,441	8,476	5,582	(2,467)	198,032
Other depreciable assets	57,071	(7,505)	2,580	(3,785)	48,361
Total capital assets, being depreciated	4,490,586	165,356	179,103	(31,826)	4,803,219
Subtotal	4,933,086	37,714	424,765	(138,195)	5,257,370
Less accumulated depreciation for:					
Improvements other than building	(6,191)	(298)	(740)	9	(7,220)
Buildings	(1,182,340)	12,956	(106,748)	2,598	(1,273,534)
Equipment	(470,598)	1,540	(50,596)	74,776	(444,878)
Infrastructure	(98,454)	(5,126)	(11,262)	47	(114,795)
Intangibles	(2,358)	(61,803)	(14,222)		(78,383)
Art/Historic Treasures		(19)			(19)
Library Holdings	(144,214)	(6,347)	(7,717)	1,954	(156,324)
Other depreciable assets	(24,569)	5,599	(10,242)	3,489	(25,723)
Total accumulated depreciation	(1,928,724)	(53,498)	(201,527)	82,873	(2,100,876)
Business-type activities capital assets, net	$ 3,004,362	$ (15,784)	$ 223,238	$ (55,322)	$ 3,156,494

(1) Balance July 1, 2009, restated by $3,223 by Higher Education.
(2) 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, 2010, was as follows (expressed in thousands):

	Balance July 1, 2009	Additions/ Deletions	Balance June 30, 2010
ADFA:			
Capital assets being depreciated:			
Equipment	$ 792	$ (288)	$ 504
Less accumulated depreciation for:			
Equipment	(534)	210	(324)
ADFA capital assets, net	$ 258	$ (78)	$ 180

Activity for ASLA for the year ended June 30, 2010, was as follows (expressed in thousands):

	Balance July 1, 2009	Additions/ Deletions	Balance June 30, 2010
ASLA:			
Capital assets not being depreciated:			
Land	$ 670	$	$ 670
Total capital assets, not being depreciated	670		670
Capital assets being depreciated:			
Building	2,009		2,009
Equipment	947	2	949
Total capital assets, being depreciated	2,956	2	2,958
Subtotal	3,626	2	3,628
Less accumulated depreciation for:			
Building and equipment	(534)	(88)	(622)
ASLA capital assets, net	$ 3,092	$ (86)	$ 3,006

Activity for U of A Foundation, Inc. for the year ended June 30, 2010, was as follows (expressed in thousands):

	Balance July 1, 2009	Additions/ Deletions	Balance June 30, 2010
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 467	$ (76)	$ 391
Capital assets being depreciated:			
Buildings and equipment	575	(319)	256
Less accumulated depreciation for:			
Buildings and equipment	(575)	319	(256)
Total Assets being depreciated, net	0	0	0
Total Assets U of A Foundation	$ 467	$ (76)	$ 391

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	$	4,280
Health and human services		9,473
Transportation		365,286
Law, justice, and public safety		28,107
Recreation and resources development		18,604
General government		16,825
Regulation of business and professionals		1,074
Total depreciation expense – governmental activities	$	443,649
Business-type Activities:		
Enterprise Funds	$	201,527
Total depreciation expense – business-type activities	$	201,527

Component Units

Component Units:		
ADFA	$	49
ASLA		88
Total depreciation expense – component units	$	137

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows (expressed in thousands):

	Balance July 1, 2009 as restated	Additions	Accretion on capital appreciation bonds	Reductions	Balance June 30, 2010	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 855,599 (1)	$ 323,320	$ 814	$ 237,011	$ 942,722 (2)	$ 186,854	$ 755,868
Revenue Bond Guaranty Fund	2,575			2,575			
Add (deduct):							
Deferred bond refunding loss:							
General Obligation	(8,829)	(10,236)		(1,208)	(17,857)		(17,857)
Debt to Component Unit	(3,023)			(287)	(2,736)		(2,736)
Issuance premium (discount):							
General Obligation	10,355	21,045		5,451 (3)	25,949	6,510	19,439
Debt to Component Unit	2,259			206	2,053	206	1,847
Total bonds payable	858,936	334,129	814	243,748	950,131	193,570	756,561
Notes payable to component unit	109,893	1,425		10,530	100,788	9,624	91,164
Note payable to pension trust fund	7,474			2,302	5,172	2,487	2,685
Capital leases	1,874			1,182	692	692	
Capital leases with component unit	123,800	19,520		5,371	137,949	6,286	131,663
Total notes and leases payable	243,041	20,945		19,385	244,601	19,089	225,512
Total bonds, notes and leases payable	1,101,977	355,074	814	263,133	1,194,732	212,659	982,073
Installment sale with component unit	12,795			455	12,340	470	11,870
Claims, judgments and arbitrage	117,550	239,782		243,778	113,554	102,168	11,386
Compensated absences	132,564	127,441		119,077	140,928	20,857	120,071
Total claims, judgments, arbitrage and compensated absences	250,114	367,223		362,855	254,482	123,025	131,457
Pollution remediation	15,703	3,337		2,285	16,755	892	15,863
Net OPEB obligation	235,005	129,337			364,342		364,342
Governmental activities total	$ 1,615,594	$ 854,971	$ 814	$ 628,728	$ 1,842,651	$ 337,046	$ 1,505,605

(1) Beginning balance restated by ($249)
(2) Includes accretion on capital appreciation bonds of $23,165
(3) Amortized $2,640 plus defeased $2,811

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, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year	Due greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
Construction Assistance Revolving Loan Fund	$ 65,120	$	$ 7,210	$ 57,910	$ 7,545	$ 50,365
War Memorial Bond Payable		1,700		1,700	1,000	700
College and University Revenue Bonds	1,314,295	230,282	141,610	1,402,967	45,648	1,357,319
Add (deduct):						
Deferred bond refunding loss	(3,303)	(2,958)	(400)	(5,861)	(651)	(5,210)
Issuance premiums/ (discounts)	11,667	4,244	956	14,955	1,057	13,898
Total bonds payable	1,387,779	233,268	149,376	1,471,671	54,599	1,417,072
Notes payable	47,285	13,728	14,804	46,209	7,163	39,046
Notes payable with component unit	3,042		492	2,550	514	2,036
Total notes payable	50,327	13,728	15,296	48,759	7,677	41,082
Capital leases	45,002	3,482	8,076	40,408	7,265	33,143
Capital leases with component unit	810		190	620	200	420
Total leases payable	45,812	3,482	8,266	41,028	7,465	33,563
Total bonds, notes and leases payable	1,483,918	250,478	172,938	1,561,458	69,741	1,491,717
Claims and judgments	290,670	360,516	369,265	281,921	55,368	226,553
Compensated absences	92,672	66,609	62,756	96,525	13,216	83,309
Total claims, judgments and compensated absences	383,342	427,125	432,021	378,446	68,584	309,862
Net OPEB obligation	38,387	12,759		51,146		51,146
Business-type activities total	$ 1,905,647	$ 690,362	$ 604,959	$ 1,991,050	$ 138,325	$ 1,852,725

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable	$ 612,400	$	$ 90,950	$ 521,450	$	$ 521,450
Notes payable		252,700		252,700		252,700
Total bonds and notes payable ASLA	612,400	252,700	90,950	774,150		774,150
Net OPEB obligation	42	23		65		65
Arkansas Development Finance Authority:						
Bonds payable	1,080,671	221,722	148,717	1,153,676	46,098	1,107,578
Notes payable		4,236		4,236		4,236
Add: issuance premiums	2,232		476	1,756		1,756
Total bonds and notes payable ADFA	1,082,903	225,958	149,193	1,159,668	46,098	1,113,570
Net OPEB obligation	438	234		672		672
U of A Foundation						
Annuity obligations	15,443	3,290	2,064	16,669	1,293	15,376
Component units total	$ 1,711,226	$ 482,205	$ 242,207	$ 1,951,224	$ 47,391	$ 1,903,833

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, 2010, were as follows (expressed in thousands):

	Final maturity date (1)	Interest rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G.O. Bonds (2)	2012	5.50	$ 56,800
2001A Series Federal Highway G.O. Bonds (2)	2013	5.25	95,280
2002 Series Federal Highway G.O. Bonds (2)	2015	5.00	10,160
2010 Series Federal Highway G.O.Bonds	2015	2.5 - 5.00	253,225
Arkansas Natural Resources Commission Bonds:			
2001A Series Water, Waste and Pollution	2012	4.65 - 6.30	1,235
2002A Series Water, Waste and Pollution	2027	4.00 - 5.00	10,780
2002B Series Water, Waste and Pollution	2026	4.25 - 5.00	5,220
2002C Series Water, Waste and Pollution	2021	3.50 - 5.00	5,480
2002D Series Water, Waste and Pollution	2018	3.00 - 4.75	5,155
2002E Series Water, Waste and Pollution	2013	2.75 - 5.80	485
2002F Series Water, Waste and Pollution	2013	2.00 - 4.20	635
2002G Series Water, Waste and Pollution	2036	2.85 - 4.95	4,550
2002H Series Water, Waste and Pollution	2018	4.50 - 5.35	1,180
2002I Series Water, Waste and Pollution	2027	3.00 - 4.75	8,560
2002K Series Water, Waste and Pollution	2027	3.00 - 4.88	6,770
2003A Series Water, Waste and Pollution	2021	2.25 - 5.30	1,625
2003B Series Water, Waste and Pollution	2020	2.00 - 4.10	2,020
2003C Series Water, Waste and Pollution	2034	2.50 - 4.75	14,290
2004A Series Water, Waste and Pollution	2037	3.00 - 5.00	12,220
2005A Series Water, Waste and Pollution	2026	3.25 - 4.35	4,720
2005B Series Water, Waste and Pollution	2028	3.00 - 4.75	8,235
2006A Series Water, Waste and Pollution	2017	5.00	12,195
2006B Series Water, Waste and Pollution	2037	3.50 - 4.50	8,405
2006C Series Water, Waste and Pollution	2034	4.13 - 4.63	4,420
2007A Series Water, Waste and Pollution	2041	4.00 - 4.50	7,350
2008A Series Water, Waste and Pollution	2043	3.50 - 4.60	24,675
2009A Series Water, Waste and Pollution	2044	2.00 - 4.88	14,965
2010A Series Water, Waste and Pollution	2045	2.00 - 4.50	23,000
2010B Series Water, Waste and Pollution	2021	1.00 - 4.10	37,595
2010C Series Water, Waste and Pollution	2021	2.00 - 3.00	9,500
College Savings Bonds:			
1993 Series, G.O. Bonds	2014	5.85 - 5.95	11,467
1996C Series, G.O. Bonds	2016	5.75 - 6.00	11,439
1997A Series, G.O. Bonds	2017	5.80 - 6.05	4,565
1997B Series, G.O. Bonds	2017	5.25 - 5.60	7,232
1998A Series, G.O. Bonds	2017	5.00 - 5.35	7,868
2005 Series, G.O. Bonds	2016	3.10 - 5.00	23,440
Higher Education Bonds:			
2007A Series, G.O. Bonds	2023	4.00 - 5.00	99,155
2007B Series, G.O. Bonds	2029	4.38 - 4.75	126,826
Total			$ 942,722

(1) Fiscal year
(2) Defeased in fiscal year 11, See Note 19

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2010, including accrued accreted interest of approximately $23.2 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2011	$ 185,748	$ 38,857	$ 224,605
2012	69,816	32,252	102,068
2013	88,925	28,995	117,920
2014	90,840	25,070	115,910
2015	96,141	20,884	117,025
2016-2020	124,887	78,118	203,005
2021-2025	122,150	49,468	171,618
2026-2030	97,590	20,971	118,561
2031-2035	21,155	7,969	29,124
2036-2040	22,305	4,331	26,636
Total	$ 919,557	$ 306,915	$ 1,226,472

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. Bonds issued to refund prior issues under this act in the 2010 fiscal year were $253.2 million.

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 2010 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 2010 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) and Act 631 of 2007 authorized the Arkansas Natural Resources Commission to issue Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of these acts are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit and resources of the State. Each act limits 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 2010, $37.6 million in bonds were issued under Act 607 of 1997 and $32.5 million were issued under Act 631 of 2007.

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 2010 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 2010 fiscal year.

Revenue Bond Guaranty Fund – Under the Arkansas Development Finance Authority Bond Guaranty Act of 1985, the Arkansas Department of Economic Development (ADED) may guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2010, no bonds were in default and guaranteed by the Revenue Bond Guaranty Fund.

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, 2010, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2011	$ 9,624	$ 5,447	$ 15,071
2012	9,103	5,120	14,223
2013	9,206	4,758	13,964
2014	9,142	4,351	13,493
2015	8,408	3,957	12,365
2016-2020	32,247	14,540	46,787
2021-2025	14,043	4,457	18,500
2026-2030	9,015	919	9,934
Total	$ 100,788	$ 43,549	$ 144,337

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 8%. The Agency borrowed $24.8 million in nine 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 the note payable to pension trust fund at June 30, 2010 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2011	$ 2,487	$ 414	$ 2,901
2012	2,685	215	2,900
Total	$ 5,172	$ 629	$ 5,801

Installment Sale with Component Units – The installment sale with component units consists of an agreement between the Arkansas Game and Fish Commission and the Arkansas Development Finance Authority to finance the acquisitions of land and interests in land to be utilized in the management and conservation of Arkansas wildlife resources. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on the installment sale with component units at June 30, 2010, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2011	$ 470	$ 547	$ 1,017
2012	490	528	1,018
2013	510	508	1,018
2014	530	488	1,018
2015	550	466	1,016
2016-2020	3,125	1,953	5,078
2021-2025	3,865	1,183	5,048
2026-2030	2,800	215	3,015
Total	$ 12,340	$ 5,888	$ 18,228

Business-Type Activities

Special Obligation Bonds - Special Obligation Bonds outstanding at June 30, 2010, 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	2020	2.50-5.50	$ 57,910

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, 2010 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 $203 thousand:

	Principal	Interest	Total
Year ending June 30:			
2011	$ 7,545	$ 2,642	$ 10,187
2012	7,645	2,323	9,968
2013	7,845	1,951	9,796
2014	7,900	1,568	9,468
2015	11,565	1,221	12,786
2016-2020	15,410	1,428	16,838
Total	$ 57,910	$ 11,133	$ 69,043

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 renovations 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.

War Memorial Stadium Commission – The Commission issued revenue bonds, series 2009, on October 1, 2009, for $4.0 million, for the purpose of financing improvements to War Memorial Stadium, including particularly, without limitation, the acquisition, construction and equipping of a press box. The purchase price for the bond shall be paid in multiple advances by First Security Bank (the Purchaser) as funds are needed for the project and to pay bond issuance expenses. As of June 30, 2010, advances totaled $1.7 million. The bonds, which are not general debt of the State, are payable from cash revenue. In addition, the Commission issued a note payable of $300 thousand on January 17, 2008 for the construction of a new sculpture at War Memorial Stadium.

At June 30, 2010, business type activity 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 discounts/premiums of approximately $14,752 and unamortized deferred bond refunding losses of $5,861:

	Final maturity date (1)	Interest rates %	Balance
Henderson State University	2036	2.00-7.00	$ 33,110
Southern Arkansas University-Magnolia	2039	1.40-5.35	35,624
Southern Arkansas University Tech-Camden	2016	5.00-6.02	480
Arkansas State University-Beebe	2040	3.00-6.60	38,085
Arkansas State University-Jonesboro	2039	1.60-5.25	122,150
Arkansas State University-Mountain Home	2033	3.84-5.50	10,582
Arkansas State University-Newport	2033	2.75-4.50	6,035
Arkansas Tech University	2041	1.10-5.75	56,860
University of Arkansas at Fayetteville	2040	Variable	447,552
University of Arkansas at Little Rock	2035	4.22-5.50	102,491
University of Arkansas for Medical Sciences	2036	1.87-22.43	257,574
University of Arkansas at Monticello	2036	Variable	11,455
University of Arkansas at Pine Bluff	2036	2.00-5.70	22,058
University of Central Arkansas	2038	2.00-7.75	84,480
University of Arkansas Community College at Hope	2039	1.00-5.12	7,260
University of Arkansas Community College at Batesville	2019	2.00-5.00	3,257
University of Arkansas Community College at Morrilton	2022	2.25-5.25	3,440
University of Arkansas at Fort Smith	2035	1.00-5.00	79,267
East Arkansas Community College	2013	2.50-6.00	455
National Park Community College	2031	3.00-4.70	12,280
Mid-South Community College	2039	3.70-4.30	14,855
Arkansas Northeastern College	2031	4.00-5.35	4,425
North Arkansas College	2037	3.50-4.70	4,365
Phillips Community College of the University of Arkansas	2039	3.00-5.20	12,028
Rich Mountain Community College	2023	Variable	1,405
South Arkansas Community College	2039	3.25-5.00	3,450
Northwest Arkansas Community College	2030	3.00-4.50	20,479
Black River Technical College	2028	1.35-4.75	2,670
Pulaski Technical College	2037	1.70-5.15	49,905
Ozarka College	2036	4.9-5.04	3,515
War Memorial Stadium	2017	2.25-4.90	1,834
Total			$ 1,453,426

(1) Fiscal year

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 business type activity revenue bonds and notes payable as of June 30, 2010, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2011	$ 54,325	$ 65,092	$ 119,417
2012	55,703	63,229	118,932
2013	56,547	61,075	117,622
2014	56,569	58,834	115,403
2015	56,909	56,538	113,447
2016-2020	298,904	235,280	534,184
2021-2025	285,224	170,654	455,878
2026-2030	259,580	108,857	368,437
2031-2035	241,800	49,241	291,041
2036-2040	87,865	7,211	95,076
Total	$ 1,453,426	$ 876,011	$ 2,329,437

Component Units

Arkansas Student Loan Authority (ASLA) – 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.

Conduit debt issued by ASLA is for the purpose of improving market liquidity for student loan agencies. ASLA is subject to monthly payments of ratable financing cost based on an estimate of conduit financing cost. Any ratable financing cost for any yield period not paid from available funds shall increase the funding note balance. The funding note is to be serviced by payments on student loans received on those loans which were pledged under the Funding Note Purchase Agreement. ASLA reports conduit debt obligations as notes payable on its Statement of Net Assets.

Revenue bonds and notes payable outstanding at June 30, 2010, were as follows (expressed in thousands):

	Final maturity date[1]	Interest rates %	Balance
Student Loan Revenue Refunding Bonds, Series 1997A	2014	0.510	$ 16,150
Student Loan Revenue Refunding Bonds, Series 2000 A-1	2030	0.44	45,000
Student Loan Revenue Refunding Bonds, Series 2000 A-2	2030	1.78	11,450
Student Loan Revenue Refunding Bonds, Series 2004 A-1/A-2	2039	0.44-0.48	101,150
Student Loan Revenue Bonds, Series 2005 A-1/A-2/A-3	2040	0.8-0.88	167,350
Student Loan Revenue Bonds, Series 2006 A-1/A-2/A-3/B-1	2041	0.67-0.8	178,600
Student Loan Revenue Bonds, Series 2006 A-4	2041	1.33	1,750
Note Payable, Conduit with U.S. Department of Education	2014	Variable	252,700
Total			$ 774,150

(1) Fiscal year

Future amounts required to pay principal and interest on revenue bonds at June 30, 2010, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2011	$	$ 6,453	$ 6,453
2012	82,600	6,228	88,828
2013	52,750	5,656	58,406
2014	163,350	5,436	168,786
2015		4,241	4,241
2016-2020		8,477	8,477
2021-2025		8,477	8,477
2026-2030	56,450	7,477	63,927
2031-2035		7,477	7,477
2036-2040	419,000	5,476	424,476
Total	$ 774,150	$ 65,398	$ 839,548

Line of Credit – On June 1, 2008, ASLA entered into an agreement with the State to obtain funding not to exceed $80 million. ASLA was permitted to draw up to $50 million prior to January 1, 2009 and was permitted to draw the remaining $30 million on or after January 1, 2009. Interest on the outstanding principal balance was .94% at June 30, 2009. This rate reset on June 1, 2010 to the six-month CD rate recommended by the State Bank Commissioner and approved by the State Board of Finance. Accrued interest is payable at various dates during the fiscal year with the final installment of accrued and unpaid interest, principal and other the agreement are payable on September 30, 2010. ASLA had $24 million and $23 million outstanding on this note as of June 30, 2010 and 2009, respectively. Accrued interest on the note payable was approximately $288,000 at June 30, 2010 and zero at June 30, 2009 due to payment made at fiscal year end.

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, 2010, the bonds outstanding issued under these programs aggregated $206.9 million.

Bonds and notes payable at June 30, 2010, were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Single Family Bonds and Notes Payable	2038	0.25-9.878	$ 688,100
Multi-Family Bonds Payable	2035	4.15-9.75	44,410
Bond Guaranty Program	2034	2.5-7.45	52,642
State and Health Facilities Bonds Payable	2040	1.4-7.00	280,420
Economic Development Bonds and Note Payable	2015	5.25-5.70	495
Tobacco Bonds Payable	2045	4.125-5.50	87,609
General Fund Bond and Note Payable	2011	0.21-0.35	4,236
Total			$ 1,157,912

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2010, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of $1.7 million less accreted interest of $76.6 million:

	Principal	Interest	Total
Year ending June 30:			
2011	$ 46,098	$ 44,391	$ 90,489
2012	235,053	42,306	277,359
2013	39,066	40,091	79,157
2014	36,753	38,332	75,085
2015	38,363	36,422	74,785
2016-2020	180,530	156,376	336,906
2021-2025	192,407	113,594	306,001
2026-2030	185,460	70,664	256,124
2031-2035	169,414	32,029	201,443
2036-2040	85,330	9,224	94,554
2041-2045	26,068	117	26,185
Total	$ 1,234,542	$ 583,546	$ 1,818,088

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, 2010, were $533,400 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2010, were as follows (expressed in thousands):

	Principal
Year ending June 30:	
2011	$ 1,293
2012	1,200
2013	1,168
2014	1,053
2015	1,027
2016-2020	4,117
2021-2025	2,734
2026-2030	1,227
2031-2035	1,568
2036-2040	1,244
2041-2045	38
Total	$ 16,669

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 $76.1 million were considered defeased at June 30, 2010.

Higher Education

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 Various Facility Revenue Bonds, Series 2002 and $12.1 million of Various Facility Revenue Bonds, Series 2001. 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, 2010, was $55.7 million for these issues and the related escrow balance at June 30, 2010, was $58.6 million.

On April 27, 2006, the University of Central Arkansas issued $8.1 million in general obligation bonds referred to as 2006F. The series 2006F bonds are secured by a pledge of a portion of the student housing revenues and will refund the series 2000 bonds of the College Square Retirement Center. The 2000 issue was held by the trustee until the debt was fully defeased on January 4, 2010, with the final payment by the trustee of $7.4 million from the escrow account. The balance remaining in the escrow account of $188 was transferred to the bond fund in order to close out the account.

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 System Revenue Refunding Bonds, Series 2007C. The bonds are secured by a specific pledge of Housing System Revenues. The Series 2007C bonds were issued to provide funds for 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 and resulted in gross savings of $1.5 million. The 1997A issue was called on April 1, 2008. The 2004C bond issue was held by the trustee until it was fully defeased on November 1, 2009, with the final payment from escrow of $15.2 million. A check was issued to the University for the remaining funds of $714 in order to close the escrow account.

On May 15, 2005, Northwest Arkansas Community College issued capital improvement and refunding bonds of $23.5 million with interest rates 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% to 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. As of June 30, 2010, the escrow fund established to provide the retirement of the bonds being refunded had a balance of $5.2 million. The final payment on the 2002 bonds was November 15, 2007, and the remaining principal amount of the outstanding 2000 bonds considered defeased was $5.2 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 $21 million were considered defeased at June 30, 2010. The bonds include the 1979 Series A Single Family Conventional Bonds, the 2001 Series C Multi-Family Mortgage Revenue Refunding Bonds (partial defeasance) and 2003 Series A Correction Facilities Revenue Refunding Bonds.

Current Refundings

Primary Government

During fiscal year 2010, the State issued $253.2 million of advance refunding general obligation bonds to redeem the 2000A, 2001A and 2002 bond series of the Highway and Transportation Department. The bonds bear interest rates ranging from 2.5% to 5.0% and mature in 2015. A portion of the proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the 2002 bond series. The remainder of the proceeds were placed in a trust account to be used in early fiscal year 2011 to redeem the 2000A and 2001A bond series. As of June 30, 2010, $161.2 million of outstanding bonds are considered defeased resulting in an economic present value savings of $5.8 million and a reduction of $25.9 million in future debt service. The refunding resulted in a loss on early retirement of $10.2 million for fiscal year 2010.

Higher Education

On December 1, 2009, Henderson State University issued $6.7 million Student Fee Secured Refunding Bonds, Series 2009, with an interest rate of 2% to 4.3% to refund $3.5 million of outstanding bonds dated July 1, 2001, with interest rates of 3.15% to 5.375% and $3.0 million of outstanding bonds dated July 1, 2003, with interest rates of 1% to 4.05%. Bond proceeds of $6.2 million and debt service reserve funds of $353,966 were deposited with the refunding bond agents to refund the above bonds. The 2001 Series and 2003 Series outstanding bonds were called for redemption on January 1, 2010. The remaining net bond proceeds of $355,073 (after payment of bond issuance costs of $98,939 and deduction of the bond discount of $23,439) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of $16,388 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $116,515. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2019 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next 17 years by $460,020 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $410,915.

On December 1, 2009, Henderson State University issued $1.5 million Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2009A, with an interest rate of 2% to 3.375% to refund $1.5 million of outstanding bonds dated July 1, 2004, with interest rates of 1.8% to 4.8%. Bond proceeds of $1.4 million and debt service reserve funds of $99,335 were deposited with the refunding bond agent to refund the above bonds. The 2004 Series outstanding bonds were called for redemption on April 1, 2010. The remaining net bond proceeds of $101,526 (after payment of bond issuance costs of $26,508 and deduction of the bond discount of $3,906) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of $3,180 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $32,395. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2019 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next nine years by $84,819 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $67,488.

On December 1, 2009, Henderson State University issued $515,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2009B, with an interest rate of 2.65% to 5.15% to refund $490,000 of outstanding bonds dated July 7, 2001, with an interest rate of 7 percent. Bond proceeds of $462,188 and debt service reserve funds of $44,962 were deposited with the refunding bond agent to refund the above bonds. The 2001 Series bonds were called for redemption on January 1, 2010. The remaining net bond proceeds of $45,011 (after payment of bond issuance costs of $7,801) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of $1,724 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17,150. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2017 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next seven years by $34,329 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $31,528.

On January 1, 2010, Southern Arkansas University issued Auxiliary Revenue Secured Improvement and Refunding Bonds in the amount of $10.1 million with interest rates of 2% to 5.1%. A portion of the proceeds was utilized to refund $385,000 of outstanding bonds dated October 1, 1999, with interest rates of 3.5% to 4.7%, $2.8 million of outstanding bonds dated December 1, 2001, with interest rates of 3% to 5.35%, and $4.3 million of outstanding bonds dated June 1, 2003, with interest rates of 1.4% to 5%. Bond proceeds of $6.9 million and debt service reserve funds of $763,829 were deposited with an escrow agent to refund the above bonds. The 1999 Series and 2001 Series outstanding bonds were called for redemption on April 1, 2010, and the 2003 Series outstanding bonds were called for redemption on March 9, 2010. Accrued interest of $33,359 was deposited into the debt service fund to be applied to subsequent interest payments and proceeds of $641,943 were deposited into the debt service reserve fund as required by the bond indenture. The remaining net proceeds (after payment of bond issuance costs of $144,358 and deduction of the bond discount of $102,955) of $2.3 million were deposited to the capital projects fund for various Auxiliary capital improvements. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $140,561. This difference, reported as a contra-liability account on the financial statements, will be amortized through the fiscal year 2015 using the straight-line method. The escrow balance at June 30, 2010, was $4,095 which was remitted to the University on August 5, 2010. The bond issue extended the debt obligations of the University by an additional 11 years.

On June 30, 2010, the University of Arkansas Fayetteville Campus issued $24.0 million in Athletic Facilities Revenue Refunding Bonds, Series 2010 (taxable) with interest rates of 1.00% to 4.82% to refund $19.1 million of outstanding Athletic Facilities Revenue Bonds, Series 1999, with interest rates of 3.35% to 5.05%, and $4.0 million of outstanding Athletic Facilities Revenue Bonds, Subordinate Series 2001, with an interest rate of 4.20%. Bond proceeds of $19.5 million were deposited into the current refunding fund to retire the 1999 bonds. Bond proceeds of $4.2 million were deposited into the advance refunding fund to retire the 2001 bonds. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $544,487. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2021 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next eleven years by $1.3 million and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $355,490. The escrow balance at June 30, 2010, was $23.7 million. The bonds dated May 1, 1999, were refunded on July 16, 2010. The bonds dated November 1, 2001 will be refunded on December 1, 2011.

On June 10, 2010, the University of Arkansas Medical Sciences Campus issued $7.6 million in Parking System Revenue Refunding Bonds, Series 2010, with interest at various rates from 2% to 4.5%, to refund the Parking System Revenue Construction and Refunding Bonds, Series 1998. The 2010 bond issue will mature in 2019. The refunding resulted in a net present value benefit of $770,000 and a deferred refunding loss of $230,000, which will be amortized as a component of interest expense until June 30, 2020. For current and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the refunded debt is deferred and amortized as a component of interest expense, in a systematic and rational manner, over the remaining life of the old debt or the life of the new debt, whichever is shorter. The escrow balance in the refunding account at June 30, 2010, was $8.96 million. The bonds were refunded in July, 2010.

On June 1, 2010, the University of Arkansas - Community College at Hope issued $4.6 million in Student Fee Refunding Revenue Bonds, Series 2010, with interest rates of 1% to 4% to advance refund $2.4 million of outstanding Refunding and Construction Student Fee Revenue Bonds, Series 1998, with interest rates of 3.8% to 5.125% and to advance refund $2.2 million of outstanding Student Fee Revenue Refunding Bonds, Series 2004A with interest rates of 1.75% to 4.85%. Bond and premium proceeds of $4.7 million were deposited in the advance refunding fund to retire the 1998 and 2004 bonds. Premium proceeds of $75,516 and debt service reserve funds of $15,106 were utilized for the payment of issuance costs. Premium proceeds of $8,871 and accrued interest of $2,956 were deposited in the debt service fund to be applied to subsequent interest payments. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $69,295. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2021 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next eleven years by $492,273 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $382,138. The escrow balance at June 30, 2010 was $4.7 million. The bonds were refunded on July 12, 2010.

On June 15, 2010, the University of Arkansas - Community College at Batesville issued $2.3 million in Student Fee Revenue Refunding Bonds, Series 2010, with interest rates of 1% to 3.25% to refund $2.2 million of outstanding Student Fee Revenue Bonds, Series 1998, with interest rates of 3.1% to 5%. Bond proceeds of $2.3 million were deposited in the current refunding fund to retire the 1998 bonds. Remaining bond proceeds of $43,636, premium proceeds of $4,033 and debt service reserve funds of $7,522 were utilized for the payment of issuance costs. The remaining premium proceeds of $10,034 and accrued interest of $1,026 were deposited in the debt service fund to be applied to subsequent interest payments. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,364. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2019 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next nine years by $209,356 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $185,775. The escrow balance at June 30, 2010 was zero. The bonds were refunded on June 22, 2010.

On June 1, 2010, the University of Arkansas Fort Smith Campus issued refunding bonds of $29.9 million in Student Fee Refunding Revenue Bonds, Series 2010, with interest rates of 2% to 4% to advance refund $28.9 million of outstanding Student Fee Revenue Bonds, Series 2001, with interest rates of 2% to 5%. Bond and premium proceeds of $30.6 million were deposited in the advance refunding fund to retire the 2001 bonds. Premium proceeds of $342,181 were utilized for the payment of issuance costs. Other proceeds and accrued interest of $83,009 were deposited in the debt service fund to be applied to subsequent interest payments. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.7 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2022 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next twelve years by $1.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1.1 million. The escrow balance at June 30, 2010 was $30.6 million. The bonds will be refunded on December 1, 2011.

On June 15, 2010, the University of Arkansas - Community College at Morrilton issued $2.0 million in Student Fee Refunding Bonds, Series 2010, with interest rates of 2% to 3.5% to advance refund $2.1 million of outstanding Student Fee Revenue Bonds, Series 2002, with interest rates of 2.25% to 5.25%. Bond proceeds and debt service reserve funds of $2.1 million were deposited in the advance refunding fund to retire the 2002 bonds. Debt service reserve funds of $48,973 were utilized for the payment of issuance costs. Debt service reserve funds of $13,396 and accrued interest of $156 were deposited in the debt service fund to be applied to subsequent interest payments. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $23,333. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2022 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next twelve years by $273,076 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $195,819. The escrow balance at June 30, 2010 was $2.1 million. The bonds were refunded on July 19, 2010.

On December 22, 2009, Ozarka College issued refunding bonds of $3.5 million with interest rates of 2% to 5.25% to refund $2.3 million of outstanding bonds dated December 1, 2002, with interest rates of 3% to 5% and to acquire project funding for the construction of a new educational facility in Mountain View, Arkansas. Bond proceeds of $2.3 million were deposited in the current refunding fund to retire the 2002 bonds. Remaining bond proceeds of $74,139 were utilized for the payment of issuance costs. The remaining proceeds of $111,057 and accrued interest of $9,278 were deposited into the debt service fund to be applied to subsequent interest payments and $1.1 million was deposited into a project fund to be used for the construction of a new educational facility. The bonds were sold with an original issue discount of $28,222. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $16,409. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2036 using the straight-line method.

(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, 2010 and the remaining principal and interest as of June 30, 2010 (expressed in thousands):

Revenue Pledged	Purpose of Debt	Term of Commitment	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2010 Pledged Revenue	Fiscal Year 2010 Principal and Interest
Rental income	Purchase of building	2014	$ 1,460	24%	$ 1,393	$ 370
Court filing fees	Construction of building	2030	15,635	85%	990	908
Rental income	Purchase of building	2030	27,061	71%	1,961	
License fees	Prison construction	2039	54,680	50%	3,932	1,892
Motor vehicle fees	Construction and remodel of buildings	2021	1,817	16%	1,671	1,236
Vital records fees	Health lab construction	2028	26,025	69%	2,410	1,562
State park revenue	Construction of state park facilites	2024	36,566	69%	4,230	2,710
Permit fees	Construction of building	2041	35,247	11%	11,199	1,150
Drivers license revenue	Wireless network	2018	17,122	68%	2,886	2,157
Drivers license revenue	Construction of building	2018	24,110	77%	3,877	3,034

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, 2010 and the approximate amount of pledged revenues as of June 30, 2010 (expressed in thousands):

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment (1)	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2010 Pledged Revenue	Fiscal Year 2010 Principal and Interest
Henderson State University	Student housing revenue	Construction and renovation of student housing and refunding of existing student housing bond	2036	$ 26,228	52%	$ 1,955	$ 1,195
	Student recreation center revenue	Construction of student recreation center	2032	11,997	98%	511	500
	Auxiliary revenue	Renovation and maintenance of other auxiliary services and refunding of existing auxiliary services bonds	2017	604	26%	326	78
	Student tuition & fee revenue	Refunding of prior issues	2027	11,057	3%	21,363	401
Southern Arkansas University - Magnolia	Student fees	Construction of facilities, capital improvements and refunding of prior issues	2038	43,303	8%	18,629	1,581
	Auxiliary revenue	Athletic improvements, capital improvements to facilities and refunding of prior issues	2039	20,397	10%	6,764	422
Southern Arkansas University-Tech Branch	Student tuition revenue	Capital improvements	2016	407	10%	691	67
Arkansas State University - Beebe	Housing fees	Construction of facilities	2040	16,709	100%	216	-
	Student tuition & fee revenue	Construction, renovation and refinance of facilities	2036	48,780	19%	9,853	2,050
Arkansas State University - Jonesboro	Student tuition & fee revenue	Construction of facilities, property purchase and refinance facilities	2034	22,944	1%	67,835	1,669
	Housing fees	Construction of facilities and refinance facilities	2039	128,995	63%	7,082	5,231
	Student union fees	Refinance facilities	2025	17,103	48%	2,361	1,198
	Parking fees	Refinance facilities	2025	5,828	30%	1,310	408
	Recreation center fees	Construction of facilities	2037	28,567	75%	1,409	1,056

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment (1)	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2010 Pledged Revenue	Fiscal Year 2010 Principal and Interest
Arkansas State University - Mountain Home	Student fees and ad valorem tax	Construction of facilities and refinance prior issues	2033	$ 11,391	10%	$ 4,861	$ 809
Arkansas State University - Newport	Student tuition & fee revenue	Construction of facilities and refinance prior issues	2033	8,898	10%	3,922	466
Arkansas Tech University	Food service fees	Renovation of cafeteria	2017	725	2%	4,647	105
	Housing fees	Construction and renovation of facilities	2039	44,654	24%	6,311	1,859
	Student tuition & fee revenue	Construction and renovation of facilities and upgrade computer system and software	2041	47,191	4%	38,959	2,341
	Athletic revenues	Construction of facilities	2037	6,344	6%	3,722	263
University of Arkansas at Fayetteville	Various facility revenue	Construction & renovation of facilities, refunding of prior issues, land purchases	2040	637,214	10%	205,890	35,125
	Athletic fees	Construction of facilities and refunding of prior issues	2023	45,774	7%	51,201	6,149
University of Arkansas at Little Rock	Student fees	Refunding of prior issues, general improvements and capital improvements	2030	80,830	6%	65,238	5,203
	Housing fees	Construction of facilities	2030	24,254	42%	2,870	1,003
	Housing & athletic fees	Construction of facilities	2035	50,447	26%	7,790	541
University of Arkansas for Medical Sciences	Clinical programs revenue	Construction of facilities and refinance prior issues	2036	399,334	3%	551,379	17,389
	Parking fees	Parking deck construction and refinance prior issues	2035	25,485	29%	3,466	1,933
University of Arkansas at Monticello	Auxiliary revenue	Refunding of prior issues	2019	3,669	6%	6,274	413
	Student fees & auxiliary revenue	Capital improvements and refund loan with component unit	2036	14,690	3%	18,202	572
University of Arkansas at Pine Bluff	Education and general funds	Refunding of prior issues and capital improvements	2036	35,859	4%	33,782	1,643
	Student fees	Construction of facilities	2014	377	1%	21,000	94
University of Central Arkansas	Student fees	Construction of facilities, capital improvements and refunding of prior issues	2038	64,766	3%	68,480	3,710
	Housing fees	Construction of facilities and refunding of prior issues	2034	47,273	14%	14,162	2,540
	Auxiliary revenue	Construction of facilities, capital improvements and refunding of prior issues	2038	19,732	4%	17,256	1,537
University of Arkansas Community College - Hope	Student fees	Construction of facilities and refund of prior issues	2039	10,215	15%	2,388	760
University of Arkansas Community College - Batesville	Student fees	Construction of facilities and refund of prior issues	2019	2,572	8%	3,650	300
University of Arkansas Community College - Morrilton	Student fees	Construction of facilities and refund of prior issues	2022	3,999	6%	5,652	439
University of Arkansas at Fort Smith	Student fees	Construction of facilities, refunding of prior issues and general improvements	2035	114,395	15%	29,843	6,243
National Park Community College	Student tuition & fee revenue	Construction and renovation of facilities	2033	6,125	8%	3,371	161
Arkansas Northeast College	Millage revenue	Refunding of prior issues	2031	7,385	63%	558	351
University of Arkansas Community College - Phillips	Student fees	Construction of facilities and refund of prior issues	2039	22,098	24%	3,160	621
Rich Mountain Community College	Tax revenue	Capital improvements	2023	1,895	54%	268	157
South Arkansas Community College	Millage revenue	Construction of facilities	2039	6,307	74%	294	217
Northwest Arkansas Community College	Property tax revenue	Construction of facilities and refunding of prior issues	2030	31,495	48%	3,302	1,578
	Infrastructure fees	Refunding of prior issues	2025	8,250	62%	891	876
Black River Technical College	Student tuition & fee revenue	Renovation and expansion of facilities	2028	3,954	13%	1,681	219
Ozarka College	Student tuition & fee revenue	Construction of facilities and refund of prior issues	2037	6,196	8%	2,864	80
Pulaski Technical College	Student tuition & fee revenue	Construction and renovation of facilities	2037	81,640	50%	6,038	3,652
War Memorial Stadium Commission	Cash revenue	Press box construction	2017	4,000	100%	571	104

(1) Fiscal Year

Component Units

The Arkansas Student Loan Authority (ASLA) has pledged certain revenues as security for an outstanding note payable. The purpose of the debt was to redeem auction rate bonds. The following is a summary of the pledged gross revenues collected, principal and interest paid during the fiscal year ended June 30, 2010 and the approximate amount of the pledged revenues as of June 30, 2010 (expressed in thousands):

Entity	Revenue Pledged	Purpose of Debt	Term of Commitment	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Fiscal Year 2010 Pledged Revenue	Fiscal Year 2010 Principal and Interest
Arkansas Student Loan Authority	Student loan principal & interest revenue	Redeem auction rate bonds	2014	$ 259,030	100%		

(10) Arbitrage Rebate and Excess Earnings Liability

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 issues tax exempt bonds. Additionally, all of the State's outstanding bonds are subject to federal government arbitrage rebate laws.

Governmental Activities

At June 30, 2010, the governmental activities of the State had an arbitrage rebate liability of $1.35 million.

Component Units

The Arkansas Student Loan Authority's (ASLA) liability related to arbitrage rebate has been included in accounts payable and accrued expenses in the amounts of approximately $1.4 million at June 30, 2010. The determination of the arbitrage rebate and excess earnings liability is based on estimates that are susceptible to significant changes in market conditions. 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. 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 ASLA to the federal government related to its excess earnings liability during the year ended June 30, 2010.

The Arkansas Development Finance Authority (ADFA) has made provisions for revenues above the rebate limit. 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 federal arbitrage rebate laws, ADFA has directed the excess to bond issues earning less than the allowed amount. At June 30, 2010, no excess subsidy existed.

(11) Leases

Capital Lease Receivables

In February of 2009, a capital lease receivable was entered into with the Arkansas Development Finance Authority (ADFA), a discretely presented component unit of the State, and the Arkansas Department of Economic Development (ADED), a department of the State of Arkansas, as lessors, and Victory Lumber, LLC, as lessee. The capital lease term continues until February 29, 2024. The original amount of the lease is $927 thousand, which includes buildings, all movable property, fixtures, furniture, and equipment located on the premises. 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, 2010.

Future amounts required to pay principal amounts as of June 30, 2010, are as follows (expressed in thousands):

		Principal
Year ending June 30:		
2011	$	65
2012		65
2013		65
2014		65
2015		65
2016-2020		325
2021-2025		239
Total	$	889

Capital Lease Obligations

The State has entered into various lease agreements with the private sector, primarily for buildings and intangibles (software). These agreements are for various terms with all 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 intangibles (software) 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 ADFA. 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	184,297	25,643
Machinery and equipment		36,367
Intangibles	1,313	
Less: Accumulated depreciation	(22,422)	(21,334)
Total	$ 163,188	$ 40,935

Future minimum commitments under operating and capital leases by fund type as of June 30, 2010, were as follows (expressed in thousands):

	Capital leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2011	$ 717	$ 9,206
2012		7,767
2013		7,199
2014		5,614
2015		4,219
2016-2020		12,581
2021-2025		1,476
2026-2030		1,476
2031-2035		1,452
Total minimum lease payments	717	50,990
Less: Interest	(25)	(10,582)
Present value of future minimum lease payments	$ 692	$ 40,408

	Capital leases with component unit	
	Governmental activities	Business-type activities
Year ending June 30:		
2011	$ 12,329	$ 227
2012	12,227	224
2013	12,216	225
2014	11,803	
2015	10,820	
2016-2020	57,025	
2021-2025	42,218	
2026-2030	29,792	
2031-2035	17,124	
2036-2040	5,841	
2041-2045	488	
Total minimum lease payments	211,883	676
Less: Interest	(73,934)	(56)
Present value of future minimum lease payments	$ 137,949	$ 620

	Operating leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2011	$ 27,869	$ 14,997
2012	15,923	10,757
2013	10,614	7,810
2014	8,009	6,342
2015	6,338	4,210
2016-2020	18,150	6,459
2021-2025	13,305	4,468
2026-2030	11,956	4,349
2031-2035	9,341	4,369
Total minimum lease payments	$ 121,505	$ 63,761
Total rental expenditure/ expense (2010)	$ 33,032	$ 18,323

(12) Pollution Remediation

Primary Government

Governmental Activities

The State estimates and reports the potential costs of pollution remediation in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation.* While GASB 49 does not require the State to search for pollution, it does require the State to reasonably estimate and report a remediation liability when specified obligating events occur. Site investigation, planning and design, cleanup and site monitoring are typical remediation activities currently underway. The standard requires the State to calculate pollution liabilities using the expected cash flow technique. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. Estimations of the liability for current remediation projects are based on historical data, adjusted for current costs. Recoveries are not anticipated. The remediation obligation estimates that appear in this report are subject to change over time because of price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, recoveries, changes to statutes or regulations and/or other factors.

Changes in the liability for pollution remediation obligations are as follows (expressed in thousands):

	2010	2009
Balance, beginning of year	$ 15,703	$ 10,950
Incurred Claims	3,337	5,230
Payments	(2,285)	(477)
Balance, end of year	$ 16,755	$ 15,703
Current portion	$ 892	$ 435
Non current portion	15,863	15,268
	$ 16,755	$ 15,703

The State's polluted sites are primarily from chemical and fuel spills, asbestos and former landfills where pollution remediation has already commenced with monitoring being completed as necessary.

Most of the above-mentioned obligations are covered by the Arkansas Remedial Action Trust Fund (RATFA) which was established by Act 479 of 1985 to provide for investigation and clean-up of abandoned hazardous substance sites within the State of Arkansas. Funding for RATFA is generated mostly by fees collected from companies that require disposal of large quantities of hazardous waste annually as well as other fees assessed by RATFA if required. The Fund had a cash balance of about $10.8 million at June 30, 2010.

Higher Education Fund

On July 21, 2009 the University of Arkansas Fayetteville campus was awarded a grant in the amount of $1.9 million from the United States Department of Energy to conduct a study to determine what obligation, if any, the campus may have for potential remediation of the Southwest Experimental Oxide Reactor site (SEFOR), including estimated remediation cost and development of a plan for necessary remediation. As of June 30, 2010, the University was under no obligation to complete the remediation of the site.

(13) Fund Balance/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had an $81.9 million deficit in net assets as of June 30, 2010. 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 2007 legislative session with the passage of Act 1599, which sets the threshold to 325 times the maximum total disability rate, or $182,650 for 2010.

Arkansas Department of Workforce Services (ADWS) had a $164.6 million deficit in net assets as of June 30, 2010. The deficit is due primarily to the State's Unemployment Insurance Trust Fund (Fund), an enterprise fund of the State which had a $197.9 million deficit in net assets as of June 30, 2010. The Fund, which is managed by the ADWS, is designed to be self-supporting through employer contributions. The Fund became insolvent in 2009 when claims began to outpace accumulated employer contributions. Under provisions of Title XII of the Social Security Act, the State received $333 million in advances from the Federal Unemployment Account (FUA) through June 30, 2010 to cover eligible claims. The Federal American Recovery and Reinvestment Act (Public Law 111-5, enacted February 17, 2009) provides for interest forgiveness on all such advances through December 31, 2010. Although there are no current projections for the repayment of the advances, changes have been made to increase collections and decrease disbursements within the Fund. Effective January 1, 2010, the taxable wage base was increased from $10,000 to $12,000 and this change will increase total collections by approximately $50 million per year. Additional legislation will be proposed for the 2011 Legislative Session to further increase collections and provide some decreases in the calculation and payment of benefits. Current projections are that the total outstanding balance of Title XII advances at June 30, 2011 will be approximately $408 million. The US Congress is considering legislation that would extend the waiver of interest payment for another two years to December 31, 2012. The Fund has not received any advances since April 19, 2010.

The Arkansas Scholarship Lottery Commission had an $842 thousand deficit in net assets as of June 30, 2010. The deficit was due to a difference in the manner in which net proceeds was calculated. Specifically, net proceeds were calculated in accordance with Arkansas Scholarship Lottery Act. The Act is not consistent with generally accepted accounting principles, which is the method used for presentation of the financial statements. The difference in accounting methods resulted in a higher calculation of net proceeds amount used for scholarship funding and the corresponding liability, thus resulting in a deficit in net assets.

(14) Pensions

(a) Plan Descriptions

The State contributed to two single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan (Judicial) and Arkansas Highway and Transportation Retirement Plan (Highway). Judicial is 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

The State sponsors two cost-sharing multiple-employer defined benefit plans: Arkansas Teacher Retirement Plan (Teachers), 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 are as follows:

	APERS					
	APERS	District Judges	ASPRS	Teacher	Highway	Judicial
Number of participating employers/contributing entities	856	79	1	343	1	1
Contribution rates for the fiscal year ended June 30, 2010 (% of covered payroll):	4.00%-23.00%	16.00%	22.00%	14.00%	12.90%	24.59%
Legal or contractual maximum rates	23.00%	16.00%	22.00%	14.00%	12.90%	24.59%
Covered Payroll (in thousands)	$ 1,523,000	$ 3,554	$ 28,513	$ 2,381,000	$ 127,000	$ 18,630
State Plan Members - contributory plans	5.00%	5.00%	9.25%	6.00%	6.00%	6.00%
Annual pension cost (in thousands)	$ 169,604	$ 1,779	$ 20,548	$ 389,300	$ 17,999	$ 4,668
Contributions made (in thousands)	$ 169,604	$ 1,779	$ 20,548	$ 389,300	$ 17,999	$ 4,668

The annual required contribution amounts and the percentage contributed are determined by the annual actuarial valuation as set forth in the 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 Required Contribution	Percentage contributed
2010	APERS	$	169,604	100.00%
	District Judges	$	1,916	93.29%
	ASPRS	$	12,748	161.18%
	Teacher	$	362,850	107.30%
2009	APERS	$	159,232	100.00%
	District Judges	$	1,581	102.05%
	ASPRS	$	10,536	115.25%
	Teacher	$	344,030	104.37%
2008	APERS	$	173,462	100.00%
	District Judges	$	1,525	110.00%
	ASPRS	$	9,996	116.56%
	Teacher	$	343,990	101.84%

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.

Act 177 of 2007 abolished the Arkansas District Judges Retirement System (District Judges) and transferred the powers, duties, and plan liabilities to APERS effective July 1, 2007. District Judges is treated as a separate Division of APERS with its individual Actuarial Valuation.

The Arkansas State Police Retirement System (ASPRS) 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 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 1242 of 2009 transferred all assets of ASPRS to APERS effective July1, 2009. ASPRS is treated as a separate Division of APERS with its own individual Actuarial Valuation.

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 equals 5% or more of the individual plan's net assets available for benefits.

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.

No pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions (ARC). 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 are made directly by the school districts.

No pension liability exists for Teachers, Highway or Judicial as the State's contributions to each plan for the year ended June 30, 2010, was equal to the ARC.

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

	Year ending	Annual pension cost (APC)	Percentage of APC contributed
Highway	6/30/2010	$ 17,999	100.00%
	6/30/2009	16,691	100.00%
	6/30/2008	16,178	100.00%
Judicial	6/30/2010	4,668	100.00%
	6/30/2009	4,467	100.00%
	6/30/2008	5,145	100.00%

Historical trend information designed to provide information about each system's 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 and Judicial plans as of June 30, 2010, is as follows:

	Highway	Judicial
Actuarial accrued liability	$ 1,305,000	$ 182,912
Acturial value of plan assets	1,199,400	165,244
Unfunded actuarial accrued liability (UAAL)	$ 105,600	$ 17,668
Funded ratio	91.91%	90.30%
Covered payroll	$ 127,000	$ 18,630
UAAL as a percentage of covered payroll	83.15%	94.80%

(d) Actuarial Assumptions

	APERS					
	APERS	**District Judges** [(a)]	**ASPRS**[(a)]	**Teacher**	**Highway**	**Judicial**
Actuarial valuation date	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage of Payroll (State & Local) Level Dollar (General Assembly Members), Open	Level Dollar, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining amortization period	30 years (State & Local Employees) 18 years (General Assembly Members)	27 Years	30 years	52 years	24.6 years	30 years
Asset valuation method	4 Year Smoothing Market-25% Corridor	4 Year Smoothing Market-25% Corridor	4 Year Smoothing Market	4 Year Smoothing 80%-120% Corridor	5 Year Smoothing Market	4 Year Smoothing Market
Actuarial assumptions:						
Inflation rate	4.00%	4.00%	4.00%	4.00%	3.50%	3.00%
Investment rate of return*	8.00%	8.00%	8.00%	8.00%	8.00%	7.50%
Projected salary increases*	4.7%-10.6%	4.7%-9.8%	4.00%	4.00%-10.10%	4.5%-11.5%	4.00%
Postretirement benefit increases	3.00% Compounded	3.00% Compounded	3.00% Compounded	3.00% Simple	3.00% Compounded	(b)

* Includes assumed inflation.

(a) Operated as Divisions of APERS

(b) 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 § 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 $100,000 per participating employee. Act 1604 of the Regular Session of 2001 increased the coverage amount to $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 ING Institutional Plan Services LLC, 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. In accordance with GASB Statement No. 32, plan balances and activities are not reflected in the agency's financial statements. According to the custodian, plan assets totaled $385.6 million at June 30, 2010.

(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 2010, total employer contributions to VALIC, TIAA-CREF, and Fidelity were $100.3 million while contributions to other plans were $0.9 million. Employee contributions to VALIC, TIAA-CREF and Fidelity were $98.1 million while contributions to other plans were $0.7 million.

(g) Component Units

The University of Arkansas Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The University of Arkansas Foundation's contributions to the plan are 5% of the participants' salaries. In addition, the University of Arkansas 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 $99,500 in 2010.

(15) 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: 668 active employees and 370 retirees and beneficiaries
- AEP: 32,726 active employees and 11,569 retirees and beneficiaries

(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 2010, the State contributed $2.6 million to ASP and $40.7 million to AEP. Plan members receiving benefits contributed $1.6 million to ASP and $23.7 million to AEP. The contribution requirements of plan members receiving benefits are as follows:

	ASP	AEP
Under age 65		
Retiree Only	$ 224	$ 236
Retiree & Spouse	350	576
Medicare Eligible		
Retiree Only	$ 91	$ 117
Retiree & Spouse	182	278

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 OPEB cost for the current year and related information for each plan is as follows (expressed in thousands):

	ASP	AEP
Number of participating employers/contributing entities	1	1
Contribution rates for the fiscal year ended June 30, 2010 (% of covered payroll)	Pay-as-you-go	Pay-as-you-go
State plan members - retirees (% of premium)	37%	37%
Annual required contribution (ARC)	$ 6,156	$ 176,166
Interest on net OPEB obligation	126	9,597
Adjustment to ARC	(149)	(13,875)
Annual OPEB cost	6,133	171,888
Contribution made	(2,618)	(40,704)
Increase in net OPEB obligation	3,515	131,184
Net OPEB obligation - beginning of year	3,146	239,935
Net OPEB obligation - end of year	$ 6,661	$ 371,119

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

Plan	Fiscal year	Annual OPEB Cost	Percentage contributed	Net OPEB Obligation
ASP	2008	$ 4,463	56%	$ 1,964
	2009	$ 4,469	74%	$ 3,146
	2010	$ 6,133	43%	$ 6,661
AEP	2008	$ 140,903	23%	$ 108,885
	2009	$ 165,223	21%	$ 239,935
	2010	$ 171,888	24%	$ 371,119

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010, was as follows (expressed in thousands):

	ASP	AEP
Actuarial accrued liability	$ 82,260	$ 1,684,000
Actuarial value of plan assets		
Unfunded actuarial accrued liability (funding excess)	$ 82,260	$ 1,684,000
Funded ratio	0%	0%
Covered payroll	$ 42,237	$ 1,346,374
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	195%	125%

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	July 1, 2009	July 1, 2010
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar Closed	Level Dollar Open
Remaining amortization period	30 years	30 years
Asset valuation method	N/A	Market Value
Actuarial assumptions:		
Discount rate	4.00%	4.50%
Projected salary increases	N/A	N/A
Healthcare inflation rate	7% initial	Initial: 5% pre-Medicare 5% post-Medicare
	5% ultimate	4.5% ultimate

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

Governmental	$	364,342
Business-type		51,146
Component units		737
Pensions		1,669
Total net OPEB obligation	$	417,894

Business-Type Activities

Higher Education

In June, 2004, GASB issued Statement NO. 45, *Accounting and Financial Reporting by Employers for Post-employment 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 State University Self Insured Retiree Medical Plan (ASU)
- Arkansas Tech University Retiree Medical and Life Insurance Plan (ATU)
- 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)
- Southern Arkansas University – Technical Campus Early Retirement Program (SAUT) (administered by Health Advantage)
- Southern Arkansas University Group Health Plan (SAU) (administered by Blue Advantage)
- 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 21,936 active employees and 1,357 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:

- Arkansas Northeastern College Retirement Option (ANC)
- Black River Technical College Health Insurance Plan (BRTC)
- East Arkansas Community College Post-Employment Benefit Plan (EACC)
- Mid-South Community College Plan (MSCC)
- North Arkansas College Continued Health/Dental Insurance (NAC)
- National Park Community College Other Post-Employment Benefits Policy (NPCC)
- Ozarka College Early Retirement Incentive Program (OC)
- Pulaski Technical College Post Employment Healthcare (PTC)
- Rich Mountain Community College Retirement Program (RMCC)
- South Arkansas Community College Post-Employment Benefits (SACC)
- University of Arkansas System AHEC Benefits (UAS2)

Participants in these plans included 1,647 active employees and 54 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 $1,255 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 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	EACC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2010 (% 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%	55%	0%	0% up to age 65;100% after age 65	0% to 75%
Annual required contribution (ARC)	$ 79	$ 1,435	$ 1,106	$ 53	$ 48
Interest on net OPEB obligation	13	55	54	4	3
Adjustment to ARC	(73)	(93)	(75)	(5)	(4)
Annual OPEB cost	19	1,397	1,085	52	47
Contribution made	(31)	(211)	(454)	(19)	(21)
Increase in net OPEB obligation	(12) *	1,186	631	33	26
Net OPEB obligation - beginning of year	215	1,820	1,340	76	53
Net OPEB obligation - end of year	$ 203	$ 3,006	$ 1,971	$ 109	$ 79

* Decrease in FY10 Net OPEB Obligation is due to agency over accruing by 60K in FY09.

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	OC	HSU	MSCC	NAC	NPCC
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2010 (% 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)	0% up to age 65;100% after age 65	19%	0%	100%	0% up to age 65;100% after age 65
Annual required contribution (ARC)	$ 48	$ 333	$ 61	$ 28	$ 59
Interest on net OPEB obligation	2	12	8	3	7
Adjustment to ARC	(2)	(20)	(7)	(4)	(9)
Annual OPEB cost	48	325	62	27	57
Contribution made	(17)	(110)	0	(13)	(15)
Increase in net OPEB obligation	31	215	62	14	42
Net OPEB obligation - beginning of year	33	394	122	60	119
Net OPEB obligation - end of year	$ 64	$ 609	$ 184	$ 74	$ 161

	NWACC	PTC	RMCC	SACC	SAUT
Number of participating employers/contributing entities	1	1	1	1	1
Contribution rates for the fiscal year ended June 30, 2010 (% 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%	0% to 100%	10%	0% to 75%	40%
Annual required contribution (ARC)	$ 54	$ 159	$ 120	$ 42	$ 77
Interest on net OPEB obligation	3	10	7	3	7
Adjustment to ARC	(3)	(8)	(8)	(4)	(9)
Annual OPEB cost	54	161	119	41	75
Contribution made	(4)	(4)	(59)	(12)	(20)
Increase in net OPEB obligation	50	157	60	29	55
Net OPEB obligation - beginning of year	54	221	129	54	129
Net OPEB obligation - end of year	$ 104	$ 378	$ 189	$ 83	$ 184

	SAU	UAFS	UAS1	UAS2	UCA
Number of participating employers/contributing entities	1	1	9	3	1
Contribution rates for the fiscal year ended June 30, 2010 (% 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)	0% to 100%	100%	100%	0% to 100%	41%
Annual required contribution (ARC)	$ 364	$ 144	$ 6,863	$ 72	$ 303
Interest on net OPEB obligation	22	11	1,158	5	10
Adjustment to ARC	(37)	(13)	(960)	(7)	(16)
Annual OPEB cost	349	142	7,061	70	297
Contribution made	(39)	(6)	(1,983)	(10)	(192)
Increase in net OPEB obligation	310	136	5,078	60	105
Net OPEB obligation - beginning of year	722	162	25,730	92	321
Net OPEB obligation - end of year	$ 1,032	$ 298	$ 30,808	$ 152	$ 426

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

Plan	Fiscal year	Annual OPEB Cost	Percentage contributed	Net OPEB Obligation
ANC	2008	$ 107	28%	$ 77
	2009	167	17%	215
	2010	19	163%	203 *
ASU	2008	1,154	36%	739
	2009	1,276	15%	1,820
	2010	1,397	15%	3,006
ATU	2008	1,093	36%	701
	2009	1,084	41%	1,340
	2010	1,085	42%	1,971
BRTC	2008	53	23%	41
	2009	52	32%	76
	2010	52	37%	109
EACC	2009	99	47%	53
	2010	47	44%	79
OC	2008	31	61%	12
	2009	31	33%	33
	2010	48	36%	64
HSU	2008	311	40%	187
	2009	338	39%	394
	2010	325	34%	609
MSCC	2008	61	0%	61
	2009	61	0%	122
	2010	62	0%	184
NAC	2008	30	0%	30
	2009	30	0%	60
	2010	27	45%	74
NPCC	2008	108	33%	72
	2009	108	57%	119
	2010	57	25%	161
NWACC	2008	42	37%	27
	2009	43	37%	54
	2010	54	8%	104
PTC	2008	115	4%	109
	2009	116	4%	221
	2010	161	3%	378
RMCC	2008	20	0%	20
	2009	164	34%	129
	2010	119	49%	189
SACC	2008	41	39%	25
	2009	41	29%	54
	2010	41	30%	83
SAUT	2008	77	8%	71
	2009	76	23%	129
	2010	75	27%	184
SAU	2008	377	9%	344
	2009	427	11%	722
	2010	349	11%	1,032
UAFS	2008	105	15%	90
	2009	89	19%	162
	2010	142	5%	298
UAS1	2008	20,100	10%	18,448
	2009	9,340	22%	25,730
	2010	7,061	28%	30,808
UAS2	2008	619	38%	46
	2009	46	0%	92
	2010	70	15%	152
UCA	2008	367	64%	129
	2009	410	53%	321
	2010	297	65%	426

* Decrease in FY10 Net OPEB Obligation is due to agency over accruing by 60K in FY09.

(c) Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010, was as follows (expressed in thousands):

	ANC	ASU	ATU	BRTC	EACC
Actuarial accrued liability	$ 866	$ 9,523	$ 9,093	$ 454	$ 354
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 866	$ 9,523	$ 9,093	$ 454	$ 354
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 8,424	$ 110,245	$ 38,868	$ 4,948	$ 5,252
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	10%	9%	23%	9%	7%

	OC	HSU	MSCC	NAC	NPCC
Actuarial accrued liability	$ 282	$ 2,741	$ 295	$ 201	$ 372
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 282	$ 2,741	$ 295	$ 201	$ 372
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 3,737	$ 18,742	$ 6,314	$ 6,885	$ 10,572
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	8%	15%	5%	3%	4%

	NWACC	PTC	RMCC	SACC	SAUT
Actuarial accrued liability	$ 261	$ 776	$ 725	$ 277	$ 468
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 261	$ 776	$ 725	$ 277	$ 468
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 10,354	$ 15,148	$ 3,052	$ 7,328	$ 5,853
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	3%	5%	24%	4%	8%

	SAU	UAFS	UAS1	UAS2	UCA
Actuarial accrued liability	$ 2,604	$ 789	$ 66,620	$ 422	$ 2,696
Actuarial value of plan assets					
Unfunded actuarial accrued liability (funding excess)	$ 2,604	$ 789	$ 66,620	$ 422	$ 2,696
Funded ratio	0%	0%	0%	0%	0%
Covered payroll	$ 16,329	$ 27,108	$ 880,256	$ 14,841	$ 62,713
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	16%	3%	8%	3%	4%

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, RMCC, SAUT	EACC, OC, NAC, NPCC, NWACC, SACC, UAFS, UAS2	ASU, HSU, SAU, UCA	ATU	PTC	UAS1
Actuarial valuation date	July 1, 2007	July 1, 2009	July 1, 2009	July 1, 2009	July 1, 2009	July 1, 2009
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	30 years	30 years	30 years	30 years	30 years	30 years
Asset valuation method	N/A	N/A	N/A	N/A	N/A	N/A
Actuarial assumptions:						
Discount rate	6.00%	6.00%	3.00%	4.00%	4.50%	4.50%
Projected salary increases	N/A	N/A	N/A	N/A	4.00%	4.00%
Healthcare inflation rate	10% initial	10% initial	9% initial*	7.8% initial	8.1% initial	9.5% initial
	5% ultimate	5% ultimate	4.5% ultimate*	4.4% ultimate	5.2% ultimate	5% ultimate

* Trend rates are not used after 2008 for HSU and UCA because the agencies have frozen employer contributions to the plan at fiscal 2007 levels.

(16) 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	$	77,233
Noncurrent assets		257,386
Total assets		334,619
Liabilities		
Current liabilities		8,041
Noncurrent liabilities		51,360
Total liabilities		59,401
Net Assets		
Restricted		275,218
Total net assets	$	275,218

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

		Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$	2,528
Investment earnings (pledged against bonds)		6,547
Other operating income		4
Amortization expense		(44)
Other operating expense		(12,164)
Operating income (loss)		(3,129)
Nonoperating revenue/expenses:		
Grants and contributions		17,128
Transfers to other funds		(1,080)
Change in net assets		12,919
Total net assets, beginning of year		262,299
Total net assets, end of year	$	275,218

Condensed Statement of Cash Flows (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$	(17,901)
Noncapital financing activities		8,838
Investing activities		3,230
Net increase (decrease)		(5,833)
Cash and cash equivalents, beginning		65,368
Cash and cash equivalents, end	$	59,535

(17) 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 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. EBD offers a cafeteria plan that includes a flexible medical spending account and a dependent day/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 $2.50 a month for a $10,000 benefit. For ages 65-69, the cost was $1.25 a month for a $5,000 benefit. 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):

	2010	2009
Claim liability, beginning of year	$ 21,500	$ 21,500
Incurred Claims:		
Provision for insured events of current year	214,249	203,338
Total incurred claims and claim adjustment expense	214,249	203,338
Payments:		
Claims payments attributed to insured events of current year	197,214	180,368
Claims payments attributed to insured events of prior years	14,285	22,970
Total Payments	211,499	203,338
Claim liability, end of year	$ 24,250	$ 21,500

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 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. 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. 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.

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 are as follows (expressed in thousands):

	2010	2009
Claim liability, beginning of year	$ 24,500	$ 22,750
Incurred Claims:		
Provision for insured events of current year	240,566	237,531
Total incurred claims and claim adjustment expense	240,566	237,531
Payments:		
Claims payments attributed to insured events of current year	217,031	209,752
Claims payments attributed to insured events of prior years	20,195	26,029
Total Payments	237,226	235,781
Claim liability, end of year	$ 27,840	$ 24,500

(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 $100,000 per occurrence for the state agency involved. 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, limited availability, and excessive cost, total earthquake coverage is limited to $100 million in earthquake zones 2 and 3 and $200 million for zones 4 and 5. 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 high hazard 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 relies on 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 million per occurrence out of state. Eight higher education institutions have elected to purchased $1 million liability both in and out of state and thirteen state agencies purchase $500,000 in state and $1 million out of state coverage. 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.

(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, 2010 is $725,071. This liability is included in Note 18 Governmental Activities (a) as part of litigation.

(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 during the current fiscal year are as follows (expressed in thousands):

	2010	2009
Claim liability, beginning of year	$ 74,064	$ 73,695
Incurred Claims:		
Provision for insured events of current year	15,319	17,356
Increase (decrease) in provision for insured events of prior years	(7,371)	(5,589)
Total incurred claims and claim adjustment expense	7,948	11,767
Payments:		
Claims payments attributed to insured events of current year	4,430	4,015
Claims payments attributed to insured events of prior years	7,441	7,383
Total Payments	11,871	11,398
Claim liability, end of year	$ 70,141	$ 74,064

(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 $182,650, for 2010. 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.

Claim 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 claim liabilities for the fund during the last two fiscal years (expressed in thousands):

	2010	2009
Claim liability, beginning of year	$ 221,448	$ 218,103
Incurred Claims:		
Provision for insured events of current year	5,648	6,660
Increase (decrease) in provision for insured events of prior years	(3,347)	26
Increase due to decrease in discount period	10,714	10,562
Total incurred claims and claim adjustment expense	13,015	17,248
Payments:		
Claims payments attributed to insured events of prior years	14,462	13,903
Total Payments	14,462	13,903
Transfers:		
Transfer in from second injury trust fund	19,004	
Total Tranfers	19,004	
Claim liability, end of year	$ 239,005	$ 221,448

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 Fund with regard to claims made after January 1, 2008.

Act 327 of 2009 transferred existing permanent total disability claims to the Death and Permanent Total Disability Fund effective January 1, 2010. Other claims in the Second Injury Fund, that later develop into permanent total claims, will also be transferred to the Death and Permanent Total Disability Fund.

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

	2010	2009
Claim liability, beginning of year	$ 32,155	$ 33,162
Incurred Claims:		
Provision for insured events of current year		
Increase (decrease) in provision for insured events of prior years	(9,479)	(61)
Increase due to decrease in discount period	633	1,595
Total incurred claims and claim adjustment expense	(8,846)	1,534
Payments:		
Claims payments attributed to insured events of prior years	972	2,541
Total Payments	972	2,541
Transfers:		
Transfer to death and permanent total disability trust fund	(19,004)	
Total Transfers	(19,004)	
Claim liability, end of year	$ 3,333	$ 32,155

(f) Petroleum Storage Tank 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 $1.5 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 one half the plan limits for each third-party claim filed until actual damages are determined and the liability is recorded in the governmental activities.

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

	2010	2009
Claim liability, beginning of year	$ 17,185	$ 14,610
Incurred Claims:		
Provision for insured events of current year	6,212	8,630
Total incurred claims and claim adjustment expense	6,212	8,630
Payments:		
Claims payments attributed to insured events of current year	7,767	6,055
Total Payments	7,767	6,055
Claim liability, end of year	$ 15,630	$ 17,185

(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, 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 that 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 fiscal year are as follows (expressed in thousands):

	2010	2009
Claim liability, beginning of year	$ 12,292	$ 11,626
Incurred Claims:		
Provision for insured events of current year	115,722	113,819
Increase (decrease) in provision for insured events of prior years	59	356
Total incurred claims and claim adjustment expense	115,781	114,175
Payments:		
Claims payments attributed to insured events of current year	104,432	101,661
Claims payments attributed to insured events of prior years	11,898	11,848
Total Payments	116,330	113,509
Claim liability, end of year	$ 11,743	$ 12,292

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 $175,000 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, 2010, is $390 per budgeted civilian position and $745 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 cross 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, 2010, are as follows (expressed in thousands):

	2010	2009
Claim liability, beginning of year	$ 1,622	$ 1,581
Incurred Claims:		
Provision for insured events of current year	11,129	10,216
Increase (decrease) in provision for insured events of prior years	(305)	1,326
Total incurred claims and claim adjustment expense	10,824	11,542
Payments:		
Claims payments attributed to insured events of current year	9,997	10,268
Claims payments attributed to insured events of prior years	1,317	1,233
Total Payments	11,314	11,501
Claim liability, end of year	$ 1,132	$ 1,622

(18) Commitments and Contingencies

Primary Government

Governmental Activities

(a) Litigation

The State, it's 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 $1.1 million for the repayment 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 $11.5 million.

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

	2010	2009
Litigation, beginning of year	$ 1,429	$ 1,286
Incurred litigation	551	1,429
Litigation payments/dismissals	(929)	(1,286)
Litigation, end of year	$ 1,051	$ 1,429

(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, 2010, 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 $20.0 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 $15.0 million of the loans made to the LRSD was immediately forgiven and the remaining $5.0 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, 2010, the State's loan receivable is $3.7 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2010, the State has commitments of approximately $636.9 million for construction and other contracts and approximately $48.0 million for professional service contracts. The Arkansas Natural Resource Commission has approved $79.3 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2010.

(e) Bond Guarantees

The Arkansas Economic Development Commission (AEDC) Bond Reserve Guarantee 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, 2010, total bonds guaranteed by the AEDC Bond Guarantee Reserve Fund were approximately $53.7 million. In addition, AEDC has committed to guarantee approximately $7.1 million in industrial development revenue bonds that have not closed at June 30, 2010. As of June 30, 2010, none of these loans were in default.

(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 $36.8 million 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 $22.2 million of serial bonds and beginning in 2036 through 2046 for $14.6 million 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, Arkansas received $60.1 million 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, 2010, the University would have incurred a liability of $44.8 million related to the issue. This amount includes draw down of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

While Arkansas' 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 2010. In fiscal year 2010, the State recorded a total of $52.4 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, 2010, there were no 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 there is no liability at June 30, 2010.

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

	2010	2009
Litigation, beginning of year	$ 275	$ 15
Incurred litigation	0	275
Litigation payments/dismissals	(275)	(15)
Litigation, end of year	$ 0	$ 275

(b) Construction and Other Commitments

At June 30, 2010, the State has commitments in its business type activities of approximately $131.6 million for construction and other contracts and approximately $1.9 million for professional service contracts.

(19) Subsequent Events

Primary Government

Governmental Activities

On December 3, 2010 a lawsuit was filed in Pulaski County Circuit Court by the Deer-Mount Judea School District alleging that the school funding system violates state law Act 57 of 2003 and the Arkansas Constitution. The district claims inadequate transportation funding from the state forces schools to cut other programs to cover the transportation costs, and that students' academic achievement can be affected by long bus rides. The suit seeks to have an imposed 45-minute limit on one-way bus trips as well as equality in the funding for smaller school districts. As of the date of print of the 2010 CAFR, it is the opinion of Attorney General Dustin McDaniel's office that the proceedings will not have a material adverse impact on the State's financial position.

Arkansas Department of Correction

In October, the state Legislative Council approved $1.1 million for the Department of Correction to open 300 new inmate beds in the Cummins Unit in Lincoln County. The funding, which came from the state's "rainy day fund," is expected to last through the end of January. The department plans to ask the Legislature when it goes into session in January for an additional $1.1 million to keep the new beds open through the end of the fiscal year.

Arkansas Department of Human Services

In October, the Department of Human Services was awarded a $3.4 million Access to Recovery federal grant from the U.S. Department of Health and Human Services. The grant will be used to institute a voucher management system. It will include the development and promulgation of forms, manuals and processes. This new system will expand access to substance abuse treatment/recovery support services and choice of providers for adults living in 12 selected Arkansas counties. This four year *Arkansas ATR (Access to Recovery)* Grant will serve 6,400 members of three underserved populations: military personnel, pregnant women/high risk parents and DWI/DUI offenders. The federally required start up for this voucher program is January 31, 2011.

Arkansas Highway and Transportation Department

On July 12, 2010, the Arkansas Highway and Transportation Department used the funds that were deposited into an investment account from the State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Refunding Bonds Series 2010 bond issue to redeem $56.8 million of the Series 2000A. The Series 2010 funding was used again on August 2, 2010 to redeem $95.3 million of the 2001A Series. These transactions resulted in an economic gain of $5.5 million for fiscal year 2011 and a reduction of approximately $24.9 million in future debt service for fiscal year 2011.

Business-Type Activities

Arkansas Department of Workforce Services

On July 22, 2010, the Unemployment Compensation Extension Act of 2010 was signed extending the availability of Emergency Unemployment Compensation of 2008 (EUC08) and the 100% federal financing of Extended Benefits (EB) until November 30, 2010. This economic legislation was retroactive back to June 2, 2010. An estimate of $9.4 million in federal funds and an estimate of 33,339 payments will be paid as a result of this legislation for EUC08.

Arkansas Lottery Commission

On November 18, 2010, a lawsuit was filed by the former attorney for the Arkansas Lottery Commission in U.S. District Court in Little Rock. The lawsuit filed seeks reinstatement to her previous position as attorney for the Arkansas Lottery Commission as well as lost wages and other benefits along with compensatory and punitive damages.

Arkansas Tech University

On September 16, 2010, the Board of Trustees authorized the issuance of Student Fee Revenue bonds in the amount of $575,000 and Auxiliary Enterprises Revenue bonds in the amount $1.2 million for the purpose of constructing the Alvin F. Vest Student Union on the Ozark Campus.

Black River Technical College

On August 26, 2010, the Black River Technical College opened bids for a new maintenance facility to be located on the Paragould campus. The low bid of $359,500 was accepted and Notice of Intent to Award was issued on August 27, 2010. A contract was signed on September 16, 2010.

The College refunded the Series 2003 bond issue on August 31, 2010 with $2.7 million of new Student Fee Revenue Bonds being issued. A savings of $360,566 will be realized over the life of the bonds. The bond trustee will continue to be First National Bank of Lawrence County. The bond sale was finalized on September 15, 2010 with the Series 2003 bonds being called on October 19, 2010.

University of Arkansas at Monticello

On September 10, 2010, the Board of Trustees of the University of Arkansas adopted a resolution for the issuance of bonds of no more than $2.9 million to refund the Series 2005 auxiliary facilities refunding revenue bonds for the Monticello campus. Bonds with a par value of $2.9 million were sold on September 28, 2010 and closing was October 19, 2010. The refunded bonds are scheduled to be called on November 2, 2010.

University of Central Arkansas

At the August 20, 2010 Board of Trustees meeting, approval was given to proceed with the refinancing of the Parking Facilities Revenue Bonds, 1997 Series B and Auxiliary Revenue Capital Improvement and Refunding Bonds, 2003 Series B in order to recognize certain savings from more favorable interest rates. This refunding will be collectively called the Series 2010A Auxiliary Refunding Program. The total for the 2010A refunding issue will not exceed $5 million.

In addition, the Recreation Facilities Allocated Revenue Bonds, 1997 Series C, Student Fee Refunding and Construction Bond, Series 1998, Student Fee Revenue Capital Improvement and Refunding Bonds, 2003 Series A, and Student Fee Revenue Capital Improvement Bonds, Series 2004A will be refunded in order to recognize certain savings from more favorable interest rates and the new issue will be referred to as the 2010B Student Fee Refunding Program. The total of this refunding issue will not exceed $16 million.

Also approved was the financing of construction and furnishing of a new residence hall on campus and the updating of additional housing facilities on campus. This issue will be referred to as Series 2010C Housing Project for a total not to exceed $22 million.

Approval for these refunding issues and construction issue was granted by the Department of Higher Education Coordinating Board on July 30, 2010. The official closing has been scheduled for mid to late September, 2010.

At the May 7, 2010 Board of Trustees meeting a proposed property exchange agreement between the University and HDR Properties, LLC was approved within the parameters detailed below:

> The University owns approximately five (5) acres with a house on the east side of Donaghey Avenue across from the softball field. Two appraisals were performed on the University property. The first appraisal occurred in September 2008 and valued the property at $1.1 million while the second was in January of 2010 and valued it at $1.3 million. The average of the two appraisals is $1.2 million.
>
> HDR Properties, LLC, owns four houses, three on Western Avenue and one on Augusta Avenue. Monthly rents on these four houses aggregate approximately $4,850. These properties were appraised on two occasions. One in September of 2008 was $572,000, and the second in January of 2010 was $538,000. These two appraisals average $555,000.
>
> Under the exchange agreement approved on May 7, 2010, and subsequently signed by the parties, the respective properties would be exchanged, and in addition, HDR Properties, LLC, would pay to the University the sum of $720,000 cash at closing. Using the lower of the two HDR appraisals, the University would receive property and cash totaling $1.2 million.
>
> The matter went before the University Board of Trustees again on July 21, 2010 due to a request by HDR for a reduction in the cash payment to be made at closing. The University property was surveyed by HDR Properties, LLC, and it was found that the acreage is 4.76 acres, not 5.0 acres. HDR requested a reduction of $60,000 in the amount of cash to be paid at closing (determined by taking the reduction in acreage times the price per square foot to be paid in cash and property to the University). However, the University's Board of Trustees approved a motion that the amount of the cash payment at closing would be $700,000.
>
> The closing was to occur on or before July 1, 2010, but HDR was given the right to extend the closing date until September 1, 2010 if it required the additional time to arrange suitable financing. An additional agreement was approved by the University Board of Trustees and signed by University and HDR representatives that the closing would occur on or before November 1, 2010.

Mid South Community College

On August 26, 2010, Mid South Community College issued $5.2 million limited tax general obligation bonds Series 2010 to finance capital improvements for the College.

On July 14, 2010, a construction contract was issued for $7 million to Kinco Constructors, LLC for the Mid-South Renewable Energy Center.

Component Unit

Arkansas Student Loan Authority

The Arkansas Student Loan Authority (ASLA) has operated as a loan originator and secondary market in the Federal Family Education Loan Program (FFELP) for over 30 years. As of July 1, 2010, Congress eliminated the FFELP and replaced it with the Federal Direct Loan Program (FDLP) through a mandate included in the Health Care and Education Reconciliation Act of 2010 (HCERA). Under the HCERA, the United States Department of Education (USDE) is the only entity authorized to originate federal student loans; however, qualified state agencies such as ASLA, will be allocated 100,000 accounts per state to administer on behalf of USDE.

ASLA must meet extensive federal contracting requirement in order to participate as loan servicer for the USDE. ASLA has met preliminary qualifications by providing evidence to the USDE that the agency meets the definition of a "not-for-profit loan servicer" as defined by HCERA. The USDE is expected to provide additional guidance and pricing information in the early fall of 2010. At this point, USDE has not provided specific guidance on how an organization can begin participation as a loan servicer for the FDLP or the pricing that will be paid to the organizations such as ASLA. ASLA, along with most similar organizations, has set a target date of July 1, 2011 to begin administering federal loans. In the meantime, ASLA will continue taking steps to meet federal contracting requirements.

In addition to administering FDLP loans, ASLA will continue to administer approximately $500 million in FFELP loans owned by the agency. The loan portfolio will be administered for a number of years due to loan repayment periods extending up to 30 years. A predictable and stable revenue stream will continue to be generated from the FFELP loan portfolio for several years. Additional revenue is expected to be generated from administering loans on behalf of USDE; however, the level of revenue cannot be determined until further guidance is provided by USDE.

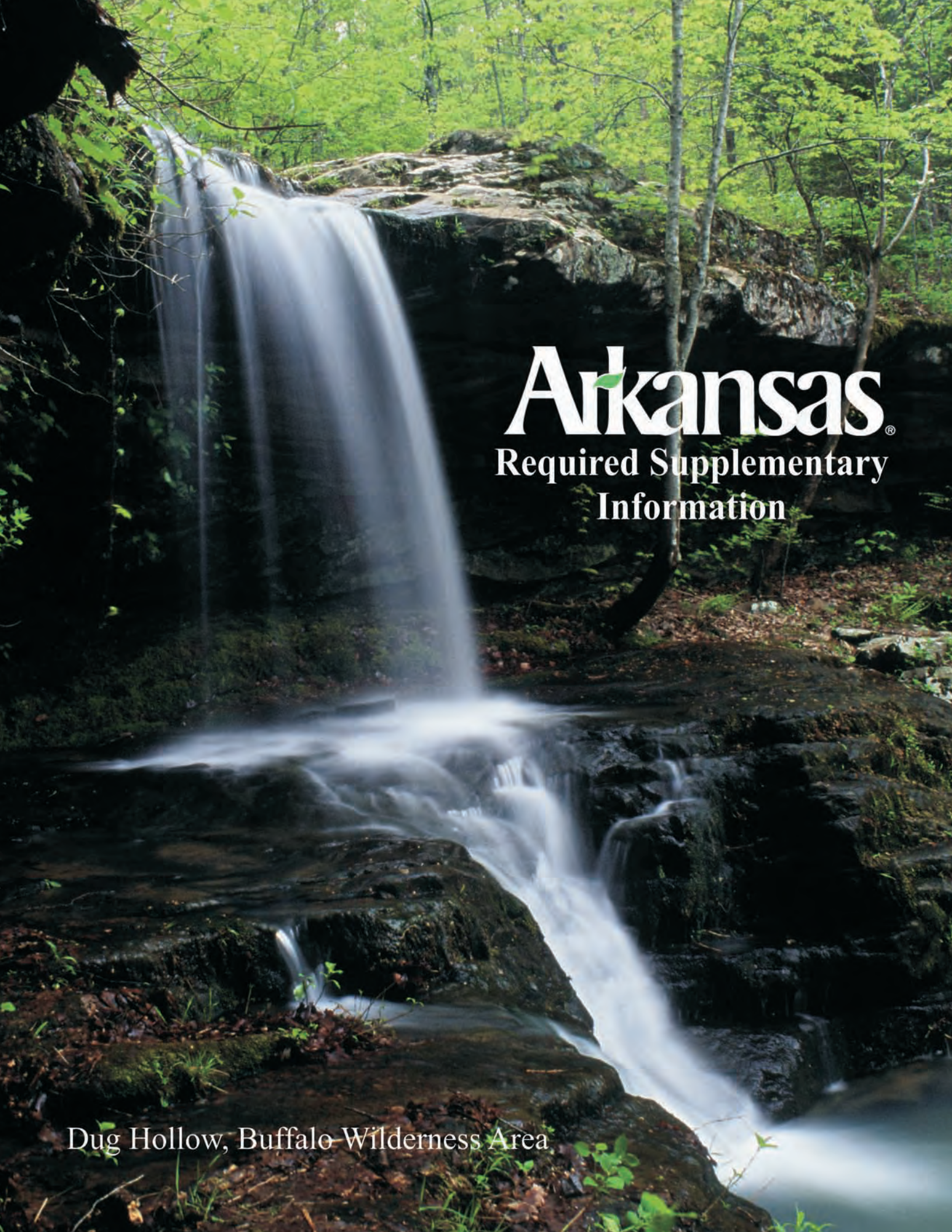
ASLA's office currently employs 16 individuals; 6 individuals are employees of the State of Arkansas and 10 are employed under a loan servicing contract. ASLA will most likely reduce the total number of employees during the fall of 2010 due to the agency's transforming business model. Even though the total number of employees may be reduced, ASLA may request additional "State" positions in order to hire employees currently employed under the loan servicing contract.

Limited information from USDE has made it difficult for ASLA management to solidify all details of the agency's business plan; however, several measures are being taken to position the agency to continue serving the needs of Arkansas student loan recipients beyond this transitional period.

On September 2, 2010, ASLA issued a Final Offering Memorandum for $267.5 million of Student Loan Backed notes, Series 2010-1 (London Interbank Offered Rate floating rate notes). The Authority intends to use the proceeds of the notes to restructure its existing debt obligations, in particular, bonds that have been issued and remain outstanding as auction rate bonds. Specifically the previously issued obligations of the issuer to be refunded and redeemed will be ASLA's Student Loan Revenue and Revenue Refunding Bonds, Series 2000A-1, Series 2004A-1, Series 2004A-2, Series 2005A-1, Series 2005A-2, Series 2005A-3, Series 2006A-1, Series 2006A-2, Series 2006A-3 and Series 2006B-1, the issuer's Student Loan Revenue and Revenue Refunding Bonds, Series 2004A-2 and Series 2006A-4, and the Promissory Note dated as of June 1, 2008 payable to the State Board of Finance of the State of Arkansas.

During July and August 2010, ASLA applied $241.6 million of proceeds received from Straight A Funding, LLC toward the principal bonds Series 1997A, Series 2000A-1 and A-2, Series 2004A-1 and A-2, Series 2005A-1, A-2 and A-3, and Series 2006A-1, A-2, A-3, A-4 and B-1.

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE



Arkansas®
Required Supplementary Information

Dug Hollow, Buffalo Wilderness Area

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	2010	6/30/2010	$ 1,199,400	$ 1,305,000	$ 105,600	91.9%	127,000	83.2%
	2009	6/30/2009	1,193,400	1,235,800	42,400	96.6%	122,800	34.6%
	2008	6/30/2008	1,206,900	1,188,700	(18,200)	101.5%	119,000	-15.2%
Judicial	2010	6/30/2010	165,244	182,912	17,668	90.3%	18,630	94.8%
	2009	6/30/2009	167,433	180,166	12,733	92.9%	18,875	67.5%
	2008	6/30/2008	169,061	165,747	(3,314)	102.0%	18,074	-18.3%

Actuarial assumptions are presented in Note 14.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	Budgeted amounts		Actual	Variance with final budget – positive
	Original	Final	amounts	(negative)
Expenditures*				
Current:				
General Government	$ 5,457,453	$ 5,702,362	$ 1,869,735	$ 3,832,627
Education	4,358,579	4,399,930	3,637,878	762,052
Health and Human Services	6,114,440	6,029,625	5,504,995	524,630
Law, Justice, and Public Safety	919,701	1,000,680	806,497	194,183
Recreation and Resource Development	405,102	414,987	291,680	123,307
Regulation of Business and Professionals	244,598	268,900	166,865	102,035
Transportation	564,688	566,474	356,637	209,837
Debt Service	163,656	170,807	127,466	43,341
Capital Outlay	1,066,823	1,071,386	519,772	551,614
Total Expenditures	$ 19,295,040	$ 19,625,151	$ 13,281,525	$ 6,343,626

* Expenditures are 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, 2010

(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 annual 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	$	13,213,284
Less non-cash federal grant expenditures		(734,000)
Less non appropriated expenditures		(4,456,860)
Plus expenditures eliminated or reclassed as transfers for reporting purposes		4,545,543
Refunds treated as reduction of revenue for financial statements purposes		655,724
Payroll expenditures allocated from an Enterprise Fund		(10,060)
Basis of accounting differences		67,894
Total statutory basis expenditures General Fund	$	13,281,525

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Premium and Investment Revenues:										
Premium Income	$ 30,953,691	$ 40,709,995	$ 45,694,279	$ 158,499,272	$ 209,344,487	$ 230,564,982	$ 230,141,726	$ 239,686,872	$ 252,028,277	$ 265,671,434
Investment Interest Income	81,458	32,734	68,853	233,550	586,801	1,570,234	2,352,048	2,482,253	1,322,380	442,355
Totals	$ 31,035,149	$ 40,742,729	$ 45,763,132	$ 158,732,822	$ 209,931,288	$ 232,135,216	$ 232,493,774	$ 242,169,125	$ 253,350,657	$ 266,113,789
Unallocated Expenses:										
Operating Costs	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938	$ 4,288,268	$ 5,569,196	$ 3,788,158
Reinsurance Premium Expense	0	0	0	0	0	0	0	0	0	0
Totals	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938	$ 4,288,268	$ 5,569,196	$ 3,788,158
Estimated incurred claims and expenses, end of fiscal year	$ 32,226,064	$ 33,852,966	$ 35,916,834	$ 164,172,038	$ 198,727,802	$ 220,169,782	$ 236,300,587	$ 208,506,000	$ 235,781,000	$ 237,226,000
Paid (cumulative) claims and claims adjustment expenses:										
End of Fiscal Year	N/A	N/A	34,316,834	148,172,038	181,727,802	198,419,782	213,550,587	185,756,000	211,281,000	209,386,000
One Year Later	N/A	N/A	35,916,834	163,888,838	198,426,902	219,834,832	235,854,687	207,975,925	235,244,450	
Two Years Later	N/A	N/A	N/A	164,172,038	198,678,502	220,245,907	236,359,737	208,449,125		
Re-estimated incurred claims and expenses (2):										
End of Fiscal Year	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000	235,781,000	237,226,000
One Year Later	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000	235,781,000	
Two Years Later	N/A	N/A	N/A	164,172,038	198,727,802	220,169,782	236,300,587	208,506,000		
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	43,632	44,797	45,463	47,268	48,846	50,370	50,277	52,094

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 17 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 re-estimated 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Premium and Investment Revenues:										
Premium Income	$ 9,037,845	$ 8,602,220	$ 12,640,933	$ 8,380,469	$ 9,236,142	$ 8,326,813	$ 7,536,378	$ 9,016,067	$ 9,075,784	$ 8,226,832
Investment Interest Income	7,331,078	4,556,109	2,036,317	1,672,189	1,932,354	4,055,947	6,098,515	6,325,923	3,590,255	2,315,616
Totals	$ 16,368,923	$ 13,158,329	$ 14,677,250	$ 10,052,658	$ 11,168,496	$ 12,382,760	$ 13,634,893	$ 15,341,990	$ 12,666,039	$ 10,542,448
Unallocated Expenses:										
Operating Costs (2)	$ 194,940	$ 316,858	$ 334,881	$ 321,328	$ 324,698	$ 123,637	$ 129,292	$ 120,693	$ 271,386	$ 285,516
Estimated incurred claims and expenses, end of fiscal year	$ 7,787,442	$ 7,407,010	$ 7,707,310	$ 7,952,310	$ 9,343,245	$ 10,612,346	$ 11,605,274	$ 10,896,034	$ 6,619,914	$ 5,640,789
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	55,000	0	12,500	45,000	40,000	23,750	20,000	
Two Years Later	0	0	55,500	60,000	254,500	60,000	116,115	53,750		
Three Years Later	38,627	8,844	125,695	155,312	443,594	258,442	456,230			
Four Years Later	196,865	193,912	492,077	559,647	1,084,352	666,938				
Five Years Later	645,390	581,617	960,636	1,110,691	1,746,038					
Six Years Later	1,210,751	1,068,701	1,921,699	1,941,198						
Seven Years Later	2,082,517	1,704,187	2,664,563							
Eight Years Later	2,758,010	2,452,829								
Nine Years Later	3,462,207									
Re-estimated incurred claims and expenses:										
End of Fund Year	3,408,898	2,711,400	2,829,345	3,767,145	3,968,387	5,146,235	3,606,231	3,135,931	2,675,997	2,546,952
One Year Later	4,152,446	4,823,740	6,632,484	7,407,958	10,855,431	6,578,501	6,720,442	7,448,896	4,215,186	
Two Years Later	5,528,283	8,885,376	9,082,661	11,023,365	13,658,153	9,955,357	11,299,265	9,810,061		
Three Years Later	8,732,250	13,013,925	11,151,447	12,323,811	6,417,676	12,165,161	12,884,190			
Four Years Later	9,198,291	12,753,443	11,454,147	14,614,740	13,325,459	14,248,771				
Five Years Later	11,644,437	11,864,813	14,265,211	8,096,016	14,096,948					
Six Years Later	12,491,733	12,684,999	14,130,937	14,278,584						
Seven Years Later	13,311,322	12,126,528	14,829,670							
Eight Years Later	13,128,300	13,152,890								
Nine Years Later	13,838,507									
Increase (decrease) in estimated incurred claims and expense from end of policy year	6,051,065	5,745,880	7,122,360	6,326,274	4,753,703	3,636,425	1,278,916	(1,085,973)	(2,404,728)	(3,093,837)
Number of fund participants receiving benefits at end of year	1,280	1,293	1,336	1,347	1,324	1,336	1,342	1,356	1,349	1,454

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 17 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Premium and Investment Revenues:										
Premium Taxes	$ 466	$ 4,982	$ 1,784,175	$ 1,186,860	$ 1,294,907	$ 3,620,160	$ 2,763,390	$ 1,327,517	$ 1,082,496	$ 659,098
Interest Income	659,587	344,714	142,761	80,943	60,958	74,445	101,278	91,863	35,500	18,800
Totals	$ 660,053	$ 349,696	$ 1,926,936	$ 1,267,803	$ 1,355,865	$ 3,694,605	$ 2,864,668	$ 1,419,380	$ 1,117,996	$ 677,898
Unallocated Expenses:										
Operating Costs (2)	$ 546,985	$ 464,976	$ 480,666	$ 526,768	$ 544,817	$ 584,142	$ 583,796	$ 642,794	$ 582,490	$ 531,955
Estimated incurred claims and expenses, end of fiscal year	$ 2,787,895	$ 2,525,429	$ 2,085,569	$ 2,368,190	$ 3,179,896	$ 3,439,833	$ 3,256,862	$ 1,550,887	$ 0	$ 0
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	83,050	25,106	208,690	70,605	34,500	51,755	169,875	0	0	
Two Years Later	439,698	673,422	814,873	299,505	751,613	449,159	625,574	0		
Three Years Later	1,194,737	1,215,361	1,348,617	1,219,840	1,044,728	766,086	672,724			
Four Years Later	1,441,469	1,507,797	1,273,914	1,542,077	1,269,810	899,440				
Five Years Later	1,741,288	1,732,228	1,368,925	1,720,501	1,314,373					
Six Years Later	1,935,324	1,861,762	1,457,445	1,807,660						
Seven Years Later	2,005,069	2,039,061	1,538,540							
Eight Years Later	2,234,005	2,073,068								
Nine Years Later	2,275,060									
Re-estimated incurred claims and expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	83,050	328,677	208,690	70,605	34,500	51,755	169,875	0	0	
Two Years Later	653,704	1,369,710	1,253,217	437,313	1,013,605	449,159	625,574	0		
Three Years Later	1,554,449	2,440,234	2,277,287	1,947,770	1,503,828	933,751	672,724			
Four Years Later	2,298,595	2,576,594	1,742,436	2,665,638	2,042,671	899,440				
Five Years Later	2,643,544	2,542,065	2,166,470	3,710,566	1,314,373					
Six Years Later	2,403,693	2,764,092	2,261,324	1,807,660						
Seven Years Later	2,350,972	2,861,592	1,673,149							
Eight Years Later	2,880,729	2,073,068								
Nine Years Later	2,275,060									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(512,835)	(452,361)	(412,420)	(560,530)	(1,865,523)	(2,540,393)	(2,584,138)	(1,550,887)	0	0
Number of Fund Participants receiving benefits at end of year	98	97	102	111	122	128	119	112	109	2

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 17 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.

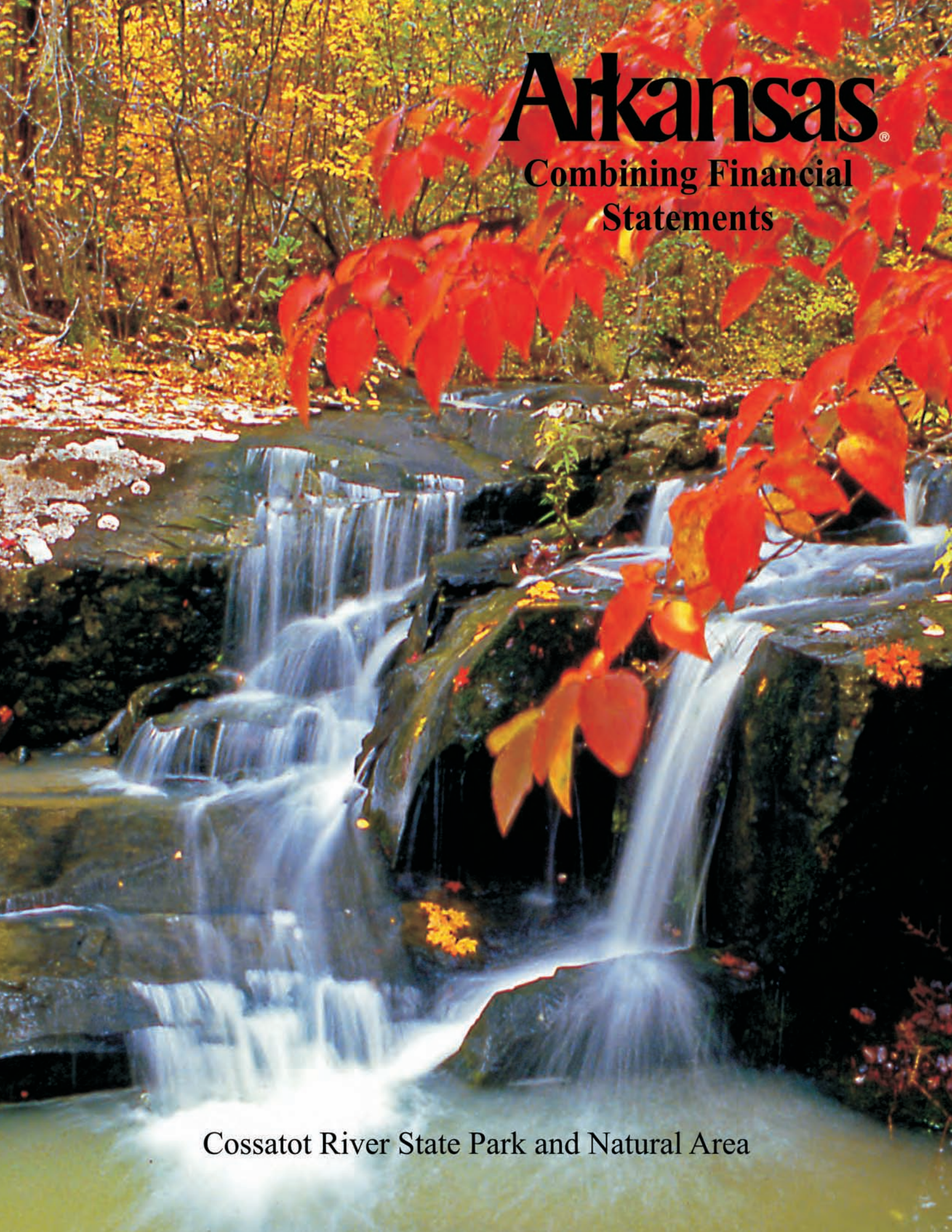
Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress
(Expressed in thousands)

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%
	7/1/2008	0	8,842	8,842	0.0%	98,803	9%
	7/1/2009	0	9,523	9,523	0.0%	110,245	9%
Arkansas Tech University	7/1/2007	0	9,054	9,054	0.0%	30,326	30%
	7/1/2009	0	9,093	9,093	0.0%	38,868	23%
Black River Technical College	7/1/2007	0	454	454	0.0%	4,948	9%
East Arkansas Community College	7/1/2007	0	389	389	0.0%	7,214	5%
	7/1/2009	0	354	354	0.0%	5,252	7%
Ozarka College	7/1/2007	0	186	186	0.0%	4,026	5%
	7/1/2009	0	282	282	0.0%	3,737	8%
Henderson State University	7/1/2007	0	2,668	2,668	0.0%	18,187	15%
	7/1/2008	0	2,809	2,809	0.0%	18,240	15%
	7/1/2009	0	2,741	2,741	0.0%	18,742	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%
	7/1/2009	0	201	201	0.0%	6,885	3%
National Park Community College	7/1/2007	0	686	686	0.0%	9,443	7%
	7/1/2009	0	372	372	0.0%	10,572	4%
Northwest Arkansas Community College	7/1/2007	0	185	185	0.0%	18,827	1%
	7/1/2009	0	261	261	0.0%	10,354	3%
Pulaski Technical College	7/1/2007	0	571	571	0.0%	12,332	5%
	7/1/2009	0	776	776	0.0%	15,148	5%
Rich Mountain Community College	7/1/2007	0	725	725	0.0%	3,052	24%
South Arkansas Community College	7/1/2007	0	263	263	0.0%	6,369	4%
	7/1/2009	0	277	277	0.0%	7,328	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%
	7/1/2008	0	3,005	3,005	0.0%	15,432	19%
	7/1/2009	0	2,604	2,604	0.0%	16,329	16%
University of Arkansas of Fort Smith	7/1/2007	0	644	644	0.0%	24,674	3%
	7/1/2009	0	789	789	0.0%	27,108	3%
University of Arkansas System Self-Funded Plan	7/1/2007	0	171,807	171,807	0.0%	780,954	22%
	7/1/2008	0	82,056	82,056	0.0%	911,203	9%
	7/1/2009	0	66,620	66,620	0.0%	880,256	8%
University of Arkansas System AHEC Benefits	7/1/2007	0	255	255	0.0%	13,847	2%
	7/1/2009	0	422	422	0.0%	14,841	3%
University of Central Arkansas	7/1/2007	0	2,446	2,446	0.0%	47,660	5%
	7/1/2008	0	3,033	3,033	0.0%	62,441	5%
	7/1/2009	0	2,696	2,696	0.0%	62,713	4%
Arkansas State Police	1/1/2008	0	76,505	76,505	0.0%	40,568	189%
	7/1/2009	0	82,260	82,260	0.0%	42,237	195%
Arkansas Employee Benefits Plan	7/1/2007	0	1,464,934	1,464,934	0.0%	1,044,880	140%
	7/1/2009	0	1,711,348	1,711,348	0.0%	1,262,628	136%
	7/1/2010	0	1,684,000	1,684,000	0.0%	1,346,374	125%

Actuarial assumptions are presented in Note 15.

Arkansas®

Combining Financial Statements



Cossatot River State Park and Natural Area

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

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:

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; to prevent, assess, safely clean up, and sustainably reuse brownfields; the development and redevelopment of affordable rental housing related to the five Presidentially-Declared Disaster areas; to incentivize development of affordable Assisted Living housing in Arkansas and to strengthen the financial feasibility of such developments; finance energy efficiency retrofits and green energy implementation for industries; and to hold equity investments made by the Risk Capital Matching Fund.

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2010
(Expressed in thousands)

Assets	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Current assets:					
Cash and cash equivalents	$ 1,556	$ 59,535	$ 6,746	$ 32,530	$ 100,367
Investments	112	17,054		2,999	20,165
Receivables:					
Accounts		186	653	329	1,168
Loans				3,923	3,923
Interest		458	80	158	696
Due from other funds			628		628
Advances to other funds				634	634
Inventories	7				7
Prepaid items			1		1
Total current assets	1,675	77,233	8,108	40,573	127,589
Noncurrent assets:					
Investments - restricted		10,863	68,594	1001	80,458
Capital assets:					
Buildings	14,728				14,728
Equipment	968		94		1,062
Improvements other than building	446				446
Construction in progress	5,803				5,803
Other depreciable/amortizable assets			240		240
Less accumulated depreciation	(7,213)		(99)		(7,312)
Advances to other funds				5,632	5,632
Loans receivable, restricted		246,087		112,045	358,132
Other noncurrent assets		436			436
Total noncurrent assets	14,732	257,386	68,829	118,678	459,625
Total assets	$ 16,407	$ 334,619	$ 76,937	$ 159,251	$ 587,214

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2010
(Expressed in thousands)

	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:					
Accounts payable	$ 1,511	$ 271	$ 7,962	$ 101	$ 9,845
Accrued interest	34	225			259
Accrued and other current liabilities	23				23
Due to other funds	11		6	261	278
Loans and bonds payable	1,134	7,545			8,679
Claims, judgments and compensated absences	3		27,230		27,233
Deferred revenue			1,470	2,940	4,410
Total current liabilities	2,716	8,041	36,668	3,302	50,727
Noncurrent liabilities:					
Loans and bonds payable	700	50,568			51,268
Net postemployment benefits payable	75				75
Claims, judgments and compensated absences	22		610		632
Deferred revenue		792			792
Total noncurrent liabilities	797	51,360	610		52,767
Total liabilities	3,513	59,401	37,278	3,302	103,494
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	12,898		235		13,133
Restricted for:					
Program requirements		275,218		155,949	431,167
Unrestricted	(4)		39,424		39,420
Total net assets	12,894	275,218	39,659	155,949	483,720
Total liabilities and net assets	$ 16,407	$ 334,619	$ 76,937	$ 159,251	$ 587,214

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2010
(Expressed in thousands)

	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	$ 1,852	$	$ 268,312	$	$ 270,164
Licenses, permits and fees		2,528		1,204	3,732
Investment earnings		6,547		2,578	9,125
Miscellaneous		4			4
Total operating revenues	1,852	9,079	268,312	3,782	283,025
Operating expenses:					
Cost of sales and services	690		3,381		4,071
Compensation and benefits	537				537
Supplies and services	1,407		15,935		17,342
General and administrative expenses	155	288		159	602
Benefits and aid payments		8,985	240,861	6,308	256,154
Depreciation and amortization	570		17		587
Amortization of bond costs		44			44
Interest	36	2,891			2,927
Total operating expenses	3,395	12,208	260,194	6,467	282,264
Operating income (loss)	(1,543)	(3,129)	8,118	(2,685)	761
Nonoperating revenues (expenses):					
Investment earnings	9		300		309
Grants and contributions	132	17,128		21,086	38,346
Loss on sale of fixed assets	(44)				(44)
Other non-operating revenue (expense)				65	65
Total nonoperating revenues (expenses)	97	17,128	300	21,151	38,676
Income (loss) before transfers and contributions	(1,446)	13,999	8,418	18,466	39,437
Transfers in	2,277		97	11,709	14,083
Transfers out	(24)	(1,080)	(449)	(3,308)	(4,861)
Change in net assets	807	12,919	8,066	26,867	48,659
Total net assets - as restated	12,087	262,299	31,593	129,082	435,061
Total net assets - ending	$ 12,894	$ 275,218	$ 39,659	$ 155,949	$ 483,720

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	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	$ 1,852	$	$ 268,198	$	$ 270,050
Payments to employees	(548)				(548)
Payments of benefits			(237,521)		(237,521)
Payments to suppliers	(2,237)	(276)	(17,035)	(143)	(19,691)
Interest received (paid)	(4)	3,171		2,562	5,729
Loan administration received (paid)		(14,059)		(16,207)	(30,266)
Federal grant funds expended		(8,985)		(6,308)	(15,293)
Other receipts (payments)		2,248	(3,381)	1,027	(106)
Net cash provided by (used in) operating activities	(937)	(17,901)	10,261	(19,069)	(27,646)
Cash flows from noncapital financing activities:					
Direct lending receipts	1,700				1,700
Direct lending payments	(100)	(7,210)			(7,310)
Grants and contributions	132	17,128		21,290	38,550
Transfers in	2,277		97	11,709	14,083
Transfers out	(24)	(1,080)	(449)	(3,252)	(4,805)
Net cash provided by (used in) noncapital financing activities	3,985	8,838	(352)	29,747	42,218
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(3,972)		(4)		(3,976)
Net cash used in capital and related financing activities	(3,972)		(4)		(3,976)
Cash flows from investing activities:					
Purchase of investments		(35,195)	(10,840)	(11,983)	(58,018)
Proceeds from sale and maturities of investments	1,569	38,425		8,000	47,994
Interest and dividends on investments	9		396		405
Advance disbursements				(1,000)	(1,000)
Advance repayments				1,139	1,139
Net cash provided by (used in) investing activities	1,578	3,230	(10,444)	(3,844)	(9,480)
Net increase (decrease) in cash and cash equivalents	654	(5,833)	(539)	6,834	1,116
Cash and cash equivalents - beginning (as restated)	902	65,368	7,285	25,696	99,251
Cash and cash equivalents (cash overdrafts) - ending	$ 1,556	$ 59,535	$ 6,746	$ 32,530	$ 100,367
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (1,543)	$ (3,129)	$ 8,118	$ (2,685)	$ 761
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	570		17		587
Amortization		44		(165)	(121)
Net appreciation (depreciation) of investments		(161)		(18)	(179)
Prior year adjustment for capital asset capitalization			(170)		(170)
Net changes in assets and liabilities:					
Accounts receivable		(57)	54	(3)	(6)
Loans receivable		(14,059)		(16,216)	(30,275)
Inventory	4				4
Other current assets		(103)	(174)	11	(266)
Current liabilities	32				32
Accounts payable and other accrued liabilities	9	(214)	2,413	7	2,215
Net OPEB	26				26
Compensated absences	(35)				(35)
Deferred revenue		(222)	3		(219)
Net cash provided by (used in) operating activities	$ (937)	$ (17,901)	$ 10,261	$ (19,069)	$ (27,646)

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, 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, 2010
(Expressed in thousands)

Assets	Teacher	APERS	Highway	Judicial	Total
Cash and cash equivalents	$ 166,182	$ 123,988	$ 58,121	$ 6,918	$ 355,209
Receivables:					
Employee	13,323	244	321		13,888
Employer	45,252	1,277	671		47,200
Interest and dividends	18,298	15,557	4,513	519	38,887
Advances to other funds	5,172				5,172
Other	117,612	41,028	5,195	222	164,057
Due from other funds	2,351	2			2,353
Total receivables	202,008	58,108	10,700	741	271,557
Investments at fair value:					
U.S. government securities	119,199	266,922	48,978	18,159	453,258
Bonds, notes, mortgages and preferred stock	449,087	77,500	5,006	1,622	533,215
Common stock	2,058,228	1,633,344	631,774	55,218	4,378,564
Real estate	95,517	172,755			268,272
International investments	3,240,535	845,315	732	19,628	4,106,210
Mutual funds		567,024		12,597	579,621
Pooled investment funds	1,440,356	33,801			1,474,157
Corporate obligations	358,181	698,332	300,160	24,141	1,380,814
Asset and mortgage-backed securitie	102,549	188,525	2,145	6,234	299,453
Other	1,832,673	307,325			2,139,998
Total investments	9,696,325	4,790,843	988,795	137,599	15,613,562
Securities lending collateral	775,718	431,664			1,207,382
Capital assets	286	72			358
Other assets	115	41			156
Total assets	10,840,634	5,404,716	1,057,616	145,258	17,448,224
Liabilities					
Accounts payable and other liabilities	8,667	6,735	5,381	214	20,997
Investment principal payable	163,440	49,555		1,730	214,725
Obligations under securities lending	784,028	448,382			1,232,410
Postemployment benefit liability	915	754			1,669
Due to other funds	10	69			79
Total liabilities	957,060	505,495	5,381	1,944	1,469,880
Net assets					
Held in trust for employees' pension benefits	$ 9,883,574	$ 4,899,221	$ 1,052,235	$ 143,314	$ 15,978,344

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	Teacher	APERS [1]	Highway	Judicial	Total
Additions:					
Contributions:					
Members	$ 115,932	$ 31,981	$ 8,583	$ 871	$ 157,367
Employers	389,296	175,630	17,999	2,255	585,180
Supplemental contributions		15,523		1,499	17,022
Court fees		1,518		903	2,421
Reinstatement fees		1,164	30		1,194
Total contributions	505,228	225,816	26,612	5,528	763,184
Investment income:					
Net increase (decrease) in fair value of investments	1,144,362	408,333	85,247	14,087	1,652,029
Interest, dividends, and other	127,311	110,396	24,460	2,023	264,190
Real estate operating income (loss)	6,957	(7)			6,950
Securities lending income	3,152	2,050			5,202
Total investment income	1,281,782	520,772	109,707	16,110	1,928,371
Less investment expense	30,950	18,803	4,134	671	54,558
Net investment income	1,250,832	501,969	105,573	15,439	1,873,813
Miscellaneous	254	8,656	79	(1)	8,988
Total additions (losses)	1,756,314	736,441	132,264	20,966	2,645,985
Deductions:					
Benefits paid to participants or beneficiaries	701,563	339,318	73,651	9,126	1,123,658
Refunds of employee/employer contributions	7,156	3,587	803	23	11,569
Administrative expenses	7,229	2,848	42	49	10,168
Total deductions	715,948	345,753	74,496	9,198	1,145,395
Change in net assets held in trust for employees' pension benefits	1,040,366	390,688	57,768	11,768	1,500,590
Net assets - beginning	8,843,208	4,508,533	994,467	131,546	14,477,754
Net assets - ending	$ 9,883,574	$ 4,899,221	$ 1,052,235	$ 143,314	$ 15,978,344

(1) The State Police Pension Trust Fund was merged with APERS.

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010
(Expressed in thousands)

	Insurance Department	Other Agencies	Total
Assets			
Cash and cash equivalents	$ 9,090	$ 17,318	$ 26,408
Receivables:			
Interest and dividends	1	52	53
Other		27	27
Total receivables	1	79	80
Investments at fair value:			
Certificates of deposit	1,260	35,926	37,186
Bonds, government securities, notes and mortgages		76,259	76,259
Total investments	1,260	112,185	113,445
Financial assurance instruments	310,059	6,311	316,370
Total assets	$ 320,410	$ 135,893	$ 456,303
Liabilities			
Due to other governments	$	$ 114,683	$ 114,683
Due to third parties	320,410	21,210	341,620
Total liabilities	$ 320,410	$ 135,893	$ 456,303

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	Insurance Department			
Assets	**Balance July 1, 2009**	**Additions**	**Reductions**	**Balance June 30, 2010**
Cash and cash equivalents	$ 9,419	$ 196	$ 525	$ 9,090
Receivables:				
Interest and dividends	3	1	3	1
Investments at fair value:				
Certificates of deposit	1,260			1,260
Financial assurance instruments	306,325	3,734		310,059
Total assets	$ 317,007	$ 3,931	$ 528	$ 320,410
Liabilities				
Due to third parties	$ 317,007	$ 3,931	$ 528	$ 320,410
Total liabilities	$ 317,007	$ 3,931	$ 528	$ 320,410

	Other Agencies			
Assets	**Balance July 1, 2009**	**Additions**	**Reductions**	**Balance June 30, 2010**
Cash and cash equivalents	$ 23,295	$ 1,818,659	$ 1,824,636	$ 17,318
Receivables:				
Interest and dividends	17	52	17	52
Other	27	213	213	27
Investments at fair value:				
Certificates of deposit	35,882	18,334	18,290	35,926
Bonds, government securities, notes, mortgages and preferred stock	71,926	76,259	71,926	76,259
Financial assurance instruments	6,099	786	574	6,311
Total assets	$ 137,246	$ 1,914,303	$ 1,915,656	$ 135,893
Liabilities				
Accounts payable and other liabilities	$	$ 16,592	$ 16,592	$
Due to other governments	111,609	900,720	897,646	114,683
Due to third parties	25,637	990,988	995,415	21,210
Total liabilities	$ 137,246	$ 1,908,300	$ 1,909,653	$ 135,893

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2010
(Expressed in thousands)

	Total - All Agency Funds			
Assets	**Balance July 1, 2009**	**Additions**	**Reductions**	**Balance June 30, 2010**
Cash and cash equivalents	$ 32,714	$ 1,818,855	$ 1,825,161	$ 26,408
Receivables:				
Interest and dividends	20	53	20	53
Other	27	213	213	27
Investments at fair value:				
Certificates of deposit	37,142	18,334	18,290	37,186
Bonds, government securities, notes, mortgages, and preferred stock	71,926	76,259	71,926	76,259
Financial assurance instruments	312,424	4,520	574	316,370
Total assets	$ 454,253	$ 1,918,234	$ 1,916,184	$ 456,303
Liabilities				
Accounts payable and other liabilities	$	$ 16,592	$ 16,592	$
Due to other governments	111,609	900,720	897,646	114,683
Due to third parties	342,644	994,919	995,943	341,620
Total liabilities	$ 454,253	$ 1,912,231	$ 1,910,181	$ 456,303

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

Arkansas®

Statistical Section

Collins Creek, Heber Springs

Statistical Section – Table of Contents

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, operating information and other information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non-accounting data.

The Statistical Section is divided into 6 sections as follows:

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Financial Trends 151

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.

Revenue Capacity Information 158

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

Debt Capacity Information 161

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

Demographic and Economic Information 163

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

Operating Information 166

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

Other Information 171

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

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

Primary Government	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental Activities									
Invested in capital assets, net of related debt	$ 8,867,290	$ 8,766,290	$ 8,210,615	$ 7,937,210	$ 7,880,406	$ 7,563,452	$ 7,375,246	$ 7,009,304	$ 6,730,616
Restricted	1,253,570	734,837	863,721	812,989	672,391	506,508	231,314	178,871	179,988
Unrestricted	1,342,630	1,922,388	2,349,314	2,469,825	2,001,993	1,803,726	1,657,482	1,399,219	1,477,114
Total governmental activities net assets	11,463,490	11,423,515	11,423,650	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	1,768,138	1,690,161	1,500,418	1,456,147	1,244,773	1,200,731	1,159,058	1,106,738	1,014,975
Restricted	760,352	726,800	954,661	882,865	879,536	760,011	649,458	567,056	663,139
Unrestricted	329,018	325,596	459,677	410,378	509,394	463,153	419,697	388,486	381,757
Total business-type activities net assets	2,857,508	2,742,557	2,914,756	2,749,390	2,633,703	2,423,895	2,228,213	2,062,280	2,059,871
Total Primary Government									
Invested in capital assets, net of related debt	10,635,428	10,456,451	9,711,033	9,393,357	9,125,179	8,764,183	8,534,304	8,116,042	7,745,591
Restricted	2,013,922	1,461,637	1,818,382	1,695,854	1,551,927	1,266,519	880,772	745,927	843,127
Unrestricted	1,671,648	2,247,984	2,808,991	2,880,203	2,511,387	2,266,879	2,077,179	1,787,705	1,858,871
Total primary government activities net assets	$ 14,320,998	$ 14,166,072	$ 14,338,406	$ 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 Nine Fiscal Years
(Expressed in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental									
Expenses									
General government	$ 1,356,657	$ 1,310,341	$ 1,296,232	$ 1,156,301	$ 1,187,512	$ 1,042,440	$ 1,071,734	$ 1,048,805	$ 940,426
Education	3,605,065	3,338,002	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	6,144,706	5,457,305	5,195,317	4,855,759	4,663,898	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	731,317	699,737	668,305	625,911	642,297	626,138	606,900	620,424	522,826
Law, justice and public safety	779,374	820,960	631,793	587,413	620,905	518,579	529,693	441,258	428,701
Recreation and resources development	277,402	243,419	244,959	219,283	201,955	175,097	189,406	243,519	218,534
Regulation of business and professionals	105,968	107,347	105,620	119,225	115,887	117,525	130,349	115,983	98,494
Interest on long-term debt	52,145	55,193	57,923	56,143	59,501	60,101	56,906	55,677	51,215
Total Expenses	13,052,634	12,032,304	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	325,072	276,112	291,216	269,310	256,641	270,746	279,902	252,146	279,099
Education	6,469	18,637	16,638	14,322	13,501	9,217	4,617	10,057	6,948
Health and human services	362,532	303,174	244,706	234,181	217,429	214,646	124,321	173,949	202,307
Transportation	107,818	147,267	146,463	137,338	133,993	130,190	122,873	132,673	12,819
Law, justice and public safety	73,601	70,262	72,066	64,666	63,251	60,540	61,163	24,350	9,262
Recreation and resources development	79,780	106,988	79,438	61,844	55,223	55,026	52,597	51,626	45,582
Regulation of business and professionals	80,079	76,695	81,585	86,721	89,950	76,026	67,172	75,160	68,180
Operating grants	5,868,623	4,943,264	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	493,064	455,765	413,055	422,270	392,744	431,739	454,668	15,419	6,707
Total Program Revenues	7,397,038	6,398,164	5,755,949	5,471,305	5,373,629	5,245,745	4,972,538	4,538,194	4,055,933
Net (Expense) Revenue	(5,655,596)	(5,634,140)	(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	2,468,798	2,507,368	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	2,376,891	2,487,944	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	449,274	444,496	456,223	462,732	456,223	450,281	449,960	439,483	477,384
Other	903,113	815,206	790,010	785,213	760,431	720,948	695,623	638,469	556,739
Investment earnings	52,809	82,681	172,081	162,603	96,369	58,348	36,651	46,139	63,121
Miscellaneous income	330,397	286,173	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	(885,711)	(955,484)	(947,339)	(811,518)	(719,933)	(654,686)	(637,949)	(596,261)	(609,619)
Restatement		(34,379)	(6,580)	(20,550)			16,000		
Total General Revenues and Transfers	5,695,571	5,634,005	5,938,880	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	$ 39,975	$ (135)	$ 203,626	$ 665,234	$ 681,104	$ 609,644	$ 676,648	$ 199,676	$ 232,640

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Business-Type									
Expenses									
Higher Education	$ 3,191,697	$ 3,021,439	$ 2,851,140	$ 2,628,963	$ 2,422,557	$ 2,256,317	$ 2,121,960	$ 1,987,141	$ 1,856,264
Workers' Compensation Commission	15,918	29,349	53,967	33,363	36,629	35,517	31,829	33,938	28,544
Department of Workforce Services	1,211,812	901,064	432,661	384,313	322,205	325,595	310,539	482,669	479,834
Lottery Commission (1)	302,579	16							
War Memorial Stadium Commission	3,439	2,585	3,990	3,293	4,310	1,830	1,726	1,799	1,623
Public School Employee Health and Life Benefit Plan (2)	260,194	259,385	232,252	240,944	219,544	202,137			
Revolving loans	18,675	3,941	4,203	4,406	4,603	4,766	5,671	5,866	8,791
Total Expenses	5,004,314	4,217,779	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	1,529,344	1,424,219	1,345,783	1,196,351	1,160,194	1,054,808	991,698	915,015	1,160,109
Workers' Compensation Commission								6	
Lottery Commission (1)	384,565								
War Memorial Stadium Commission	1,852	1,803	1,860	1,980	1,436	746	1,349	1,556	1,365
Public School Employee Health and Life Benefit Plan (2)	268,312	252,927	241,839	232,558	233,250	211,430			
Revolving loans	3,732	3,485	3,335	3,120	2,838	2,364			
Operating grants	1,498,215	928,570	626,798	578,648	566,200	602,649	549,004	544,918	160,833
Capital grants and contributions	33,052	52,438	72,677	60,447	59,025	70,432	56,889	88,396	70,832
Total Program Revenues	3,719,072	2,663,442	2,292,292	2,073,104	2,022,943	1,942,429	1,598,940	1,549,891	1,393,139
Net (Expense) Revenue	(1,285,242)	(1,554,337)	(1,285,921)	(1,222,178)	(986,905)	(883,733)	(872,785)	(961,522)	(981,917)
Business-Type Revenues and Transfers									
Taxes:									
Other	377,460	320,271	310,728	306,019	326,343	310,431	318,555	265,911	249,225
Investment earnings	54,846	(8,628)	57,064	96,394	61,462	48,310	40,237	48,295	39,565
Miscellaneous income	82,176	108,788	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	885,711	955,484	947,339	811,518	719,933	654,686	637,949	596,261	609,619
Restatement		6,223					6,858		
Total General Revenues and Transfers	1,400,193	1,382,138	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	114,951	(172,199)	165,366	115,687	209,808	195,682	165,933	2,409	(19,792)
Total Primary Government Change in Net Assets	$ 154,926	$ (172,334)	$ 368,992	$ 780,921	$ 890,912	$ 805,326	$ 842,581	$ 202,085	$ 212,848

(1) The Lottery Commission was created in 2009; operations commenced in 2010.

(2) Starting in fiscal year 2005, Public School Employee Health and Life Benefit 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)

	2010	2009	2008	2007
General Fund				
Reserved	$ 1,838,326	$ 1,276,214	$ 1,257,856	$ 1,227,194
Unreserved	1,814,731	2,256,642	2,309,421	2,272,762
Total General Fund	3,653,057	3,532,856	3,567,277	3,499,956
Total Fund Balances, Governmental Funds	$ 3,653,057	$ 3,532,856	$ 3,567,277	$ 3,499,956

2006	2005	2004	2003	2002	2001
$ 954,015	$ 988,971	$ 712,864	$ 769,067	$ 839,209	$ 361,718
1,988,211	1,532,038	1,384,917	973,152	839,121	1,462,693
2,942,226	2,521,009	2,097,781	1,742,219	1,678,330	1,824,411
$ 2,942,226	$ 2,521,009	$ 2,097,781	$ 1,742,219	$ 1,678,330	$ 1,824,411

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

	2010	2009	2008	2007
Revenues:				
Taxes:				
Personal and corporate income	$ 2,471,420	$ 2,549,965	$ 2,644,852	$ 2,515,958
Consumer sales and use	2,390,819	2,502,403	2,551,222	2,624,325
Gas and motor carrier	449,754	444,573	456,216	463,362
Other	903,618	813,733	790,122	784,936
Intergovernmental	6,364,695	5,394,538	4,832,649	4,594,212
Licenses, permits and fees	1,055,693	1,031,568	957,424	886,106
Investment earnings	52,809	82,681	172,081	162,603
Miscellaneous	336,775	278,046	275,646	287,031
Total Revenues	14,025,583	13,097,507	12,680,212	12,318,533
Expenditures:				
Current:				
General government	1,237,895	1,190,436	1,190,857	1,213,597
Education	3,600,560	3,333,875	3,286,143	3,149,468
Health and human services	6,129,257	5,441,822	5,184,858	4,844,657
Transportation	365,980	348,665	338,062	297,816
Law, justice and public safety	747,379	794,793	606,633	552,728
Recreation and resources development	258,322	225,461	228,663	187,970
Regulation of business and professionals	108,748	105,752	109,818	112,833
Debt service:				
Principal retirement (1)	95,924	101,054	107,070	103,782
Interest expense	53,303	55,766	59,671	59,752
Bond issuance costs	1,675	406	345	1,317
Capital outlay	614,241	561,354	628,536	611,567
Total Expenditures	13,213,284	12,159,384	11,740,656	11,135,487
Excess (deficiency) of revenues over expenditures	812,299	938,123	939,556	1,183,046
Other financing sources (uses):				
Issuance of debt	324,745	18,721	35,417	38,320
Proceeds from bond refunding				224,855
Bond discounts/premiums	21,045	(618)	(306)	5,248
Payment to refunding escrow agent	(174,165)		(4,523)	(107,806)
Capital leases	19,520	3,892	32,047	22,855
Installment sales			13,210	
Sale of capital assets	2,476	2,924	2,943	2,717
Transfers in	160,402	72,467	82,277	60,316
Transfers out	(1,046,121)	(1,027,604)	(1,033,300)	(871,821)
Restatement		(42,326)		
Total other financing sources and uses	(692,098)	(972,544)	(872,235)	(625,316)
Net change in fund balances	120,201	(34,421)	67,321	557,730
Fund balances-July 1	3,532,856	3,567,277	3,499,956	2,942,226
Decrease in reserve for inventory				
Fund balances-June 30	$ 3,653,057	$ 3,532,856	$ 3,567,277	$ 3,499,956
Debt Service as a percentage of noncapital expenditures:	1.20%	1.36%	1.50%	1.57%

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

2006	2005	2004	2003	2002	2001
$ 2,374,853	$ 2,169,849	$ 1,914,067	$ 1,714,603	$ 1,671,615	$ 1,704,226
2,519,443	2,382,865	1,951,475	1,770,946	1,719,686	1,728,033
456,569	450,269	450,444	439,614	430,735	257,407
760,799	721,144	694,802	638,510	647,387	373,688
4,540,408	4,418,148	4,249,189	3,823,171	3,417,665	2,882,725
853,616	836,688	717,092	750,872	591,817	480,698
96,369	57,999	36,651	46,139	63,167	107,074
345,978	248,138	313,952	250,566	49,403	623,006
11,948,035	11,285,100	10,327,672	9,434,421	8,591,475	8,156,857
1,137,458	1,058,514	1,029,316	1,044,164	902,922	681,055
3,044,735	2,877,770	2,336,813	2,324,631	2,231,401	2,172,021
4,653,553	4,526,132	4,065,745	3,772,155	3,293,609	2,984,687
320,417	319,140	312,688	346,282	257,976	788,416
588,661	480,246	496,109	416,353	405,434	509,428
186,137	159,709	159,895	221,987	196,731	196,734
112,623	114,484	125,968	108,378	96,655	120,189
97,583	46,723	36,809	40,066	49,478	69,841
61,065	58,866	56,769	50,341	43,578	
818	2,905	1,194	624	336	
673,624	704,117	755,373	692,898	810,947	132,485
10,876,674	10,348,606	9,376,679	9,017,879	8,289,067	7,654,856
1,071,361	936,494	950,993	416,542	302,408	502,001
71,993	116,717	24,974	224,020	185,000	31,874
15,540			31,150	45,145	
1,967	2,844	620	10,329	9,365	
(24,371)	(60,325)		(32,737)	(44,393)	
2,223	80,010	4,961	10,846	15,086	3,422
2,297	2,289	2,296			
47,254	46,495	49,099	5,266	757	658
(767,047)	(701,296)	(677,381)	(601,527)	(610,376)	(614,579)
				(49,073)	(8,908)
(650,144)	(513,266)	(595,431)	(352,653)	(448,489)	(587,533)
421,217	423,228	355,562	63,889	(146,081)	(85,532)
2,521,009	2,097,781	1,742,219	1,678,330	1,824,411	1,913,445
					(3,502)
$ 2,942,226	$ 2,521,009	$ 2,097,781	$ 1,742,219	$ 1,678,330	$ 1,824,411
1.56%	1.12%	1.10%	1.09%	1.25%	0.93%

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

Industry	2010 Revenue Base	2010 Percent of Total	2009 Revenue Base	2009 Percent of Total	2008 Revenue Base	2008 Percent of Total	2007 Revenue Base	2007 Percent of Total
Agriculture, Forestry, Fishing and Hunting	$ 97,655	0.23%	$ 112,929	0.23%	$ 105,304	0.25%	$ 108,964	0.27%
Mining	251,689	0.60%	311,266	0.62%	246,908	0.60%	224,806	0.55%
Utilities	4,233,123	10.03%	5,493,990	11.00%	4,708,255	11.40%	4,532,525	11.06%
Construction	564,684	1.34%	612,122	1.23%	529,727	1.28%	493,295	1.20%
Manufacturing	3,262,473	7.73%	3,864,172	7.73%	3,624,193	8.77%	3,670,740	8.96%
Wholesale Trade	3,910,161	9.26%	4,645,027	9.30%	4,218,275	10.21%	4,205,431	10.26%
Retail Trade	19,632,455	46.50%	21,901,249	43.85%	18,485,279	44.75%	18,655,946	45.51%
Transportation and Warehousing	283,412	0.67%	417,326	0.84%	362,152	0.88%	384,758	0.94%
Information	3,056,493	7.24%	5,253,774	10.52%	2,722,146	6.59%	2,653,893	6.47%
Finance and Insurance	62,647	0.15%	67,089	0.13%	57,703	0.14%	47,903	0.12%
Real Estate, Rental and Leasing	827,440	1.96%	957,993	1.92%	832,469	2.02%	803,267	1.96%
Professional, Scientific and Technical Services	119,903	0.28%	143,516	0.29%	112,101	0.27%	108,423	0.26%
Management of Companies and Enterprises	167	0.00%	56,835	0.11%	120	0.00%	293	0.00%
Administrative, Support, Waste Management and Remediation Services	671,947	1.59%	653,184	1.31%	585,095	1.42%	550,851	1.34%
Educational Services	49,553	0.12%	36,476	0.07%	41,684	0.10%	41,719	0.10%
Health Care and Social Services	92,069	0.22%	72,416	0.14%	64,206	0.16%	62,036	0.15%
Arts, Entertainment and Recreation	162,494	0.38%	177,186	0.35%	159,423	0.39%	161,053	0.39%
Accommodation and Food Services	3,528,970	8.36%	3,754,045	7.52%	3,198,652	7.74%	3,117,969	7.61%
Other Services (except Public Administration)	1,332,520	3.16%	1,342,494	2.69%	1,182,542	2.86%	1,102,308	2.69%
Public Administration	74,704	0.18%	74,436	0.15%	72,240	0.17%	65,026	0.16%
Total (1)	$ 42,214,559	100%	$ 49,947,525 (2)	100%	$ 41,308,474	100%	$ 40,991,206	100%
Direct Sales Tax Rate	6.00% (General) 2.00% (Food) 3.25% (Mfg Util Tax)		6.00% (General) 3.00% (Food) 4.00% (Mfg Util Tax)		6.00% (General) 3.00% (Food) 4.50% (Mfg Util Tax)		6.00%	

(1) Amounts do not include tax collected on automobile transactions.
(2) State converted to new data base system in 2009 resulting in more accurate accumulation of data.

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

2006		2005		2004		2003		2002		2001	
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	Revenue Base	Percent of Total
$ 103,605	0.26%	$ 110,174	0.29%	$ 91,427	0.28%	$ 117,991	0.36%	$ 118,261	0.36%	$ 133,467	0.39%
187,394	0.48%	154,114	0.41%	111,126	0.34%	111,704	0.34%	114,489	0.35%	130,754	0.39%
4,380,370	11.17%	3,657,722	9.72%	3,332,085	10.14%	3,176,490	9.63%	3,267,356	10.01%	3,581,231	10.53%
466,170	1.19%	405,129	1.08%	326,167	0.99%	347,510	1.05%	360,689	1.10%	353,743	1.04%
3,438,906	8.77%	3,362,676	8.94%	2,729,986	8.30%	2,801,495	8.49%	3,180,714	9.74%	3,325,943	9.78%
3,982,576	10.16%	3,802,827	10.11%	3,194,942	9.72%	3,314,094	10.04%	3,340,808	10.23%	3,545,906	10.43%
18,145,437	46.27%	17,778,800	47.25%	16,013,365	48.71%	15,982,194	48.42%	15,297,593	46.84%	15,787,265	46.42%
281,285	0.72%	252,335	0.67%	161,738	0.49%	392,981	1.19%	360,558	1.10%	378,654	1.11%
2,525,643	6.44%	2,454,873	6.53%	2,342,534	7.12%	2,135,098	6.47%	2,164,729	6.63%	2,218,403	6.52%
46,611	0.12%	47,115	0.13%	44,144	0.13%	48,966	0.15%	36,207	0.11%	33,581	0.10%
724,694	1.85%	701,230	1.86%	608,522	1.85%	591,972	1.79%	546,893	1.67%	572,744	1.68%
99,865	0.25%	102,152	0.27%	87,395	0.27%	86,886	0.26%	91,036	0.28%	90,755	0.27%
27	0.00%	38	0.00%	15	0.00%	5	0.00%	6	0.00%	16	0.00%
520,973	1.33%	481,704	1.28%	197,552	0.60%	168,243	0.51%	147,361	0.45%	146,809	0.43%
43,524	0.11%	50,060	0.13%	45,713	0.14%	50,875	0.16%	54,329	0.17%	54,150	0.16%
54,830	0.14%	62,941	0.17%	59,786	0.18%	67,447	0.20%	54,150	0.17%	52,233	0.15%
152,619	0.39%	151,894	0.40%	125,084	0.38%	128,727	0.39%	125,777	0.39%	126,740	0.37%
2,975,856	7.59%	2,969,613	7.89%	2,544,689	7.74%	2,588,666	7.84%	2,518,407	7.71%	2,578,530	7.58%
1,018,174	2.60%	1,024,751	2.72%	808,652	2.46%	842,348	2.55%	826,560	2.53%	856,825	2.52%
64,070	0.16%	56,261	0.15%	50,974	0.16%	53,507	0.16%	51,198	0.16%	45,672	0.13%
$ 39,212,629	100%	$ 37,626,409	100%	$ 32,875,896	100%	$ 33,007,199	100%	$ 32,657,121	100%	$ 34,013,421	100%
6.00%		6.00%		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)	

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

	2010				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	$ 5,807	0.25%	670	1.08%	$ 6,506	0.39%
Mining	14,950	0.64%	146	0.24%	6,374	0.39%
Utilities	252,243	10.78%	722	1.17%	174,566	10.53%
Construction	33,863	1.45%	1,929	3.12%	17,243	1.04%
Manufacturing	183,504	7.84%	4,095	6.63%	162,122	9.78%
Wholesale Trade	231,242	9.88%	5,821	9.43%	172,844	10.43%
Retail Trade	1,004,712	42.93%	23,755	38.46%	769,546	46.42%
Transportation and Warehousing	16,996	0.72%	1,632	2.64%	18,457	1.11%
Information	183,225	7.83%	954	1.54%	108,135	6.52%
Finance and Insurance	3,759	0.16%	277	0.45%	1,637	0.10%
Real Estate, Rental and Leasing	49,602	2.12%	1,465	2.37%	27,918	1.68%
Professional, Scientific and Technical Services	7,194	0.31%	1,406	2.28%	4,424	0.27%
Management of Companies and Enterprises	10	0.00%	5	0.01%	1	0.00%
Administrative, Support, Waste Management and Remediation Services	40,311	1.72%	3,346	5.42%	7,156	0.43%
Educational Services	2,970	0.13%	265	0.43%	2,640	0.16%
Health Care and Social Services	5,514	0.23%	1,043	1.69%	2,546	0.15%
Arts, Entertainment and Recreation	9,727	0.41%	928	1.50%	6,178	0.37%
Accommodation and Food Services	210,810	9.01%	6,483	10.50%	125,690	7.58%
Other Services (except Public Administration)	79,872	3.41%	6,767	10.96%	41,766	2.52%
Public Administration	4,281	0.18%	51	0.08%	2,226	0.13%
Total	$ 2,340,592	100%	61,760	100%	$ 1,657,975	100%

(1) Revenue data is available back to fiscal year 2000; however, this data is not comparable to fiscal year 2010 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 Ten Fiscal Years
(Expressed in thousands, except per capita amount)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Governmental										
General	$ 942,722	$ 855,599	$ 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		2,575	5,703	2,925	2,988					
Add (deduct):										
Deferred bond refunding loss	(20,593)	(11,852)	(13,140)	(14,263)	(5,542)	(4,807)	(1,011)	(1,064)		
Issuance premiums/(discounts)	28,002	12,614	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	100,788	109,893	117,390	121,644	123,256	96,683	57,148	56,331	60,000	64,374
Notes payable to pension trust fund	5,172	7,474	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	692	1,874	4,586	3,520	4,420	6,927	9,536	11,862	14,567	21,646
Capital leases with component unit	137,949	123,800	131,792	111,450	97,824	107,522	70,582	76,041	77,153	69,167
Installment sale with component unit	12,340	12,795	13,210							
Total Governmental Activities Debt	1,207,072	1,114,772	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	1,700							940	1,835	2,690
Construction Assistance Revolving Loan Fund	57,910	65,120	72,965	78,775	83,955	88,910	93,530	103,275	108,115	112,135
College & University Revenue Bonds	1,402,967	1,314,295	1,246,075	1,197,070	1,155,673	895,910	661,551	637,229	497,060	466,488
Add (deduct): issuance premiums/(discounts)	9,094	8,364	9,307	8,912	8,803	100	(123)	(1,124)	(1,455)	(1,074)
Notes payable	46,209	47,285	32,016	22,920	17,930	17,128	14,519	22,281	22,028	
Notes payable with component unit	2,550	3,042	3,518	5,857	6,666	8,728	9,675	6,349	6,754	
Capital leases	40,408	45,002	42,002	29,737	25,092	21,470	17,450	8,114	9,921	11,271
Capital leases with component unit	620	810	995	1,174	1,354	1,665	1,960	2,240	2,574	2,803
Total Business-Type Activities Debt	1,561,458	1,483,918	1,406,878	1,344,445	1,299,473	1,033,911	798,562	779,304	646,832	594,313
Total Primary Government Debt	2,768,530	2,598,690	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 (1)	2.89%	2.82%	2.82%	2.87%	2.96%	2.86%	2.57%	2.72%	2.35%	2.07%
Per Capita (2)	$ 950	$ 899	$ 907	$ 904	$ 870	$ 797	$ 688	$ 690	$ 571	$ 494
Net General Obligation Bonded Debt										
Gross bonded debt (3)	$ 942,722	$ 855,599	$ 912,295	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	$ 552,834
Less: debt service funds	(243,153)	(183,325)	(255,139)	(248,143)	(111,587)	(100,166)	(37,561)	(27,639)	(35,462)	(45,974)
Net bonded debt	$ 699,569	$ 672,274	$ 657,156	$ 724,050	$ 788,815	$ 844,692	$ 885,612	$ 893,347	$ 677,477	$ 506,860
Per Capita (2)	$ 240	$ 232	$ 229	$ 254	$ 280	$ 304	$ 322	$ 328	$ 250	$ 188
Supplementary Information										
Component Unit Debt										
Arkansas Student Loan Authority:										
Revenue bonds payable	521,450	612,400	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	252,700							6,860		
Arkansas Development Finance Authority:										
Bonds payable	1,153,676	1,080,671	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	4,236		205,723	220,751	312,307	326,055	216,315			
Add (deduct): issuance premiums/(discounts)	1,756	2,232	2,951	2,686	(517)	(961)	(2,098)	(1,715)	(1,962)	(415)
U of A Foundation Annuity Obligations	16,669	15,443	18,362	19,606	18,524	16,783	15,376	14,748		
Total Component Unit Debt	1,950,487	1,710,746	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	$ 4,719,017	$ 4,309,436	$ 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 (1)	4.92%	4.67%	4.98%	5.25%	5.61%	5.57%	4.98%	5.25%	5.02%	4.84%
Per Capita (2)	$ 1,620	$ 1,490	$ 1,605	$ 1,653	$ 1,650	$ 1,551	$ 1,335	$ 1,332	$ 1,217	$ 1,155

(1) Personal income data can be found in schedule 9.
(2) Population can be found in schedule 9.
(3) 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							
2010	$ 139,163	$ 5,210	$ 133,953	$ 7,629	$ 5,663	$ 13,292	10.08
2009	78,002	3,361	74,641	6,086	4,016	10,102	7.39
2008	76,479	12,134	64,345	5,300	3,659	8,959	7.18
2007	63,172	8,086	55,086	4,700	3,023	7,723	7.13
2006	60,064	7,344	52,720	3,925	2,295	6,220	8.48
Housing Bonds							
2010	$ 48,552	$ 27,908	$ 20,644	$ 3,785	$ 6,940	$ 10,725	1.92
2009	60,375	34,186	26,189	3,105	6,410	9,515	2.75
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							
2010	$ 1,096,180	$ 695,688	$ 400,492	$ 39,707	$ 47,211	$ 86,918	4.61
2009	1,055,983	651,507	404,476	30,189	45,362	75,551	5.35
2008	1,077,972	786,420	291,552	26,310	40,342	66,652	4.37
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							
2010	$ 12,442	$ 5,249	$ 7,193	$ 2,000	$ 1,552	$ 3,552	2.03
2009	11,991	6,631	5,360	1,710	1,986	3,696	1.45
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:							
2010	$ 76,356	$ 6,271	$ 70,085	$ 90,950	$ 4,204	$ 95,154	0.74
2009	94,811	6,144	88,667	78,750	14,967	93,717	0.95
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

(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
2010*	2,913	$ 95,868	$ 32,910	8.0%
2009	2,892	92,307	31,917	7.3%
2008	2,870	92,505	32,229	5.2%
2007	2,845	89,577	31,481	5.2%
2006	2,818	82,929	29,430	5.2%
2005	2,781	77,478	27,852	5.1%
2004	2,750	73,725	26,805	5.6%
2003	2,726	69,239	25,402	5.8%
2002	2,707	65,652	24,251	5.3%
2001	2,693	64,236	23,854	4.7%

* Projected numbers

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

Schedule 10
Principal Employers (Unaudited)
Current Year as Compared to 2001

2010	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	57,109	4.9%
2	Wal-Mart Stores, Inc.	46,261	4.0%
3	Tyson Foods, Inc.	24,448	2.1%
4	U.S. Federal Government	21,500	1.8%
5	Baptist Health	7,629	0.7%
6	Sisters of Mercy Health System	6,400	0.6%
7	J.B. Hunt Transportation Services, Inc.	6,250	0.5%
8	Arkansas Children's Hospital	4,435	0.4%
9	Kroger Co.	3,684	0.3%
10	Simmons Foods, Inc.	3,599	0.3%
		181,315	15.6%

2001	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	49,553	4.3%
2	Wal-Mart Stores, Inc.	40,859	3.5%
3	Tyson Foods, Inc.	24,251	2.1%
4	U.S. Federal Government	20,774	1.8%
5	Baptist Health	7,765	0.7%
6	ConAgra, Inc.	5,500	0.5%
7	Beverly Enterprises, Inc.	5,483	0.5%
8	Alltel Corp	4,800	0.4%
9	Whirlpool Corp	4,000	0.3%
10	Kroger Co.	3,670	0.3%
		166,655	14.4%

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 Eight Fiscal Years [1]

Full-Time Employees	2010	2009	2008	2007	2006	2005	2004	2003
General Government								
Department of Finance and Administration-Revenue	1,423	1,473	1,443	1,420	1,370	1,371	1,352	1,319
All Other	2,868	2,913	2,816	2,764	2,741	2,678	2,632	2,720
Education								
Department of Workforce Education	491	490	493	494	498	503	501	503
Department of Education	387	384	371	346	359	318	317	391
All Other	914	914	979	965	954	877	882	885
Heath and Human Services								
Department of Human Services	8,011	7,755	7,617	7,524	7,324	7,244	7,222	7,146
Department of Health	2,867	2,926	2,907	2,887	2,763	2,771	2,757	2,854
All Other	669	548	473	458	458	409	404	394
Transportation								
Department of Highway and Transportation	3,558	3,587	3,576	3,614	3,676	3,749	3,755	3,698
Law, Justice and Public Safety								
Department of Correction	3,950	3,890	3,750	3,792	3,745	3,354	3,310	3,362
Arkansas State Police	971	972	985	966	934	903	843	818
All Other	2,727	2,784	2,786	2,553	2,546	2,386	2,351	2,074
Recreation and Resources Development								
Department of Parks and Tourism	1,323	1,321	1,291	1,298	1,214	1,138	1,127	1,138
Arkansas Game and Fish Commission	621	679	647	649	634	621	635	610
All Other	887	890	1,010	988	990	933	922	929
Regulation of Business and Professionals								
Department of Insurance	190	192	189	185	192	182	184	175
All Other	1,061	1,057	941	922	909	612	592	597
Proprietary Funds								
Colleges and Universities [2]	22,727	21,846	19,529	20,269	19,088	N/A	N/A	N/A
Workers Compensation Commission	119	123	127	135	137	141	141	138
Department of Workforce Services	1,221	1,102	976	907	852	702	750	881
Arkansas Scholarship Lottery [3]	84	N/A	N/A	N/A	N/A	N/A	N/A	N/A
War Memorial Stadium Commission [4]	40	25	32	25	21	29	N/A	N/A
State Total	57,109	55,871	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) Commenced operations in 2010.
(4) 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

	2010	2009	2008
General Government			
Department of Finance & Administration-Revenue			
Office of Driver Services			
Licenses and ID cards issued	852,998	820,155	728,893
Registered Vehicles	3,700,308	3,619,926	3,363,504
Income Tax Administration			
Total electronic tax filers	791,646	777,486	762,741
EFT estimate payments by corporations	1,961	1,769	1,697
EFT withholding payments	231,209	161,404	170,071
Education			
Department of Education			
All school districts:			
Average Daily Membership (1)	N/A	457,566	459,460
Number of Certified Personnel (1)	N/A	36,201	36,194
Average Salary of K-12 Classroom full-time employees (1)	N/A	$ 45,862	$ 45,393
Per Pupil Expenditures (1)	N/A	$ 8,308	$ 8,256
Foundation Aid per Student	$ 6,023	$ 5,789	$ 5,719
Assessed Valuation (in millions)	$ 39,567	$ 38,667	$ 35,970
Higher Education			
Public Institutions			
Net enrollment	148,573	139,835	135,050
Undergraduate degrees awarded	26,184	23,692	21,146
Graduate degrees awarded	5,041	4,141	3,873
Private Institutions			
Fall net enrollment	15,504	14,946	14,485
Undergraduate degrees awarded	2,432	2,295	2,284
Graduate degrees awarded	515	532	520
Health and Human Services			
Department of Human Services			
Foster Care Recipients	7,491	7,446	6,974
Percent of Population	0.26%	0.26%	0.24%
Food Stamp Recipients	643,420	577,329	556,735
Percent of Population	22.27%	20.09%	19.54%
Medicaid Recipients	755,607	747,851	744,269
Percent of Population	26.15%	26.03%	26.13%
Department of Health			
Women, Infants and Children Nutrition Program (WIC)	169,789	187,880	163,766
Percent of Population	5.83%	6.50%	5.71%
Doses of Vaccine Administered(2)	1,144,245	888,011	503,185
Inhome Patients Served	24,391	24,140	26,393

(1) Fiscal year 2010 figures not available as of print date
(2) Commenced Flu Vacine Program in 2008

Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Departments of Revenue, Education, Higher Education, Health and Human Services, Highway and Transportation, Correction, Parks and Tourism and Insurance

2007	2006	2005	2004	2003	2002	2001
734,555	727,765	731,155	736,200	702,810	683,237	662,870
3,272,311	2,993,975	2,907,650	2,810,529	2,742,630	2,685,507	2,650,512
676,504	620,490	598,127	538,528	495,842	430,072	350,955
1,662	1,501	1,185	1,068	902	N/A	N/A
140,678	125,999	103,356	91,536	93,888	N/A	N/A
459,865	457,490	450,910	447,872	439,742	444,709	444,978
36,112	35,371	35,201	34,024	33,014	33,780	33,405
$ 44,493	$ 43,088	$ 41,489	$ 39,266	$ 37,536	$ 36,026	$ 34,729
$ 7,992	$ 7,687	$ 7,307	$ 6,475	$ 6,168	$ 5,867	$ 5,531
$ 5,662	$ 5,528	$ 5,400	$ 4,721	$ 4,688	$ 4,542	$ 4,492
$ 33,438	$ 31,275	$ 29,274	$ 27,748	$ 26,346	$ 25,269	$ 23,941
130,982	127,419	123,462	119,963	114,366	109,067	105,014
19,930	19,038	18,225	17,046	16,933	15,133	14,090
3,613	3,585	3,525	3,248	3,016	3,131	2,852
13,976	13,536	12,333	11,885	11,477	10,254	10,560
2,286	2,420	2,394	2,309	2,204	2,108	2,057
491	455	306	271	236	184	118
7,194	6,809	6,401	6,502	6,202	6,471	6,670
0.25%	0.24%	0.23%	0.24%	0.23%	0.24%	0.25%
553,618	558,521	544,752	490,641	457,888	433,716	402,119
19.60%	19.94%	19.62%	17.82%	16.79%	16.02%	14.94%
742,965	729,800	688,150	663,920	626,036	582,379	535,798
26.30%	26.06%	24.79%	24.12%	22.95%	21.51%	19.90%
160,687	158,393	156,654	153,570	149,063	145,447	144,006
5.69%	5.66%	5.64%	5.58%	5.46%	5.37%	5.35%
414,971	420,359	499,075	464,491	480,150	522,722	786,131
26,732	27,374	24,844	27,499	26,575	28,965	27,390

Continued on the following page

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

Continued from the previous page

	2010	2009	2008
Transportation			
Highway and Transportation Department			
Miles of State Highway Maintained [1]	N/A	16,443	16,428
Law, Justice and Public Safety			
Department of Correction			
Custody Population Count	13,908	13,237	13,293
Staff Members	4,737	4,701	4,701
Inmate Cost per day	$ 64.00	$ 60.19	$ 57.13
Operating Capacity	13,133	12,723	12,723
Inmate Care/Custody Operating Expenses (in thousands)	$ 288,609	$ 277,491	$ 272,844
Arkansas State Police			
Commissioned Officers	546	542	550
Number of Homicides Investigated	227	214	199
Total Citations Issued	266,764	269,080	271,125
Total Motorist Assists	26,660	22,708	21,380
Total Number of Traffic Accidents	16,320	16,306	16,759
Total Criminal Investigations	3,038	3,367	3,251
Recreation and Resources Development			
Department of Parks and Tourism			
Acres of State Parks Maintained	54,161	54,166	54,623
Game and Fish Commission			
Fishing Licenses sold	701,805	698,071	680,770
Hunting Licenses sold	448,625	462,164	417,560
Lifetime Licenses sold	26,360	27,734	23,241
Other Licenses sold	32,989	28,879	21,774
Regulation of Business and Professionals			
Department of Insurance			
Number of active licensed insurance agents	83,231	82,123	77,310
Total consumer complaints received	3,008	2,881	2,976
Total consumer complaints closed	3,111	3,021	3,068
Total dollars recovered for consumers (in thousands)	$ 10,608	$ 11,632	$ 8,768

2007	2006	2005	2004	2003	2002	2001
16,438	16,440	16,444	16,419	16,383	16,379	16,369
12,828	12,690	12,568	12,675	11,672	11,223	11,072
4,375	4,375	4,270	4,270	3,666	3,666	3,486
$ 52.64	$ 52.12	$ 48.24	$ 47.32	$ 44.11	$ 42.59	$ 40.79
12,552	12,403	12,178	11,640	11,124	10,968	10,576
$ 253,888	$ 243,208	$ 215,042	$ 209,543	$ 185,682	$ 182,188	$ 175,718
544	527	529	533	492	592	556
219	196	171	167	224	210	224
243,234	244,649	258,627	211,023	192,379	211,965	N/A
21,069	21,167	23,946	23,173	22,633	21,176	N/A
16,561	16,556	18,726	18,143	18,029	17,166	N/A
2,688	2,119	2,883	3,375	3,215	3,090	2,641
53,741	53,402	52,747	52,553	52,517	52,605	51,632
748,184	719,411	747,756	726,592	734,236	729,291	750,833
408,253	375,834	410,606	413,723	431,615	458,412	443,432
21,997	19,467	20,657	22,284	10,143	9,659	9,535
24,268	22,880	25,829	27,767	26,975	27,342	26,699
66,987	60,933	49,087	33,970	25,866	20,555	16,369
3,080	2,850	3,157	3,320	3,661	3,874	4,044
2,927	2,901	3,132	3,416	3,345	3,808	3,924
$ 5,161	$ 5,913	$ 5,955	$ 5,433	$ 2,573	$ 4,265	$ 2,000

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Government									
Dept of Finance and Administration-Revenue									
Vehicles	182	181	177	180	188	168	162	146	145
Education									
Department of Education									
Vehicles	216	219	207	217	255	244	229	206	207
Higher Education									
Campuses (public institutions)	33	33	33	33	33	33	33	33	33
Health and Human Services									
Department of Human Services									
Buildings	442	446	449	459	457	456	417	439	441
Vehicles	516	516	496	486	482	488	491	492	546
Department of Health									
Buildings	8	8	8	8	9	8	8	8	8
Vehicles	131	154	134	148	142	142	142	143	143
Transportation									
Highway and Transportation Department									
Passenger vehicles	2,667	2,683	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	20	20	19	19	18	18
Vehicles	419	430	384	399	406	391	387	335	334
Arkansas State Police									
Police stations	12	12	12	12	12	12	12	12	12
Vehicles	877	855	885	854	860	745	685	742	847
Recreation and Resources Development									
Department of Parks and Tourism									
State parks and museums	52	52	52	52	52	52	52	52	52
Vehicles	356	355	342	331	362	323	321	310	289
Game and Fish Commission									
Hatcheries	5	5	5	5	5	5	5	5	5
Vehicles	1,038	979	960	1,025	1,029	1,054	1,033	1,090	1,048
Boats	580	576	572	568	570	560	560	508	497
Regulation of Business and Professionals									
Vehicles	120	119	105	98	94	93	92	88	83

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 Capitol	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, North Little Rock, Fayetteville, Jonesboro, Pine Bluff
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"
State Grain	Rice
State Nut	Pecan
State Mammal	White-tailed deer

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
JUSTICE

State of Arkansas

Single Audit Report

For the Year Ended June 30, 2010

STATE OF ARKANSAS
SINGLE AUDIT REPORT
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FOR THE YEAR ENDED JUNE 30, 2010

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State of Arkansas Single Audit

INDEPENDENT AUDITOR'S REPORTS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 22, 2010. Our report includes 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), the Department of Workforce Services (major enterprise fund), the Construction Assistance Revolving Loan Fund (non-major enterprise fund), and the Other Revolving Loan Funds (non-major enterprise funds) 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS-10-01 through FS-10-03 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*.

We noted certain matters that we reported to management of the State in a separate letter dated March 9, 2011.

The State's response to the findings identified in our audit is 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 22, 2010

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Report On Compliance With Requirements That Could Have a Direct and Material Effect on 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 OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2010. 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.

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As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements applicable to certain major federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

State/Educational Agency	Program	Compliance Requirement	Finding Number
Arkansas Department of Workforce Education – Arkansas Rehabilitation Services	CFDA 84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)	Reporting	10-520-01
Arkansas Department of Human Services	CFDA 10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)	Reporting	10-710-05
	CFDA 93.767 - Children's Health Insurance Program	Cash Management	10-710-18
	CFDA 93.778 - Medical Assistance Program; ARRA - Medical Assistance Program (Medicaid Cluster)	Eligibility	10-710-19

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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 10-150-01 through 10-150-04, 10-160-01, 10-500-01, 10-500-02, 10-520-02, 10-520/710-01 through 10-520/710-03, 10-645-04, 10-700-01, 10-700-02, 10-710-07, 10-710-08, 10-710-10 through 10-710-17, 10-710-20 through 10-710-26 and 10-975-01.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-520-01, 10-710-05, 10-710-18, 10-710-19 and 10-710-20 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-150-01 through 10-150-05, 10-500-01, 10-520-02, 10-520/710-01 through 10-520/710-03, 10-700-02, 10-710-06 through 10-710-09, 10-710-11 through 10-710-17, and 10-710-21 through 10-710-26 to be significant deficiencies.

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, 2010, and have issued our report thereon dated December 22, 2010. 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), the Department of Workforce Services (enterprise fund), and the Construction Assistance Revolving Loan Fund and Other Revolving Loan Funds (portions of the non-major enterprise funds) 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 performed for the purpose of forming our 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 responses 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 responses and, accordingly, we express no opinion on the responses.

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
March 9, 2011, except for the
Schedule of Expenditures of Federal
Awards, dated December 22, 2010

State of Arkansas Single Audit

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
SNAP CLUSTER			
United States Department of Agriculture			
Supplemental Nutrition Assistance Program	10.551	$ 671,752,238	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	31,570,778	
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	2,045,628	
Total United States Department of Agriculture		705,368,644	
Total SNAP CLUSTER		705,368,644	
CHILD NUTRITION CLUSTER			
United States Department of Agriculture			
School Breakfast Program	10.553	38,412,683	$ 37,220,010
National School Lunch Program	10.555	124,674,899	113,362,584
Special Milk Program for Children	10.556	6,908	
Summer Food Service Program for Children	10.559	3,287,881	3,147,827
Total United States Department of Agriculture		166,382,371	153,730,421
Total CHILD NUTRITION CLUSTER		166,382,371	153,730,421
EMERGENCY FOOD ASSISTANCE CLUSTER			
United States Department of Agriculture			
Emergency Food Assistance Program (Administrative Costs)	10.568	555,389	555,389
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568	496,610	218,329
Emergency Food Assistance Program (Food Commodities)	10.569	6,735,902	
ARRA - Emergency Food Assistance Program (Food Commodities)	10.569	1,079,037	
Total United States Department of Agriculture		8,866,938	773,718
Total EMERGENCY FOOD ASSISTANCE CLUSTER		8,866,938	773,718
SCHOOLS AND ROADS CLUSTER			
United States Department of Agriculture			
Schools and Roads-Grants to States	10.665	9,883,492	9,883,492
Total United States Department of Agriculture		9,883,492	9,883,492
Total SCHOOLS AND ROADS CLUSTER		9,883,492	9,883,492
PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER			
United States Department of Commerce			
Economic Adjustment Assistance	11.307	916,961	
Total United States Department of Commerce		916,961	
Total PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER		916,961	
CDBG - ENTITLEMENT GRANTS CLUSTER			
United States Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218	8,112,203	8,080,269
Total United States Department of Housing and Urban Development		8,112,203	8,080,269
Total CDBG - ENTITLEMENT GRANTS CLUSTER		8,112,203	8,080,269
CDBG - STATE-ADMINISTERED SMALL CITIES PROGRAM CLUSTER			
United States Department of Housing and Urban Development			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	26,812,264	24,777,907
ARRA - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.255	1,191,836	1,191,836
Total United States Department of Housing and Urban Development		28,004,100	25,969,743
Total CDBG - STATE-ADMINISTERED SMALL CITIES PROGRAM CLUSTER		28,004,100	25,969,743

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
FISH AND WILDLIFE CLUSTER			
United States Department of the Interior			
Sport Fish Restoration Program	15.605	$ 6,552,062	
Wildlife Restoration	15.611	5,850,735	
Total United States Department of the Interior		12,402,797	
Total FISH AND WILDLIFE CLUSTER		12,402,797	
EMPLOYMENT SERVICE CLUSTER			
United States Department of Labor			
Employment Service/Wagner-Peyser Funded Activities	17.207	7,691,907	
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207	2,273,360	
Disabled Veterans' Outreach Program (DVOP)	17.801	450,156	
Local Veterans' Employment Representative Program	17.804	1,037,641	
Total United States Department of Labor		11,453,064	
Total EMPLOYMENT SERVICE CLUSTER		11,453,064	
WIA CLUSTER			
United States Department of Labor			
WIA Adult Program	17.258	9,389,249	$ 9,373,587
Pass-Through from Southwest Arkansas Planning and Development District, Inc.	17.258	31,316	
ARRA - WIA Adult Program	17.258	3,183,951	3,183,951
WIA Youth Activities	17.259	8,395,041	8,334,880
Pass-Through from SERCO - West Memphis Workforce Center	17.259	57,675	
ARRA - WIA Youth Activities	17.259	7,562,769	7,305,455
WIA Dislocated Workers	17.260	11,294,911	7,751,778
ARRA - WIA Dislocated Workers	17.260	3,200,854	2,647,811
Total United States Department of Labor		43,115,766	38,597,462
Total WIA CLUSTER		43,115,766	38,597,462
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
United States Department of Transportation			
Highway Planning and Construction	20.205	363,804,760	879,807
ARRA - Highway Planning and Construction	20.205	95,019,838	
Recreational Trails Program	20.219	1,001,098	77,030
Total United States Department of Transportation		459,825,696	956,837
Total HIGHWAY PLANNING AND CONSTRUCTION CLUSTER		459,825,696	956,837
FEDERAL TRANSIT CLUSTER			
United States Department of Transportation			
Federal Transit_Capital Investment Grants	20.500	2,462,544	1,661,424
Federal Transit_Formula Grants	20.507	950,855	
Total United States Department of Transportation		3,413,399	1,661,424
Total FEDERAL TRANSIT CLUSTER		3,413,399	1,661,424
TRANSIT SERVICES PROGRAMS CLUSTER			
United States Department of Transportation			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,598,556	
Job Access_Reverse Commute	20.516	1,536,324	1,048,044
New Freedom Program	20.521	888,268	611,974
Total United States Department of Transportation		4,023,148	1,660,018
Total TRANSIT SERVICES PROGRAMS CLUSTER		4,023,148	1,660,018

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
HIGHWAY SAFETY CLUSTER			
United States Department of Transportation			
State and Community Highway Safety	20.600	$ 3,150,215	$ 855,813
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	1,184,016	364,939
Safety Belt Performance Grants	20.609	587,575	
State Traffic Safety Information System Improvement Grants	20.610	612,953	
Incentive Grant Program to Increase Motorcyclist Safety	20.612	122,506	
Total United States Department of Transportation		5,657,265	1,220,752
Total HIGHWAY SAFETY CLUSTER		5,657,265	1,220,752
TITLE I, PART A CLUSTER			
United States Department of Education			
Title I Grants to Local Educational Agencies	84.010	127,266,702	119,474,984
ARRA - Title I Grants to Local Educational Agencies	84.389	52,070,681	52,070,681
Pass-Through from Murrell Taylor Elementary School	84.389	5,337	
Total United States Department of Education		179,342,720	171,545,665
Total TITLE I, PART A CLUSTER		179,342,720	171,545,665
SPECIAL EDUCATION CLUSTER (IDEA)			
United States Department of Education			
Special Education_Grants to States	84.027	80,580,223	76,277,262
Special Education_Preschool Grants	84.173	5,215,533	5,002,290
ARRA - Special Education Grants to States	84.391	54,722,295	54,722,295
ARRA - Special Education - Preschool Grants	84.392	2,177,924	2,177,924
Total United States Department of Education		142,695,975	138,179,771
Total SPECIAL EDUCATION CLUSTER (IDEA)		142,695,975	138,179,771
IMPACT AID CLUSTER			
ARRA - Impact Aid -- School Construction Formula Grants	84.404	26,025	
Total United States Department of Education		26,025	
Total IMPACT AID CLUSTER		26,025	
TRIO CLUSTER			
United States Department of Education			
TRIO_Student Support Services	84.042	7,007,776	
TRIO_Talent Search	84.044	3,489,714	
TRIO_Upward Bound	84.047	5,983,627	
TRIO_Educational Opportunity Centers	84.066	1,634,801	
TRIO_McNair Post-Baccalaureate Achievement	84.217	772,710	
Total United States Department of Education		18,888,628	
Total TRIO CLUSTER		18,888,628	
VOCATIONAL REHABILITATION CLUSTER			
United States Department of Education			
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	32,055,181	
ARRA - Rehabilitation Services-Vocational Rehabilitation Grants to States	84.390	2,111,776	
Total United States Department of Education		34,166,957	
Total VOCATIONAL REHABILITATION CLUSTER		34,166,957	

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
CENTERS FOR INDEPENDENT LIVING CLUSTER			
United States Department of Education			
Centers for Independent Living	84.132	$ 150,876	
Total United States Department of Education		150,876	
Total CENTERS FOR INDEPENDENT LIVING CLUSTER		150,876	
INDEPENDENT LIVING STATE GRANTS CLUSTER			
United States Department of Education			
Independent Living_State Grants	84.169	401,469	
ARRA - Independent Living State Grants	84.398	228,134	
Total United States Department of Education		629,603	
Total INDEPENDENT LIVING STATE GRANTS CLUSTER		629,603	
INDEPENDENT LIVING SERVICES FOR OLDER INDIVIDUALS WHO ARE BLIND CLUSTER			
United States Department of Education			
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	534,466	
ARRA - Independent Living Services for Older Individuals Who are Blind	84.399	85,920	
Total United States Department of Education		620,386	
Total INDEPENDENT LIVING SERVICES FOR OLDER INDIVIDUALS WHO ARE BLIND CLUSTER		620,386	
EARLY INTERVENTION SERVICES (IDEA) CLUSTER			
United States Department of Education			
Special Education-Grants for Infants and Families	84.181	3,783,993	
ARRA - Special Education - Grants for Infants and Families	84.393	629,997	$ 9,795
Total United States Department of Education		4,413,990	9,795
Total EARLY INTERVENTION SERVICES (IDEA) CLUSTER		4,413,990	9,795
EDUCATION OF HOMELESS CHILDREN AND YOUTH CLUSTER			
United States Department of Education			
Education for Homeless Children and Youth	84.196	320,149	258,000
ARRA - Education for Homeless Children and Youth	84.387	272,318	272,318
Total United States Department of Education		592,467	530,318
Total EDUCATION OF HOMELESS CHILDREN AND YOUTH CLUSTER		592,467	530,318
EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER			
United States Department of Education			
Education Technology State Grants	84.318	2,854,443	2,519,262
ARRA - Education Technology State Grants	84.386	4,757,247	4,757,247
Total United States Department of Education		7,611,690	7,276,509
Total EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER		7,611,690	7,276,509
STATEWIDE DATA SYSTEMS CLUSTER			
United States Department of Education			
Statewide Data Systems	84.372	1,087,881	674,550
Total United States Department of Education		1,087,881	674,550
Total STATEWIDE DATA SYSTEMS CLUSTER		1,087,881	674,550
SCHOOL IMPROVEMENT GRANTS CLUSTER			
United States Department of Education			
School Improvement Grants	84.377	61,055	40,000
Total United States Department of Education		61,055	40,000
Total SCHOOL IMPROVEMENT GRANTS CLUSTER		61,055	40,000

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
STATE FISCAL STABILIZATION FUND CLUSTER			
United States Department of Education			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	$ 145,636,663	$ 133,679,256
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397	23,789,360	5,697,622
Total United States Department of Education		169,426,023	139,376,878
Total STATE FISCAL STABILIZATION FUND CLUSTER		169,426,023	139,376,878
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	3,846,090	3,402,896
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	5,566,568	5,566,568
Nutrition Services Incentive Program	93.053	2,443,222	2,443,222
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	319,081	319,081
ARRA - Aging Congregate Nutrition Services for States	93.707	648,133	648,133
Total United States Department of Health and Human Services		12,823,094	12,379,900
Total AGING CLUSTER		12,823,094	12,379,900
IMMUNIZATION CLUSTER			
United States Department of Health and Human Services			
Immunization Grants	93.268	32,274,589	27,265
ARRA - Immunization	93.712	1,872,917	
Total United States Department of Health and Human Services		34,147,506	27,265
Total IMMUNIZATION CLUSTER		34,147,506	27,265
TANF CLUSTER			
United States Department of Health and Human Services			
Temporary Assistance for Needy Families	93.558	77,846,243	2,236,834
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	791,728	791,728
ARRA - Temporary Assistance for Needy Families (TANF) Supplemental Grants	93.716	1,323,090	
Total United States Department of Health and Human Services		79,961,061	3,028,562
Total TANF CLUSTER		79,961,061	3,028,562
CSBG CLUSTER			
United States Department of Health and Human Services			
Community Services Block Grant	93.569	9,535,470	9,121,070
ARRA - Community Services Block Grant	93.710	7,533,036	7,448,266
Pass-Through from Community Action Program for Central Arkansas, Incorporated	93.710	1,236	
Total United States Department of Health and Human Services		17,069,742	16,569,336
Total CSBG CLUSTER		17,069,742	16,569,336
CCDF CLUSTER			
United States Department of Health and Human Services			
Child Care and Development Block Grant	93.575	28,367,280	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	18,500,974	
ARRA - Child Care and Development Block Grant	93.713	21,112,157	56,721
Total United States Department of Health and Human Services		67,980,411	56,721
Total CCDF CLUSTER		67,980,411	56,721

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
HEAD START CLUSTER			
United States Department of Health and Human Services			
Head Start	93.600	$ 7,432,533	$ 31,991
Pass-Through from Head Start/Body Start National Center for Physical Development and Outdoor Play	93.600	5,000	
ARRA - Head Start	93.708	414,137	
ARRA - Early Head Start	93.709	331,411	
Total United States Department of Health and Human Services		8,183,081	31,991
Total HEAD START CLUSTER		8,183,081	31,991
MEDICAID CLUSTER			
United States Department of Health and Human Services			
State Medicaid Fraud Control Units	93.775	1,560,025	
State Survey and Certification of Health Care Providers and Suppliers	93.777	9,091,242	
Medical Assistance Program	93.778	2,840,262,581	9,397,191
ARRA - Medical Assistance Program	93.778	294,147,048	
Total United States Department of Health and Human Services		3,145,060,896	9,397,191
Total MEDICAID CLUSTER		3,145,060,896	9,397,191
FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER			
Corporation for National and Community Service			
Foster Grandparent Program	94.011	378,307	
Total Corporation for National and Community Service		378,307	
Total FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER		378,307	
DISABILITY INSURANCE/SSI CLUSTER			
Social Security Administration			
Social Security_Disability Insurance	96.001	33,594,483	
Supplemental Security Income	96.006	64,432	
Total Social Security Administration		33,658,915	
Total DISABILITY INSURANCE/SSI CLUSTER		33,658,915	
HOMELAND SECURITY CLUSTER			
Department of Homeland Security			
State Domestic Preparedness Equipment Support Program	97.004	19,385	
Homeland Security Grant Program	97.067	4,703,111	3,889,025
Total Department of Homeland Security		4,722,496	3,889,025
Total HOMELAND SECURITY CLUSTER		4,722,496	3,889,025
RESEARCH AND DEVELOPMENT CLUSTER			
United States Department of Agriculture			
Agricultural Research_Basic and Applied Research	10.001	2,152,860	100,366
Pass-Through from Entomological Services	10.001	12,170	
Plant and Animal Disease, Pest Control, and Animal Care	10.025	87,519	
Wildlife Services	10.028	23,339	
Federal-State Marketing Improvement Program			
Pass-Through from University of Idaho	10.156	1,977	
Specialty Crop Block Grant Program - Farm Bill			
Pass-Through from Arkansas Pecan Growers Association	10.170	21,718	
Grants for Agricultural Research, Special Research Grants	10.200	1,459,700	15,576
Pass-Through from Iowa State University	10.200	38,000	
Pass-Through from Louisiana State University	10.200	10,029	
Pass-Through from New York State Department of Agriculture and Markets	10.200	18,077	

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

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)			
Grants for Agricultural Research, Special Research Grants (continued)			
Pass-Through from Southern Regional Aquaculture Center	10.200	$ 111,297	
Pass-Through from University of Florida	10.200	64,998	
Pass-Through from University of Georgia	10.200	2,931	
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	2,147,415	
Grants for Agricultural Research_Competitive Research Grants	10.206	2,074,365	$ 601,891
Pass-Through from University of Florida	10.206	24,141	
Small Business Innovation Research			
Pass-Through from Infinite Eversole-Speciality Crop Services, LLC	10.212	12,844	
Sustainable Agriculture Research and Education			
Pass-Through from University of Georgia	10.215	21,338	
1890 Institution Capacity Building Grants	10.216	375,330	
Pass-Through from Delaware State University	10.216	4,428	
Pass-Through from Fort Valley State University	10.216	14,694	
Pass-Through from West Virginia State University	10.216	24,261	
Higher Education Challenge Grants	10.217	127,511	66,563
Pass-Through from Kansas State University	10.217	1,154	
Pass-Through from Texas A&M University	10.217	12,684	
Biotechnology Risk Assessment Research	10.219	94,172	
Higher Education Multicultural Scholars Program	10.220	27,600	
Agricultural and Rural Economic Research	10.250	1,221	
Integrated Programs	10.303	383,911	136,348
Pass-Through from Texas A&M University	10.303	14,269	
Pass-Through from Texas Agricultural Experiment Station	10.303	31,986	
Pass-Through from Texas AgriLife Extension Service	10.303	15,841	
Pass-Through from University of Connecticut	10.303	12,831	
Pass-Through from University of Georgia	10.303	3,583	
Pass-Through from Utah State University	10.303	13,724	
International Science and Education Grants			
Pass-Through from Mississippi State University	10.305	5,601	
Specialty Crop Research Initiative			
Pass-Through from Michigan State University	10.309	14,722	
Community Outreach and Assistance Partnership Program	10.455	49,294	
Cooperative Extension Service	10.500	1,880	1,093
Pass-Through from University of Georgia	10.500	55,003	
Forestry Research	10.652	304,171	
Cooperative Forestry Assistance	10.664	23,176	
National Agricultural Library	10.700	25,009	21,044
Resource Conservation and Development	10.901	9,706	
Soil and Water Conservation	10.902	7,373	
Soil Survey	10.903	18,386	
Environmental Quality Incentives Program	10.912	2,485	
Other Department of Agriculture Research	N/A	365,935	80,456
Pass-Through from Arkansas Women in Agriculture	N/A	288	
Pass-Through from Dairy Research Institute	N/A	596,054	
Pass-Through from SSS Optical Technologies LLC	N/A	17,356	
Pass-Through from University of Florida	N/A	32,782	
Total United States Department of Agriculture		10,973,139	1,023,337

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

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 Commerce			
Climate and Atmospheric Research	11.431	$ 107,431	
ARRA - Measurement and Engineering Research and Standards			
Pass-Through from Johns Hopkins University	11.609	29,599	
Other Department of Commerce Research	N/A	15,244	
Total United States Department of Commerce		152,274	
United States Department of Defense			
Collaborative Research and Development	12.114	14,484	
Basic and Applied Scientific Research	12.300	397,665	
Pass-Through from University of Illinois	12.300	67,714	
Military Medical Research and Development	12.420	751,851	
Pass-Through from Boston VA Research Institute, Incorporated	12.420	117,696	
Basic Scientific Research	12.431	149,104	
Basic, Applied, and Advanced Research in Science and Engineering	12.630	453,617	
Air Force Defense Research Sciences Program	12.800	136,109	
Other Department of Defense Research	N/A	4,060,641	$ 626,435
Pass-Through from Alaka'I Consulting and Engineering, Incorporated	N/A	2,756	
Pass-Through from Alabama A&M University	N/A	39,186	
Pass-Through from Arkansas Power Electronics International, Incorporated	N/A	55,802	
Pass-Through from Cyberneutics	N/A	127,399	
Pass-Through from Defense Threat Reduction Agency	N/A	212,527	
Pass-Through from HM Jackson Foundation for the Advancement of Military Medicine	N/A	551,732	
Pass-Through from Infoscitex	N/A	124,538	
Pass-Through from ITT Corp	N/A	8,376	
Pass-Through from Nanomech	N/A	9,110	
Pass-Through from Radiance Technology, Incorporated	N/A	319,187	
Pass-Through from University of Tennessee	N/A	60,967	
Total United States Department of Defense		7,660,461	626,435
United States Department of the Interior			
Distribution of Receipts to State and Local Governments	15.227	13,724	
Environmental Quality and Protection Resource Management	15.236	44,748	
Sport Fish Restoration Program			
Pass-Through from Mississippi State University	15.605	3,233	
Fish And Wildlife Management Assistance	15.608	27,034	
Cooperative Endangered Species Conservation Fund	15.615	25,118	
Partners for Fish and Wildlife	15.631	24,220	
State Wildlife Grants	15.634	96,392	
Neotropical Migratory Bird Conservation	15.635	1,786	
Challenge Cost Share	15.642	34,098	
Research Grants (Generic)	15.650	1,991	
Assistance to State Water Resources Research Institutes	15.805	54,427	
U.S. Geological Survey_Research and Data Collection	15.808	21,287	
Pass-Through from AmericaView, Incorporated	15.808	23,234	
National Cooperative Geologic Mapping Program	15.810	16,102	
Cooperative Research Units Program	15.812	88,606	
Other Department of the Interior Research	N/A	52,241	
Total United States Department of the Interior		528,241	

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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 Justice			
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	$ 9,710	
Other Department of Justice Research	N/A	710	
Total United States Department of Justice		10,420	
United States Department of Transportation			
Highway Planning and Construction	20.205	470,101	$ 38,567
Pass-Through from Oregon State University	20.205	9,218	
Highway Training and Education	20.215	8,260	
University Transportation Centers Program	20.701	417,021	27,360
Pass-Through from Texas A&M University	20.701	33,204	
Pass-Through from University of Alaska Fairbanks	20.701	30,532	
Technical Assistance Grants	20.710	1,520	
Biobased Transportation Research			
Pass-Through from Oklahoma State University	20.761	44,305	
Other Department of Transportation Research			
Pass-Through from National Academy of Sciences	N/A	21,753	
Total United States Department of Transportation		1,035,914	65,927
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	1,355,427	299,668
Pass-Through from Arkansas Space Grant Consortium	43.001	22,224	
Pass-Through from Space Telescope Science Institute	43.001	7,324	
Other National Aeronautics and Space Administration Research	N/A	324,424	8,339
Pass-Through from Baylor College of Medicine	N/A	22,329	
Pass-Through from Jet Propulsion Laboratory	N/A	21,519	
Pass-Through from Lynguent, Incorporated	N/A	77,747	
Pass-Through from Power Electronics Leveling Solutions LLC	N/A	328	
Pass-Through from Space Photonics	N/A	3,109	
Total National Aeronautics and Space Administration		1,834,431	308,007
National Foundation For the Arts and For the Humanities			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	24,999	
Promotion of the Humanities_Federal/State Partnership			
Pass-Through from Arkansas Humanities Council	45.129	735	
Promotion of the Humanities_Division of Preservation and Access	45.149	147,478	
Promotion of the Humanities_Research	45.161	68,553	34,520
Total National Foundation on Arts and the Humanities		241,765	34,520
National Science Foundation			
Engineering Grants	47.041	1,268,663	57,732
Pass-Through from Ocean Nanotech	47.041	25,060	
Pass-Through from Penn State University	47.041	50,599	
Pass-Through from Washington State University	47.041	12,486	
Pass-Through from White River Bioscience, Incorporated	47.041	1,494	
Mathematical and Physical Sciences	47.049	1,417,381	31,979
Pass-Through from University of Oklahoma	47.049	925,500	
Geosciences	47.050	242,478	
Pass-Through from Incorporated Research Institutions for Seismology	47.050	27,156	
Pass-Through from University of Arizona	47.050	4,000	
Computer and Information Science and Engineering	47.070	222,685	
Pass-Through from Marist College	47.070	12,601	

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FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
National Science Foundation (continued)			
Biological Sciences	47.074	$ 1,532,293	
Pass-Through from Cornell University	47.074	254,344	
Pass-Through from Missouri University of Science and Technology	47.074	86,291	
Pass-Through from University of Delaware	47.074	32,312	
Pass-Through from University of Nevada	47.074	112,483	
Pass-Through from Washington University	47.074	23,100	
Social, Behavioral, and Economic Sciences	47.075	78,883	$ 4,044
Pass-Through from University of North Dakota	47.075	199	
Education and Human Resources	47.076	776,663	208,218
Pass-Through from SENCER Summer Institute	47.076	2,149	
International Science and Engineering (OISE)	47.079	55,047	
Office of Cyberinfrastructure	47.080	810,713	
Office of Experimental Program to Stimulate Competitive Research	47.081	1,646,864	
ARRA - Trans-NSF Recovery Act Research Support	47.082	1,597,379	
Pass-Through from Senmater Tech Company	47.082	74,747	
Other National Science Foundation Research	N/A	342,611	
Pass-Through from Marist College	N/A	1,333	
Pass-Through from Synthezyme	N/A	19,880	
Total National Science Foundation		11,657,394	301,973
Small Business Administration			
Other Small Business Administration Research	N/A	1,195	
Total Small Business Administration		1,195	
United States Department of Veterans Affairs			
Other Department of Veterans Affairs Research	N/A	35,878	
Pass-Through from UT Southwestern	N/A	102,334	
Total United States Department of Veterans Affairs		138,212	
Environmental Protection Agency			
Region 3 Environmental Priority Projects	66.113	93,466	
Congressionally Mandated Projects	66.202	66,232	
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	260,614	
Nonpoint Source Implementation Grants	66.460	65,081	
Regional Wetland Program Development Grants	66.461	47,575	
Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	66.479	7,440	
Other Environmental Protection Agency Research	N/A	51,345	
Pass-Through from Nanomaterials and Nanofabrication Laboratory	N/A	12,183	
Total Environmental Protection Agency		603,936	
United States Department of Energy			
State Energy Program	81.041	35,007	
ARRA - State Energy Program	81.041	51,230	
Office of Science Financial Assistance Program	81.049	561,302	
Pass-Through from Arkansas Power Electronics International, Incorporated	81.049	98,258	
Pass-Through from Oak Ridge Associated	81.049	132,961	
Pass-Through from Columbia University	81.049	82,538	
Conservation Research and Development			
Pass-Through from Oklahoma State University	81.086	2,739	
Renewable Energy Research and Development	81.087	2,851,121	732,478

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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 Energy (continued)			
Fossil Energy Research and Development	81.089	$ 101,770	
Pass-Through from Houston Advanced Research Center	81.089	140,062	
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	431,602	
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	34,666	
Industrial Carbon Capture and Storage (CCS) Application	81.134	28,385	
Other Department of Energy Research	N/A	13,357	
Pass-Through from Argonne National Laboratory	N/A	49,080	
Total United States Department of Energy		4,614,078	$ 732,478
United States Department of Education			
Title I Grants to Local Educational Agencies	84.010	32,049	
Fund for the Improvement of Postsecondary Education	84.116		
Pass-Through from Troy University		7,222	
Safe and Drug-Free Schools and Communities_State Grants	84.186	7,475	
Twenty-First Century Community Learning Centers	84.287	2,000	
Improving Teacher Quality State Grants	84.367	24,509	
Statewide Data Systems	84.372	70,928	
Other Department of Education Research			
Pass-Through from Mathematica Policy Research, Incorporated	N/A	47,111	
Pass-Through from Westat, Incorporated	N/A	264,661	
Total United States Department of Education		455,955	
United States Department of Health and Human Services			
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	82,223	
Innovations in Applied Public Health Research			
Pass-Through from Radiation Monitoring Devices, Incorporated	93.061	2,335	
Pass-Through from University of North Carolina - Chapel Hill	93.061	210,611	
Public Health Emergency Preparedness	93.069	4,349	
Food and Drug Administration_Research	93.103	4,199	
Pass-Through from Oak Ridge Institute for Science and Education	93.103	25,073	
Environmental Health	93.113	58,985	
Pass-Through from BioDetection Instruments LLC	93.113	75,600	
Pass-Through from Louisiana State University Health Sciences Center	93.113	9,160	
Human Genome Research	93.172	323,955	
Research Related to Deafness and Communication Disorders	93.173	101,087	
Pass-Through from Louisiana State University Health Sciences Center	93.173	60,636	
Pass-Through from University of Illinois	93.173	945	
Telehealth Network Grants	93.211	37,338	
Grants for Dental Public Health Residency Training			
Pass-Through from Boston VA Research Institute, Incorporated	93.236	133,961	
State Capacity Building			
Pass-Through from Systems Research and Applications Corporation	93.240	669,947	
Mental Health Research Grants	93.242	883,727	118,099
Pass-Through from Dartmouth College	93.242	21,767	
Pass-Through from Emory University	93.242	64,526	
Pass-Through from University of Colorado	93.242	20,017	
Pass-Through from University of Massachusetts	93.242	42,563	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance			
Pass-Through from Benton County Drug Court	93.243	40,866	
Occupational Safety and Health Program	93.262	9,577	7,941

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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 Health and Human Services (continued)			
Alcohol Research Programs	93.273	$ 1,137,584	$ 11,810
Pass-Through from University of Colorado	93.273	3,700	
Drug Abuse and Addiction Research Programs	93.279	6,730,872	540,114
Pass-Through from Baylor College of Medicine	93.279	289,255	
Pass-Through from Dartmouth College	93.279	19,157	
Pass-Through from InterVexion Therapeutics LLC	93.279	158,550	
Pass-Through from University of Vermont	93.279	30,146	
Pass-Through from Washington University	93.279	65,272	
Mental Health National Research Service Awards for Research Training	93.282	22,493	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	322,865	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	1,308,189	
Minority Health and Health Disparities Research	93.307	1,596,711	139,647
Trans-NIH Research Support	93.310	432,405	247,481
Pass-Through from Duke Clinical Research	93.310	142,158	
Nursing Research	93.361	699,639	69,191
National Center for Research Resources	93.389	10,928,860	769,876
Pass-Through from Health Partners Research Foundation	93.389	45,989	
Academic Research Enhancement Award	93.390	140,157	
Cancer Cause and Prevention Research	93.393	168,838	
Pass-Through from University of Alabama at Birmingham	93.393	19,854	
Pass-Through from University of California at San Francisco	93.393	6,904	
Pass-Through from University of Utah	93.393	86,097	
Cancer Detection and Diagnosis Research	93.394	563,202	68,455
Cancer Treatment Research	93.395	5,494,920	416,673
Pass-Through from EMMES Corporation	93.395	175,572	
Pass-Through from National Surgical Adjuvant Breast and Bowel Project	93.395	154,608	
Pass-Through from Southwest Oncology Group	93.395	23,058	
Pass-Through from University of Alabama at Birmingham	93.395	44,669	
Pass-Through from University of Michigan	93.395	28,928	
Pass-Through from Yale University	93.395	11,097	
Cancer Biology Research	93.396	468,125	
Cancer Research Manpower	93.398	111,059	
Child Care and Development Block Grant	93.575	16,492	
ARRA - Trans-NIH Recovery Act Research Support	93.701	5,846,063	210,830
Pass-Through from Maine Medical Center	93.701	42,600	
Pass-Through from InterVexion Therapeutics LLC	93.701	86,177	
Pass-Through from Wright State University	93.701	20,180	
Cardiovascular Diseases Research	93.837	1,939,606	48,004
Pass-Through from Virginia Commonwealth University	93.837	3,297	
Lung Diseases Research	93.838	37,611	14,336
Blood Diseases and Resources Research	93.839	1,092,991	
Pass-Through from University of Iowa	93.839	246,935	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	986,706	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	2,316,205	47,093
Pass-Through from Rhode Island Hospital	93.847	7,933	
Pass-Through from University of Oxford	93.847	(3,702)	
Pass-Through from University of Vermont	93.847	21,513	
Pass-Through from Wake Forest University	93.847	34,509	
Digestive Diseases and Nutrition Research	93.848	460,649	
Pass-Through from University of Nebraska at Lincoln	93.848	11,688	
Pass-Through from University of Vermont	93.848	201,375	

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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 Health and Human Services (continued)			
Kidney Diseases, Urology and Hematology Research	93.849	$ 1,162,592	
Pass-Through from University of Alabama at Birmingham	93.849	17,064	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2,900,782	$ 58,232
Pass-Through from Columbia University	93.853	1,400	
Pass-Through from University of Alabama at Birmingham	93.853	21,896	
Pass-Through from Yale University	93.853	7,698	
Allergy, Immunology and Transplantation Research	93.855	2,299,124	60,246
Pass-Through from Duke Clinical Research	93.855	222,973	
Pass-Through from University of California at San Diego	93.855	7,147	
Microbiology and Infectious Diseases Research	93.856	738,746	12,840
Pass-Through from University of Alabama at Birmingham	93.856	137,607	
Biomedical Research and Research Training	93.859	1,847,627	233,528
Pass-Through from Nanomaterials and Nanofabrication Laboratory	93.859	849	
Pass-Through from University of Texas Medical Branch - Galveston	93.859	34,899	
Population Research	93.864	610,182	
Child Health and Human Development Extramural Research	93.865	496,158	
Pass-Through from Invotek, Incorporated	93.865	12,034	
Aging Research	93.866	4,522,399	117,270
Pass-Through from Polisher Research Institute	93.866	23,999	
Pass-Through from University of Kentucky	93.866	83,267	
Pass-Through from Vanderbilt University	93.866	52,720	
Vision Research	93.867	1,076,482	
Grants for Training in Primary Care Medicine and Dentistry	93.884	138	
Health Care and Other Facilities	93.887	21,200	
International Research and Research Training	93.989	305,632	
Adolescent Family Life_Demonstration Projects			
Pass-Through from Healthy Connections, Incorporated	93.995	125,947	29,769
Other Department of Health and Human Services Research	N/A	16,061	
Pass-Through from Case Western Reserve University	N/A	58,416	
Pass-Through from Cleveland Clinic Foundation	N/A	23,255	
Pass-Through from Cornell University	N/A	63,807	
Pass-Through from EMMES Corporation	N/A	17,115	
Pass-Through from JAEB Center for Health Research	N/A	322	
Pass-Through from Maryland Procurement Office	N/A	71,846	
Pass-Through from Stanford University	N/A	35,774	
Pass-Through from University of Oklahoma	N/A	1,000	
Total United States Department of Health and Human Services		64,701,366	3,221,435
United States Department of Homeland Security			
Centers for Homeland Security	97.061	448,800	8,300
Pass-Through Texas Southern University	97.061	44,540	
Pass-Through from University of Maryland	97.061	325,473	
Total United States Department of Homeland Security		818,813	8,300
United States Agency for International Development			
USAID Foreign Assistance for Programs Overseas			
Pass-Through from Purdue University	98.001	27,863	15,447
Total United States Agency for International Development		27,863	15,447
Total RESEARCH AND DEVELOPMENT CLUSTER		105,455,457	6,337,859

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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	$ 4,375,084	
Federal Family Education Loans	84.032	1,119,127,265	$ 8,117,452
Federal Work-Study Program	84.033	5,138,367	
ARRA - Federal Work-Study Program	84.033	1,104,367	
Federal Perkins Loan Program_Federal Capital Contributions	84.038	38,624,999	
Federal Pell Grant Program	84.063	245,399,560	
ARRA - Federal Pell Grant Program	84.063	15,435,938	
Federal Direct Student Loans	84.268	31,663,591	
Academic Competitiveness Grants	84.375	4,296,999	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	1,503,639	
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	369,188	
Total United States Department of Education		1,467,038,997	8,117,452
United States Department of Health and Human Services			
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	5,173,036	
Nursing Student Loans	93.364	276,850	
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	281,131	
ARRA - Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	14,553	
Total United States Department of Health and Human Services		5,745,570	
Total STUDENT FINANCIAL ASSISTANCE CLUSTER		1,472,784,567	8,117,452
United States Department of Agriculture			
Agricultural Research_Basic and Applied Research	10.001	(238)	
Plant and Animal Disease, Pest Control, and Animal Care	10.025	1,205,597	62,706
Wildlife Services	10.028	101,064	
Pass-Through from Mississippi State University	10.028	3,319	
Conservation Reserve Program	10.069	119,640	
Wetlands Reserve Program	10.072	5,104	
ARRA - Aquaculture Grants Program (AGP)	10.086	7,815,885	7,815,885
Market Protection and Promotion	10.163	90,687	
Specialty Crop Block Grant Program	10.169	12,290	
Specialty Crop Block Grant Program - Farm Bill	10.170	62,706	
Grants For Agricultural Research, Special Research Grants	10.200	95,207	
Grants for Agricultural Research_Competitive Research Grants	10.206	32,220	
Sustainable Agriculture Research and Education	10.215	23,653	
Pass-Through from Mississippi State University	10.215	797	
1890 Institution Capacity Building Grants	10.216	148,458	75,000
Integrated Programs	10.303	53,145	
International Science and Education Grants	10.305	3,214	
Organic Agriculture Research and Extension Initiative	10.307	10,931	
Specialty Crop Research Initiative	10.309	2,711	
ARRA - Trade Adjustment Assistance for Farmers Training Coordination Program (TAAF) Pass-Through from University of Minnesota	10.315	90,410	
State Mediation Grants	10.435	71,334	
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	256,622	
Community Outreach and Assistance Partnership Program	10.455	59,737	
Food Safety Cooperative Agreements	10.479	95,984	
Cooperative Extension Service	10.500	9,725,024	83,871
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	66,921,879	
Child and Adult Care Food Program	10.558	38,182,426	36,859,402

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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 Agriculture (continued)			
State Administrative Expenses for Child Nutrition	10.560	$ 2,415,328	
Commodity Supplemental Food Program	10.565	286,795	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	177,153	
Team Nutrition Grants	10.574	135,840	
Senior Farmers Market Nutrition Program	10.576	105,727	$ 105,727
ARRA - WIC Grants To States (WGS)	10.578	247,133	
Child Nutrition Discretionary Grants Limited Availability	10.579	8,259	8,259
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	1,274,259	1,207,136
Fresh Fruit and Vegetable Program	10.582	859,414	799,480
Forestry Research	10.652	70,769	
Pass-Through from National Park Service	10.652	861	
Cooperative Forestry Assistance	10.664	2,562,802	519,265
Forest Legacy Program	10.676	25,000	
Forest Health Protection	10.680	1,258,764	409,764
ARRA - Wildland Fire Management	10.688	2,549,250	
Rural Cooperative Development Grants			
Pass-Through from Winrock International	10.771	6,489	
Rural Business Opportunity Grants			
Pass-Through from Delta Regional Authority	10.773	175,307	
Distance Learning and Telemedicine Loans and Grants	10.855	1,006,289	
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856	136,359	
Soil and Water Conservation	10.902	221,479	221,479
Watershed Protection and Flood Prevention	10.904	15,000	15,000
Environmental Quality Incentives Program	10.912	109,745	109,745
Technical Agricultural Assistance			
Pass-Through from Partners of the Americas	10.960	3,816	
Other Department of Agriculture Assistance	N/A	778,483	
Total United States Department of Agriculture		139,620,127	48,292,719
United States Department of Commerce			
ITA Special Projects	11.113	156,542	
Special American Business Internship Training Program	11.114	(22,121)	
Economic Development_Technical Assistance	11.303	343,227	
Public Telecommunications Facilities Planning and Construction	11.550	161,055	
Manufacturing Extension Partnership	11.611	1,243,704	180,182
Total United States Department of Commerce		1,882,407	180,182
United States Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	423,004	
Law Enforcement Support Office - 1033 Program	12.005	58,577	
Planning Assistance to States	12.110	227,576	
Payments to States in Lieu of Real Estate Taxes	12.112	1,319,590	1,319,590
Basic and Applied Scientific Research	12.300	8,937	
Military Construction, National Guard	12.400	35,088,791	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	38,962,210	
ARRA - National Guard Military Operations and Maintenance (O&M) Projects	12.401	9,797,558	9,082,512
National Guard Civilian Youth Opportunities	12.404	1,683,787	
Military Medical Research and Development	12.420	26,946	
Air Force Defense Research Sciences Program	12.800	3,134	
Other Department of Defense Assistance	N/A	100,313	
Total United States Department of Defense		87,700,423	10,402,102

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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 Housing and Urban Development			
Emergency Shelter Grants Program	14.231	$ 1,165,452	
Shelter Plus Care	14.238	1,562,523	
HOME Investment Partnerships Program	14.239	9,680,690	$ 8,265,460
Housing Opportunities for Persons with AIDS	14.241	540,936	521,991
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	1,656,656	
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	945,770	
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	2,915,898	2,873,549
ARRA - Tax Credit Assistance Program	14.258	5,284,011	5,284,011
Fair Housing Assistance Program_State and Local	14.401	221,036	
Historically Black Colleges and Universities Program	14.520	316,930	45,000
Total United States Department of Housing and Urban Development		24,289,902	16,990,011
United States Department of the Interior			
Indian Education_Higher Education Grant Program	15.114	76,503	
Pass-Through from Choctaw Nation of Oklahoma	15.114	800	
Distribution of Receipts to State and Local Governments	15.227	8,720,958	4,183,661
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	306,260	
Abandoned Mine Land Reclamation (AMLR) Program	15.252	1,956,224	
Cooperative Endangered Species Conservation Fund	15.615	684,695	154,238
Clean Vessel Act	15.616	241,138	241,138
Sportfishing and Boating Safety Act	15.622	100,000	100,000
Partners for Fish and Wildlife	15.631	42,000	
Conservation Grants Private Stewardship for Imperiled Species	15.632	20,000	
Landowner Incentive Program	15.633	169,050	150,584
State Wildlife Grants	15.634	410,912	174,144
Pass-Through from The Nature Conservancy	15.634	12,243	
ARRA - Habitat Enhancement, Restoration and Improvement	15.656	64,905	39,544
U.S. Geological Survey_Research and Data Collection	15.808	193,570	
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	46,949	
National Cooperative Geologic Mapping Program	15.810	64,843	
National Geological and Geophysical Data Preservation Program	15.814	7,278	
Historic Preservation Fund Grants-In-Aid	15.904	760,776	151,650
Pass-Through from Central High School	15.904	34,475	
Outdoor Recreation_Acquisition, Development and Planning	15.916	302,804	
Native American Graves Protection and Repatriation Act	15.922	3,359	
Other Department of the Interior Assistance	N/A	63,966	
Total United States Department of the Interior		14,283,708	5,194,959
United States Department of Justice			
Juvenile Accountability Block Grants	16.523	628,257	438,678
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	572,266	423,359
Missing Children's Assistance	16.543	236,350	77,322
Victims of Child Abuse	16.547	51,685	
Title V_Delinquency Prevention Program	16.548	143,285	
National Criminal History Improvement Program (NCHIP)	16.554	348,460	
Crime Victim Assistance	16.575	4,513,602	4,331,652
Crime Victim Compensation	16.576	1,052,309	
Edward Byrne Memorial Formula Grant Program	16.579	271,153	132,663
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	18,745	
Crime Victim Assistance/Discretionary Grants	16.582	33,116	

STATE OF ARKANSAS
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FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of Justice (continued)			
Drug Court Discretionary Grant Program	16.585	$ 27,220	
Violence Against Women Formula Grants	16.588	1,364,412	$ 1,022,740
ARRA - Violence Against Women Formula Grants	16.588	236,248	281,103
Residential Substance Abuse Treatment for State Prisoners	16.593	64,969	
State Criminal Alien Assistance Program	16.606	425,268	
Bulletproof Vest Partnership Program	16.607	16,023	
Public Safety Partnership and Community Policing Grants	16.710	578,981	
Enforcing Underage Drinking Laws Program	16.727	186,115	119,269
Edward Byrne Memorial Justice Assistance Grant Program	16.738	238,017	122,761
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	229,061	
Forensic DNA Backlog Reduction Program	16.741	599,910	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	126,371	
Convicted Offender and/or Arrestee DNA Backlog Reduction Program (In-House Analysis and Data Review)	16.748	43,900	
Congressionally Recommended Awards	16.753	109,148	101,035
ARRA - Internet Crimes against Children Task Force Program (ICAC)	16.800	137,202	36,819
ARRA - State Victim Assistance Formula Grant Program	16.801	178,142	167,329
ARRA - State Victim Compensation Formula Grant Program	16.802	276,705	
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.803	7,796,597	3,207,472
Other Department of Justice Assistance	N/A	1,535,624	
Total United States Department of Justice		22,039,141	10,462,202
United States Department of Labor			
Labor Force Statistics	17.002	980,663	
Compensation and Working Conditions	17.005	97,224	
Unemployment Insurance	17.225	157,141,967	
ARRA - Unemployment Insurance	17.225	478,424,265	
Senior Community Service Employment Program	17.235	2,057,066	2,020,602
ARRA - Senior Community Service Employment Program	17.235	285,334	285,334
Trade Adjustment Assistance	17.245	10,921,259	
WIA Pilots, Demonstrations, and Research Projects	17.261	552,424	
National Farmworker Jobs Program	17.264	326,722	
Work Incentive Grants	17.266	97,988	
H-1B Job Training Grants	17.268	2,895,034	
Community Based Job Training Grants	17.269	2,720,686	
Work Opportunity Tax Credit Program (WOTC)	17.271	158,628	
Temporary Labor Certification for Foreign Workers	17.273	83,554	
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	144,531	
Pass-Through from Memphis BioWorks Foundation	17.275	51,155	
Consultation Agreements	17.504	1,013,973	
OSHA Data Initiative	17.505	17,441	
Mine Health and Safety Grants	17.600	114,170	
Other Department of Labor Assistance	N/A	5,578	
Total United States Department of Labor		658,089,662	2,305,936

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FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
United States Department of State			
Professional and Cultural Exchange Programs - International Visitor Leadership Program	19.402	$ 27,419	
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415	42,176	
Other Department of State Assistance	N/A	61,836	
Total United States Department of State		131,431	
United States Department of Transportation			
Airport Improvement Program	20.106	153,720	$ 153,720
National Motor Carrier Safety	20.218	3,674,225	
Performance and Registration Information Systems Management	20.231	225,000	
Commercial Driver License State Programs	20.232	855,086	
Commercial Motor Vehicle Operator Training Grants	20.235	2,685	
Commercial Drivers License Information System	20.238	77,280	
Federal Transit_Metropolitan Planning Grants	20.505	1,963,149	1,924,310
Formula Grants for Other Than Urbanized Areas	20.509	6,874,715	6,422,274
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	8,460,245	4,431,584
Alcohol Open Container Requirements	20.607	4,656,602	
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	2,576	
Pipeline Safety Program Base Grants	20.700	467,052	
University Transportation Centers Program	20.701	43,911	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	112,431	25,000
Other Department of Transportation Assistance	N/A	130,548	16,595
ARRA - Other Department of Transportation Assistance	N/A	109,694	
Total United States Department of Transportation		27,808,919	12,973,483
United States Department of Treasury			
Low Income Taxpayer Clinics	21.008	86,668	
Total United States Department of Treasury		86,668	
General Services Administration			
Donation of Federal Surplus Personal Property	39.003	3,813,495	
Total General Services Administration		3,813,495	
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	20,523	
Pass-Through from Arkansas Space Grant Consortium	43.001	69,405	
Pass-Through from College of Charleston	43.001	296	
Other National Aeronautics and Space Administration Assistance	N/A	34,907	
Total National Aeronautics and Space Administration		125,131	
National Foundation For the Arts and For the Humanities			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	22,047	
ARRA - Promotion of the Arts_Grants to Organizations and Individuals	45.024	50,000	
Promotion of the Arts_Partnership Agreements	45.025	699,872	563,834
Pass-Through from Mid-America Arts Alliance	45.025	2,000	
ARRA - Promotion of the Arts_Partnership Agreements	45.025	302,100	302,100
Promotion of the Humanities_Federal/State Partnership Pass-Through from Arkansas Humanities Council	45.129	23,835	
Promotion of the Humanities_Challenge Grants	45.130	57,309	
Promotion of the Humanities_Professional Development	45.163	85,210	
Promotion of the Humanities_Public Programs	45.164	2,470	

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FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
National Foundation For the Arts and For the Humanities (continued)			
Grants to States	45.310	$ 1,991,526	
Other National Endowment for the Arts and for the Humanities Assistance			
Pass-Through from Arkansas Arts Council	N/A	2,000	
Total National Foundation on the Arts and Humanities		3,238,369	$ 865,934
National Science Foundation			
Engineering Grants	47.041	82,235	5,000
Pass-Through from Ocean Nano Tech	47.041	8,925	
Mathematical and Physical Sciences	47.049	38,110	
Geosciences	47.050	28,556	
Computer and Information Science and Engineering	47.070	1,962	
Social, Behavioral, and Economic Sciences	47.075	853	
Education and Human Resources	47.076	4,256,462	188,930
Office of Cyberinfrastructure	47.080	1,697	
Office of Experimental Program to Stimulate Competitive Research	47.081	433,643	60,039
ARRA - Trans-NSF Recovery Act Research Support	47.082	366,595	
Other National Science Foundation Assistance	N/A	293,439	
Total National Science Foundation		5,512,477	253,969
Small Business Administration			
Small Business Development Centers	59.037	1,123,813	
Veterans Business Development	59.044	29,600	
Other Small Business Administration Assistance	N/A	794,214	
Total Small Business Administration		1,947,627	
Department of Veterans Affairs			
Veterans State Domiciliary Care	64.014	189,375	
Veterans State Nursing Home Care	64.015	3,793,894	
Post-9/11 Veterans Educational Assistance	64.028	19,584	
All-Volunteer Force Educational Assistance	64.124	288,087	
Other Department of Veterans Affairs Assistance	N/A	31,823	
Total Department of Veterans Affairs		4,322,763	
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	1,784,138	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	524,853	
ARRA - National Clean Diesel Funding Assistance Program	66.039	138,638	108,275
State Clean Diesel Grant Program	66.040	189,577	
ARRA - State Clean Diesel Grant Program	66.040	308,339	237,315
Congressionally Mandated Projects	66.202	325	
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	2,853,596	
State Public Water System Supervision	66.432	824,048	
State Underground Water Source Protection	66.433	93,995	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	18,350	
Water Quality Management Planning	66.454	650,105	
ARRA - Water Quality Management Planning	66.454	54,390	
Capitalization Grants for Clean Water State Revolving Funds	66.458	4,396,400	4,044,688
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	12,731,475	12,731,475
Nonpoint Source Implementation Grants	66.460	2,854,210	1,911,880
Regional Wetland Program Development Grants	66.461	343,783	70,000

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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)			
Water Quality Cooperative Agreements	66.463	$ 15,146	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,154,429	$ 668,674
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	13,873,287	13,873,287
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	170,052	
Water Protection Grants to the States	66.474	114,232	
Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	66.479	37,396	
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	80,356	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	506,076	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	19,913	
Pollution Prevention Grants Program	66.708	65,411	
National Community-Based Lead Outreach and Training Grant Program	66.718	86,747	38,024
Hazardous Waste Management State Program Support	66.801	2,009,699	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	622,987	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	809,266	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	638,150	
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	689,056	
Brownfield Job Training Cooperative Agreements			
Pass-Through from City of Camden	66.815	120,200	
State and Tribal Response Program Grants	66.817	473,565	
Other Environmental Protection Agency Assistance	N/A	7,160	
Pass-Through from Santee Sioux Nation	N/A	11,591	
Total Environmental Protection Agency		55,270,941	33,683,618
United States Department of Energy			
State Energy Program	81.041	435,989	
ARRA - State Energy Program	81.041	5,649,172	4,340,827
Weatherization Assistance for Low-Income Persons	81.042	2,772,898	2,442,339
ARRA - Weatherization Assistance for Low-Income Persons	81.042	12,987,837	12,233,729
Renewable Energy Research and Development	81.087	78,205	
State Energy Program Special Projects	81.119	18,742	
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	46,059	
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127	1,158,420	
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	134,753	
Other Department of Energy Assistance	N/A	554,249	
Total United States Department of Energy		23,836,324	19,016,895
United States Department of Education			
Adult Education - Basic Grants to States	84.002	5,454,343	3,414,398
Migrant Education_State Grant Program	84.011	5,474,433	5,352,237
Title I Program for Neglected and Delinquent Children	84.013	424,810	149,524
Undergraduate International Studies and Foreign Language Programs	84.016	16,035	
Overseas Programs - Group Projects Abroad	84.021	41,471	
Higher Education_Institutional Aid	84.031	7,499,040	
Career and Technical Education -- Basic Grants to States	84.048	13,262,610	8,121,018
Leveraging Educational Assistance Partnership	84.069	445,773	
Fund for the Improvement of Postsecondary Education	84.116	1,002,068	54,583
Pass-Through from University of Kansas	84.116	3,712	
Rehabilitation Long-Term Training	84.129	496,032	
National Institute on Disability and Rehabilitation Research	84.133	254,282	

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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 Education (continued)			
Migrant Education_Coordination Program	84.144	$ 65,000	$ 65,000
Migrant Education_College Assistance Migrant Program	84.149	30,870	
Business and International Education Projects	84.153	62,182	
Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind	84.160	248,922	
Safe and Drug-Free Schools and Communities_National Programs	84.184	156,921	
Byrd Honors Scholarships	84.185	348,000	180,000
Safe and Drug-Free Schools and Communities_State Grants	84.186	2,874,474	2,732,287
Supported Employment Services for Individuals with Significant Disabilities	84.187	237,204	
Graduate Assistance in Areas of National Need	84.200	54,727	
Javits Gifted and Talented Students Education Grant Program	84.206	361,147	
Even Start_State Educational Agencies	84.213	712,054	605,000
Fund for the Improvement of Education	84.215	104,688	7,419
Pass-Through from Little Rock School District	84.215	48,859	
Assistive Technology	84.224	455,248	
Tech-Prep Education	84.243	1,186,047	1,186,047
Rehabilitation Training_Continuing Education	84.264	972,029	
Pass-Through from George Washington University	84.264	27,288	
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	140,320	
Charter Schools	84.282	3,038,434	2,958,086
Twenty-First Century Community Learning Centers	84.287	10,633,355	9,935,688
Civic Education - Cooperative Education Exchange Program			
Pass-Through from Center for Civic Education	84.304	37,961	
Parental Information and Resource Centers			
Pass-Through from Jones Center for Families	84.310	340,744	
Special Education - State Personnel Development	84.323	598,561	430,554
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	608,091	
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	148,444	
Pass-Through from University of Tennessee	84.326	35,643	
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	354,384	
Demonstration Projects to Support Postsecondary Faculty, Staff, and Administrations in Educating Students with Disabilities	84.333	90,473	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,290,336	
Child Care Access Means Parents in School	84.335	17,909	
Underground Railroad Educational and Cultural Program	84.345	5,000	
Transition to Teaching	84.350	10,539	
Reading First State Grants	84.357	7,874,465	7,311,907
Rural Education	84.358	3,817,462	3,594,041
English Language Acquisition Grants	84.365	3,291,883	3,156,794
Mathematics and Science Partnerships	84.366	2,473,329	1,238,657
Improving Teacher Quality State Grants	84.367	28,542,177	27,234,269
Grants for State Assessments and Related Activities	84.369	5,451,333	
College Access Challenge Grant Program	84.378	613,359	
Strengthening Minority-Serving Institutions	84.382	1,351,355	
American Printing House for the Blind	84.906	41,168	
National Board for Professional Teaching Standards			
Pass-Through from National Board Professional Teaching Standards, Incorporated	84.925	32,690	
National Writing Project			
Pass-Through from National Writing Project Corporation	84.928	173,435	

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FOR THE YEAR ENDED JUNE 30, 2010

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	$ 626,858	
Pass-Through from Association for Institutional Research	N/A	9,214	
Pass-Through from National History Day	N/A	4,940	
Pass-Through from State of Washington	N/A	11,048	
Total United States Department of Education		113,985,179	$ 77,727,509
Delta Regional Authority			
Delta Area Economic Development	90.201	100,000	
Help America Vote Act Requirements Payments	90.401	231,394	
Total Delta Regional Authority		331,394	
United States Department of Health and Human Services			
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	12,307	
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	169,409	136,791
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	201,429	201,429
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	877,505	457,618
National Family Caregiver Support, Title III, Part E	93.052	1,362,992	1,362,992
Public Health Emergency Preparedness	93.069	15,975,475	40,000
Medicare Enrollment Assistance Program	93.071	181,492	82,262
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	249,891	8,037
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	333	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	845,853	792,180
Pass-Through from Mid South Health Systems	93.104	282,781	
Model State-Supported Area Health Education Centers	93.107	541,204	
Maternal and Child Health Federal Consolidated Programs	93.110	1,271,545	
Environmental Health	93.113	6,087	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	658,684	
Nurse Anesthetist Traineeships	93.124	26,411	
Emergency Medical Services for Children	93.127	94,223	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	175,460	
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	157,665	
Injury Prevention and Control Research and State and Community Based Programs	93.136	336,994	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	284,118	280,483
Nursing Workforce Diversity	93.178	(169)	
Disabilities Prevention	93.184	485,734	
Urban Indian Health Services	93.193	624	
Telehealth Network Grants	93.211	138,616	
Research and Training in Complementary and Alternative Medicine	93.213	50,021	
Family Planning_Services	93.217	5,021,760	104,671
Traumatic Brain Injury State Demonstration Grant Program	93.234	66,017	
Abstinence Education Program	93.235	142,806	140,651
Grants for Dental Public Health Residency Training	93.236	36,314	10,000
State Capacity Building	93.240	203,685	
State Rural Hospital Flexibility Program	93.241	478,192	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	3,350,359	2,708,727
Pass-Through from Morehouse School of Medicine	93.243	8,853	

STATE OF ARKANSAS
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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 Health and Human Services (continued)			
Universal Newborn Hearing Screening	93.251	$ 229,927	
Poison Control Stabilization and Enhancement Grants	93.253	181,939	
Nurse Faculty Loan Program (NFLP)	93.264	20,155	
Alcohol National Research Service Awards for Research Training	93.272	18,002	
Drug-Free Communities Support Program Grants	93.276	4,950	
Drug Abuse and Addiction Research Programs	93.279	193,737	
Mental Health National Research Service Awards for Research Training	93.282	12,343	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	9,564,313	$ 584,168
Pass-Through from St. Louis University	93.283	49,383	
Small Rural Hospital Improvement Grant Program	93.301	249,922	224,830
Minority Health and Health Disparities Research	93.307	20,459	
Advanced Education Nursing Traineeships	93.358	97,584	
Nursing Research	93.361	(76)	
Cancer Cause and Prevention Research	93.393	604,601	44,180
Cancer Research Manpower	93.398	302,423	
ARRA - Public Health Traineeship Program	93.405	11,899	
ARRA - Scholarships for Disadvantaged Students	93.407	107,839	
ARRA - State Primary Care Offices	93.414	28,426	
Food Safety and Security Monitoring Project	93.448	193,337	
Promoting Safe and Stable Families	93.556	4,642,123	
Child Support Enforcement	93.563	29,104,986	
ARRA - Child Support Enforcement	93.563	5,154,487	
Refugee and Entrant Assistance_State Administered Programs	93.566	10,961	
Low-Income Home Energy Assistance	93.568	38,815,023	38,303,333
State Court Improvement Program	93.586	340,286	
Community-Based Child Abuse Prevention Grants	93.590	241,051	179,000
Grants to States for Access and Visitation Programs	93.597	91,030	
Chafee Education and Training Vouchers Program (ETV)	93.599	325,988	
Adoption Incentive Payments	93.603	53,595	
Voting Access for Individuals with Disabilities_Grants to States	93.617	63,989	63,989
Developmental Disabilities Basic Support and Advocacy Grants	93.630	878,815	149,370
Pass-Through from Governor's Developmental Disabilities Council	93.630	6,869	
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	545,625	
Children's Justice Grants to States	93.643	156,643	
Child Welfare Services_State Grants	93.645	3,076,133	
Child Welfare Research Training or Demonstration	93.648	14,632	
Foster Care_Title IV-E	93.658	37,764,140	
ARRA - Foster Care_Title IV-E	93.658	1,047,510	
Adoption Assistance	93.659	13,565,040	
ARRA - Adoption Assistance	93.659	1,007,073	
Social Services Block Grant	93.667	15,971,290	9,580,242
Child Abuse and Neglect State Grants	93.669	773,320	
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	1,557,761	1,491,065
Chafee Foster Care Independence Program	93.674	1,096,641	
ARRA - Trans-NIH Recovery Act Research Support	93.701	537,093	
ARRA - Preventing Healthcare-Associated Infections	93.717	65,534	
ARRA - State Grants to Promote Health Information Technology	93.719	24,055	
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	93.720	15,832	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	26,943	

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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 Health and Human Services (continued)			
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	$ 843	
Children's Health Insurance Program	93.767	82,714,110	
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	682,346	$ 422,115
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	1,417,366	371,799
Money Follows the Person Rebalancing Demonstration	93.791	1,878,465	
Medicaid Transformation Grants	93.793	898,675	
Health Careers Opportunity Program	93.822	156,862	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	6,345	
Pass-Through from Case Western Reserve University	93.847	93,928	
Kidney Diseases, Urology and Hematology Research	93.849	122,908	
Biomedical Research and Research Training	93.859	207,116	
Child Health and Human Development Extramural Research	93.865	96,687	
Pass-Through from Mathmatica Policy	93.865	3,146	
Grants for Training in Primary Care Medicine and Dentistry	93.884	172,879	
Health Care and Other Facilities	93.887	872,790	
National Bioterrorism Hospital Preparedness Program	93.889	5,639,421	3,074,747
Rural Health Care Services Outreach and Rural Health Network Development Program			
Pass-Through from Mid Delta Community Consortium	93.912	94,436	
Grants to States for Operation of Offices of Rural Health	93.913	135,285	
HIV Care Formula Grants	93.917	7,080,212	1,616,305
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	107,714	
HIV Prevention Activities_Health Department Based	93.940	1,617,658	153,046
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	195,198	
Assistance Programs for Chronic Disease Prevention and Control	93.945	7,123	
Cooperative Agreement to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	119,452	
Block Grants for Community Mental Health Services	93.958	3,576,574	3,600,336
Block Grants for Prevention and Treatment of Substance Abuse	93.959	12,875,976	11,105,562
Public Health Traineeships	93.964	9,718	
Geriatric Education Centers	93.969	337,605	
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	1,198,266	38,117
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems			
Pass-Through from Friends of Congressional Glaucoma Caucus	93.988	767	
Preventive Health and Health Services Block Grant	93.991	725,163	
Maternal and Child Health Services Block Grant to the States	93.994	9,786,806	
Other Department of Health and Human Services Assistance	N/A	3,943,412	
Pass-Through from Booz Allen Hamilton	N/A	96,615	
Pass-Through from Decision Point, Incorporated	N/A	57,911	
Pass-Through from Ekagra Software Technologies	N/A	21,080	
Pass-Through from Houston Academy of Medicine - Texas Medical Center	N/A	7,128	
Pass-Through from ICF Incorporated, LLC	N/A	3,168	
Pass-Through from University of Kentucky	N/A	26,847	
Total United States Department of Health and Human Services		339,548,302	77,328,045

STATE OF ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

CLUSTER NAME/Federal Grantor/Program Name/ Pass Through Entity	CFDA or Other Identifying #	Expenditures	Amounts Provided to Subrecipients
Corporation for National and Community Service			
State Commissions	94.003	$ 192,685	
Learn and Serve America_School and Community Based Programs	94.004	3,032	
AmeriCorps	94.006	2,160,311	$ 1,769,008
ARRA - AmeriCorps	94.006	586,240	574,170
Planning and Program Development and Innovation Grants	94.007	40,207	11,059
Training and Technical Assistance	94.009	56,929	
Total Corporation for National and Community Service		3,039,404	2,354,237
United States Department of Homeland Security			
State and Local Homeland Security Training Program			
Pass-Through from Eastern Kentucky University	97.005	275,127	
Homeland Security Preparedness Technical Assistance Program	97.007	158,416	
Boating Safety Financial Assistance	97.012	1,722,314	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	224,767	
Crisis Counseling	97.032	22,688	
Disaster Unemployment Assistance	97.034	1,925	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	99,783,659	85,528,463
Hazard Mitigation Grant	97.039	1,621,759	1,752,374
Chemical Stockpile Emergency Preparedness Program	97.040	4,775,380	3,066,013
National Dam Safety Program	97.041	18,115	
Emergency Management Performance Grants	97.042	3,065,336	1,217,517
State Fire Training Systems Grants	97.043	30,563	
Pre-Disaster Mitigation	97.047	4,075,930	3,963,449
Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	97.050	53,879	
Emergency Operations Centers	97.052	(169)	
Interoperable Communications Equipment	97.055	76,144	73,836
Map Modernization Management Support	97.070	60,000	
Buffer Zone Protection Program (BZPP)	97.078	45,338	45,338
Earthquake Consortium	97.082	16,135	
Other Department of Homeland Security Assistance	N/A	898,248	
Total United States Department of Homeland Security		116,925,554	95,646,990
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 8,657,195,001	$ 1,173,681,715

STATE OF ARKANSAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

(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, their federal financial assistance, or major federal programs 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
ARKANSAS DEVELOPMENT FINANCE AUTHORITY:		
CDBG – Entitlement Grants Cluster	14.218, 14.253, 14.254	$ 8,109,555
ARRA - Tax Credit Assistance Program	14.258	5,284,011
ARKANSAS DEPARTMENT OF WORKFORCE SERVICES:		
WIA Cluster	17.258, 17.259, 17.260	42,903,164
Unemployment Insurance	17.225	478,424,265
ARRA - Unemployment Insurance	17.225	157,141,967
TANF Cluster	93.558, 93.714, 73.716	68,431,156
STATE OF ARKANSAS CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	4,396,400
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	12,731,475
STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,213,041
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	13,873,287
ARKANSAS STUDENT LOAN AUTHORITY:		
Federal Family Education Loans	84.032-L	666,905,523
UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES:		
Head Start Cluster	93.600, 93.708, 93.709	8,003,528
Student Financial Assistance Cluster	various	43,830,903
Research and Development Cluster	various	62,183,134
SOCIAL SECURITY DETERMINATION:		
Disability Insurance/SSI Cluster	96.001, 96.006	33,456,268

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

(1) Summary of Significant Accounting Policies (Continued)

(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).

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 $25,971,585 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, 2010 for which the federal government imposes continuing compliance requirements are as follows. The expenditures reported in the Schedule include outstanding loan balances and current year disbursements.

CFDA Number	Program Name	Amount
84.038	Federal Perkins Loan Program_Federal Capital Contributions	$ 38,624,999
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	5,173,036
93.364	Nursing Student Loans	276,850
	Total	$ 44,074,885

(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 $31,663,591 for Direct and $586,236,358 FFELP during the year ended June 30, 2010; 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 $585,000,000 at July 1, 2009, this amount is included in the schedule.

Expenditures reflected in CFDA 66.458, Capitalization Grants for Clean Water 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, 2010, was $246,087,000. Total disbursements for new loans for the year ended June 30, 2010, totaled $35,471,000. Administrative costs associated with the program for the year ended June 30, 2010, totaled $288,000.

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, 2010 was $112,045,000. Total disbursements for new loans made during fiscal year 2010, totaled $14,992,000. Administrative costs associated with the program for the year ended June 30, 2010, totaled $150,000.

(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
10.555	National School Lunch Program	$ 11,964,660
10.558	Child and Adult Care Food Program	129,308
10.565	Commodity Supplemental Food Program	241,047
10.569	Emergency Food Assistance Program (Food Commodities)	6,735,902
10.569	ARRA - Emergency Food Assistance Program (Food Commodities)	1,079,037
12.005	Law Enforcement Support Office – 1033 Program	58,577
39.003	Donation of Federal Surplus Personal Property	3,813,495
93.268	Immunization Grants	32,274,589
	Total	$ 56,296,615

(5) Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.8 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

(6) Rebates from the Special Supplemental Food Program for Women, Infants, and Children (WIC)

During fiscal year 2010, the State received cash rebates totaling $24,916,751 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 407,553 more persons than could have been served this fiscal year in the absence of the rebate contract.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

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 4 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
1.		SNAP Cluster
	10.551	Supplemental Nutrition Assistance Program
	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program; ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
2.	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
3.	10.558	Child and Adult Care Food Program
4.	12.401	National Guard Military Operations and Maintenance (O&M) Projects; ARRA - National Guard Military Operations and Maintenance (O&M) Projects
5.		CDBG-Entitlement Grants Cluster
	14.218	Community Development Block Grants/Entitlement Grants
6.		CDBG - State-Administered Small Cities Program Cluster
	14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
	14.255	ARRA - Community Development Block Grants/State's program and Non-Entitlemer Grants in Hawaii
7.	14.258	ARRA - Tax Credit Assistance Program
8.	17.225	Unemployment Insurance; ARRA - Unemployment Insurance

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of major programs: (continued)

	CFDA Numbers	Name of Federal Program or Cluster
9.		WIA Cluster
	17.258	WIA Adult Program;
		ARRA - WIA Adult Program
	17.259	WIA Youth Activities;
		ARRA - WIA Youth Activities
	17.260	WIA Dislocated Workers;
		ARRA - WIA Dislocated Workers
10.		Highway Planning and Construction Cluster
	20.205	Highway Planning and Construction;
		ARRA - Highway Planning and Construction
	20.219	Recreational Trails Program
11.	66.458	Capitalization Grants for Clean Water State Revolving Funds;
		ARRA - Capitalization Grants for Clean Water State Revolving Funds
12.	66.468	Capitalization Grants for Drinking Water State Revolving Funds;
		ARRA - Capitalization Grants for Drinking Water State Revolving Funds
13.	81.042	Weatherization Assistance for Low-Income Persons;
		ARRA - Weatherization Assistance for Low-Income Persons
14.		Student Financial Assistance Cluster
	84.007	Federal Supplemental Educational Opportunity Grants
	84.032	Federal Family Education Loans
	84.033	Federal Work-Study Program;
		ARRA - Federal Work-Study Program
	84.038	Federal Perkins Loan Program_Federal Capital Contributions
	84.063	Federal Pell Grant Program;
		ARRA - 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
	84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH 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;
		ARRA - Scholarships for Health Professions Students from Disadvantaged Backgro
15.		Title I, Part A Cluster
	84.010	Title I Grants to Local Educational Agencies
	84.389	ARRA - Title I Grants to Local Educational Agencies
16.		Special Education Cluster (IDEA)
	84.027	Special Education_Grants to States
	84.173	Special Education_Preschool Grants
	84.391	ARRA - Special Education Grants to States
	84.392	ARRA - Special Education - Preschool Grants
17.		Vocational Rehabilitation Cluster
	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States
	84.390	ARRA - Rehabilitation Services_Vocational Rehabilitation Grants to States

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of major programs: (continued)

	CFDA Numbers	Name of Federal Program or Cluster
18.	84.367	Improving Teacher Quality State Grants
19.		State Fiscal Stabilization Fund Cluster
	84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants
	84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services
20.		Immunization Cluster
	93.268	Immunization Grants
	93.712	ARRA - Immunization
21.		TANF Cluster
	93.558	Temporary Assistance for Needy Families
	93.714	ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program
	93.716	ARRA - Temporary Assistance for Needy Families (TANF) Supplemental Grants
22.	93.563	Child Support Enforcement; ARRA - Child Support Enforcement
23.	93.568	Low-Income Home Energy Assistance
24.		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
	93.713	ARRA - Child Care and Development Block Grant
25.		Head Start Cluster
	93.600	Head Start
	93.708	ARRA - Head Start
	93.709	ARRA - Early Head Start
26.	93.658	Foster Care_Title IV-E; ARRA - Foster Care_Title IV-E
27.	93.659	Adoption Assistance; ARRA - Adoption Assistance
28.	93.767	Children's Health Insurance Program
29.		Medicaid Cluster
	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers
	93.778	Medical Assistance Program; ARRA - Medical Assistance Program
30.		Disability Insurance/SSI Cluster
	96.001	Social Security_Disability Insurance
	96.006	Supplemental Security Income
31.	Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs $ 25,971,585

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-10-01 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 that procedures are in place to ensure that computer program changes placed into production are adequately tested and authorized; however, controls are insufficient to ensure adherence to those procedures.

In addition, developers of the Arkansas Integrated Revenue System also have the ability to update the production databases and programs.

Failure to properly implement controls increases the risks of misappropriation of assets and misstatement of the State's financial records and financial statements.

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

SECTION 2 – FINANCIAL STATEMENT FINDINGS (Continued)

FS-10-02 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 previous audits, the Treasurer of State processes various payments to counties and municipalities. The payee information, including direct deposit information, is stored in the Treasurer of State's computer system. The person who has the ability to change this information also has the authority for the processing and approving of payments.

Failure to properly implement controls increases the risks of misappropriation of assets and misstatement of the State's financial records and financial statements.

The Treasurer of State indicated that they have been working on corrective procedures on this control deficiency subsequent to the prior year audit. However, complete corrective action had not been taken as of June 30, 2010.

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

SECTION 2 – FINANCIAL STATEMENT FINDINGS (Continued)

FS-10-03 Security Access

Sound information systems standards specify that adequate controls should be in place to ensure that user access to data is properly restricted to only those individuals required to perform their assigned job functions. The Department of Finance and Administration (DFA) has a computer network that is used in their normal day-to-day operations as well as the Arkansas Integrated Revenue System (AIRS). AIRS is an integrated tax software system that is used to record various tax revenues (e.g. sales tax & income tax).

During our review of the information systems controls over DFA's network and AIRS, we noted the following deficiencies related to security access:

- Active users on DFA's network could not be identified on a listing of current employees and contractors.
- Active users of AIRS could not be identified on a listing of current employees and contractors.
- AIRS users who had the ability to add and approve an adjustment in the system.

Failure to maintain proper internal controls over user access increases the risk of improper access to DFA's network and AIRS. Improper access to these systems could also result in misappropriation of assets and misstatement of the State's financial records and financial statements.

We recommend that DFA management strengthen controls to ensure user access to their various computer systems is commensurate with the individual's job requirements and do not violate proper segregation of duties.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL/STATE/EDUCATIONAL AGENCY NAME	STATE/EDUCATIONAL AGENCY IDENTIFICATION NUMBER	PAGE NUMBER
FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY		43
U.S. DEPARTMENT OF AGRICULTURE		
Arkansas Department of Health	645	50
Arkansas Department of Human Services	710	51
U.S. DEPARTMENT OF DEFENSE		
Arkansas State Military Department	975	53
U.S. DEPARTMENT OF EDUCATION		
University of Arkansas at Pine Bluff	160	54
Arkansas Department of Education	500	55
Arkansas Department of Workforce Education – Arkansas Rehabilitation Services	520	57
Arkansas Department of Higher Education	700	63
Arkansas Department of Human Services	710	59
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Arkansas Department of Higher Education	700	64
Arkansas Department of Human Services	710	65
FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS		
FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY		
University of Arkansas for Medical Sciences	150	95
U.S. DEPARTMENT OF EDUCATION		
University of Arkansas for Medical Sciences	150	98
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
University of Arkansas for Medical Sciences	150	99

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, 2010

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**10-645-01**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that access abilities be deactivated when a user retires or is terminated.

Condition and Context:
The audit testing indicated the following:

- 197 retired/terminated individuals were listed as active in the card entry software that controls building access.
- 61 retired/terminated individuals had access abilities to the Spirit System, which is used to administer the Women, Infants and Children federal program.
- 188 retired/terminated individuals had access abilities to Licenses and Services/Fees System.

Questioned Costs:
Unknown

Cause:
Agency management has not implemented adequate policies and procedures to ensure deactivation of an individual's access abilities when a user is retired or terminated.

Effect:
This situation increases the risk of improper access to applications and databases possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency's financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend the Agency improve policies and procedures to ensure user access ability is discontinued when an individual is retired or terminated.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-645-02**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate a Continuity of Operations Plan (COOP) should be established, updated and periodically tested to ensure that critical business processes can be restored in the event of an interruption.

Condition and Context:
A plan for the recovery/continuity of the IT Services' operation has not been established. The test for the restoration of the data and applications has not been conducted.

Questioned Costs:
Unknown

Cause:
IT Services has not dedicated the resources to develop and test a Disaster Recovery/Business Continuity Plan.

Effect:
The Arkansas Department of Health may not be able to provide essential services to clients or administer and account for some federal programs in a timely manner due to computer processing being hindered because of a disaster.

Recommendation:
We recommend IT Services management establish a business continuity plan. We also recommend IT Services management periodically conduct the recovery test for its critical processes including the backup files and applications restoration.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-645-03**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that the information systems industry best practices should be followed to ensure ADH network resources are adequately protected and updated.

Condition and Context:
We performed vulnerability scanning on computers located inside of the ADH network. The scanning indicated the following:

- Operating systems and utilities have not been kept up-to-date.
- Identical or easily-guessed passwords have been used.
- Default passwords have not been changed.
- Unused services and ports have not been closed.

Questioned Costs:
Unknown

Cause:
The Agency had not adequately designed and implemented information systems industry best practices when establishing and maintaining the network infrastructure.

Effect:
This situation increases the risk for unauthorized access to the Agency's network devices and computers possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency's financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend Agency management implement adequate procedures and controls to ensure the network infrastructure is properly protected.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-01**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information systems controls dictate that disaster recovery plans be tested periodically to ensure critical business processes can be restored in the event of an interruption.

Condition and Context:
Although the entity does have a formal, documented Business Continuity and Contingency Plan (BCCP) which, in conjunction with Department of Information Systems' (DIS) Disaster Recovery Plan, addresses all critical areas necessary for the successful recovery from a disaster, the Agency plan has not been tested to ensure adequacy. The BCCP is a collection of individual plans for mission critical divisions or offices within DHS. Testing of the BCCP belonging to the divisions is not being performed on a scheduled basis.

Questioned Costs:
None

Cause:
Agency management has not developed and implemented a policy to require periodic testing of the BCCP.

Effect:
The Agency may not be able to provide essential services to clients or administer and account for some federal programs in a timely manner due to computer processing being hindered because of a disaster.

Recommendation:
We recommend the BCCP be reviewed, tested, and updated with lessons learned and retested on a predetermined basis to ensure uninterrupted client care can be supported.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-02**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information systems controls dictate that user access to the ANSWER data should be restricted to only those individuals required to perform their assigned job functions.

Condition and Context:
We noted the following user access issues:

- One terminated/inactive contractor Northrop Grumman employee with administrator rights to the ANSWER databases.
- One user-id whose assignment was unknown with administrator rights to the ANSWER databases.
- 14 user-ids who are no longer employed or whose assignment is unknown with read rights to the ANSWER databases.
- 18 terminated/inactive DHS employees are still granted with ANSWER user access.
- 10 terminated/inactive Division of Workforce Services employees are still granted with ANSWER user access.
- One user with access not necessary to perform job function.

Questioned Costs:
None

Cause:
Agency management had not developed and implemented adequate controls over assignment and revocation of user access abilities.

Effect:
Failure to maintain proper internal control over user access rights increases the risk of improper access to the ANSWER application and databases possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency's financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend the Agency implement controls to ensure terminated or retired employees are immediately removed and user access abilities are commensurate with job requirements.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-03**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that changes to the operating system software should be properly authorized and tested before installing in the production environment.

Condition and Context:
The applications that maintain eligibility for various federal programs are hosted by the service provider, Department of Information Systems. Inquiry indicated that the service provider has not implemented adequate controls over changes to the operating system.

Questioned Costs:
None

Cause:
Agency management has not implemented adequate controls over changes to the operating system.

Effect:
Failure to maintain proper change controls over system software increases the risk of incorrect processing or unauthorized access possibly resulting in inappropriate creation, modification or disclosure of Agency data.

Recommendation:
We recommend Agency management implement adequate controls to ensure changes to the operating system are properly authorized and tested.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-04**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that changes to the firewall configuration should be properly authorized and tested before installing in the production environment.

Condition and Context:
The applications that maintain eligibility for various federal programs are hosted by the service provider, Department of Information Systems. Inquiry indicated that the service provider has adequate procedures for firewall configuration change; however controls are inadequate to prevent or detect direct changes to the firewall configuration that bypass those procedures.

Questioned Costs:
None

Cause:
Agency management has not developed and implemented adequate controls over changes to the firewall configuration.

Effect:
Failure to maintain proper controls over firewall configuration could result in unauthorized access to network devices possibly resulting in inappropriate creation, modification or disclosure of Agency data.

Recommendation:
We recommend Agency management install controls to ensure changes to firewall configuration are authorized and tested.

U.S. DEPARTMENT OF AGRICULTURE

Finding Number:	**10-645-04**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Food Instrument Disposition**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 7 CFR 246.12(q), the Agency is required to account for the disposition of all food instruments within 120 days of the food instrument's first valid date for participant use. Food instruments must be identified as either issued or voided; and issued food instruments must be identified as either redeemed or unredeemed.

Condition and Context:
The State's disposition procedures do not comply with this requirement. A review of food instruments for two months indicated that food instruments could have conflicting disposition information, for example, both redeemed and voided. Such instances were not always fully investigated, documented and resolved by Agency personnel.

Questioned Costs:
Unknown

Cause:
Reports generated by SPIRIT, which is the federal program's computer system, were not adequately designed to provide accurate information that would enable the Agency to account for the disposition of all food instruments within 120 days of issuance. Additional computer programs and edits were designed and implemented by the Agency in an attempt to mitigate the deficiencies of the software.

Effect:
The likelihood that an individual or vendor could in appropriately receive a benefit through a food instrument is increased because food instruments are not properly accounted for.

Recommendation:
The Agency should continue to improve procedures which identify and document the ultimate disposition of every food instrument within 120 days of issuance. Also, Agency personnel should investigate and provide adequate support for food instruments with conflicting disposition information.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**10-710-05**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)**
Federal Award Number(s):	**0579231 and 0513553**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
Federal regulations 7 CFR 274.4(a) and 274.4(b) require the Agency to account for all benefit issuances through a reconciliation process and to submit a FNS-46, Issuance Reconciliation Report to the Food and Nutrition Service no later than 90 days following the end of the report month. The report is a reconciliation of the benefits issued with the State's Master Issuance File of eligible households including unreconciled issuances.

Condition and Context:
The Agency failed to reconcile the benefits issued with the State's Master Issuance File before submitting the FNS-46 report to the federal grantor for the period October 2009 through June 2010.

Questioned Costs:
Unknown

Cause:
Agency employees responsible for filing the FNS-46 have not been properly informed and trained on the reporting requirements and have not be properly supervised by Agency management.

Effect:
Failure to reconcile the benefits issued with the State's Master Issuance File of eligible households could lead to inaccurate reporting to the federal grantor agency.

Recommendation:
We recommend the Agency develop procedures to ensure the reconciliation supporting the FNS-46 report is accurate, complete, and reviewed adequately by the supervisor.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**10-710-06**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)**
Federal Award Number(s):	**0579231 and 0513553**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Electronic Benefits Transfer (EBT) Reconciliation**
Type of Finding:	**Significant Deficiency**

Criteria:
In accordance with federal regulations at 7 CFR 274.12, the Agency is required to have a system in place to reconcile the funds entering into, exiting from, and remaining in the Electronic Benefit Transfer system each day with the State's benefit account with the U.S.Treasury and EBT contractor records.

Condition and Context:
The Agency did not have adequate controls related to the EBT Reconciliation to prevent and detect errors from occurring in the reconciliation by investigating and resolving variances.

Questioned Costs:
Unknown

Cause:
The accounting staff was not appropriately trained and supervised to identify and investigate discrepancies in the reconciliation.

Effect:
Failure to properly perform the EBT Reconciliation could result in inaccurate amounts and unexplained variances including federal funds drawn down in excess of authorized benefit transactions.

Recommendation:
We recommend the Agency establish adequate controls, including training and supervision, to ensure that the information in the reconciliation is complete and accurate and that the variances are identified and resolved in a timely manner.

U.S. DEPARTMENT OF DEFENSE

Finding Number:	**10-975-01**
State/Educational Agency(s):	**Arkansas State Military Department**
CFDA Number(s) and Program Title(s):	**12.401 - ARRA - National Guard Military Operations and Maintenance (O&M) Projects**
Federal Award Number(s):	**W912JF-09-2-9031**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Davis-Bacon Act**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
As required by Section 1606 of ARRA and 2 CFR part 176, Subpart C, non-federal entities and contractors are required to comply with the requirements of the Davis-Bacon Act by paying laborers and mechanics wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor.

Condition and Context:
Through inquiry and testing, we determined that the Agency was not adequately informing contractors about the requirements of the Davis-Bacon Act; and therefore, the Agency was not receiving the proper documentation to comply with the Davis-Bacon Act requirements. Due to a special exemption, the Agency is not required to comply with the Davis-Bacon Act for non-ARRA construction projects. Due to this special exemption, it appears that the Agency was not prepared to comply with the Davis-Bacon Act requirements for ARRA contracts. $9,797,558 of the $12,830,000 ARRA grant was expended in the 2010 State fiscal year.

Questioned Costs:
None

Cause:
The staff did not have a complete understanding of the requirements of the Davis-Bacon Act. None of the construction contracts required contractors to comply with the Davis-Bacon Act; and therefore, the Agency did not receive payroll documentation as required by the Davis-Bacon Act in relation to ARRA contracts.

Effect:
The Agency's lack of understanding of the Davis-Bacon Act requirements caused the Agency to exclude Davis-Bacon act requirements from their construction contracts which in turn caused a lack of documentation concerning the wage rates paid to contractor employees performing ARRA funded projects.

Recommendation:
We recommend the Agency properly train their program staff to implement the requirements of the Davis-Bacon Act when they are required to apply them to applicable projects.

STATE OF ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION

Finding Number:	**10-160-01**
State/Educational Agency(s):	**University of Arkansas at Pine Bluff**
CFDA Number(s) and Program Title(s):	**84.038 - Federal Perkins Loan Program_Federal Capital Contributions (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR § 668.16(m)(1)(ii) of the Student Assistance General Provisions and 34 CFR § 674.5 of the Federal Perkins Loan Program, an institution that begins and continues to participate in any Title IV, HEA program, must demonstrate that it is capable of adequately administering that program under the standards established. The Secretary considers an institution to have that administrative capability if the institution's cohort default rate under the Federal Perkins Loan Program does not exceed 15 percent. In addition, as stated in 34 CFR § 674.5(a)(1), if an institution's cohort default rate equals or exceeds 25 percent, the institution's Federal Capital Contribution (FCC) is reduced to zero.

Condition and Context:
Part III of the University's Fiscal Operations Report and Application to Participate (FISAP) was obtained and the cohort default rate, a key line item, was examined. The University's current year cohort default rate was 47%. A similar finding has been reported in previous audits.

Questioned Costs:
None

Cause:
The Federal Perkins Loan Program cohort default rate was significant because of the small population of borrowers included in the calculation. The University reported that nine of nineteen borrowers who had entered repayment status during the prescribed period were in default.

Effect:
The University exceeded the allowable Federal Perkins Loan program cohort default rate.

Recommendation:
Establish procedures to lower the University's cohort default rate to an acceptable level.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-500-01**
State/Educational Agency(s):	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.027 - Special Education_Grants to States** **84.173 - Special Education_Preschool Grants** **84.391 - ARRA - Special Education Grants to States** **84.392 - ARRA - Special Education - Preschool Grants** **(Special Education Cluster (IDEA))**
Federal Award Number(s):	**H027A070018A; H027A080018A; H027A090018; H173A070021; H173A080021; H173A090021; H391A090018A; H392A090021A**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with 34 CFR 300.705, the Agency is required to allocate any funds under this program that the State Education Agency (SEA) does not retain for administration and other State-level activities to eligible LEAs (Local Education Agencies) in the State. An SEA must distribute to each eligible LEA the amount the LEA would have received from the fiscal year 1997 appropriation if the State had distributed 75 percent of its grant for that year to LEAs. The SEA must then distribute (a) 85 percent of any remaining funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the Agency's jurisdiction and (b) 15 percent of any remaining funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the SEA. Also, as noted in OMB Circular A-133 section 300(b), the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition and Context:
The Agency complied with all required minimum and maximum allocation amounts. However, based upon the Agency's usage of Special Education_Preschool Grant funds, it was noted that $1,069,094, $1,069,094 and $1,108,172 for grant years 2008, 2009 and 2010, respectively, were not allocated to LEAs in accordance with the census (85%) and poverty (15%) distribution method, as stipulated by the program regulations, but instead were based on another method. Additionally, there was no review, testing or approval by a Special Education supervisor or other knowledgeable personnel of allocation worksheets used to distribute federal funds.

Questioned Costs:
Unknown

Cause:
The Agency did not adhere to the maximum thresholds that they had established for State-level (discretionary) activities. Appropriate documentation supporting the actual amounts allocated and distributed to LEAs was not readily available to auditors, and there was an inadequate review of the calculations related to Special Education funds.

Effect:
Inaccurate data or inappropriate allocation could result in an improper payment to an LEA.

Recommendation:
We recommend the Agency strengthen controls to ensure that documentation supporting the components of the allocation formulas be retained and available for audit purposes and that knowledgeable Agency personnel adequately review, test and approve allocation worksheets used to distribute federal funding to LEAs.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-500-02**
State/Educational Agency(s):	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.027 - Special Education_Grants to States** **84.173 - Special Education_Preschool Grants** **84.391 - ARRA - Special Education Grants to States** **84.392 - ARRA - Special Education - Preschool Grants** **(Special Education Cluster (IDEA))**
Federal Award Number(s):	**H027A070018A; H027A080018A; H027A090018; H173A070021; H173A080021; H173A09002; H391A0900018A; H392A0900021A**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR sections 300.645(a), (c), and (e), the Agency is required to (1) establish procedures to be used by LEAs and other educational institutions in counting the number of children with disabilities receiving special education and related services; (2) obtain certification from each agency and institution that an unduplicated and accurate count has been made; and (3) ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count.

Condition and Context:
From a sample of 25 LEAs, the Agency was unable to provide the required certifications from 2 school districts that student data was reported accurately.

Questioned Costs:
Unknown

Cause:
The necessary documentation was typically submitted by the LEAs; however, the Agency had not implemented a control to specifically review and verify that compliance with the requirement had been met.

Effect:
Inappropriate or inaccurate student counts could result in an LEA receiving an improper allocation or distribution of federal funds.

Recommendation:
We recommend the Agency strengthen internal controls related to data submission by the LEAs to ensure that LEAs certify the accuracy of the data submissions and that such certifications be obtained and retained for audit purposes.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520-01**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition and Context:
Arkansas Rehabilitation Services (ARS) incorrectly reported expenditures on the SEFA. Vocational Rehabilitation_Grants to States for FFY2010 was overstated by $8,510,080.

Questioned Costs:
Expenditures reported on the SEFA exceeded expenditures on the Quarterly Federal Financial Reports by $8,510,080.

Cause:
For Vocational Rehabilitation grants issued on or after October 1, 2010, the required quarterly reporting form changed from the Financial Status Report (SF-269) to the Federal Financial Report (SF-425). Management of ARS did not have procedures in place to ensure expenditures reported on the SF-425 agreed to expenditures reported on the SEFA.

Effect:
Inaccurate reporting could jeopardize future awards.

Recommendation:
We recommend the Agency strengthen internal controls by providing additional training to staff concerning reporting requirements and the proper procedures for reporting expenditures on the SEFA.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520-02**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003; H126A100003**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal guidance at 2 CFR 225 Appendix A section C(1)(a) states that costs charged to federal awards must be necessary and reasonable for proper and efficient performance and administration of the awards. In addition, section E(2)(a) states that typical direct costs chargeable to federal awards include compensation of employees for the time devoted and identified specifically to the performance of those awards.

Condition and Context:
At June 30, 2010, Arkansas Rehabilitation Services had 488 employees and each employee's compensation cost was allocated to an internal order based on their position and job duties. Each internal order is assigned to a federal program for reporting and reimbursement of program costs. Our review revealed compensation costs for two (2) of fifteen (15) employees totaling $35,408 were allocated to the wrong internal order and should not have been charged directly to the federal program based on the employee's position and job duties assigned.

Questioned Costs:
Total compensation costs of $35,408 were allocated to the wrong internal order and incorrectly charged to the federal program.

Cause:
Positions and job duties of personnel were not adequately reviewed by management for appropriate assignment to federal programs.

Effect:
Failure to accurately report personnel compensation costs to appropriate federal programs could jeopardize future awards.

Recommendation:
We recommend the Agency develop procedures to ensure only compensation for personnel assigned to federal programs are allocated to federal awards.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-01**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal guidance at 34 CFR 80.20(b)(2) and 80.20(b)(6) require the State to maintain records and source documentation for information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and income.

Additional federal regulations at 34 CFR 80.41 and 361.40 require the Agency to submit financial and client service data to the U.S. Department of Education – Rehabilitation Services Administration (USDOE – RSA). Management is responsible for reviewing and approving the data for accuracy and completeness prior to submission to RSA. The data contains key program measurements used by RSA to obtain a general assessment of the state-federal Vocational Rehabilitation program and its accomplishments.

Condition and Context:
Arkansas Rehabilitation Services (ARS) and the Arkansas Department of Human Services (DHS) are two Agencies receiving grants under the Vocational Rehabilitation Cluster. These Agencies maintain case files to support vocational rehabilitation services and aid provided to clients. Our review of twenty-four (24) case files of ARS and six (6) case files of DHS revealed that nine (9) of the files did not contain invoices to support authorizations for payment. ARS had fourteen (14) payments totaling $8,196 that did not have proper supporting documentation and DHS had fifteen (15) payments totaling $25,097. Due to the number and amount of exceptions, the actual cost of noncompliance could be substantial.

An additional sample of 190 active case files from the ARS case management system, Arkansas Rehabilitation Integrated Management Information System (ARIMIS), revealed 99 files had not been updated to reflect the appropriate status of each of the cases and 3 files could not be located in the field offices.

Questioned Costs:
Expenditures totaling $33,293 did not have proper supporting documentation.

Cause:
Counselors and administrative staff of both Agencies were not adequately trained and disbursements were not reviewed to ensure that proper documentation was maintained in case files. Additionally, ARS did not have proper internal controls to ensure information entered and retrieved from the system was accurate and complete. Counselors did not update client status information in the system and the file status was not properly reviewed by the District Managers.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-01 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
Inaccurate and incomplete information submitted to RSA may prevent the identification of deficiencies in the program and Agency operations that could affect the provision of services to clients. Failure to maintain supporting documentation for expenditures made on behalf of clients could lead to misappropriation of funds and inaccurate reporting of client case costs which could jeopardize future awards.

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

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-02**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003; H126A100003; H126A090004; H126A100004**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Program Income**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The U. S. Department of Education – Rehabilitation Services Administration (USDOE – RSA) issued Policy Directive 10-03 with instructions for completing the new Quarterly Financial Reports (SF425). These instructions along with 34 CFR 361.63 state that program income is considered earned when it is received and should be reported as of the end of the reporting period.

34 CFR 80.21(f)(2) requires grantees to disburse program income, rebates, refunds, contract settlements, audit recoveries, and interest earned from these activities before requesting additional cash payments.

Condition and Context:
Arkansas Rehabilitation Services (ARS) and the Arkansas Department of Human Services (DHS) did not accurately report program income earned as of the end of each reporting period. ARS and DHS received program income for fiscal year ending June 30, 2010 totaling $1,095,024 and $33,299, respectively. Program income amounts reported by the Agencies were $769,699 and $0, resulting in differences of $325,326 and $33,299.

Additionally, as of June 30, 2010, ARS had a combined cash and treasury balance totaling $938,989, which consisted of program income received, that had not been disbursed before requesting additional cash payments.

Questioned Costs:
Program income received by ARS and DHS-DSB exceeded amounts reported by $325,326 and $33,299, respectively. ARS program income not disbursed before requesting additional cash payments totaled $938,989.

Cause:
ARS and DHS-DSB employees responsible for preparing the reports were not adequately trained on the reporting requirements and the agencies did not have procedures to ensure that reports were properly reviewed for accuracy and completeness.

Effect:
Inaccurate reporting and noncompliance with program requirements could jeopardize future awards.

Recommendation:
We recommend the agencies develop procedures to ensure that amounts received as program income are properly reported and disbursed in accordance with program requirements.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-03**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **84.390 - ARRA - Rehabilitation Services_Vocational Rehabilitation Grants to States** **(Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004; H390A090004A**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal regulations at 34 CFR 80.41 and 361.40 require the Agency to submit financial and client service data to the U.S. Department of Education – Rehabilitation Services Administration (USDOE – RSA). The Quarterly Cumulative Caseload Reports (RSA-113) and the Quarterly Financial Reports (SF-269 and SF-425) are due 30 days after the end of the quarter for the 1st, 2nd, and 3rd quarters and 60 days after the end of the 4th quarter. The Annual Case Service Report (RSA-911) is due on November 30 after the federal fiscal year end.

Condition and Context:
The Arkansas Department of Human Services (DHS) did not submit the September 2009 Quarterly Financial Reports (SF-269 and SF-425) for the FFY2009 Vocational Rehabilitation grant or the September 2009, December 2009, and March 2010 reports for the Vocational Rehabilitation American Recovery and Reinvestment Act grant in accordance with applicable federal due dates.

The RSA-113 report for September 2009 and the RSA-911 report for September 2010 were not submitted timely by Arkansas Rehabilitation Services (ARS).

Questioned Costs:
None

Cause:
ARS did not have proper internal controls to ensure information entered and retrieved from the case management system, Arkansas Rehabilitation Integrated Management Information System (ARIMIS) was accurate and complete. Manual adjustments necessary to correct information obtained from the system resulted in delays in reporting.

At DHS, the expenditure verification process resulted in processing delays and reporting personnel were not adequately trained on program reporting requirements.

Effect:
Failure to submit required reports by applicable due dates could jeopardized future awards.

Recommendation:
We recommend the Agency develop procedures to ensure client information maintained in the case management system is accurate and complete. Review processes should be efficient and Agency staff should be adequately trained on reporting requirements. All required reports should be submitted to RSA by applicable due dates.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-700-01**
State/Educational Agency(s):	**Arkansas Department of Higher Education**
CFDA Number(s) and Program Title(s):	**84.367 - Improving Teacher Quality State Grants**
Federal Award Number(s):	**S367B08004; S367B090004**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR 80.20, the Agency is required to maintain financial management systems that maintain records which adequately identify the source and application of funds provided. Additionally, the A-102 Common Rule, which the USDE codified as 34 CFR 80, requires that all entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulation, and program compliance requirements.

Condition and Context:
Financial transactions of the Agency are recorded in the Arkansas Administrative Statewide Information System (AASIS); however, the Agency was unable to track expenditures by grant award.

Questioned Costs:
Unknown

Cause:
The use of unique accounting codes for each federal grant was not adopted by Agency management.

Effect:
Without proper policies governing federal expenditure coding in the accounting system, the Agency has no mechanism to properly monitor and track grant expenditures.

Recommendation:
We recommend the Agency establish internal controls, including following State recommended guidelines regarding the use of WBS elements in the State's accounting system.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**10-700-02**
State/Educational Agency(s):	**Arkansas Department of Higher Education**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-1002ARTANF**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Section 15.b(1) of OMB Circular A-87 states that capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

Condition and Context:
In fiscal year 2010, the Department of Higher Education made three equipment purchases totaling $12,793 for two cubicles and an LCD monitor that were not approved in advance by the federal awarding agency.

Questioned Costs:
$12,793

Cause:
There was a lack of understanding regarding the allowability of equipment purchases by management.

Effect:
The Department of Health and Human Services, through any primary grantees, have the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the Agency is not in compliance with the requirements established.

Recommendation:
We recommend the Agency review the necessary federal regulations and codes defining activities and costs which are allowed and unallowed and train staff accordingly.

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

Finding Number:	**10-710-07**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-401ARTANF; #G-0501ARTANF**
Federal Award Year(s):	**2004 and 2005**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Section 8.4.2 of the Amended Treasury-State Agreement for fiscal year 2010 states that for each refund, the State shall maintain information identifying: (1) date a refund is credited to a State account, (2) date of the subsequent deposit of federal funds against which the refund is offset, and (3) amount of the refund.

TANF Program Instruction No.TANF-ACF-PI-2000-2 requires that states maintain documentation for all recovered overpayments. At a minimum, such documentation should include the period to which the overpayment applied, the program type (AFDC or TANF), the distribution methodology on the recoveries between federal TANF and State maintenance of effort (MOE) funds, and identification of the expenditures for which overpayment recoveries were subsequently used, by federal TANF and State MOE source.

Condition and Context:
$508,194 in deposits of unidentified client overpayments from an unknown period were allowed to accumulate in State treasury accounts without being applied to grant expenditures until December 22, 2009, when they were deposited into the EBT account for use toward cash assistance expenditures. While the Program Instructions do not specify a time period in which these client overpayments must be used, they do require the Agency to maintain appropriate documentation about the overpayments. Documentation was not maintained by the Agency.

Questioned Costs:
None

Cause:
Lack of appropriate procedures in place to document and apply the receipts collected from TANF overpayment collections reflects a weakness in internal control over cash management.

Effect:
Failure to comply with cash management requirements could cause excessive cash balances to be retained by the Agency.

Recommendation:
We recommend the Agency develop and communicate procedures for maintaining the refund information required by the Treasury-State Agreement and TANF Program Instructions. We also recommend that management develop and communicate procedures for applying these refunds to future cash draws so that the accumulation of cash balances is minimized.

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

Finding Number:	**10-710-08**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-401ARTANF; #G-0501ARTANF**
Federal Award Year(s):	**2004 and 2005**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The FFR-425 reports required by 2 CFR 215.52 should utilize accounting records as described in 2 CFR 215.21(b)(7), which requires that a recipient's financial management systems should provide accounting records that are supported by source documentation.

Condition and Context:
Cash disbursements of $19,138,352 reported in State fiscal year 2010 on the financial federal report (FFR) 425 were not supported by applicable accounting records. Reported cash disbursements on the FFR-425 should be supported by expenditure per cost allocation reports; however, cash disbursements reported on the FFR 425s were $1,050,510 higher than cost allocation reports. Since the FFR-425 reports are cumulative, there could be instances of error corrections from prior periods that would cause the amounts to differ, but the auditor would expect a reconciliation back to cost allocation. No documentation supporting the reported cash disbursements was provided to the auditor.

Questioned Costs:
None

Cause:
Lack of appropriately trained staff, as well as a lack of appropriate supervisory review, led to the cash disbursements reported not being supported by appropriate documentation.

Effect:
Lack of supporting documentation for cash disbursements could lead to inaccurate FFR-425s.

Recommendation:
We recommend the Agency develop internal control procedures to ensure that submitted financial reports are supported by the Agency's financial management systems.

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

Finding Number:	**10-710-09**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.568 - Low-Income Home Energy Assistance**
Federal Award Number(s):	**G-10B1ARLIEA; G-09B1ARLIEA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Significant Deficiency**

Criteria:
As noted in 31 CFR 206.6, an Agency shall periodically perform cash management reviews to identify areas needing improvement. Additionally, the A-102 Common Rule requires that all entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulation, and program compliance requirements.

Condition and Context:
A separate bank account is utilized as a paying account between the Agency's federal funds in the State Treasury and the non-profit Area Agencies that eventually distribute program funds to eligible households. In the process of reviewing the program's bank account, it was noted that a warrant, which was issued in April 2010 in the amount of $298,822 from the Agency's federal fund, had not been deposited in the program's bank account in a timely manner. Upon inquiry, the Agency was unaware that the warrant had not been deposited in the program's bank account. Audit procedures concluded that this was the only unaccounted for warrant during the fiscal year.

Questioned Costs:
None

Cause:
The Agency failed to implement adequate internal controls and procedures relating to the literal cash flow of these federal funds. The use of an additional bank account to distribute funds to the area agencies increased the opportunities for errors. The Agency had maintained a substantial balance in this bank account for an unknown period of time, which contributed to the undeposited warrant being unnoticed.

Effect:
Federal funds, which should have been made available to area agencies, were unaccounted for until discovered by the auditor. In response to this issue, the Department of Finance and Administration (DFA) was notified and a replacement warrant was issued and deposited in December 2010.

Recommendation:
We recommend the Agency establish appropriate controls and procedures to ensure that all transfers are properly deposited in a timely manner.

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

Finding Number:	**10-710-10**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **93.713 - ARRA - Child Care and Development Block Grant (CCDF Cluster)**
Federal Award Number(s):	**G-0901ARCCDF; G-901ARCCD7; G-1001ARCCDF**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State's CCDF "Daycare" program. The Agency's responsibility includes determining eligibility for each applicant and documenting that eligibility criteria were met. The Agency outlines eligibility requirements for the Daycare program in their State plan.

Condition and Context:
Between November 1, 2009 and October 31, 2010, the Division of Child Care and Early Childhood Education received referrals on 151 cases of possible client overpayments and fraud and 97 cases of provider overpayments and fraud. The Agency's compliance unit investigated and validated 70 of the client cases and 83 of the provider cases for amounts due of $79,853 and $45,055 respectively. The investigation and review is still ongoing for 81 client cases and 14 provider cases with referral amounts of $68,929 and $17,289 respectively. As of the October 31, 2010, only 96 of the 248 have reached final resolution due to the Agency appeal process.

Questioned Costs:
Unknown

Cause:
Factors contributing to these issues include: 1) cash heads and/or clients failed to report changes in client eligibility criteria which would have affected their eligibility status, 2) willful misrepresentations of client eligibility data by clients, and 3) providers billing for services which were not provided.

Effect:
Benefits could have been inappropriately provided to ineligible clients or paid to providers for services not rendered.

Recommendation:
We recommend the Agency continue to provide training for employees, implement policy changes and increase monitoring to reduce overpayments to clients and providers.

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

Finding Number:	**10-710-11**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition and Context:
We reviewed 70 travel and other miscellaneous expenditures (excluding monthly board, child care and contracts) to determine purpose and allowability. Our review revealed 66 exceptions as summarized below:

- In 30 instances, the travel reimbursement form lacked adequate information for identifying the child being transported. As a result, eligibility status could not be determined. Questioned costs include $2,059 paid from the regular grant and $36 paid from the ARRA grant. This issue was also noted in prior audits.
- In 16 instances, travel reimbursements totaling $1,451 were related to children determined to be ineligible. These questioned costs were paid from the regular grant. This issue was also noted in prior audits.
- In four instances, travel reimbursements totaling $304 were for transporting a child to school or school related activities. These questioned costs were paid from the regular grant. This is not an allowable activity and was also an issue noted in prior audits.
- In three instances, the travel reimbursement forms lacked adequate information identifying the purpose of the travel to ensure it was an allowable activity. Questioned costs for these exceptions totaled $74 and were paid from the regular grant. This issue was also noted in prior audits.
- In three instances, travel reimbursements totaling $27 were related to transportation for medical related expenses. These questioned costs were paid from the regular grant. This is not an allowable activity.
- In two instances, travel reimbursements totaling $7 were for transporting a child to go shopping. These questioned costs were paid from the regular grant. This is not an allowable activity.
- In two instances, reimbursements for improperly coded administrative costs totaling $81 were paid from the regular grant.
- In one instance, a travel reimbursement totaling $9 was paid to a foster parent for delivering the travel reimbursement form to the DHS office. The questioned costs for this reimbursement were paid from the regular grant. This is not an allowable activity.
- In one instance, a travel reimbursement totaling $68 was for transporting a child to and from camp. Questioned costs for this reimbursement were paid from the regular grant. This is not an allowable activity.
- In one instance, a reimbursement totaling $277 was for Respite care. Of this amount, $255 was paid from the regular grant and $22 was paid from the ARRA grant. Respite Care is not an allowable cost.
- In one instance, a purchase of medical gloves, which benefit multiple federal programs, was directly charged to the Foster Care program totaling $17. Questioned costs for this purchase were paid from the regular grant. Although allowable, this purchase should have been allocated.

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

Finding Number:	**10-710-11 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Condition and Context (continued):

- In one instance, a reimbursement representing a deposit on an apartment and first month's rent totaled $248. Of this amount, $229 was paid from the regular grant and $19 was paid from the ARRA grant. The questioned costs for this reimbursement were related to a child in the Independent Living State Grants Program.
- In one instance, a reimbursement for legal costs was directly charged to the Foster Care program totaling $3,094. Questioned costs for this reimbursement were paid from the regular grant. Although allowable, this purchase should have been allocated.

Questioned Costs:
$7,675 - Foster Care_Title IV-E
$ 77 - ARRA - Foster Care_Title IV-E

Cause:
Lack of adequate training for staff who determine allowability and inadequate review by supervisory staff lead to multiple errors and misuse of Foster Care funds.

Effect:
Failure to provide staff with adequate training and failure to properly review Foster Care travel and other miscellaneous expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

Recommendation:
We *again* recommend the Agency provide adequate training to staff responsible for determining allowability of expenditures as well as strengthen the review process performed by supervisory staff to ensure federal program funds are utilized in accordance with federal regulations and to ensure reimbursements are allowable.

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

Finding Number:	**10-710-12**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Division of Children and Family Services utilizes purchasing cards (p-cards) as a means of purchasing items for foster children. The p-cards are issued to Family Service Workers because they are in direct contact with foster children. According to 42 USC 672 and 42 USC 675(4), funds may be expended for Foster Care maintenance on behalf of eligible children. Such payments may include the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.

Condition and Context:
Our review of 54 purchases by family service workers with p-cards revealed the following:

- 18 instances of purchases made on behalf of children not considered Title IV-E eligible totaling $1,085. Of this amount, $1,000 was paid from the regular grant and $85 was paid from the ARRA grant. This issue was also noted in prior audits.
- One instance of a purchase made on behalf of a child who is 19 years of age and participating in the Independent Living State Grants program totaling $97. Of this amount, $89 was paid from the regular grant and $8 was paid from the ARRA grant.

Questioned Costs:
$1,089 - Foster Care_Title IV-E
$ 93 - ARRA - Foster Care_Title IV-E

Cause:
Lack of training for family service workers, financial coordinators and central office staff resulted in an inadequate review of child eligibility.

Effect:
Failure to properly review Foster Care p-card purchases has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

Recommendation:
We *again* recommend the Agency establish and implement internal control procedures to ensure p-card purchases are used only for allowed activities and costs for eligible children as outlined in federal code.

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

Finding Number:	**10-710-13**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition and Context:
Our review of child care payments on behalf of 60 foster children revealed the following:

- 17 children were determined to be eligible, but not claimable due to placement. Questioned costs include $7,274 paid from the regular grant and $618 paid from the ARRA grant. The foster child as well as the foster family home must meet all eligibility criteria to receive Title IV-E funds. If the foster family home does not meet all criteria, the result is non-claimable status. This issue was also noted in prior audits.
- 14 children were determined to be eligible, but not claimable due to a variety of factors including but not limited to: a) the child's receipt of SSI, b) deprivation did not exist, and c) lack of financial need. Questioned costs include $14,507 paid from the regular grant and $1,232 paid from the ARRA grant.
- Two children were determined ineligible to receive child care benefits because they had exited care and were not in care at the time of payment. Questioned costs include $138 paid from the regular grant and $12 paid from the ARRA grant. This issue was also noted in prior audits.

Questioned Costs:
$21,919 - Foster Care_Title IV-E
$ 1,862 - ARRA - Foster Care_Title IV-E

Cause:
Lack of training for staff, untimely entering of eligibility information in the Children's Reporting and Information System (CHRIS), and inadequate review by supervisory staff resulted in program funds being used for unallowable purposes.

Effect:
Failure to properly review child care payments has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

Recommendation:
We *again* recommend the Agency establish and implement internal control procedures to ensure child care payments are made on behalf of eligible foster children.

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

Finding Number:	**10-710-14**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Foster Care benefits may be paid on behalf of a child only if ***all*** of the following requirements are met:

(A) Foster Care maintenance payments are allowable only if the foster child was removed from his/her home by means of judicial determination (42 USC 672(a)(2)) or pursuant to a voluntary agreement, as defined in 42 USC 672(f).

(1) *Contrary to Welfare* - A child's removal from the home must be the result of a judicial determination to the effect that continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child. [45 CFR 1356.21(c)]

(2) *Reasonable Efforts to Prevent Removal Determination & Removal from Home of Specified Relative:* Within 60 days from the date of removal from the home, there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent removal. [45 CFR 1356.21(b) (1)]. The removal from the home must occur pursuant to a judicial order for physical or constructive removal of the child from a parent or specified relative. [45 CFR 1356.21 (k)]

(3) *Permanency Plan* - A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date the child entered foster care and at least once every 12 months thereafter while the child is in foster care. [45 CFR 1356.21(b)(2)]

(B) The child's placement and care are the responsibility of either the State Agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State Agency. (42 USC 672(a)(2))

(C) A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program. Unless the child is expected to graduate from a secondary educational institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday. (45 CFR section 233.90(b)(3)

Condition and Context:
Our review of foster care eligibility on behalf of 60 foster children revealed the following:

- In one instance, a judicial determination does not note the specified relative from which the child was removed, nor does it note whether reasonable efforts were made or were not required to prevent removal. Questioned costs include $1,959 paid from the regular grant and $166 paid from the ARRA grant.
- In one instance, the court orders do not state that DHS made reasonable efforts to prevent removal or that reasonable efforts were not necessary. Questioned costs include $1,507 paid from the regular grant and $128 paid from the ARRA grant.

Questioned Costs:
$3,466 - Foster Care_Title IV-E
$ 294 - ARRA - Foster Care_Title IV-E

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

Finding Number:	**10-710-14 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
Lack of adequate review by staff ensuring all supporting documentation is included regarding eligibility.

Effect:
Failure to ensure all appropriate documents have been received results in benefits paid on behalf of ineligible children.

Recommendation:
We recommend the Agency strengthen internal controls for staff responsible for the maintenance and review of file information to ensure all necessary documentation is included supporting a child's eligibility.

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

Finding Number:	**10-710-15**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Foster Care benefits may be paid on behalf of a child only if ***all*** requirements are met, including requirements specific to the providers (foster families):

(A) The provider must be licensed (or approved) by the proper State Foster Care licensing authority. (42 USC 671(a)(10) and 672(c))

(B) The foster family home provider must satisfactorily meet criminal records checks, including fingerprint-based checks of national crime information databases (FBI check), with respect to prospective foster and adoptive parents. (42 USC 671(a)(20)(A))

(C) The foster family home provider must satisfactorily have met a child abuse and neglect registry check to prospective foster and adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years. (takes effect October 1, 2006) (42 USC 671 (a)(20)(B)

(D) The licensing file for the child-care institution must contain documentation which verifies the safety considerations with respect to staff of the institution have been addressed. (45 CFR 1356.30(f))

Condition and Context:
The Agency was unable to provide documentation to support performance of the required checks, as identified above, for foster family home providers. We reviewed the State criminal record, FBI fingerprint-based record and central registry checks for 80 foster care homes and providers.

Our review revealed the following instances lacking appropriate documentation:

- For 11 foster parents, hard copies of a central registry check were not provided, nor did the central registry "logs" contain documentation that the central registry check had been performed to support the date criteria recorded in the Children's Reporting and Information System (CHRIS). Questioned costs include $36,225 paid from the regular grant and $3,094 paid from the ARRA grant.
- For eight foster parents, the FBI fingerprint-based record check documentation could not be located for the foster parent to support the date criteria recorded in CHRIS. Questioned costs include $52,399 paid from the regular grant and $4,462 paid from the ARRA grant. This issue was also noted in prior audits.
- For four foster parents, the Agency did not provide documentation supporting performance of an FBI fingerprint-based check. The documentation provided supported an FBI "name check only". Questioned costs include $19,898 paid from the regular grant and $1,691 paid from the ARRA grant.
- For two foster parents, documentation provided by the Agency supported an FBI "name check only". In addition, hard copies of a central registry check were not provided. Questioned costs include $16,017 paid from the regular grant and $1,361 paid from the ARRA grant.
- For one foster parent, the State criminal record documentation could not be located for the foster parent to support date criteria recorded in CHRIS. Questioned costs include $4,787 paid from the regular grant and $407 paid from the ARRA grant.
- For one foster parent, the State criminal record check, FBI fingerprint-based record check and central registry check were not provided. Questioned costs include $2,233 paid from the regular grant and $190 paid from the ARRA grant.

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

Finding Number:	**10-710-15 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
$131,559 - Foster Care_Title IV-E
$ 11,205 - ARRA - Foster Care_Title IV-E

Cause:
Lack of adequate staff to ensure required procedures on foster family home providers are properly performed and documented.

Effect:
Children could be placed in foster family homes that do not meet all federal requirements which could possibly place children at risk.

Recommendation:
We *again* recommend the Agency establish and implement controls ensuring staff conduct and appropriately document the criminal record, FBI fingerprint-based and central registry checks.

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

Finding Number:	**10-710-16**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**Various prior to 2005; 0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Adoption assistance subsidy payment regulations are established at 42 USC 673 and 675. Individuals are considered eligible for subsidy payments only if **all** of the following requirements are met: 1) the child is eligible, or would have been eligible for the former Aid to Families with Dependent Children (AFDC) program except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for SSI; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent, 2) the child was determined by the State to be a child with special needs, 3) the State has made reasonable efforts to place the child for adoption without a subsidy, and 4) the agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Tile XIX Medicaid; and covers the child should he/she move out of State with the adoptive family.

Condition and Context:
Our review of 61 adoption assistance subsidy case files revealed three instances of noncompliance as follows:

- In one instance, the support/custody of the child ended on February 1, 2005 when the court granted custody back to the biological mother. Subsidy payments should have ended at this point. The case was closed on May 6, 2010. Questioned costs include $20,020 paid from regular grant and $535 paid from the ARRA grant.
- In one instance, the subsidy file lacked an emergency custody order which notes that it is contrary to the welfare of the child to remain in the home of the removal. The only order granting custody to the Agency is a "Change in Custody Agreement" which does not meet the federal requirements. The child is ineligible to receive a federal subsidy from the date subsidy begin and forward. Questioned costs include $43,474 paid from the regular grant and $589 paid from the ARRA grant.
- In one instance, a child was determined not Title IV-E eligible by the Division of Children and Family Services (DCFS). The child was approved for a *State* subsidy payment. When the information was input into the Children's Reporting and Information System (CHRIS) for payment, the "funding source" was incorrectly entered as *federal*. Because this case was selected by audit for review, DCFS noticed the error and on August 27, 2010, the funding source was corrected in CHRIS to reflect a *State* subsidy payment. However, beginning in April 2006, the subsidy had been paid incorrectly from federal funds. Questioned costs include $16,139 paid from the regular grant and $614 paid from the ARRA grant.

Questioned Costs:
$79,633 - Adoption Assistance
$ 1,738 - ARRA - Adoption Assistance

Cause:
Agency staff did not adequately review the files to ensure that required information and documents were actually located in the files.

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

Finding Number:	**10-710-16 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**Various prior to 2005; 0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
Federal Adoption assistance funds were used for the benefit of children who could not be determined as eligible. As a result, the Agency could be required to reimburse the federal awarding agency the amount of questioned costs noted above.

Recommendation:
We recommend the Agency strengthen internal controls and provide training to appropriate staff responsible for the preparation and review of subsidy files to ensure all necessary documentation is included in the files supporting a child's eligibility for subsidy payments.

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

Finding Number:	**10-710-17**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Adoption Assistance payments may be paid on behalf of a child only if all requirements are met, including requirements specific to the adoptive parents:

- The prospective adoptive parent must satisfactorily meet criminal records checks, including fingerprint-based checks of national crime information databases (FBI check). (42 USC 671(a)(20)(A))
- The prospective adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years must satisfactorily have met a child abuse and neglect registry check. (42 USC 671 (a)(20)(B)

Condition and Context:
We reviewed the State Criminal Record, FBI Record and Central Registry checks to ensure adoptive parents and other adults living in the home met the criteria previously stated. Our review included information from adoptions that were finalized during State fiscal years 2009 and 2010.

Our review of 18 adoptive parents revealed the following:

- For four parents, hard copies of a Central Registry check were not provided, nor did the Central Registry "logs" contain documentation that the check had been performed to support the date criteria recorded in the Children's Reporting and Information System (CHRIS). Questioned costs include $26,436 paid from the regular grant and $2,246 paid from the ARRA grant.
- For two parents, the Agency did not provide documentation supporting the FBI fingerprint-based check to support the date criteria recorded in CHRIS. Questioned costs include $15,382 paid from the regular grant and $1,307 paid from the ARRA grant.
- For one parent, the State criminal record documentation could not be located to support date criteria recorded in CHRIS. Questioned costs include $15,588 paid from the regular grant and $1,324 paid from the ARRA grant.
- For one parent, the Agency did not provide hard copies to support the Central Registry check and also did not provide documentation supporting the FBI fingerprint-based check. Questioned costs include $7,444 paid from the regular grant and $632 paid from the ARRA grant.

Questioned Costs:
$64,850 - Adoption Assistance
$ 5,509 - ARRA - Adoption Assistance

Cause:
Lack of adequate staff and appropriate procedures for ensuring that all required checks, as identified above, on adoptive parents are properly performed and documented.

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

Finding Number:	**10-710-17 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
Children could be placed in adoptive homes not meeting all federal requirements which could put children at risk. In addition, federal assistance could be provided to ineligible adoptive parents.

Recommendation:
We recommend the Agency establish and implement controls ensuring staff conduct and appropriately document the required checks on adoptive parents and other adults of the home.

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

Finding Number:	**10-710-18**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.767 - Children's Health Insurance Program**
Federal Award Number(s):	**05-0905AR5021; 05-1005AR5021**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with the Treasury-State Agreement, there is one funding technique used to draw Children's Health Insurance Program (CHIP) funds. Direct medical and administrative costs shall be drawn based on the actual costs of the Arkansas Department of Human Services.

Condition and Context:
The Agency utilizes internal order codes to associate financial transactions with various activities of the program. It was discovered that medical payments for the Unborn Children portion of the program were being used as support for both medical and administrative drawdowns. These drawdowns occurred between June 2009 and August 2010. The amount of excessive drawdowns was calculated by comparing total revenues and total expenditures of the program.

Questioned Costs:

State Fiscal Year	Amount	Grant Award	Amount
2009	$ 168,407	05-0905AR5021	$ 7,859,851
2010	7,691,444	05-1005AR5021	1,099,307
2011	1,099,307		
Total	$ 8,959,158	Total	$ 8,959,158

Cause:
The Agency did not appropriately design or review reports used in accumulating costs to ensure that expenditures would not be used more than once when requesting federal reimbursement of program costs.

Effect:
The Agency received an excessive amount of federal revenues to cover the costs of the program.

As a result of this discovery, the Agency contacted the federal grantor and was informed by the grantor to stop drawing CHIP funds in fiscal year 2011 until the excess drawdown had been exhausted. It appears that this was accomplished in November 2010.

Recommendation:
We recommend the Agency strengthen controls to ensure that expenditures are only used once as support for the drawdown of federal revenues.

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

Finding Number:	**10-710-19**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
It is the State's responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The State outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency's decision on his application."

Condition and Context:
A statistical sample of 361 Medicaid recipients with fiscal year 2010 expenditures totaling $4,578,369 revealed that 21 recipients with expenditures totaling $66,018 for services rendered were not eligible for participation in the Medicaid program. The number of recipients sampled was based on a 95% confidence level with a 3% expected error rate and a 5% tolerable error rate. Actual results of the sample produced an error rate of 1.4%. The population sampled was higher risk recipients that have more complex eligibility determination factors and was comprised of 109,300 recipients with fiscal year 2010 expenditures totaling $1,293,597,724. The following errors in addition to insufficient evidence to support the Agency's decision were noted:

- In three cases with paid claims totaling $25,847, the Agency failed to follow program requirements related to resource limitations. In each case recipients were over the approved criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and MS 23110 which in summary states that the Agency is responsible for determining resource value.
- In two cases with paid claims totaling $1,373, the Agency failed to follow program requirements related to income limitations. In each case recipients were over the approved income criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies all establishing income limits.
- In seven cases with paid claims totaling $14,223, the Agency failed to follow program requirements related to mandatory referrals or other categorical requirements related to deprived children. In each case the recipients either failed to establish that a child lived in the home of the adult recipient or they had failed to make a required Office of Child Support Enforcement referral. The Agency also failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies.
- In three cases with paid claims totaling $2,785, the Agency failed to follow multiple program requirements and/or satisfy several categorical requirements. In each case there was insufficient evidence regarding multiple eligibility criteria. The Agency failed to comply with policy 42 CFR 435.913 case documentation.
- In six cases with paid claims totaling $21,790, the Agency failed to redetermine recipient eligible as required by 42 CFR 435.916. In each case the Agency was either not able to make the determination at the time of the fieldwork or when they attempted to make the determination it was determined that the recipient was not eligible.

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

Finding Number:	**10-710-19 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Questioned Costs:
Question costs totaled $66,018. These costs were obtained from EDS/MMIS system via Business Objects interface utilizing the recipient social security number for claims paid during the fiscal year with dates of service of which the recipient was not eligible.

Cause:
Cause of the finding is insufficient knowledge of program requirements and lack of evidence to support the Agency's decisions. Investigation of controls reveals that cause of finding is result of ineffective controls. Development of understanding and testing of controls revealed that there are not sufficient knowledgeable personnel to determine eligibility due to high turnover rates, employee's shortages, lack of training, and in some areas insufficient support staff.

Effect:
Effect of this is that household eligibility was improperly determined resulting in payments to providers for services in which recipients were not eligible.

Recommendation:
We recommend the Agency continue to train personnel on the requirements of the program as defined in the Medical Services Manual. We also recommend the Agency review and strengthen the internal controls over record documentation.

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

Finding Number:	**10-710-20**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Criteria:
42 CFR 431.16 requires the Agency to include the reporting requirements approved by the Secretary in the State Plan. The State Plan requires the Agency to submit all required reports and to complete the forms following the Secretary's instructions (Section 4.16 of the State Plan (Permanent File binder 2). Per the Centers for Medicare and Medicaid Services (CMS), States are required to report expenditures using the CMS – 64 report forms. The amounts claimed on the report are to be actual expenditures.

Condition and Context:
Testing of the amounts reported for the SFY2010 2nd and 3rd quarters revealed the following errors:

- Family planning physician's services were incorrectly reported as clinic services - $786,228 misclassification error (2nd qtr);
- Fiscal Management Services (FMS) services were reported twice – reported incorrectly as Personal Care Services and correctly as an administrative expenditure – Personal Care Services over-reported by $68,156 (2nd qtr);
- A portion of the Primary Care Case Management (PCCM) waiver services related to family planning activities were incorrectly reported as physician's services - $396,109 misclassification error (2nd Qtr); $369,181 misclassification error (including $12,734 which should have been reported as Outpatient Hospital Services) – (3rd qtr);
- Medicare Premiums payments for Qualifying Individuals were reported twice because the total was incorrectly included in the amount reported for Medicare Part B premiums and again reported on the appropriate line item for these expenditures. – Medicare Part B premiums over-reported by $2,919,852 (3rd qtr);
- Breast and Cervical Cancer Optional Payments were reported twice for the 3rd and 4th quarters due to a formula error. This resulted in multiple errors in the reported amount for several line items on the report – over-reported $3,013,432 (3rd qtr.) and $6,458,366 for the year;
- Hospital Settlement Payouts are reported as prior period adjustments. A manual adjustment must be made to current quarter expenditures to reduce the total for these payments. The Agency incorrectly added the total payments rather than subtracting the total. – Inpatient Hospital Services overstated $23,069,294 (3rd qtr) and $64,917,638 for the year;
- Inpatient Hospital Supplemental payments were incorrectly reported as Inpatient Hospital – Regular Payments. - $578,486 misclassification error (3rd qtr); and
- Three additional immaterial errors were noted which resulted in an understatement of expenditures totaling $13,945

The reporting errors identified above are also noted in the reconciliation of expenditures per the Cost Allocation System to the CMS – 64 reports. These errors also impacted the amount reported for expenditures paid with federal funds on the CMS – 64 reports. The reporting errors did not have any impact on the amount of federal funds drawn down.

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

Finding Number:	**10-710-20 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (continued):
In addition to the reporting errors identified through testing of the CMS-64 report, the following errors were found during the reconciliation of expenditures per the Agency's cost allocation system and the CMS – 64 reports:

- Prior period adjustment was reported as current quarter expenditure. - $546,882;
- Sterilization Expenses related to Family Planning were reported twice. - $1,187,864;
- Category of Service (COS) I8 – FMS Services were reported twice, once as Medicaid Assistance Program (MAP) program expenditures and also as administrative expenditures. - $246,974; and
- Medicare premiums for qualifying individuals were over-reported in the 3rd quarter - $21,437

Corrections were made for some of the reporting errors identified above on the Agency's CMS-64 report for the SFY 4th quarter. The total net amount over-reported after these adjustments totaled $72,563,868 (1.8% of total reported expenditures). A total difference of ($6,360,256) between total expenditures per the cost allocation and total expenditures per the CMS-64 reports was unidentified during the reconciliation.

Questioned Costs:
None

Cause:
The reporting errors were caused by the complexity of the reporting process. Information used to complete the reports is gathered from many different sources, and adjustments are made throughout the backup documentation to ensure that the expenditures are correctly classified on the reports. The Agency has compiled an Excel workbook to more efficiently pull this information together. It should be noted that this workbook contains more than 100 tabs from which information is pulled and calculated. Some information must also be pulled from hard copy reports. The errors mentioned above occurred as a result of formula errors in the workbook.

1) **Sterilization Expenses** - Sterilization expenses are included in a worksheet designed to allocate Family Planning expenditures based upon the most relevant classification. During this allocation, sterilization expenditures were erroneously included in the Family Planning expenditures twice.

2) **FMS Services** - The COS I8 is included in both the worksheet that is used to calculate the MAP expenditures reported and on the worksheet that is used to report the administrative expenditures. This amount should only have been reported one time.

3) **Medicare Part B** premiums are to include Qualifying Individual payments to certain individuals. This amount is to be reported separately from the Medicare Part B premiums. This amount has been reported twice in the 3rd quarter as it is included in both the Medicare Part B premiums and the following Qualifying Individual line items.

4) **Qualified Individual (QI) Medicare Premiums** included the amounts reported for the months of February, March, and April instead of the correct months of January, February, and March. This error resulted in an overstatement of the QI Medicare premiums.

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

Finding Number:	**10-710-20 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Cause (continued):

5) **Breast and Cervical Cancer Optional Payments** were reported twice in each of the 3rd and 4th quarters. These amounts were reported in each individual COS and then were added again to the total MAP expenditures for each line item. The result was a double reporting of Breast and Cervical Cancer payments.

6) **Hospital Settlement Payouts** were erroneously added to MAP expenditures instead of being subtracted to reflect the prior period adjustment status of these payments. The result was an over-reporting of Inpatient Hospital Services.

7) **Inpatient Hospital Services** contained a misclassification error which resulted in one line being over-reported while another was simultaneously under-reported. This was due to a UPL payment being reported twice. The amount was included in the Supplemental Payments twice which reduced the Regular Payments erroneously by the same amount.

8) **PCCM Waiver Adjustments** were not corrected for manual adjustments to properly classify family planning related expenditures.

In addition, the staff that complete the CMS – 64 reports do not have a complete understanding of the information which is used to determine expenditure amounts to be reported. The Agency reconciles the weekly funding requests to cost allocation without properly identifying the differences, and then reconciles the weekly funding request to the CMS – 64 report. These errors were not identified during the reconciliation because the staff did not have a full understanding of the amounts included in the weekly funding requests.

Effect:
The Agency's lack of understanding of all support documentation used to create the CMS – 64 report and the complexity of the reporting process caused the Agency to incorrectly report expenditures for the Medical Assistance Program. The Agency is aware of the reporting errors and the causes of these errors. Adjustments to the reported expenditures will be made on the FFY2010 4th quarter CMS – 64 report (SFY2011 1st quarter).

Recommendation:
We recommend the Agency train staff responsible for the completion of the reports on the information used to compile the reports. We also recommend that changes be made to the reconciliation of expenditures reported on the CMS – 64 report to the cost allocation system so that all differences are identified and explained.

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

Finding Number:	**10-710-21**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Sound information system controls dictate that user access to Medicaid Management Information System (MMIS) data should be restricted to only those individuals required to perform their assigned job functions.

Condition and Context:
We noted the following user access issues:

- There were 34 terminated or retired DHS employees with access abilities.
- DHS does not have adequate controls in place to determine if the 124 non-DHS entity users were active employees.

Questioned Costs:
None

Cause:
DHS management has not implemented adequate policy and procedures for authorizing and terminating user access.

Effect:
Failure to review payments and relationships could result in payments to providers who are not eligible based upon current policies. Continued payments to those providers not eligible reduces amount of funds available in the program and could have adverse affects on future program funding.

Recommendation:
We recommend the Division of Medical Services (DMS) management and other MMIS access entities work together to establish agreed upon procedures for authorizing and terminating user access. In addition, DMS management should implement controls to ensure user access is commensurate with job requirements.

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

Finding Number:	**10-710-22**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Sound information system controls dictate that the system change requests for Medicaid Management Information System (MMIS) should be reviewed, evaluated, justified, and authorized/approved by the appropriate level of the management.

Condition and Context:
There were 79 system change requests completed during the period of July 1, 2009 through June 30, 2010. We randomly selected 17 of those completed requests for our review. We noted the following user access issues:

- Seven or 41.2% of the total selected change request approval documentations cannot be found.
- Three or 30% of the total submitted change request approval documentations did not have the approval signature presented.

Questioned Costs:
None

Cause:
DHS management does not have adequate policy and procedures for MMIS system change controls management in place to ensure that all change requests are reviewed, evaluated, justified, and authorized/approved.

Effect:
Failure to maintain proper internal control over system change controls increases the risk of unauthorized changes to be implemented into the system. Ultimately, this practice weakens the established system controls and increases the risk of inappropriate payments to be processed.

Recommendation:
We recommend the Division of Medical Services (DMS) management establish the formal policy and procedures for MMIS change controls process to ensure that all change requests are reviewed, evaluated, justified, and authorized/approved. In addition, DMS management should follow the State retention policy to maintain the change controls management documentation for a sufficient period of time.

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

Finding Number:	**10-710-23**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Home and Community-Based Services: A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered and use of unlicensed staff. The full alert was published in the "Federal Register" on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG home page, Special Fraud Alerts section.

Currently, Arkansas has 5 *Section 1915(c) Home and Community-Based Services* waivers for Medicaid:

a) Division of Developmental Disabilities Alternative Community Services Waiver (ACS)

b) ElderChoices

c) Alternatives for Adults with Physical Disabilities Waiver (APD). (The provider manual for APD Attendant Care provider imposes one significant restriction on who can enroll and receive payment as an APD Attendant Care Provider. The manual stipulates that the provider shall not be an individual who is considered legally responsible for the participant, e.g. spouse or guardian or anyone acting as a guardian.)

d) Respite Care Waivers (includes Home and Community-Based Waiver for Children with Physical Disabilities and Home and Community-Based Waiver for Children with Mental Retardation or Developmental Disabilities)

e) Living Choices Assisted Living

Condition and Context:
Audit testing revealed that one of the identified providers did have an inappropriate relationship to the recipients. Total claims paid to this provider for State fiscal year 2010 were $28,305.

Questioned Costs:
$28,305

Cause:
Cause of the finding is insufficient monitoring of claims payments to APD Attendant Care Providers as well as independent review of relationships between provider and participant. The Agency relies upon field nurses' interactions with the providers and recipient/participant to determine if the relationships are appropriate.

Effect:
Failure to review payments and relationships could result in payments to providers who are not eligible based upon current policies. Continued payments to those providers not eligible reduces amount of funds available in the program and could have adverse affects on future program funding.

Recommendation:
We recommend the Agency review and strengths its procedures relating to payments made to APD Attendant Care Providers and that an independent review of relationships be performed.

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

Finding Number:	**10-710-24**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
It is the State's responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The state outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency's decision on his application."

Condition and Context:
A statistical sample of 284 Medicaid recipients with fiscal year 2010 expenditures totaling $694,164 revealed that 22 recipients with expenditures totaling $23,299 for services rendered were not eligible for participation in the Medicaid program. The number of recipients sampled was based on a 95% confidence level with a 3% expended error rate and a 5% tolerable error rate. Actual results of the sample produced an error rate of 3.4%. The population sampled was all Medicaid recipients with a citizenship status other than United States and was comprised of 2,497 recipients with expenditures totaling $13,999,808. The following errors in addition to insufficient evidence to support the Agency's decision were noted:

- In two cases with paid claims totaling $1,397, the Agency failed to follow program requirements related to resource limitations. In each case recipients were over the approved criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and MS 23110 which in summary states that the Agency is responsible for determining resource value.
- In three cases with paid claims totaling $340, the Agency failed to follow program requirements related to income limitations. In each case recipients were over the approved income criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies all establishing income limits.
- In 14 cases with paid claims totaling $18,990, the Agency failed to follow program requirements related to alien status or verification of alien status. In each case the recipients either failed to satisfy the five year ban from program participation requirements or were "unqualified aliens" and therefore were not eligible for the scope of services in which they received. The Agency failed to comply with policies 42 CFR 435.139 which states that Agency must provide services necessary for the treatment of an emergency medical condition, as defined in 42 CFR 440.255(c), to those aliens described in 42 CFR 435.406(c) and MS 6780 which summarizes the federal regulations and services available to various alien categories.
- In two cases with paid claims totaling $2,443, the Agency failed to follow multiple program requirements and/or satisfy several categorical requirements. In each case there was insufficient evidence regarding multiple eligibility criteria. The Agency failed to comply with policy 42 CFR 435.913 case documentation.
- In one case with paid claims totaling $129, the Agency failed to redetermine recipient eligible as required by 42 CFR 435.916. In each case the Agency was either not able to make the determination at the time of the fieldwork or when they attempted to make the determination it was determined that the recipient was not eligible.

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

Finding Number:	**10-710-24 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
Question costs totaled $23,299. These costs were obtained from EDS/MMIS system via Business Objects interface utilizing the recipient social security number for claims paid during the fiscal year with dates of service of which the recipient was not eligible.

Cause:
Cause of the finding is insufficient knowledge of program requirements and lack of evidence to support the Agency's decisions. Investigation of controls reveals that cause of finding is result of ineffective controls. Development of understanding and testing of controls revealed that there are not sufficient knowledgeable personnel to determine eligibility due to high turnover rates, employee's shortages, lack of training, and in some areas insufficient support staff.

Effect:
Effect of this is that household eligibility was improperly determined resulting in payments to providers for services in which recipients were not eligible.

Recommendation:
We recommend the Agency continue to train personnel on the requirements of the program as defined in the MS manual. We also recommend the Agency review and strengthen the internal controls over record documentation.

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

Finding Number:	**10-710-25**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
It is the State's responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The State outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency's decision on his application."

It is the Agency's responsibility to oversee the program and develop policies and procedures that will minimize the risk that household eligibility is incorrectly determined and that financial penalties for non-compliance with HHS-CMS regulation may be imposed upon the State.

Condition and Context:
Initial review of 50 recipient case records revealed that the Agency failed to properly determine eligibility at the time the recipient was registered for services. The Agency was provided with detail descriptions of all errors noted. Subsequent to the fieldwork but prior to issuance of this report the Agency either performed omitted procedures or was able to obtain sufficient evidence to support decision that the recipient was ultimately Medicaid eligible.

The following errors occurred:

- In two cases, the Agency approved the recipient for services in the wrong Medicaid category. The recipient was ultimately eligible for program participation. Related policy 42 CFR 435.913 and MS 7158. The Agency subsequently verified information.
- In four cases, the Agency failed to perform the required reevaluation per policy 42 CFR 435.916. However, the Agency was able to obtain sufficient data subsequent to the audit period to verify the recipient's eligibility for the program.
- In six cases, the Agency improperly computed the recipients income or unmet medical liability. In each of these cases the proper computation did not result in loss of program participation status.
- In 37 cases, the Agency failed to either obtain or document that it had obtained sufficient evidence to support its decision. In some instances this information was originally obtained but Agency employees failed to narrate or document otherwise that the information was available. In other cases the documentation is maintained by another Agency; effort is underway to encompass this information into recipient's case records. In all cases, at the time of the review, information was not sufficient for auditors to reach the same conclusion as the Agency. However, subsequent review revealed that all recipients were eligible for program participation. Related policy includes various MS manual policies and 42 CFR 435.913.
- In one case, the Agency failed to verify citizenship as required by 42 CFR 435.406 and MS 6705. The Agency subsequently verified citizenship for the recipient.

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

Finding Number:	**10-710-25 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
None

Cause:
Cause of errors are insufficient number of knowledgeable staff, insufficient support staff, ineffective training of program requirements, and inadequate controls related to gathering and retaining evidence to support eligibility decisions.

Effect:
Effect of error is that internal controls appear to be ineffective to minimize the risk that household eligibility will be improperly determined. In addition the Agency's failure to comply with HHS-CMS regulations could result in financial penalties.

Recommendation:
We recommend the Agency review and strengthen the internal controls over record documentation and retention. We also recommend the Agency continue to train personnel on the requirements of the program as outlined in the MS manual.

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

Finding Number:	**10-710-26**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition and Context:
The Agency incorrectly reported Medical Assistance Program and ARRA - Medical Assistance Program expenditures on the SEFA. Total expenditures reported for the Medical Assistance Program were overstated by $5,772,063 and for ARRA - Medical Assistance Program were overstated by $5,981,456.

Questioned Costs:
None

Cause:
The Agency reported expenditures on the SEFA based on the expenditure amounts reported on the "Quarterly Medical Assistance Expenditures for the Medical Assistance Program" reports (CMS-64). The amount reported was adjusted for known reporting errors. However, additional errors which had not been identified by the Agency were identified during the audit.

Effect:
Total expenditures for the Medical Assistance Program and ARRA - Medical Assistance Program were overstated on the SEFA by $5,772,063 and $5,981,456, respectively

Recommendation:
We recommend the Agency report expenditures based on actual expenditures per the Agency's financial systems or prepare complete and accurate reconciliations of expenditures per the financial systems to the required quarterly expenditure reports.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**10-150-01**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Sec. 471 Cost of Attendance, requires that the student's Cost of Attendance agree with the appropriate budget established by the institution or is otherwise documented (professional judgment).

In accordance with 20 U.S.C. Section 1087vv (j)(also promulgated as Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Section 279, Treatment of Other Financial Assistance), when a specific component of a student's cost of attendance is explicitly paid by another source, the tuition and fee payment should be counted as estimated financial assistance, which reduces the amount of financial need.

In accordance with 20 U.S.C. Section 1087tt (also promulgated as Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Section 278, Discretion of Student Financial Aid Administrators), "the reason for the adjustment (to cost of attendance) must be documented in the student's file and it must relate to the special circumstances that differentiate him, not for condition that exist for a whole class of students."

Condition and Context:
A total of 40 students were selected for testing, including 24 College of Medicine (COM) students.

- The cost of attendance (COA) per the award letters for two COM students did not match the established budgets for the specific programs. The students were not over awarded federal loans as a result of the errors.
- For five students, the Director of Financial Aid for COM raised the COA for scholarships the students received instead of reducing the amount of unsubsidized Stafford loans that were awarded to the students. The increases resulted in over awards totaling $3,050 for three of the five students. The other two students had estimated COA's that were equal to or greater than the increase in COA and can be used to account for additional unsubsidized Stafford loans.
- For three students, the Director of Financial Aid for COM used professional judgment to raise the COA for amounts that were unsupported or not considered a special circumstance. In all cases, the students' unsubsidized loan amounts were increased to the revised COA amounts. The increase in COA created over awards for all three students totaling $2,414.

Questioned Costs:
Students were over awarded a total of $5,464. The over award amount was computed by comparing the students total loans to their correct cost of attendances plus any adjustments deemed allowable.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-01 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
The Financial Aid department of COM is not complying with regulations as they relate to adjusting financial aid for scholarships received by a student. In some cases, the Financial Aid department for COM would increase the cost of attendance for the amount of the scholarships instead of reducing the unsubsidized Stafford loan amounts. The Financial Aid department for COM does not maintain adequate supporting documentation for adjustments made based on professional judgment.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a process to ensure award letters are complete and accurate before mailing the letters to the students.

We recommend the Financial Aid department of COM discontinue increasing students' cost of attendance for non-federal scholarships received. We recommend management train staff assigned to determine financial need on the regulations related to increasing a student's cost of attendance, including what is allowed and not allowed, and what supporting documentation should be maintained.

We also recommend management implement a second level review and approval process for professional judgment decisions and document the review in the student files.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-02**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Verification**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The 2009-10 Department of Education Verification Worksheet requires a student selected for verification to complete and sign the worksheet and submit the completed worksheet and other required forms to the financial aid administrator.

In accordance with 34 CFR 668.58, loan funds for students selected for verification may not be disbursed to the student until verification has been completed.

Condition and Context:
During our testing of verification compliance, we noted three exceptions in testing College of Medicine (COM) students, in which the verification process was not complete prior to the disbursement of aid funds. In one case, the student's funds were disbursed four days prior to the completion of the verification process per the date of the letter to the student from the Director of Financial Aid for COM. In the other two cases, aid funds were disbursed two and seven days prior to the student signing the verification worksheets and the date of the letter from the Director of Financial Aid for COM indicating the verification process was complete.

We also noted one exception where the number of household members varied from the number certified by the student on the verification worksheet. The discrepancy was not noted on the review worksheet nor were changes made to the student's record to correct the error.

Questioned Costs:
None

Cause:
The College of Medicine Student Financial Aid department does not have adequate controls in place to ensure verification is complete and accurate prior to the disbursement of aid funds. In addition, due to a lack of segregation of duties, management review of day to day processing of financial aid does not exist for this office.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a control process that will ensure aid funds are not disbursed to students who have been selected for verification until the verification process is complete and all information has been verified and appropriately updated, if necessary.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF EDUCATION

Finding Number:	**10-150-03**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.063 - Federal Pell Grant Program (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with Volume 4, Chapter 1, Section 4-26 of the Department of Education Federal Student Aid Handbook, institutions submit Pell origination records and disbursement records to the Department of Education's Common Origination and Disbursement System (COD). Institutions must report student payment data within 30 calendar days after the institution makes a payment or becomes aware of the need to adjust previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, bi-weekly or may set up their own system to ensure that changes are reported in a timely manner.

Condition and Context:
We noted that for six of the 25 students tested, Pell disbursements were not reported to the COD within the required 30 day time period. The exceptions ranged from 31 to 33 days after the payment were posted to the students' accounts.

Questioned Costs:
None

Cause:
At the time of the disbursements, the Student Financial Aid Office did not have a process in place to ensure timely reporting of Pell disbursement to the COD.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a process to ensure Pell disbursements are reported to the COD within the required time period. The process should be documented and staff responsible for the reporting should be properly trained.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**10-150-04**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.389 - National Center for Research Resources** **93.395 - Cancer Treatment Research** **(Research and Development Cluster)**
Federal Award Number(s):	**1UL1RR029884-01 and 2P01CA055819-15 REVISED**
Federal Award Year(s):	**07/14/2009 to 03/31/2010 and 09/29/2009 to 08/31/2010**
Compliance Requirement(s) Affected:	**Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. Also, if authorized by the federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awards, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period. Non-federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Condition and Context:
During the testing of expenses charged during and after the end of the grant period, we noted that expenses for goods were charged to the grants in question even though the expense was outside of the period of availability. The expense items noted were computer maintenance costs of $27,950, $14,513 and $53,750, and nonemployee travel of $971 on grant G1-35030 and equipment maintenance for two months of $2,783 on grant G1-34956.

Total facilities and administrative (F&A) expenses related to these charges total $44,985.

Questioned Costs:
$144,952

The expenses on grant G1-35030 that were charged after the grant's period of availability total $97,184. The related F&A charge, calculated at a rate of 45%, would be $43,733, for a total questioned cost of $140,917.

For grant G1-34956, the expense that was charged after the grant's period of availability totals $2,783. The related F&A charge, calculated at a rate of 45%, would be $1,252, for a total questioned cost of $4,035.

Cause:
Large purchases near the last day of the grant can include certain items that benefit a future period rather than the period of the grant. Maintenance fees are normally paid in advance of the period covered resulting in charges being posted to grants in the wrong grant year.

Effect:
The Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that management ensure that any maintenance agreements be reviewed prior to posting to a grant. This review should be by appropriate levels of management to ensure that the grant period charged is correct. We also recommend that any purchases made close to the end of the grant period, particularly those that are not liquidated prior to the grant's year end, be reviewed in greater detail to ensure that the period charged is correct. Finally, we recommend that entries be posted to reclassify any unallowable costs to future periods and resubmit the Financial Status Report (FSR), as needed.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**10-150-05**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/11 and 06CH7001/12**
Federal Award Year(s):	**11/01/08 to 10/31/09 and 10/01/09 to 10/31/10**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Significant Deficiency**

Criteria:
In accordance with 42 USC 9835 (b), and 45 CFR sections 1301.20 and 1301.21, grantees are required to contribute at least 20% of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved.

In order to ensure compliance with this requirement, the Head Start Fiscal Officer reviews one month of the amounts input into the data management system for in-kind contributions for each calendar quarter to verify the accuracy of the information.

Condition and Context:
During our review of the monthly amounts for in-kind contributions, we noted differences between the supporting documentation (volunteer time sheets) and the inputs into the data management system. The differences totaled $3,755 for November 2009, $4,651 for February 2010, and $6,607 for April 2010, which could result in the in-kind amount being overstated. We also noted that volunteer time sheets for two Head Start sites for November 2009 had not been input into the system. The total in-kind contributions for these sites were $3,521 resulting in understatement of in-kind contributions.

The Head Start Program is required to contribute at least 20% of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved. Through July 31, 2010, approximately $775,727 has been input into the data management system for volunteer time. The differences noted are one percent of the total recorded and would not prevent the Head Start Program from meeting the 20% requirement.

Questioned Costs:
None

Cause:
The Head Start Fiscal Officer's quarterly review of the monthly in-kind contributions does not appear sufficient to identify errors in input.

Effect:
The Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that the Head Start Fiscal Officer implement procedures to review monthly reports from the data management system to identify potential errors in the amounts input.

State of Arkansas Single Audit

SCHEDULE OF PRIOR AUDIT FINDINGS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

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STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**09-710-01**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Significant Deficiency**

Criteria:
As noted in OMB Circular A-133 section 300(b), the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. This includes, but is not limited to, the establishing of internal controls the ensure the State claims Federal Financial Participation for costs associated with a program only in accordance with its approved cost allocation plan as noted in 45 CFR 95.517.

Condition:
A deficiency exists in the design of controls over monitoring the application of allocation methodologies which are outlined in the approved cost allocation plan. While developing our understanding of the Agency's design of controls over allocation methodologies, it was discovered that one employee is responsible for preparing and recording allocation worksheet data into the cost allocation system without secondary review or approval ensuring that the methodologies are applied as they are approved within the plan.

Questioned Costs:
None

Cause:
The resources available within the Agency's Cost Allocation section are not properly allocated to ensure segregation of duties and secondary review.

Effect:
A deficiency in the design of controls over monitoring allocation methodologies could allow inaccurate calculations of allocation percentages resulting in non-compliance with the approved cost allocation plan. In addition, inaccurate claim amounts could be charged to one or more federal programs.

Recommendation:
We recommend the Agency develop and implement a control requiring secondary approval over the preparation and recording of allocation worksheet data.

Current Status:
Corrective action taken.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF AGRICULTURE

Finding Number:	**09-645-01**
State/Educational Agency:	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700501**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
As required by 7 CFR 246.14(a), Special Supplement Nutrition Program for Women, Infants, and Children (WIC) funds must be used only for WIC related purposes.

Condition:
A review of 60 administrative expenditures, of which 34 were travel related, revealed seven travel reimbursements totaling $577 which benefited programs other than WIC.

Questioned Costs:
$577

Cause:
The Agency's policies were designed in such a way that travel reimbursements were coded to programs based upon personnel positions rather than actual program activity.

Effect:
Inappropriate costs were charged to the WIC program and this could reduce the Agency's ability to provide services.

Recommendation:
We recommend the Agency strengthen internal controls related to activities allowed or unallowed by reviewing travel policy to ensure that it reflects the proper coding of travel activity and train Agency staff to code travel related expenses to the appropriate program.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**09-645-02**
State/Educational Agency:	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Control Deficiency**

Criteria:
The Agency's WIC Program Policy, which became effective October 1, 2009, states that the same employee cannot perform all eligibility criteria (income, residency and nutritional assessment) and issue food instruments. This policy ensures proper segregation of duties.

Condition:
Agency employees recognized as Competent Professional Authorities (e.g. nutritionists and nurses) are able to perform the complete certification process, including demographics and nutritional assessment, and print food instruments.

Questioned Costs:
None

Cause:
Employees are role mapped in the new computer system, which was installed to provide benefits to WIC participants, with conflicting functions that cover the certification process and the printing of food instruments.

Effect:
Because of the lack of segregation of duties, participants who are ineligible could receive benefits.

Recommendation:
We recommend the Agency strengthen internal controls by segregating the duties related to the applicant certification process and the printing of food instruments.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**09-645-03**
State/Educational Agency:	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Compliance Investigations of High-Risk Vendors**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
As authorized by 7 CFR 246.12(j), the Agency must perform compliance investigations on vendors and take appropriate action against vendors that are not following program procedures. The level of action, such as a monetary fine, is specified in the sanction schedule that is a part of the vendor agreement.

Condition:
The Agency did not take appropriate action against all vendors identified in compliance investigations. The WIC program performed 60 compliance investigations during the 2009 federal fiscal year, and 14 investigations were selected for audit review. According to the sanction schedule, a $250 fine should have been assessed in six of those investigations; however, there is no evidence that the Agency invoiced five of the six identified vendors.

Questioned Costs:
None

Cause:
There are no procedures or controls in place to ensure that vendor violations, which are documented and should be assessed a fine, are invoiced.

Effect:
The Agency has not collected the appropriate amount of fines from vendors who are not in compliance with program guidelines which can lead to continued vendor non-compliance.

Recommendation:
We recommend the Agency develop a process to verify that sanctions, which are a result of the compliance investigations of vendors, are properly invoiced.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**09-645-04**
State/Educational Agency:	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Food Instrument Disposition**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with 7 CFR 246.12(q), the Agency is required to account for the disposition of all food instruments within 120 days of the food instrument's first valid date for participant use. Food instruments must be identified as either issued or voided; and issued food instruments must be identified as either redeemed or unredeemed.

Condition:
The State's disposition procedures do not comply with this requirement. It was noted that food instruments were identified in the computer system as both issued and voided, and the Agency had not fully investigated and resolved all of the food instruments with conflicting information.

Questioned Costs:
Unknown

Cause:
Agency employees were not adequately trained in the issuing and voiding of food instruments on the new computer system, which was installed to provide benefits to participants of the WIC program. Additionally, reports generated by the system were not designed in a manner that would provide accurate information to enable the Agency to account for the disposition of all food instruments within 120 days of issuance.

Effect:
Because food instruments are not properly accounted for, the likelihood that an individual or vendor could inappropriately receive a benefit through a food instrument is increased.

Recommendation:
We recommend the Agency establish adequate procedures and controls to identify the ultimate disposition of every food instrument within 120 days of issuance. This could include providing appropriate employee training and generating accurate computer reports.

Current Status:
Corrective action is in progress. Procedures are in place to account for food instruments, which were either voided or redeemed. However, the Agency has not obtained adequate support from local health units regarding these food instruments which is necessary if the Agency is to comply with the federal regulations.

This issue was ***again*** addressed in current year finding **10-645-04**.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**09-645-05**
State/Educational Agency:	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009**
Compliance Requirement (s) Affected:	**Special Tests and Provisions - Review of Food Instruments to Enforce Price Limitations and Detect Errors**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with 7 CFR 246.12(k), the WIC program must have in place a process for reviewing all, or a representative sample of, food instruments submitted by vendors for redemption. One of the minimum requirements is that this process must be able to prevent the value of a redeemed food instrument from exceeding the maximum allowed purchase amount. A food instrument's maximum amount can vary depending upon the average peer group prices of vendors.

Condition:
The Agency did not comply with the requirement of ensuring that redeemed food instruments were not in excess of applicable price limitations. The functionality to calculate peer group prices in the new computer system, which was installed to provide benefits to participants of the WIC program, did not work as intended.

Questioned Costs:
Unknown

Cause:
Automated edits in the computer system were not adequately designed to prevent redeemed food instruments from exceeding maximum amounts.

Effect:
Food instruments could be redeemed for a value that is greater than the maximum dollar amount allowable and this could hinder the Agency's ability to serve clients.

Recommendation:
We recommend the Agency establish adequate procedures and controls to ensure that food instruments do not exceed maximum allowable purchase amounts.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**09-710-02**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.553 - School Breakfast Program** **10.555 - National School Lunch Program** **10.556 - Special Milk Program for Children** **10.559 - Summer Food Service Program for Children (Child Nutrition Cluster)** **10.558 - Child and Adult Care Food Program**
Federal Award Number(s):	**2009IN109946; 2008IN109946**
Federal Award Year(s):	**2009 and 2008**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance**

Criteria:
In accordance with 7 CFR 3016.23(a), a grantee may charge to the award, only costs resulting from obligations of the funding period.

Condition:
Expenditures in the amount of $40,054 and $524,989 were properly obligated and recorded in the Agency's accounting system for the 2008 grants for the National School Lunch Program, which is part of the Child Nutrition Cluster, and the Child and Adult Care Food Program, respectively. However, the draw of federal funds from the grantor for these costs was made from the 2009 grants for each of these programs.

Questioned Costs:
None

Cause:
The Accounting Supervisor in the Managerial Accounting Section, who was responsible for the SFY2009 Child Nutrition Cluster program and Child and Adult Care Food Program federal draws, manually changed the internal order coding, which was provided by the Federal Draw Coordinator, from their respective 2008 grant award to reflect their new 2009 grant awards. The Agency attempted to implement new internal controls during the year to prevent the drawing of funds from a subsequent grant award for the liquidation of commitments associated with a prior grant award. However, these new controls were not effectively communicated to personnel responsible for federal draws.

Effect:
Federal reimbursements totaling $565,043 were made from incorrect federal grants.

Recommendation:
We recommend the Agency comply with grant requirements to ensure proper reconciliation of cash draws to actual expenditures by grant award. In addition, we recommend the Agency communicate internal controls over federal draw downs to ensure compliance with federal award regulations.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

FINDING NUMBER:	**08-645-03**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Health**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
QUESTIONED COSTS:	**Unknown**

CONDITION:
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.

RECOMMENDATION:
Strengthen internal controls related to activities allowed or unallowed by providing additional training to travel administrators regarding the proper coding of travel activity.

CURRENT STATUS:
Corrective action taken.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF ENERGY

Finding Number:	**09-710-03**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**81.042 - Weatherization Assistance for Low Income Persons**
Federal Award Number(s):	**DE-FG26-07NT43109**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Agency is required by 10 CFR 600.241 to submit quarterly financial reports. During 2009, the required quarterly report changed from the Financial Status Report (SF-269) to the Federal Financial Report (SF-425).

Condition:
Expenditures of $908,647, reported on the June 30, 2009 Federal Financial Report (SF-425), were not supported by or reconciled to the Agency's financial records and cost allocation system. The reported expenditures were incorrectly based on the financial reports of subrecipients.

Questioned Costs:
Unknown

Cause:
The accounting staff was not appropriately training and supervised to ensure that reports were properly submitted and amounts reported to the federal grantor were accurate and complete.

Effect:
Failure to utilize financial information from the Agency's cost allocation system can lead to inaccurate reporting to the federal grantor.

Recommendation:
We recommend the Agency strengthen internal controls and procedures to ensure consistent, accurate and complete reporting of program activity.

Current Status:
Corrective action taken.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION

Finding Number:	**09-160-01**
State/Educational Agency:	**University of Arkansas at Pine Bluff**
CFDA Number(s) and Program Title(s):	**84.038 - Federal Perkins Loan Program_Federal Capital Contributions (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with 34 CFR § 668.16(m)(1)(ii) of the Student Assistance General Provisions and 34 CFR § 674.5 of the Federal Perkins Loan Program, an institution that begins and continues to participate in any Title IV, HEA program, must demonstrate that it is capable of adequately administering that program under the standards established. The Secretary considers an institution to have that administrative capability if the institution's Federal Perkins Loan program cohort default rate does not exceed 15 percent. In addition, as stated in 34 CFR, § 674.5(a)(1), if an institution's cohort default rate equals or exceeds 25 percent, the institution's Federal Capital Contribution (FCC) is reduced to zero.

Condition:
The University's current year cohort default rate was 31%. A similar finding has been reported in previous audits.

Questioned Costs:
None

Cause:
The Federal Perkins Loan program cohort default rate was significant because of the small population of borrowers. The University reported that five of sixteen borrowers who had entered repayment during the prescribed period were in default.

Effect:
The University exceeded the allowable Federal Perkins Loan program cohort default rate.

Recommendation:
Establish procedures to lower the University's cohort default rate to an acceptable level.

Current Status:
As noted in current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-160-02**
State/Educational Agency:	**University of Arkansas at Pine Bluff**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **84.032 - Federal Family Education Loans** **84.038 - Federal Perkins Loan Program_Federal Capital Contributions** **84.063 - Federal Pell Grant Program** **84.375 - Academic Competitiveness Grants** **84.376 - National Science and Mathematics Access to Retain Talent (SMART) Grants** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
According to 34 CFR § 668.22 of the Student Assistance General Provisions, an institution is required to document a student's withdrawal date and maintain the documentation as of the date of the institution's determination that the student withdrew. The institution is also required to perform a calculation of earned Title IV funds for the period of enrollment when a student officially or unofficially withdraws.

Condition:
As part of the University's internal control established to determine whether a student unofficially withdrew, instructors are required by University policy to award a grade of "UF" to a student who did not officially withdraw from the course and failed to participate in course activities through the end of the period. A student who received all "UFs" was considered to have unofficially withdrawn, which would prompt a calculation of earned Title IV funds for the applicable period of enrollment. During our audit we noted four students who unofficially withdrew from the University but received a grade of "F" instead of a "UF" from at least one instructor. As a result of the instructors' failure to comply with the University's policy, a calculation of earned Title IV funds was not prepared.

While gaining an understanding of internal control over compliance pertaining to the return of Title IV funds, we noted instructors were not following the grading policy established by the University. We selected four Title IV recipients from a list of 113 students who did not receive a passing grade in the spring 2009 semester.

Questioned Costs:
$3,237

Cause:
Certain instructors did not comply with the University's policy regarding the awarding of grades for lack of attendance. The lack of a proper monitoring system also contributed to these questioned costs.

Effect:
Known questioned costs of $3,237 were incurred because the relevant calculations of earned Title IV funds were not performed.

Recommendation:
The University should continue to disseminate information regarding the University's grading policy, with emphasis on the correct usage of the grades "UF" and "F". Additionally, an effective monitoring system should be implemented to insure all instructors are complying with the University's policy.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-500-01**
State/Educational Agency:	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.010 - Title I Grants to Local Educational Agencies** **84.389 - Title I Grants to Local Educational Agencies, Recovery Act** **(Title I, Part A Cluster)**
Federal Award Number(s):	**S010A070004A; S010A080004A**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 2 CFR 225, Appendix A Section C(1)(b), a cost must be allocable to a federal program for it to be considered an allowable cost of that award. The allocation is often based upon terms of the grant agreements or contracts.

Condition:
A professional services contract was executed with the provision that the federal grant would pay for 50% of the contract and the remaining 50% of the costs would be paid from State funds. However, contract expenditures totaling $21,671 during the year were charged entirely to the federal program.

Questioned Costs:
$10,836

Cause:
Agency personnel responsible for selecting and applying the expense account coding for the accounting system did not adequately review the contract stipulations before the disbursements were processed.

Effect:
Without adequate internal controls, inappropriate payments could be made to vendors with federal funding, which could require repayment to the grantor.

Recommendation:
We recommend the Agency establish internal controls to ensure that costs are charged to the appropriate source of funding.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-500-02**
State/Educational Agency:	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.010 - Title I Grants to Local Educational Agencies** **84.389 - Title I Grants to Local Educational Agencies, Recovery Act** **(Title I, Part A Cluster)**
Federal Award Number(s):	**S010A080004A**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with 20 USC 7901, the State Education Agency (SEA) must ensure that either "aggregate expenditures" or "fiscal effort per student" for the preceding year of each local education agency (LEA) was not less than 90% of the aggregate expenditures or fiscal effort per student for the second preceding year. The allocation of program funds shall be reduced for those LEAs that fail to meet their required level of effort in the exact proportion by which the LEA failed to meet both of the tests, using the measure that is most favorable to the LEA. The aggregate expenditures comparison is calculated first because the level of effort requirement is satisfied by the majority of LEAs using this method.

Condition:
During the allocation of the 2009 grant to the LEAs, the Agency did not identify LEAs that failed to meet the level of effort requirement. Audit procedures and recalculations were performed for 25 LEAs selected at random. The level of effort requirement was met for 24 LEAs using the aggregate expenditures calculation. However, the Agency improperly concluded that one LEA had satisfied the level of effort requirement using the fiscal effort per student calculation. As a result, audit testing was expanded to include the remaining seven LEAs which had not satisfied their level of effort requirement using the aggregate expenditures calculation. Based on information for the eight LEAs, only two LEAs actually met the level of effort requirement using the fiscal effort per student calculation.

Questioned Costs:
Unknown

Cause:
An improperly written formula in the spreadsheet, which was used by the SEA, gave a false indication that the required level of effort had been met. Review of the spreadsheet by Agency personnel did not detect the incorrect formula.

Effect:
The Agency failed to reduce the allocation for the six affected LEAs. The amount of the needed reductions is uncertain because there are differing interpretations of how to implement the procedure prescribed in the federal guidance.

Recommendation:
We recommend the Agency contact the federal grantor to determine how to calculate the amount by which each affected LEA's allocation should be reduced and strengthen internal controls and procedures to ensure that future level of effort calculations are accurate.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-500-03**
State/Educational Agency:	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.010 - Title I Grants to Local Educational Agencies** **84.389 - Title I Grants to Local Educational Agencies, Recovery Act** **(Title I, Part A Cluster)**
Federal Award Number(s):	**S010A070004A; S010A080004A**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance**

Criteria:
Section 1003 of the Elementary and Secondary Education Act (ESEA) requires the State Education Agency (SEA) to reserve 4% of its Title I, Part A Cluster (Title I) allocation to support local school improvement activities, provide technical assistance to Title I schools identified for improvement, and provide technical assistance to other schools that the SEA has identified for improvement or corrective action. At least 95% of the amount reserved must be allocated directly to local education agencies (LEAs) for schools identified for improvement, corrective action, and restructuring. However, with the approval of its LEAs, the SEA may provide directly for these activities or arrange for them to be provided by other entities.

Condition:
Beginning in May 2006, the SEA began using America's Choice as the vendor to enhance its statewide system of support for services to the Title I schools that meet the SEA's criteria of having been identified for improvement for three or more years. America's Choice was funded each year through a contract using 95% of the above mentioned 4% of school improvement funds. However, for FY2009 the SEA did not obtain approval from the LEAs for the SEA to arrange for the activities to be provided by some other entity. Disbursements to the vendor totaled $6,203,242 during the year under audit.

Questioned Costs:
None

Cause:
The Agency did not adequately train employees to ensure that federal program regulations, such as requesting and obtaining necessary approval from affected districts, were followed.

Effect:
Providing only one option for technical assistance decreases the likelihood that the school improvement assistance activities would directly address the academic achievement problem that caused the school to be identified for school improvement, as encouraged in Section 1116(b)(3)(A)(iii)(I) of the ESEA.

Recommendation:
We recommend the Agency properly train its employees and strengthen the implementation of federal program regulations to ensure the SEA: 1) properly allocates at least 95% of the 4% reserved under Section 1003 of the ESEA directly to LEAs meeting the SEA's criteria for assistance, or 2) requests and receives proper authorization from LEAs with identified schools for the SEA to arrange for school improvement activities to be provided by another entity.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-500-04**
State/Educational Agency:	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.010 - Title I Grants to Local Educational Agencies** **84.389 - Title I Grants to Local Educational Agencies, Recovery Act** **(Title I, Part A Cluster)**
Federal Award Number(s):	**S010A070004A; S010A080004A**
Federal Award Year:	**2008 and 2009**
Compliance Requirement(s) Affected:	**Procurement, Suspension, and Debarment**
Type of Finding:	**Control Deficiency**

Criteria:
In accordance with 2 CFR 180.300, the Agency is required to "verify that the person with whom you intend to do business is not excluded or disqualified…by (a) checking the Excluded Parties List System (EPLS), (b) collecting a certification from that person, or (c) adding a clause or condition to the covered transaction with that person."

Condition:
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. This appears to be a systemic problem; however, no vendors were identified during our audit period that were suspended or debarred.

Questioned Costs:
None

Cause:
Employees responsible for purchasing and managing the grant were not aware of the federal suspension and debarment and vendor monitoring requirements.

Effect:
Without adequate internal controls, unallowable payments could be made to suspended or debarred vendors with federal funding, which could require repayment to the grantor.

Recommendation:
We recommend the Agency establish internal controls over procurement, suspension and debarment to ensure compliance with applicable federal regulations.

Current Status:
Corrective action taken.

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**09-520-01**
State/Educational Agency:	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003**
Federal Award Year(s):	**2009**
Compliance Requirement Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal regulations at 34 CFR 361.5(b)(16), 361.38 and 361.40 require the Agency to submit financial and client service data to the U.S. Department of Education – Rehabilitation Services Administration (USDOE – RSA). Management is responsible for reviewing and approving the data for accuracy and completeness prior to submission to RSA. The data contains key program measurements used by RSA to obtain a general assessment of the state-federal Vocational Rehabilitation program and its accomplishments.

The Quarterly Cumulative Caseload Reports (RSA-113) and the Quarterly Financial Reports (SF-269) are due 30 days after the end of the quarter for the 1st, 2nd, and 3rd quarters and 60 days after the end of the 4th quarter. The Annual Case Service Report (RSA-911) is due on November 30 after the federal fiscal year end.

Condition
Our review of 312 active case files in the Agency's case management system, Arkansas Rehabilitation Integrated Management Information System (ARIMIS), revealed 128 files had not been updated to reflect the appropriate status of each of the cases and 9 files could not be located in the field offices.

The RSA-113 reports for September 2008, June 2009 and September 2009 and the RSA-911 report for September 2009 were not submitted in accordance with applicable federal due dates.

Questioned Costs:
None

Cause:
ARIMIS did not have proper internal controls to ensure information entered and retrieved from the system was accurate and complete. Counselors did not update client status information in ARIMIS and District Managers did not properly review files for correct status. Manual corrections to information obtained from the case management system resulted in delays in reporting.

Effect:
Inaccurate and incomplete information submitted to RSA may prevent the identification of deficiencies in the program and Agency operations that could affect the provision of services to clients.

Recommendation:
We recommend the Agency develop procedures to ensure client information in the case management system is accurate and complete. Calculations should be monitored and supporting documentation should be reviewed and approved. All required reports should be submitted to RSA by applicable due dates.

Current Status:
Corrections were made to the files noted in the prior audit. However, as noted in current year finding **10-520/710-01**, the Agency does not have an adequate review process in place to identify files that need to be updated. There were additional files in the current year audit that do not reflect the appropriate status. Reports in the current year were not submitted in accordance with applicable due dates.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**08-160-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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, 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.

RECOMMENDATION:
Establish procedures to lower the University's cohort default rate to an acceptable level.

CURRENT STATUS:
As noted in current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05.

FINDING NUMBER:	**07-160-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**06-160-02**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 05-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05.

FINDING NUMBER:	**05-160-02**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 06-160-02, 04-160-01, 03-160-01, 02-160-06 and 01-160-05.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**04-160-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 06-160-02, 05-160-02, 03-160-01, 02-160-06 and 01-160-05.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**03-160-01**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 02-160-06 and 01-160-05.

FINDING NUMBER:	**02-160-06**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01 and 01-160-05.

U.S. DEPARTMENT OF EDUCATION (Continued)

FINDING NUMBER:	**01-160-05**
STATE/EDUCATIONAL AGENCY:	**University of Arkansas at Pine Bluff**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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 current year finding **10-160-01**, the University's cohort default remains above 25%.

This issue was also addressed in prior audit findings 09-160-01, 08-160-01, 07-160-01, 06-160-02, 05-160-02, 04-160-01, 03-160-01 and 02-160-06.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**09-634-01**
State/Educational Agency:	**Office of Child Support Enforcement**
CFDA Number(s) and Program Title(s):	**93.563 - Child Support Enforcement**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Program Income**
Type of Finding:	**Significant Deficiency**

Criteria:
Federal regulations, such as 2 CFR 215.24, require recipients to account for program income related to projects financed in whole or in part with federal funds. As part of this accounting, recipients should have adequate internal controls in place to adequately account for program income. The Agency's program income consists of various fees which are assessed on the numerous child support cases that are handled by the Agency. Some examples of these fees are application fees, base cost fees, paternity testing fees, and legal fees.

Condition:
The Agency did not have adequate documentation of monitoring controls in place during the year under audit to ensure that all child support fees are properly assessed and collected.

Questioned Costs:
None

Cause:
The Agency failed to document proper monitoring controls over program income.

Effect:
Due to lack of internal controls over the monitoring of program income, program fees are subject to misappropriation and could be improperly reported on federal reports.

Recommendation:
We recommend that the Agency create and implement internal controls which are focused on the monitoring of program income activities.

Current Status:
On July 27, 2010, the Agency issued changes to their program review procedures (OCSE memo #10-005). This memo states that for review periods beginning October 1, 2010, the Agency will review cases for the assessment of fees and any changes to the assessed fees while performing their program review. The Agency actually began working on program reviews with periods beginning October 1, 2010 during the month of November 2010.

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

Finding Number:	**09-710-04**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.575 - Child Care and Development Block** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
Federal Award Number(s):	**G-0701ARCCDF; G-0801ARCCDF; G-0901ARCCDF; G-0901ARCCD7**
Federal Award Year(s):	**2007, 2008 and 2009**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State's CCDF "Daycare" program. The Agency's responsibility includes determining eligibility for each applicant and documenting that eligibility criteria were met. The Agency outlines eligibility requirements for the Daycare program in their State plan.

Condition:
Between December 1, 2008 and October 1, 2009, the Division of Child Care and Early Childhood Education identified 40 possible cases of provider overpayments and fraud totaling $35,343. The Agency also identified 213 possible cases of client overpayments or fraud totaling $289,496.

Questioned Costs:
Unknown

Cause:
Factors contributing to these issues include: 1) case heads and/or clients failed to report changes in client eligibility criteria which would have affected their eligibility status, 2) willful misrepresentations of client eligibility data by clients, and 3) providers billing for services which were not provided.

Effect:
Benefits could have been provided to ineligible clients and providers.

Recommendation:
We recommend the Agency continue to provide training for employees, implement policy changes, and increase monitoring to reduce overpayments to clients and providers.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-05**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.575 - Child Care and Development Block** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**
Federal Award Number(s):	**G-0701ARCCDF; G-0801ARCCDF; G-0901ARCCDF; G-0901ARCCD7**
Federal Award Year(s):	**2007, 2008 and 2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal guidance at 45 CFR 98.67(c) states that fiscal control and accounting procedures shall be sufficient to permit preparation of required reports and the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of certain provisions.

Condition:
The Agency reported federal expenditures for the State fiscal year 2009 totaling $48,325,075 on the Federal Cash Transaction Report (PSC-272) and $46,729,985 on the Child Care and Development Fund Financial Report (ACF-696) report. The Agency's financial records after cost allocation totaled $46,762,457. The Agency could not provide a reconciliation for these reporting differences nor the difference between the reports and the financial records.

Questioned Costs:
Unknown

Cause:
The Agency does not have procedures in place to ensure amounts reported on PSC-272 and ACF-696 are reconciled to supporting documentation or adequate supervisory review of these reports.

Effect:
The Agency could submit inaccurate reports that may prevent the identification of deficiencies in the program and Agency operations that could affect the provision of services to clients.

Recommendation:
We recommend the Agency establish proper internal control procedures that would ensure the accurate preparation of federal financial reports, as well as procedures that would ensure adequate supervisory review of the expenditure documentation supporting those reports.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-06**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition:
We reviewed 40 administrative and maintenance expenditure items to determine allowability. In some instances, the expenditure items were reimbursed from both the "regular" Foster Care_Title IV-E grant and the "ARRA" Foster Care_Title IV-E, Recovery Act grant.

Our testing revealed 30 exceptions as summarized below:

- Six instances of expenditures paid on behalf of children who were not eligible totaling $968. Of this amount, $906 was paid from the regular grant and $62 was paid from the ARRA grant. In order to be allowable, the child for whom the expenditure benefits must first be determined eligible.
- Two instances of expenditures paid on behalf of children where eligibility could not be determined because adequate supporting documentation was not available totaling $651. These expenditures were paid from the regular grant. Adequate documentation would include client ID numbers, names and case ID numbers.
- Five instances of expenditures paid on behalf of children who were determined to be eligible, but not claimable totaling $543. Of this amount, $521 was paid from the regular grant and $22 was paid from the ARRA grant. The foster child as well as the foster family home must meet all eligibility criteria to receive Title IV-E funds. If the foster family home does not meet all criteria, the result is non-claimable status.
- Five instances of expenditure items miscoded resulting in excess reimbursement totaling $6,321. These expenditures were paid from the regular grant.
- 11 instances of expenditure items that were determined to be unallowable totaling $7,364. Of this amount, $6,929 was paid from the regular grant and $435 was paid from the ARRA grant. Unallowable items included payment for medical services, rent, tutoring services and respite care.
- One item, totaling $71, was for the benefit of another federal program and should not have been charged to Foster Care. This expenditure was paid from the regular grant.

Questioned Costs:
$15,399 - Foster Care_Title IV-E
$ 519 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of adequate training for the staff responsible for determining allowability of claims as well as an inadequate review process by supervisory staff.

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

Finding Number:	**09-710-06 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
	93.658 - Foster Care_Title IV-E, Recovery Act
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
Failure to provide staff with adequate training continues to place federal awards at risk for improper use and could jeopardize the program's future federal awards.

Recommendation:
We recommend the Agency provide adequate training to staff responsible for approving and reviewing program expenditures to ensure federal program funds are utilized in accordance with federal regulations.

Current Status:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-11**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-07, 09-710-10, 08-710-12, 08-710-13 and 07-710-11.

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

Finding Number:	**09-710-07**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
Federal Award Number(s):	**0801AR1401; 0901AR1401**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 45 CFR 1356.

Condition:
Our review of 81 travel payments resulted in multiple exceptions, as follows:

- In 27 instances, travel reimbursements totaling $1,870 were related to children determined to be ineligible.
- In nine instances, the travel reimbursement forms lacked adequate identification information for the child being transported. As a result, eligibility status could not be determined. The questioned costs for these exceptions totaled $372.
- In five instances, travel reimbursements totaling $136 were for transporting children to school or school related activities. This is not an allowable activity.
- In one instance, the travel reimbursement in the amount of $148 was for transporting a child to work. This is not an allowable activity.
- In one instance, the travel reimbursement in the amount of $50 was for transportation to pick up gifts for the foster child. This is not an allowable activity.
- In three instances, the travel reimbursement forms lacked adequate information identifying the purpose of the travel to ensure it was an allowable activity. The questioned costs for these exceptions totaled $257.

Questioned Costs:
$2,833

Cause:
Lack of training for staff and inadequate review by supervisory staff of travel reimbursements lead to multiple errors and misuse of Foster Care funds.

Effect:
Failure to properly review Foster Care travel expenditures has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

Recommendation:
We recommend the Agency establish and implement proper internal control procedures to provide adequate review of travel reimbursement forms to ensure reimbursements are allowable.

Current Status:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 does not address unallowable activities and costs related to the travel reimbursements or the ineligibility of children.

As noted in current year finding **10-710-11**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-06, 09-710-10, 08-710-12, 08-710-13 and 07-710-11.

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

Finding Number:	**09-710-08**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Division of Children and Family Services utilizes purchasing cards (p-cards) as a means of purchasing items for foster children. The p-cards are issued to Family Service Workers because they are in direct contact with foster children. According to 42 USC 672 and 42 USC 675(4), funds may be expended for Foster Care maintenance on behalf of eligible children. Such payments may include the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.

Condition:
A total of 91 purchases by family service workers with p-cards were selected for review. Purchases were reimbursed from both the “regular” Foster Care_Title IV-E grant and the “ARRA” Foster Care_Title IV-E, Recovery Act grant.

Our review revealed the following:

- 14 instances of purchases made for items not considered allowable totaling $1,005. Of this amount, $926 was paid from the regular grant and $79 was paid from the ARRA grant. Items purchased included prescription drugs, luggage, bunk beds, mattresses and a salon service.
- 32 instances of purchases made for children not considered Title IV-E eligible totaling $2,650. Of this amount, $2,443 was paid from the regular grant and $207 was paid from the ARRA grant.

Questioned Costs:
$3,369 - Foster Care_Title IV-E
$ 286 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of training for family service workers, financial coordinators and central office staff resulting in an inadequate review of p-card purchases.

Effect:
Failure to properly review Foster Care p-card purchases has placed assets at risk and could jeopardize the Agency’s ability to provide program funding.

Recommendation:
We recommend the Agency establish and implement internal control procedures to ensure p-card purchases are used only for allowed activities and costs outlined in federal code.

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

Finding Number:	**09-710-08 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Current Status:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-12**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-10 and 08-710-14.

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

Finding Number:	**09-710-09**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition:
We reviewed child care payments on behalf of 40 foster children. In some instances, the payments were reimbursed from both the "regular" Foster Care_Title IV-E grant and the "ARRA" Foster Care_Title IV-E, Recovery Act grant.

Our review revealed the following:

- Six children were determined ineligible to receive Title IV-E child care benefits. The questioned costs for these payments totaled $643. Of this amount, $614 was paid from the regular grant and $29 was paid from the ARRA grant.
- 24 children were determined to be eligible, but not claimable. The questioned costs for these payments totaled $6,065. Of this amount, $5,683 was paid from the regular grant and $382 was paid from the ARRA grant. The foster child as well as the foster family home must meet all eligibility criteria to receive Title IV-E funds. If the foster family home does not meet all criteria, the result is non-claimable status.

Questioned Costs:
$6,297 - Foster Care_Title IV-E
$ 411 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of training for staff in addition to inadequate review by supervisory staff resulted in program funds being used for unallowable purposes.

Effect:
Failure to properly review Foster Care child care payments has placed assets at risk and could jeopardize the Agency's ability to provide program funding.

Recommendation:
We recommend the Agency establish and implement internal control procedures to ensure child care payments are made on behalf of eligible foster children.

Current Status:
As noted in current year finding **10-710-13,** the Agency continues to allow payments for foster children determined to be ineligible and/or non-claimable.

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

Finding Number:	**09-710-10**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0801AR1401; 0901AR1401; 0901AR1402**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Significant Deficiency**

Criteria:
Allowable expenditures described as maintenance payments are defined within 42 USC 672. Training and administrative costs are defined by 42 USC 674 and 45 CFR 1356.60. The Agency is required to utilize information as cited in these federal regulations when determining the allowability of an expenditure for the Foster Care_Title IV-E program.

Condition:
The Agency was unable to provide adequate evidence that controls were in place which would provide assurance that staff tasked with the responsibility for approving expenses were provided regulations for reference purposes to assist them in determining whether an expense is allowable.

Financial Coordinators are responsible for determining whether to approve an expense for reimbursement and are also responsible for assigning the expense the proper code which ensures reimbursement from the appropriate source, federal and/or state and at the appropriate federal match rate. Ten Division of Children and Family Services (DCFS) Financial Coordinators were contacted. We were unable to confirm that the coordinators were provided copies of any regulations to assist them in making allowability determinations.

Questioned Costs:
Unknown

Cause:
Agency personnel were not sufficiently aware of federal regulations and had not been provided with adequate guidance documents.

Effect:
There is a potential risk that Title IV-E funds can be used for unallowable purposes because the staff responsible for making those determinations are not provided the resources needed to adequately determine allowable cost.

Recommendation:
We recommend the Agency provide appropriate staff training and access to the necessary federal regulations and codes defining activities and costs which are allowed and unallowed.

Current Status:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year findings **10-710-11** and **10-710-12**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-06, 09-710-07, 09-710-08, 08-710-12, 08-710-13, 08-710-14 and 07-710-11.

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

Finding Number:	**09-710-11**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
As stated in 42 USC 671(a)(20)(A), "In order for a State to be eligible for payments under this part, it shall have a plan approved by the Secretary which provides procedures…for criminal records checks, including fingerprint-based checks of national crime information databases...for any prospective foster or adoptive parent before the foster or adoptive parent may be finally approved for placement of a child." According to Procedure VII A-1 in the Division of Children and Family Services (DCFS) Policy and Procedures Manual, "the Division will provide documentation in the case record that the criminal record check was conducted on the prospective foster parent."

Condition:
The date criteria for FBI fingerprint based checks recorded in the Children's Reporting and Information System (CHRIS) could not be supported with a "hard-copy" of the check in three of the 46 foster family home records reviewed. The DCFS Central Operations section's review of their in-house database revealed that no dates were available noting when the FBI check was performed. Therefore, no hard copy documentation could be provided.

Questioned Costs:
None

Cause:
Lack of staff in both the Central office and in the field to ensure all checks are properly performed and documented.

Effect:
Children could be placed in foster family homes not meeting all federal requirements which could put the children at risk.

Recommendation:
We recommend the Agency establish and implement controls ensuring staff conduct and document the FBI finger print based checks as required.

Current Status:
As noted in current year finding **10-710-15**, documentation could not be provided to ensure the required FBI fingerprint based checks had been performed.

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

Finding Number:	**09-710-12**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 45 CFR 201.5(a)(3), the Agency must submit a report reflecting the expenditures of the current quarter and any adjustments for prior periods. An ACF-Title IV-E-1, Foster Care and Adoption Assistance Financial Report, is required by the grantor.

Condition:
The Agency incorrectly calculated and reported federal expenditures for the Foster Care_Title IV-E program on the 6/30/2009 (4th quarter) ACF Title IV-E-1 report. The error resulted in an overstatement of $56,444. The miscalculation also resulted in State match being overstated by $14,789.

On January 28, 2010, the Division of Children and Family Services Chief Financial Officer stated that the Agency amended the 12/31/2009 ACF – Title IV-E-1 report, reducing Foster Care_Title IV-E expenditures claimed by $56,444.

Questioned Costs:
None

Cause:
With the passing of the American Recovery and Reinvestment Act of 2009 or ARRA, the Agency became eligible for an additional 6.2% in claims reimbursement increasing overall reimbursement to 79.14%. This affected the Agency's calculation of the Foster Care_Title-IV-E federal percentage on which they based claims for federal reimbursement. Agency staff preparing the ACF – Title IV-E-1, Foster Care and Adoption Assistance Financial Report (OMB No. 0970-0205) did not have an adequate understanding of the procedures required to perform the calculation for the 4th quarter. As a result, the 4th quarter ACF – Title-IV-E-1 report overstated Foster Care_Title IV-E claims by $56,444.

Effect:
The Agency reported inaccurate expenditure information to the federal awarding agency which could affect future awards available to the Agency for the program.

Recommendation:
We recommend the Agency provide additional training to staff responsible for preparing and reviewing the ACF – Title IV-E-1 report. In addition, the Agency should amend the 12/31/2009 ACF – Title IV-E-1.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-13**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - Foster Care_Title IV-E, Recovery Act**
Federal Award Number(s):	**0901AR1401; 0901AR1402**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Control Deficiency**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition:
The Agency incorrectly reported Foster Care_Title IV-E and Foster Care_Title IV-E, Recovery Act expenditures on the Schedule of Expenditures of Federal Awards or SEFA. Foster Care_Title IV-E was overstated by $583,808 and Foster Care_Title IV-E, Recovery Act was understated by $527,364.

Questioned Costs:
None

Cause:
With the passing of the American Recovery and Reinvestment Act of 2009 or ARRA, the Agency became eligible for an additional 6.2% in claims reimbursement increasing overall reimbursement to 79.14%. During the 4th quarter of 2009, the Agency was authorized to claim the additional 6.2% reimbursement on expenditures retroactive to October 1, 2008. The Agency amended the ACF – Title IV-E-1 reports adding retroactive ARRA expenditure claims for the 2nd and 3rd quarters of 2009 for $265,060 and $262,304, respectively. These additional expenditures were not identified as Foster Care_Title IV-E, Recovery Act on the ACF report because the report format has not been changed requiring separate identification. As a result, the expenditures were reported in the regular Foster Care_Title IV-E program causing the overstatement. From the information provided on the quarterly ACF reports, the Agency staff responsible for preparing the SEFA would not be able to separately identify Foster Care_Title IV-E, Recovery Act expenditures causing the understatement. Therefore, additional supporting documentation should have been provided.

As previously mentioned, the Agency became eligible for an additional reimbursement of 6.2% due to the passing of ARRA. This affected the Agency's calculation of the total federal percentage for which they based their federal reimbursement. For 4th quarter 2009 claims, the Agency used an incorrect federal percentage resulting in an overstatement of $56,444 on the Schedule of Expenditures of Federal Awards (SEFA) for the Foster Care_Title IV-E program.

Effect:
The use of an incorrect federal rate resulted in errors in federal reporting and an inaccurate SEFA. In addition, future award amounts for the program could be affected.

Recommendation:
We recommend the Agency strengthen internal controls by providing additional training to staff concerning reporting requirements and the proper procedures for reporting expenditures on the Schedule of Expenditures of Federal Awards.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-14**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - Adoption Assistance, Recovery Act**
Federal Award Number(s):	**0901AR1407; 0901AR1403**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Control Deficiency**

Criteria 1:
In accordance with 45 CFR 1356.41(f)(1), "Funds expended by the State under an adoption assistance agreement, with respect to nonrecurring adoption expenses…shall be considered an administrative expenditure of the Title IV-E Adoption Assistance Program. Federal reimbursement is available at a 50 percent matching rate..."

Criteria 2:
In accordance with Appendix A to 2 CFR 225 (C)(1)(j), "…to be allowable under federal awards, costs must meet the following general criteria…be adequately documented."

Condition:
We reviewed 37 payments, totaling $97,851, representing program expenditures other than regular monthly subsidy payments. The payments were reimbursed from both the "regular" Adoption Assistance grant and the ARRA Adoption Assistance, Recovery Act grant. From these payments, the following exceptions were noted:

Criteria 1: Our review revealed six instances of "nonrecurring adoption expenses" improperly coded as subsidy payments. Subsidy payments are reimbursed at 79.14% and nonrecurring adoption expenses are reimbursed at 50%. As a result of the improperly coded expenditures, the State was reimbursed in excess of the allowable amount totaling $1,134. Of this amount, $894 was paid from the regular grant and $240 was paid from the ARRA grant.

Criteria 2: Adequate documentation was not available for us to determine if a child was Title IV-E eligible and as a result, the associated expenditure of $752 was deemed unallowable. Of this amount, $693 was paid from the regular grant and $59 was paid from the ARRA grant.

Questioned Costs:
Unknown

Cause:
Lack of adequate training for the staff responsible for coding expenditures and an inadequate review process by supervisory staff resulted in the errors noted.

Effect:
Failure to provide staff with adequate training continues to place federal awards at risk for improper use and could jeopardize the program's future federal awards.

Recommendation:
We recommend the Agency provide adequate training to staff responsible for coding and reviewing program expenditures to ensure federal program funds are utilized in accordance with federal regulations.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-15**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - Adoption Assistance, Recovery Act**
Federal Award Number(s):	**Various prior to 2004; 0801AR1407; 0901AR1407; 0901AR1403**
Federal Award Year(s):	**2009 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
Adoption assistance subsidy payment regulations are established at 42 USC 673 and 675. Individuals are considered eligible for subsidy payments only if all of the following requirements are met: 1) the child is eligible, or would have been eligible for the former Aid to Families with Dependent Children (AFDC) program except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for SSI; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent, 2) the child was determined by the State to be a child with special needs, 3) the State has made reasonable efforts to place the child for adoption without a subsidy, and 4) the agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Tile XIX Medicaid; and covers the child should he/she move out of State with the adoptive family.

Condition:
Our review of 30 adoption assistance subsidy case files revealed seven instances of noncompliance as follows:

- In one instance, documentation to support that the child met all the "special needs" tests required to be considered eligible for subsidy payments was not available. Questioned costs include $36,376 paid from the regular grant and $237 from the ARRA grant.
- In three instances, we were unable to obtain documentation verifying the State made reasonable efforts to place the child for adoption without a subsidy. Questioned costs include $125,340 paid from the regular grant and $758 from the ARRA grant.
- In one instance, the final decree of adoption order was not located in the file. As a result, we were unable to determine if the adoption assistance subsidy agreement was signed and in effect prior to the final decree. Questioned costs include $25,585 paid from the regular grant and $250 from the ARRA grant.
- In one instance, the adoption assistance subsidy agreement was signed and in effect one month AFTER the final decree. Questioned costs include $17,760 paid from the regular grant and $237 from the ARRA grant.
- In one instance, we were unable to determine the child's eligibility because an emergency custody order was not located in the file. An emergency custody order gives evidence that "continuation in the home of removal would have been contrary to the welfare of the child." We were also unable to obtain documentation verifying the State made reasonable efforts to place the child for adoption without a subsidy. Questioned costs include $49,836 paid from the regular grant and $265 from the ARRA grant.

Questioned Costs:
$254,897 - Adoption Assistance
$ 1,747 - Adoption Assistance, Recovery Act

The questioned costs were calculated from the date of adoption through June 30, 2009.

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

Finding Number:	**09-710-15 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - Adoption Assistance, Recovery Act**
Federal Award Number(s):	**Various prior to 2004; 0801AR1407; 0901AR1407; 0901AR1403**
Federal Award Year(s):	**2009 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Cause:
Agency staff did not adequately review the files to ensure that required information and documents were actually located in the files.

Effect:
Federal adoption assistance funds were used for the benefit of children who could not be determined as eligible. As a result, the Agency could be required to reimburse the federal awarding agency the amount of questioned costs noted above.

Recommendation:
We recommend the Agency strengthen internal controls and provide training to appropriate staff responsible for the preparation and review of subsidy files to ensure all necessary documentation is included in the files supporting a child's eligibility for subsidy payments.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-16**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - Adoption Assistance, Recovery Act**
Federal Award Number(s):	**0901AR1407; 0901AR1403**
Federal Award Year(s):	**2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Control Deficiency**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition:
The Agency incorrectly reported Adoption Assistance and Adoption Assistance, Recovery Act expenditures on the Schedule of Expenditures of Federal Awards or SEFA. Adoption Assistance was overstated by $512,900 and Adoption Assistance, Recovery Act was understated by $462,848.

Questioned Costs:
None

Cause:
With the passing of the American Recovery and Reinvestment Act of 2009 or ARRA, the Agency became eligible for an additional 6.2% in claims reimbursement increasing overall reimbursement to 79.14%. During the 4th quarter of 2009, the Agency was authorized to claim the additional 6.2% reimbursement on expenditures retroactive to October 1, 2008. The Agency amended the ACF – Title IV-E-1 reports adding retroactive ARRA expenditure claims for the 2nd and 3rd quarters of 2009 for $228,929 and $233,919, respectively. These additional expenditures were not identified as Adoption Assistance, Recovery Act on the ACF report because the report format has not been changed requiring separate identification. As a result, the expenditures were reported in the regular Adoption Assistance program causing the overstatement. From the information provided on the quarterly ACF reports, the Agency staff responsible for preparing the SEFA would not be able to separately identify Adoption Assistance, Recovery Act expenditures causing the understatement. Therefore, additional supporting documentation should have been provided.

As previously mentioned, the Agency became eligible for an additional reimbursement of 6.2% due to the passing of ARRA. This affected the Agency's calculation of the total federal percentage for which they based their federal reimbursement. For 4th quarter 2009 claims, the Agency used an incorrect federal percentage which resulted in overstated claims of $50,050 for the Adoption Assistance program being reported on the SEFA.

Effect:
The use of an incorrect federal rate resulted in errors in federal reporting and an inaccurate SEFA. In addition, future award amounts for the program could be affected.

Recommendation:
We recommend the Agency strengthen internal controls by providing additional training to staff concerning reporting requirements and the proper procedures for reporting expenditures on the Schedule of Expenditures of Federal Awards.

Current Status:
Corrective action taken.

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

Finding Number:	**09-710-17**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**05-0905AR5048; 05-0805AR5048**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with Appendix A of 2 CFR Part 225, to be allowable under federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Arkansas Code Annotated 19-4-903 states, "reimbursement for meals and lodging while on official business of the State shall not exceed the maximum rates as prescribed by the Federal Travel Directory published by the General Services Administration."

Per Chapter 304 of the DHS Administrative Procedures Manual, "a travel supervisor/administrator can request justification when any mileage claimed by a traveler is deemed excessive. Justification must be provided by the travel supervisor/administrator for any one day that the traveler has claimed mileage over 300 miles.

Per the DFA Financial Management Guide, R1-19-4-903, "when privately owned motor vehicles are used for travel on official business, the owner may claim reimbursement at the rate per mile established by the Chief Fiscal Officer or the State in effect during the time the travel occurred."

Medical Services Policy manual Section 1200 allows foster parents to receive reimbursement for costs associated with transporting foster children to Medicaid covered services. Section 1205.3 requires the foster parents to provide verification of the medical appointment.

Condition:
The auditor noted exceptions in eight of the 83 expenditure items tested. All problems noted were related to travel reimbursements paid to employees or foster parents (for reimbursement of transportation expenses incurred when taking foster child to a Medicaid covered service). Exceptions noted included the following:

- In two cases, documentation supplied by a foster parent was insufficient as verification that travel was related to a Medicaid covered service. The documentation provided was notification of a scheduled appointment, not verification the appointment was attended. (Additional review of claims information in the Medicaid Management Information System (MMIS) verified the appointment was attended.)
- One case, with paid claims totaling $178, contained incomplete documentation and was dated prior to the recipient's date of birth. In addition, required approval to travel more than 300 miles in one day was not obtained.
- One case, with paid claims of $77, the documentation provided were copies of the verification of a medical appointment previously attended which had been altered to match the dates listed on the travel reimbursement form. There were no claims for services for the recipient with the listed provider identified during review of claims detail in MMIS.
- In two cases, with paid claims totaling $12, meal reimbursements exceeded the maximum allowed per GSA per diem guidelines.
- In two cases, with paid claims totaling $54, mileage reimbursements were miscalculated by the Agency resulting in an underpayment to one employee and one foster parent.

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

Finding Number:	**09-710-17 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**05-0905AR5048; 05-0805AR5048**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Control Deficiency**

Questioned Costs:
Known questioned costs total $213.

Projected likely questioned costs based on the results of this sample total $31,839.

Cause:
Foster parent travel reimbursement requests are initially submitted to and reviewed by Division of Children and Family Services travel supervisors. The TR-1 and supporting documentation are submitted to Division of Medical Services (DMS) to ensure support documentation adequately supports the medical appointment. DMS has one employee designated to review all foster parent travel reimbursements. The employee has not been adequately trained to determine if supporting documentation provided is sufficient to verify that the recipient received a Medicaid covered service.

Failure to completely review all entries made on the TR-1 by the travel administrator caused the overpayments for meal reimbursements and calculation errors.

Effect:
Insufficient supporting documentation and lack of supervisory approval increases the risk of improper payments.

Recommendation:
We recommend the Agency provide additional training to employees who have responsibility for reviewing and approving travel reimbursement requests. Employees reviewing and approving travel reimbursements to foster parents should receive additional training which relates to appropriate documentation used to verify medical appointments.

Current Status:
Testing of travel reimbursements in the current year revealed four errors, with three related to proper calculation of mileage and one related to travel for a non-Medicaid related service. The total likely questioned costs were immaterial; therefore, no current year finding is included. Although no current year finding is included, we recommend the Agency provide additional training to employees responsible for reviewing and approving travel reimbursement requests.

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

Finding Number:	**09-710-18**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - Medical Assistance Program, Recovery Act (Medicaid Cluster)**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State's Medicaid program. The Agency's responsibility includes determining eligibility for each applicant and documenting, in the applicant's case record, that eligibility criteria were met. The Agency outlines eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual, "the Manual".

Condition:
Audit procedures were performed on 155 Medicaid cases, with expenditures totaling $5,704,503 for the year ended June 30, 2009, at seven selected counties throughout the State. The cases chosen were selected based upon a number of factors including average dollar amount per claim, complexity, and number of eligibility criteria. It was noted that documentation available at the time of field work for 19 recipients, with expenditures totaling $667,671, did not support the Agency's determination that the recipients were eligible for participation in the Medicaid program. The exceptions are summarized below:

- In six cases, with paid claims totaling $312,842, resource limitations were exceeded.
- In six cases, with paid claims totaling $50,647, income limitations were exceeded.
- In four cases, with paid claims totaling $182,167, the required Office of Child Support Enforcement referral was not made.
- In three cases, with paid claims totaling $122,015, there was insufficient supporting documentation in the applicant's case record to provide evidence for multiple eligibility criteria.

Questioned Costs:
$667,671

Cause:
Insufficient knowledge of program requirements caused by high turnover, lack of adequate number of staff and lack of training, combined with inadequate monitoring of program activity by supervisory staff, caused these exceptions.

Effect:
Eligibility was improperly determined resulting in payments to providers for services in which recipients were not eligible.

Recommendation:
We recommend that the Agency continue to train personnel on the requirements of the program, as defined in the Medical Services Manual. We also recommend the Agency review and strengthen internal controls over monitoring and retention of documentation.

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

Finding Number:	**09-710-18**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - Medical Assistance Program, Recovery Act (Medicaid Cluster)**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Current Status:
As noted in current year findings **10-710-19**, **10-710-24** and **10-710-25**, ineffective controls continue to contribute to the Agency's inability to provide adequate monitoring and retention of appropriate documentation. Contributing factors include insufficient knowledgeable personnel resulting from high turnover rates, employee shortages, lack of training, and in some areas, insufficient support staff.

This issue was also addressed in prior audit findings 09-710-19, 09-710-20, 08-710-20, 07-710-16 and 07-710-18.

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

Finding Number:	**09-710-19**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - Medical Assistance Program, Recovery Act (Medicaid Cluster)**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State's Medicaid program. The Agency's responsibility includes determining eligibility for each applicant and documenting, in the applicant's case record, that eligibility criteria were met. The Agency outlines eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual, "the Manual".

Condition:
In addition to findings 09-710-18 and 09-710-20, claims totaling $2,426,371 during the year ended June 30, 2009 were paid on behalf of 37 recipients who were deemed eligible for participation in the Medicaid program. Sufficient evidence was not obtained at the time eligibility was originally determined; however, the Agency has subsequently obtained the necessary evidence. The exceptions are summarized below:

- In three cases, with paid claims totaling $168,062, the Agency failed to provide evidence that the recipient met residence and relationship requirements. The Agency subsequently verified the information.
- In three cases, with paid claims totaling $428,766, the Agency failed to obtain evidence to support the categorical eligibility criteria. The Agency subsequently obtained the required categorical evidence.
- In four cases, with paid claims totaling $650,565, the Agency failed to perform the required re-evaluation. The Agency subsequently performed the required procedures.
- In ten cases, with paid claims totaling $572,557, the Agency failed to provide sufficient documentation in case records to support the Agency's eligibility determination. The Agency subsequently obtained evidence and performed the required procedures.
- In nine cases, with paid claims totaling $139,630, the Agency failed to verify citizenship. The Agency subsequently verified citizenship for these recipients.
- In one case, with paid claims of $33,974, the Agency failed to document the required Office of Child Support Enforcement (OCSE) referral per category requirement. The Agency either subsequently made the referral or provided evidence that a referral had been made.
- In two cases, with paid claims totaling $188,872, the Agency failed to inquire, consider, or document resource requirements. The Agency subsequently obtained the resource information.
- In three cases, with claims totaling $186,479, the Agency was not able to locate case records in a timely manner. Five months after our request, the Agency located and re-evaluated the cases.
- In two cases, with paid claims totaling $57,466, the Agency failed to inquire, consider, or document income requirements. The Agency subsequently performed the required procedures.

Questioned Costs:
None

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

Finding Number:	**09-710-19 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - Medical Assistance Program, Recovery Act (Medicaid Cluster)**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Weakness**

Cause:
Inadequate controls concerning gathering and retaining evidence to support eligibility determinations as well as ineffective monitoring processes. In addition, insufficient knowledge of program requirements caused by high turnover and lack of training, combined with inadequate monitoring of program activity by supervisory staff, caused these exceptions.

Effect:
Controls are ineffective to minimize the risk that household eligibility will be improperly determined and Medicaid funds may be used to provide benefits for individuals who are not eligible for the program.

Recommendation:
We recommend the Agency review and strengthen internal controls over record documentation and retention, continue to train personnel on the requirements of the program as outlined in the Medical Services Manual. In addition, the Agency should develop a monitoring process to address high risk Medicaid categories.

Current Status:
As noted in current year findings **10-710-19**, **10-710-24** and **10-710-25**, ineffective controls continue to contribute to the Agency's inability to provide adequate monitoring and retention of appropriate documentation. Contributing factors include insufficient knowledgeable personnel resulting from high turnover rates, employee shortages, lack of training, and in some areas, insufficient support staff.

This issue was also addressed in prior audit findings 09-710-18, 09-710-20, 08-710-20, 07-710-16 and 07-710-18.

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

Finding Number:	**09-710-20**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - Medical Assistance Program, Recovery Act (Medicaid Cluster)**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State's Medicaid program. The Agency's responsibility includes determining eligibility for each applicant and documenting, in the applicant's case record, that eligibility criteria were met. The Agency outlines eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual, "the Manual".

Qualified aliens who entered the United States before August 22, 1996 are generally eligible for Medicaid, provided they meet other eligibility criteria. Qualified aliens who entered the United States on or after August 22, 1996, are barred from participation in Medicaid (with the exception of emergency services) for five years from the date the individual was lawfully admitted for permanent residency or met one of the other qualifying conditions. Certain groups of qualified aliens are exempt from this five-year ban.

Condition:
In addition to findings 09-710-18 and 09-710-19, testing revealed that adequate documentation was not available to determine that five aliens, who received benefits totaling $132,457 during State fiscal year 2009, were eligible to participate in the Medicaid program. In one case the recipient did not meet the five-year ban. A review of case file documentation indicated that management was aware that the recipient was ineligible but allowed the case to remain open. Recipients in the remaining four cases did not file for permanent residency. Cumulative expenditures for these cases from the dates coverage began through the time of field work totaled $395,962.

Questioned Costs:
$395,962

Cause:
Insufficient knowledge of program requirements caused by high turnover, lack of adequate number of staff and lack of training, combined with inadequate monitoring of program activity by supervisory staff, caused these exceptions.

Effect:
Expenditures of State and federal funds were made on behalf of ineligible recipients. Financial penalties could result from failure to comply with federal program regulations.

Recommendation:
We recommend the Agency follow its approved policies and consider implementing additional controls that could prevent or minimize payments to ineligible recipients.

Current Status:
As noted in current year finding **10-710-24**, ineffective controls continue to contribute to the Agency's inability to provide adequate monitoring and retention of appropriate documentation. Contributing factors include insufficient knowledgeable personnel resulting from high turnover rates, employee shortages, lack of training, and in some areas, insufficient support staff.

This issue was also addressed in prior audit findings 09-710-18, 09-710-19, 08-710-20, 07-710-16 and 07-710-18.

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

Finding Number:	**09-710-21**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**05-0905AR5048; 05-0805AR5048**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
As required by 42 CFR 431.16(c), "a State plan must provide that the Medicaid agency will comply with any provisions that the Secretary (of USDHHS) finds necessary to verify and assure the correctness of the reports."

Condition:
Our testing of the 2009 4th quarter CMS-64 report revealed the following reporting errors:

- Disproportionate Share Hospital payments were incorrectly reported resulting in an overstatement of $58,684,096.
- Medicare Part B premiums were incorrectly reported resulting in an understatement of $1,549,241.
- Family planning clinic services were improperly reported as physicians services totaling $645,040.

The reporting errors identified in the first two bullets are also noted in the reconciliation of expenditures per the Cost Allocation System to the CMS-64 reports. The reporting errors did not have an impact on the amount of federal funds drawn down, or the expenditures reported per the Schedule of Expenditures of Federal Awards (SEFA).

Questioned Costs:
None

Cause:
The staff completing the CMS-64 report does not have a complete understanding of the information which is used to determine expenditure amounts to be reported. Reconciliations of expenditures per the CMS-64 report to the cost allocation system were not completed in a manner which allowed for identification of the reporting errors. The Agency reconciles the weekly funding requests to cost allocation without properly identifying the differences, and then reconciles the weekly funding request to the CMS-64 report.

Effect:
The Agency's lack of understanding of all support documentation used to create the CMS-64 report caused the Agency to incorrectly report expenditures.

Recommendation:
We recommend the Agency establish adequate controls, including training and supervision, to ensure the proper completion and reconciliation of the CMS-64 reports by staff, whom the Agency has indicated is already hired and dedicated for this purpose. We also recommend that all differences identified during the reconciliation of expenditures reported on the CMS-64 report to the cost allocation system be explained.

Current Status:
As noted in current year finding **10-710-20**, the Agency continues to struggle to properly report expenditures. The reconciliation of reported expenditures to the Agency's financial system continues to be inadequate. We recommend the Agency establish adequate controls, including training and proper supervision, to ensure the proper completion and reconciliation of the CMS-64 reports by staff. We also recommend that all differences identified during the reconciliation of expenditures reported on the CMS-64 report to the cost allocation system be explained and adequately documented.

This issue was also addressed in prior audit finding 08-710-23.

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

Finding Number:	**09-710-22**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**05-0905AR5048; 05-0805AR5048**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Payments Made for Medicaid Services After Recipients Incarceration Date**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with 42 CFR 435.1009, Federal Financial Participation is disallowed for services provided to inmates of public institutions. To comply with the federal regulation, the Agency has implemented policy in the Medical Services Manual Section 1348 which states that inmates of public institutions are not eligible to participate in the Arkansas Medicaid program.

Condition:
The Agency failed to properly close Medicaid cases or to notify the Social Security Administration so that the cases would be closed for 445 incarcerated recipients (342 juveniles and 103 adults). As a result, the Agency inappropriately paid claims totaling $125,536 for these individuals ($86,639 for incarcerated juveniles and $38,897 for incarcerated adults).

Questioned Costs:
$125,536

Cause:
Adult Inmates: In the prior audit, the auditor noted that the Agency began implementing procedures to identify recipients who have been incarcerated in a correctional facility. The Agency receives a file of all inmates from both the Arkansas Department of Correction (DOC) and from the Arkansas Department of Community Correction (DCC). These files are matched against a current recipient listing to identify recipients with open cases who had been incarcerated. The files received from DOC and DCC contained individuals who were in some way under the authority of those agencies, but were not actually incarcerated. This resulted in eligible recipients' cases being closed. The Agency has now implemented a process where a DHS Division of County Operations (DCO) employee now accesses the eOMIS system at DCC and reviews the incarceration dates for matched recipients. After the match is confirmed, the Agency forwards the listing to the appropriate county offices for follow up and possible closure of the case.

Juvenile Inmates: The Agency depends on the staff of the Division of Youth Services (DYS) to make eligibility determinations for juveniles under DYS care. DYS contacts the Division of County Operations (DCO) for the Division of Children and Family Services (DCFS) when juveniles are committed to their care and the placement determination makes them ineligible for Medicaid. According to DYS, the majority of the cases which remained open were Supplemental Security Income (SSI) related Medicaid cases. At this time, DYS does not have a process for notifying Social Security Administration (SSA) when juveniles are committed to their care. The remaining cases were primarily due to the case being left open by DCO or DCFS after DYS notification.

Effect:
Incomplete data provided by the Arkansas Department of Correction forces the Agency to investigate each match which shows up monthly. The time taken to investigate the matches causes a delay in the closure of many cases. Also, delays in the closure of SSI related Medicaid cases and the Agency's inability to restrict payments for such recipients, who are known to no longer be eligible, puts the Agency at an increased risk of inappropriately paying claims.

The lack of a process to notify SSA when juveniles are incarcerated, results in these cases being left open indefinitely and increases the risk of inappropriately paying claims for these individuals.

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

Finding Number:	**09-710-22 (Continued)**
State/Educational Agency:	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**05-0905AR5048; 05-0805AR5048**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions – Payments Made for Medicaid Services After Recipients Incarceration Date**
Type of Finding:	**Noncompliance and Significant Deficiency**

Recommendation:
We recommend the Agency implement procedures for notifying the Social Security Administration when juvenile SSI recipients are placed under DYS care. We also recommend that the Division of Youth Services work with the Division of County Operations and the Division of Children and Family Services to ensure that Medicaid cases are appropriately closed for juveniles placed under DYS care.

We also recommend the Agency continue to strengthen its process for identifying adult Medicaid recipients who have been incarcerated and work with the Arkansas Department of Correction and the Arkansas Department of Community Correction to obtain reliable sufficient data.

Current Status:
The Agency continues to monitor enrolled applicants for incarceration through the data match with the Arkansas Department of Correction download. Testing of incarcerated recipients was not performed in the current year due to immateriality and the start of a data mining project undertaken by the auditor to identify potential fraudulent behavior by providers.

This issue was also addressed in prior audit findings 08-710-24 and 05-710-23.

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

FINDING NUMBER:	**08-710-11**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(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:	**Unknown**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**08-710-12**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.658 - Foster Care_Title IV-E**
QUESTIONED COSTS:	**$1,255**

CONDITION:
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.

RECOMMENDATION:
Develop internal control procedures and train the applicable Agency employees to ensure only allowable costs are charged to the program.

CURRENT STATUS:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-11**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-06, 09-710-07, 09-710-10, 08-710-13 and 07-710-11.

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

FINDING NUMBER:	**08-710-13**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.658 - Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

CONDITION:
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) AND PROGRAM TITLE(S):	**93.658 - Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

CONDITION (continued):
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.

RECOMMENDATION:
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.

CURRENT STATUS:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-11**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-06, 09-710-07, 09-710-10, 08-710-12 and 07-710-11.

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) AND PROGRAM TITLE(S):	**93.658 - Foster Care_Title IV-E**
QUESTIONED COSTS:	**Unknown**

CONDITION:
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.

RECOMMENDATION:
Implement internal control procedures to ensure procurement cards purchases are adequately documented, reviewed and authorized.

CURRENT STATUS:
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-12**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-08 and 09-710-10.

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

FINDING NUMBER:	**08-710-18**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$19,826**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
Corrective action taken.

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

FINDING NUMBER:	**08-710-20**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

CONDITION:
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.

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.

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

FINDING NUMBER:	**08-710-20**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$611**

CURRENT STATUS:
As noted in current year findings **10-710-19**, **10-710-24** and **10-710-25**, ineffective controls continue to contribute to the Agency's inability to provide adequate monitoring and retention of appropriate documentation. Contributing factors include insufficient knowledgeable personnel resulting from high turnover rates, employee shortages, lack of training, and in some areas, insufficient support staff.

This issue was also addressed in prior audit findings 09-710-18, 09-710-19, 09-710-20, 07-710-16 and 07-710-18.

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

FINDING NUMBER:	**08-710-23**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**None**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
As noted in current year finding **10-710-20**, the Agency again failed to provide an adequate reconciliation of the CMS-64, Quarterly Statement of Expenditures for the Medical Assistance Program to the Agency's cost allocation system.

This issue was also addressed in prior audit finding 09-710-21.

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

FINDING NUMBER:	**08-710-24**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**93.778 - Medical Assistance Program (Medicaid Cluster)**
QUESTIONED COSTS:	**$18,633**

CONDITION:
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.

RECOMMENDATION:
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.

CURRENT STATUS:
The Agency continues to monitor enrolled applicants for incarceration through the data match with the Arkansas Department of Correction download. Testing of incarcerated recipients was not performed in the current year due to immateriality and the start of a data mining project undertaken by the auditor to identify potential fraudulent behavior by providers.

This issue was also addressed in prior audit findings 09-710-22 and 05-710-23.

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(S) AND PROGRAM TITLE(S):	**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 OF JUNE 30, 2010):
The Agency's response to this finding in the State of Arkansas' Corrective Action Plan for June 30, 2009 refers to a "reference document". The purpose of this document is to assist Area Financial Coordinators and the Financial Support Unit in determining allowable activities and costs for the program. The anticipated completion date for the distribution of this document was March 15, 2010.

Upon audit inquiry on August 13, 2010, the Agency was unable to provide documentation noting the "reference document" had been prepared and distributed by March 15, 2010. However, the Agency later provided documentation to confirm a distribution date of October 4, 2010.

As noted in current year finding **10-710-11**, payment for these types of unallowable activities and costs continue to be approved.

This issue was also addressed in prior audit findings 09-710-06, 09-710-07, 09-710-10, 08-710-12 and 08-710-13.

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(S) AND PROGRAM TITLE(S):	**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 current year findings **10-710-19**, **10-710-24** and **10-710-25**, ineffective controls continue to contribute to the Agency's inability to provide adequate monitoring and retention of appropriate documentation. Contributing factors include insufficient knowledgeable personnel resulting from high turnover rates, employee shortages, lack of training, and in some areas, insufficient support staff.

This issue was also addressed in prior audit findings 09-710-18, 09-710-19, 09-710-20, 08-710-20 and 07-710-18.

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(S) AND PROGRAM TITLE(S):	**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:
Current year procedures did not select or track cases based upon county. However, substantive testing of current year files revealed that 15% of those selected for testing were either not eligible or contained at minimum one error in the file documentation and/or policy application. Therefore it continues to be recommended that internal control over file documentation continued to be reviewed and strengthened and that employees continue to receive training and supervision with regard to program requirements.

This issue was also addressed in prior audit findings 09-710-18, 09-710-19, 09-710-20, 08-710-20 and 07-710-16.

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

FINDING NUMBER:	**05-710-23**
STATE/EDUCATIONAL AGENCY:	**Arkansas Department of Human Services**
CFDA NUMBER(S) AND PROGRAM TITLE(S):	**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.

2009 UPDATE:
As noted in current year finding 09-710-22, the Agency continues to process payments for Medicaid services provided to recipients after the recipients incarceration date.

This issue was also addressed in prior audit finding 08-710-24.

CURRENT STATUS:
The Agency continues to monitor enrolled applicants for incarceration through the data match with the Arkansas Department of Correction download. Testing of incarcerated recipients was not performed in the current year due to immateriality and the start of a data mining project undertaken by the auditor to identify potential fraudulent behavior by providers.

This issue was also addressed in prior audit findings 09-710-22 and 08-710-24.

STATE OF ARKANSAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**09-150-01**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**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)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Disbursement To or On Behalf of Students**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The earliest and institution may disburse SFA funds (other than FWS) (either by paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended. There are two exceptions to this rule. First, institutions may not disburse or deliver the first installment of FFEL or Direct Loans to first year undergraduates who are first time borrowers until 30 days after the student's first day of classes, unless the institution has low default rates (less than 10%). The second exception applies to a student who is enrolled in a clock hour educational program or a credit hour program that is not offered in standard academic terms. The earliest the institution may disburse funds is the later of 10 days before the first day of classes for the payment period or, except for certain circumstances under the FFEL and Direct Loan programs, the day the student completed the previous payment period (34 CFR Section 668.164).

Loan funds provided by electronic fund transfer or master check may not be requested earlier than 13 days before the first day of classes for any subsequent payment period for a first-year, first-time Stafford Loan borrower or for any payment period for all other FFEL borrowers (34 CFR Section 668.167).

Loan funds must be disbursed within 3 business days of receipt if the lender provided the funds by EFT or master check or 30 days if the lender provided the funds by check payable to the borrower or copayable to the borrower and the institution (34 CFR Sections 668.162, 668.164, 668.167(b), 682.603, and 682.604(d)).

Condition:
Of the 40 students tested, we noted ten instances where financial aid funds were posted to students' accounts more than 10 days prior to the first day of class. The ten exceptions represent eight students. Of the exceptions, five were for Stafford loans and five were for PELL. Of the eight students, two were enrolled in the College of Medicine and six were enrolled in the College of Nursing.

Questioned Costs:
None

Cause:
The exceptions noted for the students in the College of Medicine, the term affected was Fall 2008. During the prior year audit, it was discovered that the Director Financial Aid for COM was using the date of registration instead of the first day of class to calculate the 10 day rule. After the audit, the Director of Financial Aid for COM revised her disbursement procedures to ensure funds were not applied to student accounts before 10 days prior to the first day of class. In our testing we noted that the Spring disbursements for COM students were all within 10 days.

For non-College of Medicine, we were unable to obtain an explanation for the CON students who received disbursements before 10 days prior to the first day of class.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-01 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**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)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Disbursement To or On Behalf of Students**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend the Director of Student Financial Services implement procedures within the Financial Aid Office to ensure disbursements to students' accounts do not occur before 10 days prior to the first day of class for each semester.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-02**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**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)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Return of Title IV Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For students who do not enroll: If (1) a student does not register for the period of enrollment for which the loan was made; (2) a registered student withdraws or is expelled prior to the first day of classes; or (3) if the institution does not disburse FFEL loan proceeds to a student or parent in accordance with the time frames required in 34 CFR Section 668.167(b), the institution must return the funds to the lender within 10 business days after the date the funds were required to be disbursed.

For students who withdraw during a semester: Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew (34 CFR Section 668.22). Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (34 CFR Section 668.173(b)).

Condition:
During our testing of the 10 business day rule for return of Title IV funds we noted funds for one College of Nursing student who enrolled less than half time for the Fall semester; therefore, becoming ineligible to receive Title IV funds, were returned 20 business days after the receipt of the funds (10 days non-compliance).

During our testing of the 45 day rule for return of Title IV funds, we noted two instances where funds were not returned to the lender within the required 45 day time period. The two students were both enrolled in the College of Medicine. For one student, funds were returned 222 days after the student withdrew (180 days non-compliance) and for the other student funds were returned 73 days after the student was dismissed (28 days non-compliance).

Questioned Costs:
Known questioned cost is calculated as $72.55. The calculation was based on the average interest rate for each quarter. We applied the average interest rate to the total number of days in noncompliance for each student and the amount that was returned. We then annualized the amount over 365 days.

Cause:
Per discussions with the Director of Financial Aid for the College of Medicine, the two College of Medicine exceptions were overlooked during the Fall semester as the Director took on additional duties due to the uncertain lending market at that time. Since then, additional staff has been hired to assist the Director.

The exception noted for the College of Nursing student was processed under the prior Student Financial Aid Director before changes in controls were implemented to ensure funds were returned timely.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-02 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**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)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Return of Title IV Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
The U.S. Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend the Director of Financial Services and the Director of Financial Aid for the College of Medicine develops written policies on processes to ensure Title IV funds are returned within the required time periods.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-03**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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 (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Verification**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The 2008-09 Verification Worksheet requires a student selected for verification to complete and sign the worksheet and submit the completed worksheet and other required forms to the financial aid administrator.

Loan funds for students selected for verification may not be disbursed to the student until verification has been completed. (34 CFR 668.58)

Condition:
During our testing of Verification Compliance, we noted for one College of Nursing student, the student completed the verification worksheet; however, the back side of the worksheet, which includes the student's signature, was not scanned into the electronic student file and the paper file was destroyed. Because of this, we were unable to verify that the student had signed the verification worksheet.

Of the students selected for testing, three of the 30 were College of Medicine students. During our review of the COM students' files, we found that in all three cases loan funds were disbursed to the students' accounts before the verification process was complete.

Questioned Costs:
None

Cause:
For the non-COM Student Financial Aid Office, the backside of the form was overlooked and not scanned.

The verification completed date used for testing is the date the Financial Aid Officer signs or initials the completed verification worksheet. Because the director of Student Financial Aid for COM does not sign and date the verification worksheet, the date utilized for testing was the date per the notification letters to the students indicating their verification process was complete.

Effect:
The U.S. Department of Education has the right to withdrawal of funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-03 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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 (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Verification**
Type of Finding:	**Noncompliance and Significant Deficiency**

Recommendation:
We recommend the Director of Student Financial Services implement a review process to ensure student files scanned in electronic format include all information that is maintained in the paper files. We recommend the Student Financial Aid office maintain paper files of the year under audit until the audit has been completed and issued.

We also recommend the Director of Student Financial Aid for COM students initial and date the completed verification worksheets for each student selected for verification and ensure aid funds are not disbursed to students before the verification process is complete.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented regarding the review process ensuring scanned student files are complete and files are maintained until the audit has been completed and issued.

The Agency also indicated that corrective action has not been implemented regarding verification of information for COM students.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-04**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**12.XXX - Other Department of Defense Research** **93.393 - Cancer Cause and Prevention Research** **93.847 - Diabetes, Digestive, and Kidney Disease Extramural Research** **93.848 - Digestive Diseases and Nutrition Research (Research and Development Cluster)**
Federal Award Number(s):	**5R37DK036823-25; 5R21DK071024-02; 5U01 ca114607-04; HU0001-07-1-0009**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Direct costs charged to a grant must be actual costs, incurred during the grant year and supported by appropriate documentation. F&A costs should not be charged on equipment purchases. Administrative costs should not be charged directly to a grand unless a grant is classified as "major."

Condition:
During our testing of the Research and Development (R&D) Cluster, we noted that various nonallowable costs were charged to R&D grants. Below are nonallowable costs that were noted:

- During our testing of adjustments, we noted a reclassification of molecular modeling and analysis fees to an R&D grant from a cost center totaling $24,700. No supporting documentation was provided.
- During our testing of adjustments, we noted a reclassification of cell phone charges to an R&D grant for three months of service. The related individuals identified as the users of the cell phones had varying percentages of effort charged to that grant. A portion of these costs were deemed nonallowable.
- During our testing of adjustments, we noted that an expense of $149 was posted for office supplies. The grant identified was not a major grant and therefore should not have administrative costs charged to it.
- During our testing of expenditures, we noted that a piece of equipment was purchased but classified as research supplies. This resulted in F&A costs being inappropriately charged to this grant.

Questioned Costs:
$54,303

- The amount of the direct costs deemed to be nonallowable related to the reclassification of molecular modeling and analysis fees was $24,700 and the related F&A costs at 44% was $10,868 resulting in a total of $35,568.
- The amount of the cell phone charges deemed to be nonallowable was $1,239 and the related F&A costs at 21% was $260 resulting in a total of $1,499.
- The amount of the toner cartridge charged to office supplies of $149 and the F&A costs associated with it at 45% of $67 for a total of $216.
- The amount of the F&A costs charged on an equipment purchase of $40,522. The total F&A costs were $17,020.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**09-150-04 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**12.XXX - Other Department of Defense Research** **93.393 - Cancer Cause and Prevention Research** **93.847 - Diabetes, Digestive, and Kidney Disease Extramural Research** **93.848 - Digestive Diseases and Nutrition Research (Research and Development Cluster)**
Federal Award Number(s):	**5R37DK036823-25; 5R21DK071024-02; 5U01 ca114607-04; HU0001-07-1-0009**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
Direct costs were inappropriately charged to these programs.

Effect:
The Department of Defense and the Department of Health and Human Services through any primary grantees, if applicable, have the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that management ensure that any costs transferred or charged to a grant have adequate supporting documentation and comply with grant requirements and UAMS policies and procedures. Additionally, we recommend that all costs have the appropriate level of management review prior to posting. We also recommend that entries be posted to remove these costs from the R&D program.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**09-150-05**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.307 - Minority Health and Disparities Research** **93.389 - National Center for Research Resources** **(Research and Development Cluster)**
Federal Award Number(s):	**5P20RR016460-07; 5P20RR020146-04; 5P20MD002329-02 REVISED**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Direct costs should only be charged during the period of the grant year. Goods purchased must be received prior to the end of the grant year in order to be charged to the grant.

Condition:
During our testing of expenditures charged to grant programs, we noted that an expense was posted for software maintenance. The invoice was composed of two parts, including on that totaled $11,000 for the next three years.

Additionally, during the tested of expenses charged after the end of the grant period, we noted that expenses for goods received were charged to the program after the end of the grant year even though the items had not been received until after the end of the grant year.

Questioned Costs:
$23,347

The amount of the three year maintenance agreement of $11,000 and the F&A costs associated with it at 42% of $4,620 total the $15,620.

The amount of questioned costs for the items charged that were not received until after the end of the grant year at $5,347 and the associated F&A charges of $2,380 for a total of $7,727.

Cause:
Prepayment of maintenance contracts causes these types of issues to arise. The requirement to pay them at the beginning of the period covered increases the possibility that the cost will be charged to an inappropriate period. For the goods not received by the grant year-end, management did not verify the receipt date for goods purchased prior to recording the expense on the grant.

Effect:
The Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that management ensure that any maintenance contracts be reviewed prior to posting by appropriate levels of management to ensure that the period charged is correct. Additionally, we recommend that management verify that goods are received prior to the end of the grant year before charging those costs to the program. Finally, we recommend that entries be posted to reclassify any costs to future periods and remove any unallowed costs from the grants.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has not been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-06**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.389 - National Center for Research Resources (Research and Development Cluster)**
Federal Award Number(s):	**5P20RR020146.04**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Equipment and Real Property Management**
Type of Finding:	**Control Deficiency**

Criteria:
Asset records for assets purchased with federal funds should include the acquisition date and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including the date of the disposal and sales price or method used to determine current market value.

Per UAMS Administrative Guide 5.2.02, departments requesting the return of any material or equipment to vendors must go to the Support Services Distribution website and complete an Outgoing Shipment Form.

Condition:
For one asset selected for testing, the asset record did not include the grant number, inventory tag number or location of the asset.

For one asset selected for testing, the location of the asset listed in the asset record was incorrect. We also noted that the original asset was returned to the vendor for repairs and a replacement was being used by the researcher. The inventory tag number was attached to the original equipment. The vendor determined that the original equipment could not be repaired and allowed the researcher to keep the replacement equipment. The researcher had not notified Property Services of the return or the replacement.

Questioned Costs:
None

Cause:
For the first exception noted, when assets are purchased on a grant, the requisitioner is responsible for coding the purchase with a “Z” to indicate the purchase will be made with federal funds. Property Services monitors all purchases coded with a “Z” to properly identify the assets in the asset system. The purchase in question was coded with a “P” causing a breakdown in the control process. The asset was set up in the asset system by Property Services; however, when the asset was delivered and tagged by Property Services the asset record was not updated with the location or inventory tag number.

For the second asset noted, the department failed to provide the proper location of the equipment when the equipment was delivered. In addition, the researcher failed to complete the Outgoing Shipment Form for the returned equipment as required by UAMS Administrative Guide 5.2.02. The researcher also failed to notify Property Services that the original equipment was replaced and needed to be tagged.

Effect:
A misappropriation or loss of equipment purchased with federal funds could occur when there is noncompliance with controls implemented to account for and safeguard the equipment.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-06 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.389 - National Center for Research Resources (Research and Development Cluster)**
Federal Award Number(s):	**5P20RR020146.04**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Equipment and Real Property Management**
Type of Finding:	**Control Deficiency**

Recommendation:
We recommend departmental personnel responsible for ordering equipment ensure purchase requisitions are coded with a "Z" when the asset is purchased with federal funds. We recommend Property Services implement procedures to ensure asset records are properly updated when an asset is received and tagged.

We also recommend departmental personnel responsible for equipment review and comply with UAMS Administrative Guides to ensure equipment is properly accounted for and the proper forms are completed when equipment is returned to or replaced by the vendor.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-07**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.887 - Health Care and Other Facilities (Research and Development Cluster)**
Federal Award Number(s):	**1 C76HF09175-01-00**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Equipment and Real Property Management**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
Per OMB Circular A-133, Equipment and Real Property Management, real property shall be used for the originally authorized purpose as long as needed for that purpose. With written approval from the federal awarding agency, the real property may be used in other federally sponsored projects or programs that have purposes consistent with those authorized for support by the federal awarding agency. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Per the award notice for grant G1-34304-01, telemedicine equipment purchased under this grant will be added at these exact locations; Delta AHEC, Jonesboro AHEC, Batesville AHEC, Harris Hospital, Fort Smith AHEC, Fayetteville AHEC, Centers for Children Northwest AR, St. Mary's Medical Center, Arkansas Children's Hospital, UAMS, Arkansas State Hospital, Conway Regional Medical Center, and St. Vincent Hospital.

Per UAMS Administrative Guide 5.4.01, all UAMS property located off-campus must be recorded on the Property Located Off-Campus Form. All UAMS property located at sites other than officially designated UAMS lands and facilities shall be considered off-campus for the purpose of this policy. Property located off-campus may be used only as an extension of regular UAMS business and not for any other purpose. Approval for use of UAMS property off-campus must be obtained in writing from the Department Director, and responsibility for such property will reside with the UAMS employee utilizing the property. Property Located Off-Campus Forms must be updated annually.

Condition:
During our testing of equipment purchased with federal funds on grant G1-34304-01, we found that off-campus forms had not been completed for the items located at non-UAMS facilities. We also found two assets were located at facilities that were not authorized by the grant.

Questioned Costs:
None

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-07 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.887 - Health Care and Other Facilities (Research and Development Cluster)**
Federal Award Number(s):	**1 C76HF09175-01-00**
Federal Award Year(s):	**July 1, 2008 through June 30, 2009**
Compliance Requirement(s) Affected:	**Equipment and Real Property Management**
Type of Finding:	**Noncompliance and Control Deficiency**

Cause:
The equipment purchased under this grant is mobile video conferencing systems that are used in various locations around the State. Because the equipment is mobile, it is easily moved from one office or location to another for use in the telemedicine program. Prior to September 2009, the inventory records had not been properly maintained to properly track the systems purchased under this grant over the past year. In September 2009, a new project coordinator was hired to update and maintain the equipment database for the telemedicine program. The new project coordinator is in the process of locating and updating equipment records.

Based on discussions with program staff, the equipment located in one of the unauthorized locations is mainly used to communicate with the State government official and health care committee members on issues related to the purpose of the grant. However, the location was not specifically listed in the grant and approval was not obtained. The other exception noted is located in a conference room in an administrative building across from the main UAMS campus. Again, the location of the equipment as not specifically listed in the grant and approval was not obtained.

Because of the exceptions noted above, we obtained a complete listing of the equipment purchased under the grant and noted the located of each telemedicine system. We found that in addition to the two unauthorized locations noted above, on other piece of equipment that was not included in the sample tested, is located in an unauthorized clinic. We also noted that there were five telemedicine systems maintained in a storeroom that have not been deployed to the locations specified in the grant. One of the systems to be deployed is scheduled to go to Texarkana, which not an authorized location per the grant award.

Effect:
A misappropriation or loss of equipment purchased with federal funds could occur when there is noncompliance with controls implemented to account for and safeguard the equipment.

Recommendation:
We recommend the program coordinator document the locations of equipment purchased under grant G1-34304-01 and provide the locations to the Property Services Department. We recommend the Property Services Department update the asset records with the current locations. We recommend the program coordinator complete Property Located Off-Campus Forms for all equipment not currently located at UAMS.

We also recommend the grant manager obtain approval from the granting agency for the equipment maintained at unauthorized locations or transfer the equipment to an appropriate location as allowed by the grant. We recommend equipment currently maintained in a storeroom be deployed as soon as possible to the specified locations per the grant award.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-08**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/11**
Federal Award Year(s):	**November 1, 2008 to October 31, 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Equipment and Real Property Management**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
Per Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C Post-Award Requirements, Sec. 34 Equipment, the recipient's property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information:

- (i) A description of the equipment.
- (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
- (iii) Source of the equipment, including the award number.
- (iv) Whether title vests in the recipient or the federal government.
- (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.
- (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).
- (vii) Location and condition of the equipment and the date the information was reported.
- (viii) Unit acquisition cost.
- (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.

Condition:
During our testwork, we noted two exceptions out of three sample items (100% of population) as follows:

- Two of the assets purchased were recorded in the incorrect general ledger account. The assets were recorded in an "Other Services" expense account instead of an equipment expense account. Because they were recorded in the incorrect account, indirect costs were calculated on the amount of the assets. The cost of the two assets was $9,620.
- One of the two assets recorded incorrectly was also not capitalized correctly. The asset has not been recorded in the SAP fixed asset system.

Questioned Costs:
The amount of the asset recorded in the incorrect general ledger account was not excluded from the indirect costs calculation. The Head Start grant has an indirect cost rate of 21%. Indirect costs of $2,020 were recorded on the grant. ($9,620 total cost x 21% indirect cost rate).

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-08 (Continued)**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/11**
Federal Award Year(s):	**November 1, 2008 to October 31, 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Equipment and Real Property Management**
Type of Finding:	**Noncompliance and Control Deficiency**

Cause:
These exceptions should have been identified through the fixed asset reconciliation process, physical inventories, and management review of purchases to ensure that assets purchased were received and properly set up as a capital asset in the SAP system, or properly removed from SAP.

Effect:
The U.S. Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that management perform a detailed reconciliation of asset additions on a monthly basis so that corrections are identified and made in a timely manner. Assets not capitalized when acquired will be identified and recorded in the proper period during this process. We also recommend that management perform a more thorough review of expense accounts in order to identify expense items that are incorrectly recorded.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented regarding performing monthly reconciliations of asset additions.

The Agency also indicated that corrective action is in-process regarding a more thorough review of expense accounts.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-150-09**
State/Educational Agency:	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/10, 06CH7001/11**
Federal Award Year(s):	**November 1, 2007 to October 31, 2008, November 1, 2008 to October 31, 2009**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
Facilities and Administration Costs should not be charged as direct costs to a grant.

Condition:
During our testing of expenses charged after the end of the grant period and expenses posted to the grant as adjustments, we noted that expenses for Telephone Recharge and Vehicle Maintenance Recharge included fees added to the actual expense that are administrative in nature. These fees are included in the definition of general administration expenses and should not be included as direct costs of the grant.

For the Telephone Recharge expense, a Chancellor's Fee of $5.50 per hone is added to the actual telephone expense. Head Start has 68 phones. Additionally, equipment maintenance was also charged for the telephones. For the Vehicle Maintenance Recharge expense, a 5% vehicle control fee is added to the actual expenses incurred for fuel, car tags, etc.

Questioned Costs:
The amount of the Chancellor's Fee for the Telephone Recharge for FY09 would approximate $4,488 ($5.50/phone for 68 phones for 12 months). The amount for the equipment approximates $2,856 ($3.50/phone for 68 phones for 12 months). The amount of the vehicle control fee added to the Vehicle Maintenance Recharge expense is approximately $583 (Total FY09 Recharge expense $12,244.94/105). Additionally, 21% of indirect costs on these charges approximate $1,665.

The total questioned costs are $9,592.

Cause:
After UAMS implemented Policy #8.3.17 on June 3, 2008, departments that prepare recharge entries could no longer post expenses directly to a grant project. The entries are posted to the cost center associated with the grant. The Grants Administrator is responsible for transferring the costs from the cost center to the grant. When the entries were made for transferring the cost to the grant, the additional fees were included in the entry amount.

Effect:
The U.S. Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that management verify the fees included in all recharge entries and ensure that entries to transfer costs to the grant do not include any fees that would be classified as Facilities and Administrative in nature.

Current Status:
According to a report presented to the Legislative Joint Auditing Committee on November 12, 2010, the Agency has indicated that corrective action has been implemented.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**09-810-01**
State/Educational Agency:	**Arkansas Department of Workforce Services**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	
Federal Award Year(s):	**Y/E June 30, 2009**
Compliance Requirement(s) Affected:	**Administrative Cost Limits**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Management is responsible for establishing and maintaining effective internal control over administrative amounts charged to grants in order to not exceed administrative cost limits.

Condition:
In order to test compliance with respect to administrative cost limits, a sample of three ACF-196 quarterly reports was chosen. One of the ACF-196 quarterly reports reported administrative costs in excess of administrative cost limits.

Questioned Cost:
Noted $1,014,047 in excess of allowable limit charged to administrative costs on the ACF-196 quarterly financial status report.

Cause:
Potential program expenses were charged as administrative costs and sufficient controls were not in place to ensure administrative cost limits were not exceeded.

Effect:
Federal regulations were not followed and administrative costs of $1,014,047 were questioned.

Recommendation:
Management should amend the ACF quarterly financial status report to appropriately classify costs. If administrative costs still exceed the allowable limit, management should reimburse the United States Department of Health and Human Services.

Current Status:
The Agency has indicated this issue as being resolved. The Agency has revised procedures and instructed personnel to assure that program and administrative costs are properly classified.

State of Arkansas

Corrective Action Plan

For the Year Ended June 30, 2010

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FS-10-01 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 that procedures are in place to ensure that computer program changes placed into production are adequately tested and authorized; however, controls are insufficient to ensure adherence to those procedures.

In addition, developers of the Arkansas Integrated Revenue System also have the ability to update the production databases and programs.

Failure to properly implement controls increases the risks of misappropriation of assets and misstatement of the State"s financial records and financial statements.

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

Management Response:
An automated software tool has been purchased and installed that requires a separation of duty assignments when moving program changes through the testing phase and into the production system. This separation provides a review and approval process by supervisors and managers that have not had access to change the program code.

The developer"s access to production databases and programs of the Arkansas Integrated Revenue System has been removed. This access had been granted during the initial rollout of the software

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STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FS-10-02 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 previous audits, the Treasurer of State processes various payments to counties and municipalities. The payee information, including direct deposit information, is stored in the Treasurer of State"s computer system. The person who has the ability to change this information also has the authority for the processing and approving of payments.

Failure to properly implement controls increases the risks of misappropriation of assets and misstatement of the State"s financial records and financial statements.

The Treasurer of State indicated that they have been working on corrective procedures on this control deficiency subsequent to the prior year audit. However, complete corrective action had not been taken as of June 30, 2010.

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

Management Response:
As of March 21, 2011, the Treasurer of State began using the vendors in the Arkansas Administrative Statewide Information System (AASIS). These vendors are maintained by the Office of State Procurement in the Department Finance and Administration. Requests for vendor additions or changes to existing vendors used by the Treasurer of State require two authorized signatures on the request form provided to the Department of Finance and Administration.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FS-10-03 Security Access

Sound information systems standards specify that adequate controls should be in place to ensure that user access to data is properly restricted to only those individuals required to perform their assigned job functions. The Department of Finance and Administration (DFA) has a computer network that is used in their normal day-to-day operations as well as the Arkansas Integrated Revenue System (AIRS). AIRS is an integrated tax software system that is used to record various tax revenues (e.g. sales tax & income tax).

During our review of the information systems controls over DFA"s network and AIRS, we noted the following deficiencies related to security access:

- Active users on DFA"s network could not be identified on a listing of current employees and contractors.
- Active users of AIRS could not be identified on a listing of current employees and contractors.
- AIRS users who had the ability to add and approve an adjustment in the system.

Failure to maintain proper internal controls over user access increases the risk of improper access to DFA"s network and AIRS. Improper access to these systems could also result in misappropriation of assets and misstatement of the State"s financial records and financial statements.

We recommend that DFA management strengthen controls to ensure user access to their various computer systems is commensurate with the individual"s job requirements and do not violate proper segregation of duties.

Management Response:
The active users on DFA"s network not identified as current employees or consultants were removed effected March 9, 2011. A report of active users will be reviewed weekly by DFA Office of Information Services personnel and non-current users will be deleted from or suspended in the system.

The three (3) active users of AIRS not identified as of March 11, 2011 have been removed from the system. A report of active users will be reviewed weekly by DFA Office of Information Services personnel and non-current users will be deleted from or suspended in the system.

The AIRS users who had the ability to add and approve an adjustment in the system have been identified and their permissions have been changed.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**10-645-01**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that access abilities be deactivated when a user retires or is terminated.

Condition and Context:
The audit testing indicated the following:

- 197 retired/terminated individuals were listed as active in the card entry software that controls building access.
- 61 retired/terminated individuals had access abilities to the Spirit System, which is used to administer the Women, Infants and Children federal program.
- 188 retired/terminated individuals had access abilities to Licenses and Services/Fees System.

Questioned Costs:
Unknown

Cause:
Agency management has not implemented adequate policies and procedures to ensure deactivation of an individual"s access abilities when a user is retired or terminated.

Effect:
This situation increases the risk of improper access to the ANSWER application and databases possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency"s financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend the Agency improve policies and procedures to ensure user access ability is discontinued when an individual is retired or terminated.

Views of Responsible Officials and Planned Corrective Actions:
ADH"s procedures have been updated to reflect the following actions: an employee change/termination report will be sent from Information Technology Services to Human Resources daily so necessary paper work to remove individuals from ADH IT systems can be processed. Currently employees are removed from the Department"s internal Common Customer system if they are not in the AASIS PCR table. This check is run daily. Human Resources will route appropriate paperwork to Information Technology Services so that other data systems can be updated in a timely manner.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-645-02**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate a Continuity of Operations Plan (COOP) should be established, updated and periodically tested to ensure that critical business processes can be restored in the event of an interruption.

Condition and Context:
A plan for the recovery/continuity of the IT Services" operation has not been established. The test for the restoration of the data and applications has not been conducted.

Questioned Costs:
Unknown

Cause:
IT Services has not dedicated the resources to develop and test a Disaster Recovery/Business Continuity Plan.

Effect:
The Arkansas Department of Health may not be able to provide essential services to clients or administer and account for some federal programs in a timely manner due to computer processing being hindered because of a disaster.

Recommendation:
We recommend IT Services management establish a business continuity plan. We also recommend IT Services management periodically conduct the recovery test for its critical processes including the backup files and applications restoration.

Views of Responsible Officials and Planned Corrective Actions:
The Department"s Information Technology Services office will update its portion of the ADH continuity plan by June 30, 2011. Information Technology Services conducted a recovery test of the WIC system on March 5, 2011. WIC and ITS personal performed test on the recovered data and all results were positive.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-645-03**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that the information systems industry best practices should be followed to ensure ADH network resources are adequately protected and updated.

Condition and Context:
We performed vulnerability scanning on computers located inside of the ADH network. The scanning indicated the following:

- Operating systems and utilities have not been kept up-to-date.
- Identical or easily-guessed passwords have been used.
- Default passwords have not been changed.
- Unused services and ports have not been closed.

Questioned Costs:
Unknown

Cause:
The Agency had not adequately designed and implemented information systems industry best practices when establishing and maintaining the network infrastructure.

Effect:
This situation increases the risk for unauthorized access to the Agency"s network devices and computers possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency"s financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend Agency management implement adequate procedures and controls to ensure the network infrastructure is properly protected.

Views of Responsible Officials and Planned Corrective Actions:
The Department"s Information Technology Services Office has corrected the problems with the WSUS server for patch management. Patch management will run daily to update ADH hardware connected to the network. The old device causing some of the password issues was removed from service and ITS will continue to look for and fix devices with default and identical or easily guessed passwords. The FTP port that was no longer needed was removed and all other ports are in currently in use. The ITS Office has instituted procedures to continually monitor the use of ports, and will timely remove any ports not in service.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-01**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information systems controls dictate that disaster recovery plans be tested periodically to ensure critical business processes can be restored in the event of an interruption.

Condition and Context:
Although the entity does have a formal, documented Business Continuity and Contingency Plan (BCCP) which, in conjunction with Department of Information Systems" (DIS) Disaster Recovery Plan, addresses all critical areas necessary for the successful recovery from a disaster, the Agency plan has not been tested to ensure adequacy. The BCCP is a collection of individual plans for mission critical divisions or offices within DHS. Testing of the BCCP belonging to the divisions is not being performed on a scheduled basis.

Questioned Costs:
None

Cause:
Agency management has not developed and implemented a policy to require periodic testing of the BCCP.

Effect:
The Agency may not be able to provide essential services to clients or administer and account for some federal programs in a timely manner due to computer processing being hindered because of a disaster.

Recommendation:
We recommend the BCCP be reviewed, tested, and updated with lessons learned and retested on a predetermined basis to ensure uninterrupted client care can be supported.

Views of Responsible Officials and Planned Corrective Actions:
Applications critical to DCO operations for benefit delivery are ANSWER, ACES, and FACTS. These systems are maintained at DIS and are tested as part of the DIS recovery exercise conducted off site at Sun Guard each year. User network login, network authentication, shared network resources, electronic records, departmental workflow, web enabled client intake and other departmental IT services are provided by the DHS Office of Systems Technology (OST). The Departmental Systems Contingency plan is managed by OST and covers fail over processing for systems in the event of a loss of communication with the host servers for each effected system.

Every DHS County Office has a Contingency Operations plan, in the event the local office is not accessible, that names an alternate site operations. In the event automated systems are not available in the alternate sites, DCO"s contingency plan for eligibility determination is to use manual processing with back up paper forms and tracking logs for each county office affected. These manual forms are located in the local county offices with additional stocks available at other locations for transport to county offices as necessary. Depending on the length of the outage the county office will process the manual applications and update the automated systems once operational. If the outage occurs during a critical month end processing window or the outage at the local office(s) is lengthy, the applications are transported to another location to be input into the DCO systems. This decision is made by the Assistant Director of Field Operations on a case by case basis. This process is "tested" at specific sites during on-going State/Federal disasters such as floods, tornadoes, ice storms, etc.

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

Finding Number:	**10-710-01 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**Various**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**Various**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):
The Division is working with Northrop Grumman and the DHS Director of Emergency Operations to conduct a table top exercise on May 4, 2011 to test the Agency"s Business Continuity and Contingency Plan. The DHS Director of Emergency Operations (DOE) is responsible for the HSEEP (Homeland Security Exercise Evaluation Program) and will develop the exercise to ensure it meets all national requirements. The DHS DOE will also work with the Assistant Director of Field Operations to re-emphasize the accuracy and quality of the current county Contingency Operations plans. He will work with local county administrators on strengthening the county office plans and schedule a time this summer to conduct a county office table top exercise.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-02**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information systems controls dictate that user access to the ANSWER data should be restricted to only those individuals required to perform their assigned job functions.

Condition and Context:
We noted the following user access issues:

- One terminated/inactive contractor Northrop Grumman employee with administrator rights to the ANSWER databases.
- One user-id whose assignment was unknown with administrator rights to the ANSWER databases.
- 14 user-ids who are no longer employed or whose assignment is unknown with read rights to the ANSWER databases.
- 18 terminated/inactive DHS employees are still granted with ANSWER user access.
- 10 terminated/inactive Division of Workforce Services employees are still granted with ANSWER user access.
- One user with access not necessary to perform job function.

Questioned Costs:
None

Cause:
Agency management had not developed and implemented adequate controls over assignment and revocation of user access abilities.

Effect:
Failure to maintain proper internal control over user access rights increases the risk of improper access to the ANSWER application and databases possibly resulting in the following:

- Inappropriate creation, modification or disclosure of Agency data;
- Material misstatement in the Agency's financial records and financial statements
- Potential for misappropriation

Recommendation:
We recommend the Agency implement controls to ensure terminated or retired employees are immediately removed and user access abilities are commensurate with job requirements.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-02 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Views of Responsible Officials and Planned Corrective Actions:
DHS has implemented a process to notify security administrators of changes in status for DHS employees. A daily report is generated listing all DHS staff with a change in status in AASIS. This daily report is used to terminate former employees from network access. Once network access has been denied, it is not possible to access the ANSWER system.

On March 1, 2011, DCO began a process in each Department outside of DHS to verify active users and terminate unverified users. A report is sent to non-DHS locations at the beginning of each month listing all active users in DCO systems. A designated person for each non-DHS location is required to verify that each user is still valid or make a request for changes in user access, sign the validation document, and return it by the end of the month.

The Arkansas Department of Health and the Department of Workforce Services are our two largest non-DHS users. Agreements are being prepared for them to supply their daily AASIS worker reports in lieu of the monthly security reports. When these agreements are in place the monthly reports will cease for these two Departments.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-03**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that changes to the operating system software should be properly authorized and tested before installing in the production environment.

Condition and Context:
The applications that maintain eligibility for various federal programs are hosted by the service provider, Department of Information Systems. Inquiry indicated that the service provider has not implemented adequate controls over changes to the operating system.

Questioned Costs:
None

Cause:
Agency management has not implemented adequate controls over changes to the operating system.

Effect:
Failure to maintain proper change controls over system software increases the risk of incorrect processing or unauthorized access possibly resulting in inappropriate creation, modification or disclosure of Agency data.

Recommendation:
We recommend Agency management implement adequate controls to ensure changes to the operating system are properly authorized and tested.

Views of Responsible Officials and Planned Corrective Actions:
DIS concurs with the above recommendation. Compliance with this recommendation is complete. DIS has implemented software that monitors and reports all changes to the operating system software. The software logs these changes. A technician reviews these logs to ensure that all changes were authorized and performed by the appropriate personnel. Any unanticipated changes detected on the software will be promptly investigated by the Security Division.

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-710-04**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)** **93.558 - Temporary Assistance for Needy Families (TANF Cluster)** **93.767 - State Children's Insurance Program** **93.778 - Medical Assistance Program (Medicaid Cluster)**
Federal Award Number(s):	**Various**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Other**
Type of Finding:	**Control Deficiency**

Criteria:
Sound information system controls dictate that changes to the firewall configuration should be properly authorized and tested before installing in the production environment.

Condition and Context:
The applications that maintain eligibility for various federal programs are hosted by the service provider, Department of Information Systems. Inquiry indicated that the service provider has adequate procedures for firewall configuration change; however controls are inadequate to prevent or detect direct changes to the firewall configuration that bypass those procedures.

Questioned Costs:
None

Cause:
Agency management has not developed and implemented adequate controls over changes to the firewall configuration.

Effect:
Failure to maintain proper controls over firewall configuration could result in unauthorized access to network devices possibly resulting in inappropriate creation, modification or disclosure of Agency data.

Recommendation:
We recommend Agency management install controls to ensure changes to firewall configuration are authorized and tested.

Views of Responsible Officials and Planned Corrective Actions:
DIS concurs with the above recommendation. Compliance with this recommendation is complete. DIS has implemented software that monitors and reports all changes to the hosted services firewall which protects the ANSWER system. The software examines firewall changes on a daily basis and sends a log to a server that looks for the permission document. If the permission document doesn"t exist, an alert is sent to the state network support lead in network engineering and the security manager for resolution.

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U.S. DEPARTMENT OF AGRICULTURE

Finding Number:	**10-645-04**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Food Instrument Disposition**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 7 CFR 246.12(q), the Agency is required to account for the disposition of all food instruments within 120 days of the food instrument"s first valid date for participant use. Food instruments must be identified as either issued or voided; and issued food instruments must be identified as either redeemed or unredeemed.

Condition and Context:
The State"s disposition procedures do not comply with this requirement. A review of food instruments for two months indicated that food instruments could have conflicting disposition information, for example, both redeemed and voided. Such instances were not always fully investigated, documented and resolved by Agency personnel.

Questioned Costs:
Unknown

Cause:
Reports generated by SPIRIT, which is the federal program"s computer system, were not adequately designed to provide accurate information that would enable the Agency to account for the disposition of all food instruments within 120 days of issuance. Additional computer programs and edits were designed and implemented by the Agency in an attempt to mitigate the deficiencies of the software.

Effect:
The likelihood that an individual or vendor could in appropriately receive a benefit through a food instrument is increased because food instruments are not properly accounted for.

Recommendation:
The Agency should continue to improve procedures which identify and document the ultimate disposition of every food instrument within 120 days of issuance. Also, Agency personnel should investigate and provide adequate support for food instruments with conflicting disposition information.

Views of Responsible Officials and Planned Corrective Actions:
WIC staff will generate a "Voided/Stolen but Redeemed Report" from the SPIRIT Management Information System (MIS) on a monthly basis following running the "End of Month Report" from the SPIRIT MIS (usually 1 week after the end of the calendar month). For checks listed on the report, check images will be printed from the Solutran banking website.

Local health unit staff issuing WIC checks have been instructed to document in the participant"s file when any error in issuance has been recognized. WIC staff will research each check in the SPIRIT system to see if there is existing documentation on the checks in question. If no documentation exists in the participant file, WIC staff will notify the appropriate Regional WIC Coordinator and/or the Local Health Unit Administrator to investigate the problem further. Findings will be documented in the participant"s file and in the "Voided/Stolen but Redeemed Report."

In an effort to reduce the number of voided yet redeemed checks, WIC Coordinators will continue to incorporate proper procedures for voiding checks in routine clerical and Certified Professional Authority training. They will also continue to train on how to properly document voided checks that have been given to participants by mistake. WIC will work with the Center for Local Public Health to incorporate proficiency in this area in staff performance standards. WIC Coordinators will be given copies of the monthly report so they can identify specific staff members who need targeted training.

U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**10-645-04 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Health**
CFDA Number(s) and Program Title(s):	**10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**
Federal Award Number(s):	**6AR700502**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Food Instrument Disposition**
Type of Finding:	**Noncompliance and Control Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):

Summary:

The WIC State Office will generate a "Voided/Stolen but Redeemed Report" from the SPIRIT MIS on a monthly basis following running the "End of Month Report" from the SPIRIT MIS (usually 1 week after the end of the calendar month). Responsibility for the monthly preparation of this report as well as other reports related to check redemption has been assigned to a staff position within the WIC Finance Section. A report accounting for disposition of all food instruments will be submitted to the WIC Director for each 120 day monitoring period throughout the year. The Director will review the report to assure that, in accordance with 7 CFR 246.12(q), the Program is accounting for the disposition of all food instruments within 120 days of the food instrument's first valid date for participant use. The WIC Director, in collaboration with the Center for Local Public Health, will assure that an ongoing system to monitor progress in reducing the incidence of issued and redeemed checks is established and that targeted training for staff who are not following proper procedures for check issuance is provided. We will monitor the system for any system errors and take corrective actions as needed.

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U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**10-710-05**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)**
Federal Award Number(s):	**0579231 and 0513553**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
Federal regulations 7 CFR 274.4(a) and 274.4(b) require the Agency to account for all benefit issuances through a reconciliation process and to submit a FNS-46, Issuance Reconciliation Report to the Food and Nutrition Service no later than 90 days following the end of the report month. The report is a reconciliation of the benefits issued with the State"s Master Issuance File of eligible households including unreconciled issuances.

Condition and Context:
The Agency failed to reconcile the benefits issued with the State"s Master Issuance File before submitting the FNS-46 report to the federal grantor for the period October 2009 through June 2010.

Questioned Costs:
Unknown

Cause:
Agency employees responsible for filing the FNS-46 have not been properly informed and trained on the reporting requirements and have not be properly supervised by Agency management.

Effect:
Failure to reconcile the benefits issued with the State"s Master Issuance File of eligible households could lead to inaccurate reporting to the federal grantor agency.

Recommendation:
We recommend the Agency develop procedures to ensure the reconciliation supporting the FNS-46 report is accurate, complete, and reviewed adequately by the supervisor.

Views of Responsible Officials and Planned Corrective Actions:
The Agency disagrees with this finding because unknown to the auditor, this reconciliation process was transferred from one Agency Division to another in October 2009 in anticipation of the EBT Contractor conversion. This process reconciles the authorized benefits issued by Agency"s State Master Issuance File reports, ACES FS-147, to the authorizations received by the EBT contractor, FIS-Edge, before submitting the FNS-46. Currently this process is performed in a Division capable of responding to any variance with research and corrective action. In light of this information, we respectfully disagree with this finding and the opinion that a material noncompliance and material weakness exists for the condition stated. No Corrective Action Plan needed.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF AGRICULTURE (Continued)

Finding Number:	**10-710-06**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**10.551 - Supplemental Nutrition Assistance Program (SNAP Cluster)**
Federal Award Number(s):	**0579231 and 0513553**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Special Tests and Provisions - Electronic Benefits Transfer (EBT) Reconciliation**
Type of Finding:	**Significant Deficiency**

Criteria:
In accordance with federal regulations at 7 CFR 274.12, the Agency is required to have a system in place to reconcile the funds entering into, exiting from, and remaining in the Electronic Benefit Transfer system each day with the State"s benefit account with the U.S.Treasury and EBT contractor records.

Condition and Context:
The Agency did not have adequate controls related to the EBT Reconciliation to prevent and detect errors from occurring in the reconciliation by investigating and resolving variances.

Questioned Costs:
Unknown

Cause:
The accounting staff was not appropriately trained and supervised to identify and investigate discrepancies in the reconciliation.

Effect:
Failure to properly perform the EBT Reconciliation could result in inaccurate amounts and unexplained variances including federal funds drawn down in excess of authorized benefit transactions.

Recommendation:
We recommend the Agency establish adequate controls, including training and supervision, to ensure that the information in the reconciliation is complete and accurate and that the variances are identified and resolved in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:
A newly designed reconciliation worksheet was created and implemented that strengthens internal controls and reconciles the funds entering into, exiting from, and remaining in the Electronic Benefit Transfer system each day with the State"s benefit account with the U.S. Treasury and EBT contractor records. The reformatted reconciliation was concurrent with the Contractor conversion date and to date no variances have occurred except the usual timing differences. Additional employee and supervisor training has been conducted.

STATE OF ARKANSAS
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U.S. DEPARTMENT OF DEFENSE

Finding Number:	**10-975-01**
State/Educational Agency(s):	**Arkansas State Military Department**
CFDA Number(s) and Program Title(s):	**12.401 - ARRA - National Guard Military Operations and Maintenance (O&M) Projects**
Federal Award Number(s):	**W912JF-09-2-9031**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Davis-Bacon Act**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
As required by Section 1606 of ARRA and 2 CFR part 176, Subpart C, non-federal entities and contractors are required to comply with the requirements of the Davis-Bacon Act by paying laborers and mechanics wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor.

Condition and Context:
Through inquiry and testing, we determined that the Agency was not adequately informing contractors about the requirements of the Davis-Bacon Act; and therefore, the Agency was not receiving the proper documentation to comply with the Davis-Bacon Act requirements. Due to a special exemption, the Agency is not required to comply with the Davis-Bacon Act for non-ARRA construction projects. Due to this special exemption, it appears that the Agency was not prepared to comply with the Davis-Bacon Act requirements for ARRA contracts. $9,797,558 of the $12,830,000 ARRA grant was expended in the 2010 State fiscal year.

Questioned Costs:
None

Cause:
The staff did not have a complete understanding of the requirements of the Davis-Bacon Act. None of the construction contracts required contractors to comply with the Davis-Bacon Act; and therefore, the Agency did not receive payroll documentation as required by the Davis-Bacon Act in relation to ARRA contracts.

Effect:
The Agency"s lack of understanding of the Davis-Bacon Act requirements caused the Agency to exclude Davis-Bacon act requirements from their construction contracts which in turn caused a lack of documentation concerning the wage rates paid to contractor employees performing ARRA funded projects.

Recommendation:
We recommend the Agency properly train their program staff to implement the requirements of the Davis-Bacon Act when they are required to apply them to applicable projects.

Views of Responsible Officials and Planned Corrective Actions:
All Agency personnel and vendors have been retrained on the requirement to comply with the Davis-Bacon Act, and that it is a condition of contract award in reference to all Stimulus Act projects. We have incorporated that requirement in to all contract specifications and have designated personnel collecting payroll data from contractors to insure compliance with all the requirements of Davis-Bacon. WH247's are on file with the agency for the stimulus project contracts and personnel have been trained on the reporting of data to CAFR.

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U.S. DEPARTMENT OF EDUCATION

Finding Number:	**10-160-01**
State/Educational Agency(s):	**University of Arkansas at Pine Bluff**
CFDA Number(s) and Program Title(s):	**84.038 - Federal Perkins Loan Program_Federal Capital Contributions**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR § 668.16(m)(1)(ii) of the Student Assistance General Provisions and 34 CFR § 674.5 of the Federal Perkins Loan Program, an institution that begins and continues to participate in any Title IV, HEA program, must demonstrate that it is capable of adequately administering that program under the standards established. The Secretary considers an institution to have that administrative capability if the institution's cohort default rate under the Federal Perkins Loan Program does not exceed 15 percent. In addition, as stated in 34 CFR § 674.5(a)(1), if an institution"s cohort default rate equals or exceeds 25 percent, the institution"s Federal Capital Contribution (FCC) is reduced to zero.

Condition and Context:
Part III of the University"s Fiscal Operations Report and Application to Participate (FISAP) was obtained and the cohort default rate, a key line item, was examined. The University"s current year cohort default rate was 47%. A similar finding has been reported in previous audits.

Questioned Costs:
None

Cause:
The Federal Perkins Loan Program cohort default rate was significant because of the small population of borrowers included in the calculation. The University reported that nine of nineteen borrowers who had entered repayment status during the prescribed period were in default.

Effect:
The University exceeded the allowable Federal Perkins Loan program cohort default rate.

Recommendation:
Establish procedures to lower the University"s cohort default rate to an acceptable level.

Views of Responsible Officials and Planned Corrective Actions:
The university"s high default rate is due, in large part, to the small number of borrowers as the university does not offer new loans to students and is liquidating the Federal Perkins Loan Program by assigning all loans to the U.S. Department of Education. The small number of borrowers also causes wide fluctuations in the default rate.

From July 1, 2009 through June 30, 2010 the U.S. Department of Education accepted assignments for 517 borrowers leaving 262 borrowers. Of the 262 borrowers, 175 had been referred to the U.S. Department of Education for assignment but not yet accepted.

The university utilizes the services of an outside agency, Campus Partners, to service the loan portfolio and insure timely billing and due diligence for all remaining outstanding borrowers. Efforts continue to fully liquidate the program.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-500-01**
State/Educational Agency(s):	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.027 - Special Education_Grants to States** **84.173 - Special Education_Preschool Grants** **84.391 - ARRA - Special Education Grants to States** **84.392 - ARRA - Special Education - Preschool Grants**
Federal Award Number(s):	**H027A070018A; H027A080018A; H027A090018; H173A070021; H173A080021; H173A090021; H391A090018A; H392A090021A**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with 34 CFR 300.705, the Agency is required to allocate any funds under this program that the State Education Agency (SEA) does not retain for administration and other State-level activities to eligible LEAs (Local Education Agencies) in the State. An SEA must distribute to each eligible LEA the amount the LEA would have received from the fiscal year 1997 appropriation if the State had distributed 75 percent of its grant for that year to LEAs. The SEA must then distribute (a) 85 percent of any remaining funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the Agency"s jurisdiction and (b) 15 percent of any remaining funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the SEA. Also, as noted in OMB Circular A-133 section 300(b), the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition and Context:
The Agency complied with all required minimum and maximum allocation amounts. However, based upon the Agency"s usage of Special Education_Preschool Grant funds, it was noted that $1,069,094, $1,069,094 and $1,108,172 for grant years 2008, 2009 and 2010, respectively, were not allocated to LEAs in accordance with the census (85%) and poverty (15%) distribution method, as stipulated by the program regulations, but instead were based on another method. Additionally, there was no review, testing or approval by a Special Education supervisor or other knowledgeable personnel of allocation worksheets used to distribute federal funds.

Questioned Costs:
Unknown

Cause:
The Agency did not adhere to the maximum thresholds that they had established for State-level (discretionary) activities. Appropriate documentation supporting the actual amounts allocated and distributed to LEAs was not readily available to auditors, and there was an inadequate review of the calculations related to Special Education funds.

Effect:
Inaccurate data or inappropriate allocation could result in an improper payment to an LEA.

Recommendation:
We recommend the Agency strengthen controls to ensure that documentation supporting the components of the allocation formulas be retained and available for audit purposes and that knowledgeable Agency personnel adequately review, test and approve allocation worksheets used to distribute federal funding to LEAs.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-500-01 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.027 - Special Education_Grants to States** **84.173 - Special Education_Preschool Grants** **84.391 - ARRA - Special Education Grants to States** **84.392 - ARRA - Special Education - Preschool Grants**
Federal Award Number(s):	**H027A070018A; H027A080018A; H027A090018; H173A070021; H173A080021; H173A090021; H391A090018A; H392A090021A**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions:
The State Education Agency (SEA) will strengthen controls to ensure that documentation supporting the components of the allocation formulas will be retained and available for audit purposes and that knowledgeable Agency personnel adequately review, test and approve allocation worksheets used to distribute federal funding to LEAs (Local Education Agencies). If the SEA continues to distribute State-level activities funds as pass-through funds to eligible LEAs in the State, the SEA will distribute to each eligible LEA (a) 85 percent of these funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the Agency"s jurisdiction and (b) 15 percent of the funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the SEA.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-500-02**
State/Educational Agency(s):	**Arkansas Department of Education**
CFDA Number(s) and Program Title(s):	**84.027 - Special Education_Grants to States** **84.173 - Special Education_Preschool Grants** **84.391 - ARRA - Special Education Grants to States** **84.392 - ARRA - Special Education - Preschool Grants**
Federal Award Number(s):	**H027A070018A; H027A080018A; H027A090018; H173A070021; H173A080021; H173A09002; H391A0900018A; H392A0900021A**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR sections 300.645(a), (c), and (e), the Agency is required to (1) establish procedures to be used by LEAs and other educational institutions in counting the number of children with disabilities receiving special education and related services; (2) obtain certification from each agency and institution that an unduplicated and accurate count has been made; and (3) ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count.

Condition and Context:
From a sample of 25 LEAs, the Agency was unable to provide the required certifications from 2 school districts that student data was reported accurately.

Questioned Costs:
Unknown

Cause:
The necessary documentation was typically submitted by the LEAs; however, the Agency had not implemented a control to specifically review and verify that compliance with the requirement had been met.

Effect:
Inappropriate or inaccurate student counts could result in an LEA receiving an improper allocation or distribution of federal funds.

Recommendation:
We recommend the Agency strengthen internal controls related to data submission by the LEAs to ensure that LEAs certify the accuracy of the data submissions and that such certifications be obtained and retained for audit purposes.

Views of Responsible Officials and Planned Corrective Actions:
The Agency will strengthen internal controls related to data submission by the LEA"s to ensure that LEA"s certify the accuracy of the data submissions and that such certifications will be obtained and retained by SEA for audit purposes. If the Certification of Data Accuracy Form is not received within one week of the due date, the staff of the Arkansas Public School Computer Network will contact the LEA Superintendent and request the form. Once received, forms will be copied and placed in a file and retained for audit purposes.

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

Finding Number:	**10-520-01**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition and Context:
Arkansas Rehabilitation Services (ARS) incorrectly reported expenditures on the SEFA. Vocational Rehabilitation_Grants to States for FFY2010 was overstated by $8,510,080.

Questioned Costs:
Expenditures reported on the SEFA exceeded expenditures on the Quarterly Federal Financial Reports by $8,510,080.

Cause:
For Vocational Rehabilitation grants issued on or after October 1, 2010, the required quarterly reporting form changed from the Financial Status Report (SF-269) to the Federal Financial Report (SF-425). Management of ARS did not have procedures in place to ensure expenditures reported on the SF-425 agreed to expenditures reported on the SEFA.

Effect:
Inaccurate reporting could jeopardize future awards.

Recommendation:
We recommend the Agency strengthen internal controls by providing additional training to staff concerning reporting requirements and the proper procedures for reporting expenditures on the SEFA.

Views of Responsible Officials and Planned Corrective Actions:
ARS Response: The SF-425 defines federal expenditures as federal cash draws instead of actual expenditures as reportable on the older SF-269. The agency continued to report calculated federal expenditures and not cash draws and carried this to the SEFA. We immediately changed procedures when this was noted by the Legislative Audit staff. The SEFA has been corrected. All future SEFAs will be prepared based on SF-425 reporting.

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

Finding Number:	**10-520-02**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003; H126A100003**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal guidance at 2 CFR 225 Appendix A section C(1)(a) states that costs charged to federal awards must be necessary and reasonable for proper and efficient performance and administration of the awards. In addition, section E(2)(a) states that typical direct costs chargeable to federal awards include compensation of employees for the time devoted and identified specifically to the performance of those awards.

Condition and Context:
At June 30, 2010, Arkansas Rehabilitation Services had 488 employees and each employee"s compensation cost was allocated to an internal order based on their position and job duties. Each internal order is assigned to a federal program for reporting and reimbursement of program costs. Our review revealed compensation costs for two (2) of fifteen (15) employees totaling $35,408 were allocated to the wrong internal order and should not have been charged directly to the federal program based on the employee"s position and job duties assigned.

Questioned Costs:
Total compensation costs of $35,408 were allocated to the wrong internal order and incorrectly charged to the federal program.

Cause:
Positions and job duties of personnel were not adequately reviewed by management for appropriate assignment to federal programs.

Effect:
Failure to accurately report personnel compensation costs to appropriate federal programs could jeopardize future awards.

Recommendation:
We recommend the Agency develop procedures to ensure only compensation for personnel assigned to federal programs are allocated to federal awards.

Views of Responsible Officials and Planned Corrective Actions:
One employee was coded to an incorrect program coding combination. This has been corrected to charge these costs to the proper funding source. Another employee was coded to the Vocational Rehabilitation program but was required to provide substitute coverage in the Commissioner"s Office (indirect cost) in the absence of the administrative assistant. The costs associated with this function will be adjusted to the indirect cost pool based on actual hours provided to the Commissioner"s Office. The questioned costs have been adjusted out of the Vocational Rehabilitation program either by payroll recalculation to an appropriate program or by direct adjustment to the reporting. The agency has developed a time sheet procedure and a review/certification process to properly associate personnel with the proper program coding.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-01**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal guidance at 34 CFR 80.20(b)(2) and 80.20(b)(6) require the State to maintain records and source documentation for information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and income.

Additional federal regulations at 34 CFR 80.41 and 361.40 require the Agency to submit financial and client service data to the U.S. Department of Education – Rehabilitation Services Administration (USDOE – RSA). Management is responsible for reviewing and approving the data for accuracy and completeness prior to submission to RSA. The data contains key program measurements used by RSA to obtain a general assessment of the state-federal Vocational Rehabilitation program and its accomplishments.

Condition and Context:
Arkansas Rehabilitation Services (ARS) and the Arkansas Department of Human Services (DHS) are two Agencies receiving grants under the Vocational Rehabilitation Cluster. These Agencies maintain case files to support vocational rehabilitation services and aid provided to clients. Our review of twenty-four (24) case files of ARS and six (6) case files of DHS revealed that nine (9) of the files did not contain invoices to support authorizations for payment. ARS had fourteen (14) payments totaling $8,196 that did not have proper supporting documentation and DHS had fifteen (15) payments totaling $25,097. Due to the number and amount of exceptions, the actual cost of noncompliance could be substantial.

An additional sample of 190 active case files from the ARS case management system, Arkansas Rehabilitation Integrated Management Information System (ARIMIS), revealed 99 files had not been updated to reflect the appropriate status of each of the cases and 3 files could not be located in the field offices.

Questioned Costs:
Expenditures totaling $33,293 did not have proper supporting documentation.

Cause:
Counselors and administrative staff of both Agencies were not adequately trained and disbursements were not reviewed to ensure that proper documentation was maintained in case files. Additionally, ARS did not have proper internal controls to ensure information entered and retrieved from the system was accurate and complete. Counselors did not update client status information in the system and the file status was not properly reviewed by the District Managers.

Effect:
Inaccurate and incomplete information submitted to RSA may prevent the identification of deficiencies in the program and Agency operations that could affect the provision of services to clients. Failure to maintain supporting documentation for expenditures made on behalf of clients could lead to misappropriation of funds and inaccurate reporting of client case costs which could jeopardize future awards.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-01 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

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

Views of Responsible Officials and Planned Corrective Actions:
ARS Response: Agency policy required that invoices be files in the case record. The questioned costs of $33,293 are based on a review of the contents of the case records. The review apparently did not extend to the accounts payable case cost records that support the disbursement. Copies of the invoices have been provided to the Legislative Audit for review and to the Field program for filing in the case records.

The agency recognizes that ARIMIS had an inherent deficiency that caused problems in updating cases. ARS has implemented a new case management system (System 7), which has addressed this deficiency. Currently, System 7 has developed a software program that will alert counselors and district managers to any cases that have not been updated or have been open since 2006. All red alerts are receiving immediate updates. The projected noncompliance of $1,607,798 is a total of the case cost associated with the cases not updated. However, all of these cases meet the eligibility requirements of the Rehabilitation Act and all service expenditures were incurred according to the employment plan. There is no determination of liability or of costs being disallowed when a case plan is interrupted or suspended, the counselor has lost contact with the client, or if the counselor fails to update the status of a case.

DHS Response: For the DHS Division of Services for the Blind, analysis of the $25,097 in undocumented costs revealed a) some costs that were documented elsewhere in the case file and misfiled, b) some documents that, by policy, pair with fee schedules to legitimately substitute for the required documentation, but c) the majority of the questioned costs showed staff misunderstanding of the process. Each of the errors have been identified to staff, directives issued and training scheduled. Follow up for verification of change in practice will be done by quarterly team review.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-02**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003; H126A100003; H126A090004; H126A100004**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Program Income**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The U. S. Department of Education – Rehabilitation Services Administration (USDOE – RSA) issued Policy Directive 10-03 with instructions for completing the new Quarterly Financial Reports (SF425). These instructions along with 34 CFR 361.63 state that program income is considered earned when it is received and should be reported as of the end of the reporting period.

34 CFR 80.21(f)(2) requires grantees to disburse program income, rebates, refunds, contract settlements, audit recoveries, and interest earned from these activities before requesting additional cash payments.

Condition and Context:
Arkansas Rehabilitation Services (ARS) and the Arkansas Department of Human Services (DHS) did not accurately report program income earned as of the end of each reporting period. ARS and DHS received program income for fiscal year ending June 30, 2010 totaling $1,095,024 and $33,299, respectively. Program income amounts reported by the Agencies were $769,699 and $0, resulting in differences of $325,326 and $33,299.

Additionally, as of June 30, 2010, ARS had a combined cash and treasury balance totaling $938,989, which consisted of program income received, that had not been disbursed before requesting additional cash payments.

Questioned Costs:
Program income received by ARS and DHS-DSB exceeded amounts reported by $325,326 and $33,299, respectively. ARS program income not disbursed before requesting additional cash payments totaled $938,989.

Cause:
ARS and DHS-DSB employees responsible for preparing the reports were not adequately trained on the reporting requirements and the agencies did not have procedures to ensure that reports were properly reviewed for accuracy and completeness.

Effect:
Inaccurate reporting and noncompliance with program requirements could jeopardize future awards.

Recommendation:
We recommend the agencies develop procedures to ensure that amounts received as program income are properly reported and disbursed in accordance with program requirements.

Views of Responsible Officials and Planned Corrective Actions:
ARS Response: The agency failed to note the application of 34 CFR 80.21(f)(2) with the change over from the SF-269 to the SF-425 federal report. During a meeting regarding this issue with the Legislative Audit, agency staff outlined controls designed to properly report the recognition of program income, especially on interim reports and controls designed to comply with the provisions of 34 CFR 80.21(f)(2). The actual application of these controls will be the subject of subsequent audits. The controls and procedures discussed and implemented are as follows:

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-02 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States (Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A090003; H126A100003; H126A090004; H126A100004**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Program Income**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):

(1) Program income earned is reported using fund 1190100 (Non-AASIS House bank) instead of NRS0002 (Treasury Cash Fund). This change properly states program income as it is received and deposited in the bank instead of waiting until it is transferred to the Treasury. In addition, program income is currently being deposited in the Treasury ARS Paying Fund where the funds can be expensed immediately on a first-dollar basis.

(2) The ARS Finance Department contacted Rehabilitation Services Administration (RSA) regarding revising the SF-425 for the period ending June 30, 2010. RSA advised ARS not to revise the interim report but to ensure that the final is correctly stated.

(3) The Arkansas Career Training Institute is transferring funds from the Hot Springs bank account on a more frequent basis (weekly) to expend the funds as rapidly as possible to comply with the provisions of 34 CFR 80.21(f)(2).

(4) The ARS Finance Department executed expense error corrections to charge program income for costs previously charged to the operational paying account.

DHS Response: Analysis of reports submitted indicated staff misunderstanding of proper completion of new SF 425 report regarding program income versus historical SF 269 report. Staff at both the division and department level have reviewed instructions and demonstrated knowledge of proper reporting. Follow up will be done by DSB Director to ensure compliance quarterly and annually.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-03**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **84.390 - ARRA - Rehabilitation Services_Vocational Rehabilitation Grants to States** **(Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004; H390A090004A**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Federal regulations at 34 CFR 80.41 and 361.40 require the Agency to submit financial and client service data to the U.S. Department of Education – Rehabilitation Services Administration (USDOE – RSA). The Quarterly Cumulative Caseload Reports (RSA-113) and the Quarterly Financial Reports (SF-269 and SF-425) are due 30 days after the end of the quarter for the 1st, 2nd, and 3rd quarters and 60 days after the end of the 4th quarter. The Annual Case Service Report (RSA-911) is due on November 30 after the federal fiscal year end.

Condition and Context:
The Arkansas Department of Human Services (DHS) did not submit the September 2009 Quarterly Financial Reports (SF-269 and SF-425) for the FFY2009 Vocational Rehabilitation grant or the September 2009, December 2009, and March 2010 reports for the Vocational Rehabilitation American Recovery and Reinvestment Act grant in accordance with applicable federal due dates.

The RSA-113 report for September 2009 and the RSA-911 report for September 2010 were not submitted timely by Arkansas Rehabilitation Services (ARS).

Questioned Costs:
None

Cause:
ARS did not have proper internal controls to ensure information entered and retrieved from the case management system, Arkansas Rehabilitation Integrated Management Information System (ARIMIS) was accurate and complete. Manual adjustments necessary to correct information obtained from the system resulted in delays in reporting.

At DHS, the expenditure verification process resulted in processing delays and reporting personnel were not adequately trained on program reporting requirements.

Effect:
Failure to submit required reports by applicable due dates could jeopardized future awards.

Recommendation:
We recommend the Agency develop procedures to ensure client information maintained in the case management system is accurate and complete. Review processes should be efficient and Agency staff should be adequately trained on reporting requirements. All required reports should be submitted to RSA by applicable due dates.

Views of Responsible Officials and Planned Corrective Actions:
ARS Response: ARS has experienced ongoing problems with the accuracy of data in required case management reports from the Arkansas Rehabilitation Integrated Management Information System (ARIMIS). The problems resulted in delays in certain federal case management reports. The delays were the result of the time necessary to make corrections of errors and anomalies required in order to submit the reports. In order to alleviate these problems ARS contracted for new case management software, System 7, from Libera, Inc. The new System 7 came on line October 22, 2010. The new software system will alleviate the problem of the reports being late.

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CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-520/710-03 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Workforce Education - Arkansas Rehabilitation Services and Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**84.126 - Rehabilitation Services_Vocational Rehabilitation Grants to States** **84.390 - ARRA - Rehabilitation Services_Vocational Rehabilitation Grants to States** **(Vocational Rehabilitation Cluster)**
Federal Award Number(s):	**H126A100003; H126A100004; H390A090004A**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions: (Continued)
The Rehabilitation Services Administration was informed in advance in both cases when the reports were late. There were no funding or programmatic consequences due to the reports being late.

DHS Response: DHS-DSB has reviewed the expenditure verification process with DHS finance staff to eliminate processing delays and participated in mutual training to ensure staff of both entities understand the methodology for timely and accurate reporting.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

U.S. DEPARTMENT OF EDUCATION (Continued)

Finding Number:	**10-700-01**
State/Educational Agency(s):	**Arkansas Department of Higher Education**
CFDA Number(s) and Program Title(s):	**84.367 - Improving Teacher Quality State Grants**
Federal Award Number(s):	**S367B08004; S367B090004**
Federal Award Year(s):	**2008 and 2009**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Control Deficiency**

Criteria:
In accordance with 34 CFR 80.20, the Agency is required to maintain financial management systems that maintain records which adequately identify the source and application of funds provided. Additionally, the A-102 Common Rule, which the USDE codified as 34 CFR 80, requires that all entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulation, and program compliance requirements.

Condition and Context:
Financial transactions of the Agency are recorded in the Arkansas Administrative Statewide Information System (AASIS); however, the Agency was unable to track expenditures by grant award.

Questioned Costs:
Unknown

Cause:
The use of unique accounting codes for each federal grant was not adopted by Agency management.

Effect:
Without proper policies governing federal expenditure coding in the accounting system, the Agency has no mechanism to properly monitor and track grant expenditures.

Recommendation:
We recommend the Agency establish internal controls, including following State recommended guidelines regarding the use of WBS elements in the State"s accounting system.

Views of Responsible Officials and Planned Corrective Actions:
ADHE has established internal controls, including following State recommended guidelines regarding the use of WBS elements in the State"s accounting system. New WBS elements have been established for each Federal award number for the Improving Teacher Quality State Grants.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**10-700-02**
State/Educational Agency(s):	**Arkansas Department of Higher Education**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-1002ARTANF**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Section 15.b(1) of OMB Circular A-87 states that capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

Condition and Context:
In fiscal year 2010, the Department of Higher Education made three equipment purchases totaling $12,793 for two cubicles and an LCD monitor that were not approved in advance by the federal awarding agency.

Questioned Costs:
$12,793

Cause:
There was a lack of understanding regarding the allowability of equipment purchases by management.

Effect:
The Department of Health and Human Services, through any primary grantees, have the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the Agency is not in compliance with the requirements established.

Recommendation:
We recommend the Agency review the necessary federal regulations and codes defining activities and costs which are allowed and unallowed and train staff accordingly.

Views of Responsible Officials and Planned Corrective Actions:
ADHE is conducting training to develop awareness of all OMB Circulars for all ADHE/CPI staff. We are working with Arkansas Department of Human Services to develop and implement a system for reporting and securing approval for all purchases over $5000.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

Finding Number:	**10-710-07**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-401ARTANF; #G-0501ARTANF**
Federal Award Year(s):	**2004 and 2005**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Section 8.4.2 of the Amended Treasury-State Agreement for fiscal year 2010 states that for each refund, the State shall maintain information identifying: (1) date a refund is credited to a State account, (2) date of the subsequent deposit of federal funds against which the refund is offset, and (3) amount of the refund.

TANF Program Instruction No.TANF-ACF-PI-2000-2 requires that states maintain documentation for all recovered overpayments. At a minimum, such documentation should include the period to which the overpayment applied, the program type (AFDC or TANF), the distribution methodology on the recoveries between federal TANF and State maintenance of effort (MOE) funds, and identification of the expenditures for which overpayment recoveries were subsequently used, by federal TANF and State MOE source.

Condition and Context:
$508,194 in deposits of unidentified client overpayments from an unknown period were allowed to accumulate in State treasury accounts without being applied to grant expenditures until December 22, 2009, when they were deposited into the EBT account for use toward cash assistance expenditures. While the Program Instructions do not specify a time period in which these client overpayments must be used, they do require the Agency to maintain appropriate documentation about the overpayments. Documentation was not maintained by the Agency.

Questioned Costs:
None

Cause:
Lack of appropriate procedures in place to document and apply the receipts collected from TANF overpayment collections reflects a weakness in internal control over cash management.

Effect:
Failure to comply with cash management requirements could cause excessive cash balances to be retained by the Agency.

Recommendation:
We recommend the Agency develop and communicate procedures for maintaining the refund information required by the Treasury-State Agreement and TANF Program Instructions. We also recommend that management develop and communicate procedures for applying these refunds to future cash draws so that the accumulation of cash balances is minimized.

Views of Responsible Officials and Planned Corrective Actions:
Beginning in 2004, all client overpayments are received and recorded into an Overpayment Accounting System documenting the period to which the overpayment applied & the program type (AFDC or TANF). Beginning July 2010, client overpayments received are applied to grant expenditures no less then quarterly.

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

Finding Number:	**10-710-08**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.558 - Temporary Assistance for Needy Families (TANF Cluster)**
Federal Award Number(s):	**#G-401ARTANF; #G-0501ARTANF**
Federal Award Year(s):	**2004 and 2005**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The FFR-425 reports required by 2 CFR 215.52 should utilize accounting records as described in 2 CFR 215.21(b)(7), which requires that a recipient"s financial management systems should provide accounting records that are supported by source documentation.

Condition and Context:
Cash disbursements of $19,138,352 reported in State fiscal year 2010 on the financial federal report (FFR) 425 were not supported by applicable accounting records. Reported cash disbursements on the FFR-425 should be supported by expenditure per cost allocation reports; however, cash disbursements reported on the FFR 425s were $1,050,510 higher than cost allocation reports. Since the FFR-425 reports are cumulative, there could be instances of error corrections from prior periods that would cause the amounts to differ, but the auditor would expect a reconciliation back to cost allocation. No documentation supporting the reported cash disbursements was provided to the auditor.

Questioned Costs:
None

Cause:
Lack of appropriately trained staff, as well as a lack of appropriate supervisory review, led to the cash disbursements reported not being supported by appropriate documentation.

Effect:
Lack of supporting documentation for cash disbursements could lead to inaccurate FFR-425s.

Recommendation:
We recommend the Agency develop internal control procedures to ensure that submitted financial reports are supported by the Agency"s financial management systems.

Views of Responsible Officials and Planned Corrective Actions:
The Agency has implemented an additional internal control procedure to ensure that submitted financial reports are supported by the Agency"s financial management systems. A Cost Allocation expenditure report has been developed specifically as a reconciliation resource for quarterly reconciliations between reported cash disbursements on the FFR-425 and cost allocation, as required. Staff has been trained on the use of the new reports.

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

Finding Number:	**10-710-09**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.568 - Low-Income Home Energy Assistance**
Federal Award Number(s):	**G-10B1ARLIEA; G-09B1ARLIEA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Significant Deficiency**

Criteria:
As noted in 31 CFR 206.6, an Agency shall periodically perform cash management reviews to identify areas needing improvement. Additionally, the A-102 Common Rule requires that all entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulation, and program compliance requirements.

Condition and Context:
A separate bank account is utilized as a paying account between the Agency"s federal funds in the State Treasury and the non-profit Area Agencies that eventually distribute program funds to eligible households. In the process of reviewing the program"s bank account, it was noted that a warrant, which was issued in April 2010 in the amount of $298,822 from the Agency"s federal fund, had not been deposited in the program"s bank account in a timely manner. Upon inquiry, the Agency was unaware that the warrant had not been deposited in the program"s bank account. Audit procedures concluded that this was the only unaccounted for warrant during the fiscal year.

Questioned Costs:
None

Cause:
The Agency failed to implement adequate internal controls and procedures relating to the literal cash flow of these federal funds. The use of an additional bank account to distribute funds to the area agencies increased the opportunities for errors. The Agency had maintained a substantial balance in this bank account for an unknown period of time, which contributed to the undeposited warrant being unnoticed.

Effect:
Federal funds, which should have been made available to area agencies, were unaccounted for until discovered by the auditor. In response to this issue, the Department of Finance and Administration (DFA) was notified and a replacement warrant was issued and deposited in December 2010.

Recommendation:
We recommend the Agency establish appropriate controls and procedures to ensure that all transfers are properly deposited in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:
The Agency has implemented a procedure where duly authorized personnel ensure program transfers are properly deposited in a timely manner. Any delays or exceptions are investigated and resolved.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)

Finding Number:	**10-710-10**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **93.713 - ARRA - Child Care and Development Block Grant (CCDF Cluster)**
Federal Award Number(s):	**G-0901ARCCDF; G-901ARCCD7; G-1001ARCCDF**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance**

Criteria:
The Arkansas Department of Human Services, "the Agency", is responsible for administering the State"s CCDF "Daycare" program. The Agency"s responsibility includes determining eligibility for each applicant and documenting that eligibility criteria were met. The Agency outlines eligibility requirements for the Daycare program in their State plan.

Condition and Context:
Between November 1, 2009 and October 31, 2010, the Division of Child Care and Early Childhood Education received referrals on 151 cases of possible client overpayments and fraud and 97 cases of provider overpayments and fraud. The Agency"s compliance unit investigated and validated 70 of the client cases and 83 of the provider cases for amounts due of $79,853 and $45,055 respectively. The investigation and review is still ongoing for 81 client cases and 14 provider cases with referral amounts of $68,929 and $17,289 respectively. As of the October 31, 2010, only 96 of the 248 have reached final resolution due to the Agency appeal process.

Questioned Costs:
Unknown

Cause:
Factors contributing to these issues include: 1) cash heads and/or clients failed to report changes in client eligibility criteria which would have affected their eligibility status, 2) willful misrepresentations of client eligibility data by clients, and 3) providers billing for services which were not provided.

Effect:
Benefits could have been inappropriately provided to ineligible clients or paid to providers for services not rendered.

Recommendation:
We recommend the Agency continue to provide training for employees, implement policy changes and increase monitoring to reduce overpayments to clients and providers.

Views of Responsible Officials and Planned Corrective Actions:
The Division of Child Care and Early Childhood Education has reviewed the finding by Legislative Audit detailing the possible client overpayments and fraud referenced above. Possible provider overpayments or fraud remained fairly constant in comparison to prior years while of possible client overpayments were reduced by forty nine percent in the period under audit. During the course of the state fiscal year ended June 30, 2010 CCDF voucher expenditures totaled almost fifty six million dollars. Total possible fraud or overpayment represented .38% of the total program. Proven fraud or overpayments represented only .22% of total CCDF voucher expenditures.

The Division of Childcare 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 strong and compelling evidence of the efficacy of the internal control structure currently in place. The Division, in concert with Northrup Grumman, continues to upgrade and improve the automated control environment in the KIDCare system via multiple program enhancement releases each year.

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

Finding Number:	**10-710-10 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.575 - Child Care and Development Block Grant** **93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund** **93.713 - ARRA - Child Care and Development Block Grant (CCDF Cluster)**
Federal Award Number(s):	**G-0901ARCCDF; G-901ARCCD7; G-1001ARCCDF**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance**

Views of Responsible Officials and Planned Corrective Actions (Continued):
While we consider the results of our internal control procedures to be reasonable as evidenced by the analysis detailed above, we also take the safeguarding and proper use of all federal and state funds very seriously and will continue to look for additional ways to improve our controls.

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

Finding Number:	**10-710-11**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition and Context:
We reviewed 70 travel and other miscellaneous expenditures (excluding monthly board, child care and contracts) to determine purpose and allowability. Our review revealed 66 exceptions as summarized below:

- In 30 instances, the travel reimbursement form lacked adequate information for identifying the child being transported. As a result, eligibility status could not be determined. Questioned costs include $2,059 paid from the regular grant and $36 paid from the ARRA grant. This issue was also noted in prior audits.
- In 16 instances, travel reimbursements totaling $1,451 were related to children determined to be ineligible. These questioned costs were paid from the regular grant. This issue was also noted in prior audits.
- In four instances, travel reimbursements totaling $304 were for transporting a child to school or school related activities. These questioned costs were paid from the regular grant. This is not an allowable activity and was also an issue noted in prior audits.
- In three instances, the travel reimbursement forms lacked adequate information identifying the purpose of the travel to ensure it was an allowable activity. Questioned costs for these exceptions totaled $74 and were paid from the regular grant. This issue was also noted in prior audits.
- In three instances, travel reimbursements totaling $27 were related to transportation for medical related expenses. These questioned costs were paid from the regular grant. This is not an allowable activity.
- In two instances, travel reimbursements totaling $7 were for transporting a child to go shopping. These questioned costs were paid from the regular grant. This is not an allowable activity.
- In two instances, reimbursements for improperly coded administrative costs totaling $81 were paid from the regular grant.
- In one instance, a travel reimbursement totaling $9 was paid to a foster parent for delivering the travel reimbursement form to the DHS office. The questioned costs for this reimbursement were paid from the regular grant. This is not an allowable activity.
- In one instance, a travel reimbursement totaling $68 was for transporting a child to and from camp. Questioned costs for this reimbursement were paid from the regular grant. This is not an allowable activity.
- In one instance, a reimbursement totaling $277 was for Respite care. Of this amount, $255 was paid from the regular grant and $22 was paid from the ARRA grant. Respite Care is not an allowable cost.
- In one instance, a purchase of medical gloves, which benefit multiple federal programs, was directly charged to the Foster Care program totaling $17. Questioned costs for this purchase were paid from the regular grant. Although allowable, this purchase should have been allocated.

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

Finding Number:	**10-710-11 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Condition and Context (continued):

- In one instance, a reimbursement representing a deposit on an apartment and first month"s rent totaled $248. Of this amount, $229 was paid from the regular grant and $19 was paid from the ARRA grant. The questioned costs for this reimbursement were related to a child in the Independent Living State Grants Program.
- In one instance, a reimbursement for legal costs was directly charged to the Foster Care program totaling $3,094. Questioned costs for this reimbursement were paid from the regular grant. Although allowable, this purchase should have been allocated.

Questioned Costs:
$7,675 - Foster Care_Title IV-E
$ 77 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of adequate training for staff who determine allowability and inadequate review by supervisory staff lead to multiple errors and misuse of Foster Care funds.

Effect:
Failure to provide staff with adequate training and failure to properly review Foster Care travel and other miscellaneous expenditures has placed assets at risk and could jeopardize the Agency"s ability to provide program funding.

Recommendation:
We *again* recommend the Agency provide adequate training to staff responsible for determining allowability of expenditures as well as strengthen the review process performed by supervisory staff to ensure federal program funds are utilized in accordance with federal regulations and to ensure reimbursements are allowable.

Views of Responsible Officials and Planned Corrective Actions:
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 elected to code it as administration. The volume of work to look up a child's IV-E eligibility is monumental given the number of travel reimbursements submitted, many of which are for multiple children. Foster parents are not in a position to know if a child is eligible or not. The cost benefit rule has been applied to charge at the administration rate. DCFS would have to hire a significant number of staff charged only with verifying each child's IV-E eligibility and claimability on each date of travel, and the costs of this task far outweigh the benefit to the Division. Approximately 67% of children in foster care during this period were IV-E eligible and this percentage is known as the penetration rate. Once the penetration rate is applied to the maintenance federal participation rate, approximately 50.3% of travel would be eligible at the maintenance reimbursement rate while we have elected to be reimbursed at the lower 50% administration rate.

The payments for respite care, gloves and rent were an error on the part of DCFS. An email has been distributed to central office staff and the financial coordinators around the state addressing the errors and reiterating the importance of coding to the correct funding source. The Child Welfare Programs Summary of Allowable Cost Categories has also been redistributed to staff reminding them to use this valuable reference tool.

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

Finding Number:	**10-710-12**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Division of Children and Family Services utilizes purchasing cards (p-cards) as a means of purchasing items for foster children. The p-cards are issued to Family Service Workers because they are in direct contact with foster children. According to 42 USC 672 and 42 USC 675(4), funds may be expended for Foster Care maintenance on behalf of eligible children. Such payments may include the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child"s home for visitation.

Condition and Context:
Our review of 54 purchases by family service workers with p-cards revealed the following:

- 18 instances of purchases made on behalf of children not considered Title IV-E eligible totaling $1,085. Of this amount, $1,000 was paid from the regular grant and $85 was paid from the ARRA grant. This issue was also noted in prior audits.
- One instance of a purchase made on behalf of a child who is 19 years of age and participating in the Independent Living State Grants program totaling $97. Of this amount, $89 was paid from the regular grant and $8 was paid from the ARRA grant.

Questioned Costs:
$1,089 - Foster Care_Title IV-E
$ 93 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of training for family service workers, financial coordinators and central office staff resulted in an inadequate review of child eligibility.

Effect:
Failure to properly review Foster Care p-card purchases has placed assets at risk and could jeopardize the Agency"s ability to provide program funding.

Recommendation:
We *again* recommend the Agency establish and implement internal control procedures to ensure p-card purchases are used only for allowed activities and costs for eligible children as outlined in federal code.

Views of Responsible Officials and Planned Corrective Actions:
It was discovered in reviewing the detail of these findings that staff was looking at the wrong screen in the CHRIS system to establish that the child was Title IV-E eligible and was in a Title IV-E claimable placement. Once this was discovered, a meeting was held with staff, the problem was explained and they were trained on the correct screen in the system to verify that the child was both Title IV-E eligible and the placement was Title IV-E claimable. The purchase for the 19 year old child was an error by staff which is being addressed through actions in other findings.

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

Finding Number:	**10-710-13**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
For an activity or cost to be considered allowable it must meet the general criteria outlined in 2 CFR 225 and the program regulations set forth in 42 USC 672 and 45 CFR 1356.

Condition and Context:
Our review of child care payments on behalf of 60 foster children revealed the following:

- 17 children were determined to be eligible, but not claimable due to placement. Questioned costs include $7,274 paid from the regular grant and $618 paid from the ARRA grant. The foster child as well as the foster family home must meet all eligibility criteria to receive Title IV-E funds. If the foster family home does not meet all criteria, the result is non-claimable status. This issue was also noted in prior audits.
- 14 children were determined to be eligible, but not claimable due to a variety of factors including but not limited to: a) the child"s receipt of SSI, b) deprivation did not exist, and c) lack of financial need. Questioned costs include $14,507 paid from the regular grant and $1,232 paid from the ARRA grant.
- Two children were determined ineligible to receive child care benefits because they had exited care and were not in care at the time of payment. Questioned costs include $138 paid from the regular grant and $12 paid from the ARRA grant. This issue was also noted in prior audits.

Questioned Costs:
$21,919 - Foster Care_Title IV-E
$ 1,862 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of training for staff, untimely entering of eligibility information in the Children"s Reporting and Information System (CHRIS), and inadequate review by supervisory staff resulted in program funds being used for unallowable purposes.

Effect:
Failure to properly review child care payments has placed assets at risk and could jeopardize the Agency"s ability to provide program funding.

Recommendation:
We *again* recommend the Agency establish and implement internal control procedures to ensure child care payments are made on behalf of eligible foster children.

Views of Responsible Officials and Planned Corrective Actions:
The Division of Children and Family Services agrees with this finding. There are two issues that cause the problems. The two instances of children receiving benefits after leaving care were due to a glitch in the automated notification from CHRIS to the Division of Child Care and Early Childhood Education"s KIDCARE system. This glitch allowed billings against vouchers that should have been closed. This was discovered in the prior year audit and has been corrected; however it was corrected after these two instances occurred.

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

Finding Number:	**10-710-13 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed; Allowable Costs/Cost Principles**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):
Due to an error in the programming logic between the CHRIS system and KIDCARE other children who received Title IV-E daycare benefits for which they were not eligible. When a voucher is initiated in the CHRIS system, the system looks to see if the child is Title IV-E eligible, however, it is not looking to see if the placement is actually Title IV-E claimable. Programming requirements to correct this error are extensive and the Division is investigating these changes.

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

Finding Number:	**10-710-14**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
	93.658 - ARRA - Foster Care_Title IV-E
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Foster Care benefits may be paid on behalf of a child only if ***all*** of the following requirements are met:

(A) Foster Care maintenance payments are allowable only if the foster child was removed from his/her home by means of judicial determination (42 USC 672(a)(2)) or pursuant to a voluntary agreement, as defined in 42 USC 672(f).

(1) *Contrary to Welfare* - A child's removal from the home must be the result of a judicial determination to the effect that continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child. [45 CFR 1356.21(c)]

(2) *Reasonable Efforts to Prevent Removal Determination & Removal from Home of Specified Relative:* Within 60 days from the date of removal from the home, there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent removal. [45 CFR 1356.21(b) (1)]. The removal from the home must occur pursuant to a judicial order for physical or constructive removal of the child from a parent or specified relative. [45 CFR 1356.21 (k)]

(3) *Permanency Plan* - A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date the child entered foster care and at least once every 12 months thereafter while the child is in foster care. [45 CFR 1356.21(b)(2)]

(B) The child's placement and care are the responsibility of either the State Agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State Agency. (42 USC 672(a)(2))

(C) A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program. Unless the child is expected to graduate from a secondary educational institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday. (45 CFR section 233.90(b)(3)

Condition and Context:
Our review of foster care eligibility on behalf of 60 foster children revealed the following:

- In one instance, a judicial determination does not note the specified relative from which the child was removed, nor does it note whether reasonable efforts were made or were not required to prevent removal. Questioned costs include $1,959 paid from the regular grant and $166 paid from the ARRA grant.
- In one instance, the court orders do not state that DHS made reasonable efforts to prevent removal or that reasonable efforts were not necessary. Questioned costs include $1,507 paid from the regular grant and $128 paid from the ARRA grant.

Questioned Costs:
$3,466 - Foster Care_Title IV-E
$ 294 - Foster Care_Title IV-E, Recovery Act

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

Finding Number:	**10-710-14 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
	93.658 - ARRA - Foster Care_Title IV-E
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
Lack of adequate review by staff ensuring all supporting documentation is included regarding eligibility.

Effect:
Failure to ensure all appropriate documents have been received results in benefits paid on behalf of ineligible children.

Recommendation:
We recommend the Agency strengthen internal controls for staff responsible for the maintenance and review of file information to ensure all necessary documentation is included supporting a child"s eligibility.

Views of Responsible Officials and Planned Corrective Actions:
The Division of Children and Family Services agrees with this finding. In each of the two instances, the problem was with older court orders. During the 2009 Title IV-E Review by the Federal Administration for Children and Families, guidance was given to the Administrative Office of the Courts and the Office of Chief Counsel on the specific language and requirements to be written into court orders to establish or maintain Title IV-E eligibility for children otherwise eligible. After the review, the DCFS Eligibility Unit began reviewing several hundred cases that could possibly have issues with language in the court order. As each problem is discovered, the funds paid in error are accumulated and adjustments reported on the quarterly grant report.

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

Finding Number:	**10-710-15**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E** **93.658 - ARRA - Foster Care_Title IV-E**
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Foster Care benefits may be paid on behalf of a child only if ***all*** requirements are met, including requirements specific to the providers (foster families):

(A) The provider must be licensed (or approved) by the proper State Foster Care licensing authority. (42 USC 671(a)(10) and 672(c))

(B) The foster family home provider must have satisfactorily met a **(1)** criminal records check, including **(2)** fingerprint based checks of national crime information databases (FBI check), with respect to prospective foster and adoptive parents. (42 USC 671(a)(20)(A))

(C) The foster family home provider must satisfactorily have met a child abuse and neglect registry check to prospective foster and adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years. (takes effect October 1, 2006) (42 USC 671 (a)(20)(B)

(D) The licensing file for the child-care institution must contain documentation which verifies the safety considerations with respect to staff of the institution have been addressed. (45 CFR 1356.30(f))

Condition and Context:
The Agency was unable to provide documentation to support performance of the required checks for foster family home providers. We reviewed the State criminal record, FBI fingerprint based record and central registry checks for 80 foster care homes and providers.

Our review revealed the following instances lacking appropriate documentation:

- For 11 foster parents, hard copies of a central registry check were not provided, nor did the central registry "logs" contain documentation that the central registry check had been performed to support the date criteria recorded in the Children"s Reporting and Information System (CHRIS). Questioned costs include $36,225 paid from the regular grant and $3,094 paid from the ARRA grant.
- For eight foster parents, the FBI fingerprint based record check documentation could not be located for the foster parent to support the date criteria recorded in CHRIS. Questioned costs include $52,399 paid from the regular grant and $4,462 paid from the ARRA grant. This issue was also noted in prior audits.
- For four foster parents, the Agency did not provide documentation supporting performance of an FBI fingerprint based check. The documentation provided supported an FBI "name check only". Questioned costs include $19,898 paid from the regular grant and $1,691 paid from the ARRA grant.
- For two foster parents, documentation provided by the Agency supported an FBI "name check only". In addition, hard copies of a central registry check were not provided. Questioned costs include $16,017 paid from the regular grant and $1,361 paid from the ARRA grant.
- For one foster parent, the State criminal record documentation could not be located for the foster parent to support date criteria recorded in CHRIS. Questioned costs include $4,787 paid from the regular grant and $407 paid from the ARRA grant.
- For one foster parent, the State criminal record check, FBI fingerprint based record check and central registry check were not provided. Questioned costs include $2,233 paid from the regular grant and $190 paid from the ARRA grant.

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

Finding Number:	**10-710-15 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.658 - Foster Care_Title IV-E**
	93.658 - ARRA - Foster Care_Title IV-E
Federal Award Number(s):	**0901AR1401; 0901AR1402; 1001AR1401; 1001AR1402**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
$131,559 - Foster Care_Title IV-E
$ 11,205 - Foster Care_Title IV-E, Recovery Act

Cause:
Lack of adequate staff to ensure required procedures on foster family home providers are properly performed and documented.

Effect:
Children could be placed in foster family homes that do not meet all federal requirements which could possibly place children at risk.

Recommendation:
We *again* recommend the Agency establish and implement controls ensuring staff conduct and appropriately document the criminal record, FBI fingerprint based and central registry checks.

Views of Responsible Officials and Planned Corrective Actions:
All of the hard copies of the central registry checks have been found and are clear. All but one of the FBI checks were found and they are clear, there is one instance where the hard copy of the most recent FBI check has not been located as of yet. If a FBI fingerprint check is sent twice and both times the prints are not of a sufficient quality to be read, the FBI automatically submits as a name check and returns the results based on the name. The foster parent that did not have a State criminal record check, FBI check nor a central registry check was a case under the Interstate Compact for Children. All of the required checks were performed by the State of Mississippi.

The procedures for the State criminal records, FBI and Central Registry checks are in the process of being improved to strengthen the ability to quickly locate records and more efficiently process the large volume of requests. There are over 10,000 requests for State criminal records and FBI checks annually and there are over 80,000 Central Registry Checks that are processed each year. While the planned improvements for these procedures are not complete, they will include electronic storage of records for a longer period of time and CHRIS system enhancements.

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

Finding Number:	**10-710-16**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**Various prior to 2005; 0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Adoption assistance subsidy payment regulations are established at 42 USC 673 and 675. Individuals are considered eligible for subsidy payments only if **all** of the following requirements are met: 1) the child is eligible, or would have been eligible for the former Aid to Families with Dependent Children (AFDC) program except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for SSI; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent, 2) the child was determined by the State to be a child with special needs, 3) the State has made reasonable efforts to place the child for adoption without a subsidy, and 4) the agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child"s eligibility for Title XX services and Tile XIX Medicaid; and covers the child should he/she move out of State with the adoptive family.

Condition and Context:
Our review of 61 adoption assistance subsidy case files revealed three instances of noncompliance as follows:

- In one instance, the support/custody of the child ended on February 1, 2005 when the court granted custody back to the biological mother. Subsidy payments should have ended at this point. The case was closed on May 6, 2010. Questioned costs include $20,020 paid from regular grant and $535 paid from the ARRA grant.
- In one instance, the subsidy file lacked an emergency custody order which notes that it is contrary to the welfare of the child to remain in the home of the removal. The only order granting custody to the Agency is a "Change in Custody Agreement" which does not meet the federal requirements. The child is ineligible to receive a federal subsidy from the date subsidy begin and forward. Questioned costs include $43,474 paid from the regular grant and $589 paid from the ARRA grant.
- In one instance, a child was determined not Title IV-E eligible by the Division of Children and Family Services (DCFS). The child was approved for a *State* subsidy payment. When the information was input into the Children"s Reporting and Information System (CHRIS) for payment, the "funding source" was incorrectly entered as *federal*. Because this case was selected by audit for review, DCFS noticed the error and on August 27, 2010, the funding source was corrected in CHRIS to reflect a *State* subsidy payment. However, beginning in April 2006, the subsidy had been paid incorrectly from federal funds. Questioned costs include $16,139 paid from the regular grant and $614 paid from the ARRA grant.

Questioned Costs:
$79,632 - Adoption Assistance
$ 1,738 - Adoption Assistance, Recovery Act

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

Finding Number:	**10-710-16 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**Various prior to 2005; 0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010 and previous years**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
Agency staff did not adequately review the files to ensure that required information and documents were actually located in the files.

Effect:
Federal Adoption assistance funds were used for the benefit of children who could not be determined as eligible. As a result, the Agency could be required to reimburse the federal awarding agency the amount of questioned costs noted above.

Recommendation:
We recommend the Agency strengthen internal controls and provide training to appropriate staff responsible for the preparation and review of subsidy files to ensure all necessary documentation is included in the files supporting a child"s eligibility for subsidy payments.

Views of Responsible Officials and Planned Corrective Actions:
The Division of Children and Family Services agrees with this finding that the child"s custody was returned to the biological mother in 2005. The adoptive parents did not notify the Division as required by their adoption subsidy agreement. The child whose custody was granted through a Change in Custody Order was an error by the Office of Chief Counsel Attorney at the time. Training on what court orders must say has been provided during 2010 to prevent these types of errors. In 2006, a child was approved for a State subsidy payment but it was mistakenly entered as a Federal subsidy. The adoption unit instituted new review procedures in 2010 for entering subsidy agreements which should prevent this type of error happening in the future.

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

Finding Number:	**10-710-17**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Adoption Assistance payments may be paid on behalf of a child only if all requirements are met, including requirements specific to the adoptive parents:

- The prospective adoptive parent must satisfactorily have met a **(1)** criminal records check, including **(2)** fingerprint based checks of national crime information databases (FBI check). (42 USC 671(a)(20)(A))
- The prospective adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years must satisfactorily have met a child abuse and neglect registry check. (42 USC 671 (a)(20)(B)

Condition and Context:
We reviewed the State Criminal Record, FBI Record and Central Registry checks to ensure adoptive parents and other adults living in the home met the criteria previously stated. Our review included information from adoptions that were finalized during State fiscal years 2009 and 2010.

Our review of 18 adoptive parents revealed the following:

- For four parents, hard copies of a Central Registry check were not provided, nor did the Central Registry "logs" contain documentation that the check had been performed to support the date criteria recorded in the Children"s Reporting and Information System (CHRIS). Questioned costs include $26,436 paid from the regular grant and $2,246 paid from the ARRA grant.
- For two parents, the Agency did not provide documentation supporting the FBI fingerprint based check to support the date criteria recorded in CHRIS. Questioned costs include $15,382 paid from the regular grant and $1,307 paid from the ARRA grant.
- For one parent, the State criminal record documentation could not be located to support date criteria recorded in CHRIS. Questioned costs include $15,588 paid from the regular grant and $1,324 paid from the ARRA grant.
- For one parent, the Agency did not provide hard copies to support the Central Registry check and also did not provide documentation supporting the FBI fingerprint based check. Questioned costs include $7,444 paid from the regular grant and $632 paid from the ARRA grant.

Questioned Costs:
$64,850 - Adoption Assistance
$ 5,509 - Adoption Assistance, Recovery Act

Cause:
Lack of adequate staff and appropriate procedures for ensuring that all required background checks on adoptive parents are properly performed and documented.

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

Finding Number:	**10-710-17 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.659 - Adoption Assistance** **93.659 - ARRA - Adoption Assistance**
Federal Award Number(s):	**0901AR1407; 0901AR1403; 1001AR1407; 1001AR1403**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Effect:
Children could be placed in adoptive homes not meeting all federal requirements which could put children at risk. In addition, federal assistance could be provided to ineligible adoptive parents.

Recommendation:
We recommend the Agency establish and implement controls ensuring staff conduct and appropriately document the required background checks on adoptive parents and other adults of the home.

Views of Responsible Officials and Planned Corrective Actions:
All of the hard copies of the central registry checks have been found and are clear. Three of the four hard copies of the missing FBI fingerprint checks have been found and are clear. The hard copy of the missing State criminal record check has been found and it is clear.

The procedures for the State criminal records, FBI and Central Registry checks are in the process of being improved to strengthen the ability to quickly locate records and more efficiently process the large volume of requests. Annually, there are over 10,000 requests for FBI and State criminal records checks and over 80,000 Central Registry checks. The planned improvements for these include electronic storage of records for a longer period of time and CHRIS system enhancements.

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

Finding Number:	**10-710-18**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.767 - Children's Health Insurance Program**
Federal Award Number(s):	**05-0905AR5021; 05-1005AR5021**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Cash Management**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
In accordance with the Treasury-State Agreement, there is one funding technique used to draw Children"s Health Insurance Program (CHIP) funds. Direct medical and administrative costs shall be drawn based on the actual costs of the Arkansas Department of Human Services.

Condition and Context:
The Agency utilizes internal order codes to associate financial transactions with various activities of the program. It was discovered that medical payments for the Unborn Children portion of the program were being used as support for both medical and administrative drawdowns. These drawdowns occurred between June 2009 and August 2010. The amount of excessive drawdowns was calculated by comparing total revenues and total expenditures of the program.

Questioned Costs:

State Fiscal Year	Amount	Grant Award	Amount
2009	$ 168,407	05-0905AR5021	$ 7,859,851
2010	7,691,444	05-1005AR5021	1,099,307
2011	1,099,307		
Total	$ 8,959,158	Total	$ 8,959,158

Cause:
The Agency did not appropriately design or review reports used in accumulating costs to ensure that expenditures would not be used more than once when requesting federal reimbursement of program costs.

Effect:
The Agency received an excessive amount of federal revenues to cover the costs of the program.

As a result of this discovery, the Agency contacted the federal grantor and was informed by the grantor to stop drawing CHIP funds in fiscal year 2011 until the excess drawdown had been exhausted. It appears that this was accomplished in November 2010.

Recommendation:
We recommend the Agency strengthen controls to ensure that expenditures are only used once as support for the drawdown of federal revenues.

Views of Responsible Officials and Planned Corrective Actions:
Agency staff has now been trained with required review procedures and processes so that the duplication of draws for reported expenditures will be readily identifiable in future instances. Agency has further implemented a quarterly fund reconciliation sheet that reviews cost allocated expenditures to federal draws to determine the under/over position for each program and fund. These reconciliations are reviewed by management to help ensure the accuracy of federal draws. CMS federal auditors where made aware as soon as the discovery of the overdrawn funds was made and agreed to the reduction of the excess against future expenditures as a proper method of reducing the overdrawn balance.

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

Finding Number:	**10-710-19**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Criteria:
It is the State"s responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The State outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency"s decision on his application."

Condition and Context:
A statistical sample of 361 Medicaid recipients with fiscal year 2010 expenditures totaling $4,578,369 revealed that 21 recipients with expenditures totaling $66,018 for services rendered were not eligible for participation in the Medicaid program. The number of recipients sampled was based on a 95% confidence level with a 3% expected error rate and a 5% tolerable error rate. Actual results of the sample produced an error rate of 1.4%. The population sampled was higher risk recipients that have more complex eligibility determination factors and was comprised of 109,300 recipients with fiscal year 2010 expenditures totaling $1,293,597,724. The following errors in addition to insufficient evidence to support the Agency"s decision were noted:

- In three cases with paid claims totaling $25,847, the Agency failed to follow program requirements related to resource limitations. In each case recipients were over the approved criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and MS 23110 which in summary states that the Agency is responsible for determining resource value.
- In two cases with paid claims totaling $1,373, the Agency failed to follow program requirements related to income limitations. In each case recipients were over the approved income criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies all establishing income limits.
- In seven cases with paid claims totaling $14,223, the Agency failed to follow program requirements related to mandatory referrals or other categorical requirements related to deprived children. In each case the recipients either failed to establish that a child lived in the home of the adult recipient or they had failed to make a required Office of Child Support Enforcement referral. The Agency also failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies.
- In three cases with paid claims totaling $2,785, the Agency failed to follow multiple program requirements and/or satisfy several categorical requirements. In each case there was insufficient evidence regarding multiple eligibility criteria. The Agency failed to comply with policy 42 CFR 435.913 case documentation.
- In six cases with paid claims totaling $21,790, the Agency failed to redetermine recipient eligible as required by 42 CFR 435.916. In each case the Agency was either not able to make the determination at the time of the fieldwork or when they attempted to make the determination it was determined that the recipient was not eligible.

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

Finding Number:	**10-710-19 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Material Noncompliance and Material Weakness**

Questioned Costs:
Question costs totaled $66,018. These costs were obtained from EDS/MMIS system via Business Objects interface utilizing the recipient social security number for claims paid during the fiscal year with dates of service of which the recipient was not eligible.

Cause:
Cause of the finding is insufficient knowledge of program requirements and lack of evidence to support the Agency"s decisions. Investigation of controls reveals that cause of finding is result of ineffective controls. Development of understanding and testing of controls revealed that there are not sufficient knowledgeable personnel to determine eligibility due to high turnover rates, employee"s shortages, lack of training, and in some areas insufficient support staff.

Effect:
Effect of this is that household eligibility was improperly determined resulting in payments to providers for services in which recipients were not eligible.

Recommendation:
We recommend the Agency continue to train personnel on the requirements of the program as defined in the Medical Services Manual. We also recommend the Agency review and strengthen the internal controls over record documentation.

Views of Responsible Officials and Planned Corrective Actions:
The Division of County Operations continues to implement information technology measures to modernize the delivery of public assistance benefits. In response to prior audit recommendations, we have implemented procedures to strengthen processes to ensure that eligibility is properly determined and supported by adequate documentation. These measures have resulted in a significant reduction of questioned costs from the prior year.

In order to address DLA findings in State Fiscal Year 2010, the Agency will implement the following corrective action plans to improve caseworker knowledge of Medicaid policies and increase program monitoring:

- Develop an error prone profile of Medicaid applications and cases to be reviewed each month by local DCO management and Field Staff.
- Develop and implement the use of a Medicaid 2nd Party Review guide form to conduct reviews of error prone applications and cases.
- Develop and implement a guide for staff to use to adequately document program requirements.
- Local management staff will continue to conduct periodic refresher training on error prone applications and cases. (Ongoing)

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

Finding Number:	**10-710-20**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA;** **05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Criteria:
42 CFR 431.16 requires the Agency to include the reporting requirements approved by the Secretary in the State Plan. The State Plan requires the Agency to submit all required reports and to complete the forms following the Secretary"s instructions (Section 4.16 of the State Plan (Permanent File binder 2). Per the Centers for Medicare and Medicaid Services (CMS), States are required to report expenditures using the CMS – 64 report forms. The amounts claimed on the report are to be actual expenditures.

Condition and Context:
Testing of the amounts reported for the SFY2010 2nd and 3rd quarters revealed the following errors:

- Family planning physician"s services were incorrectly reported as clinic services - $786,228 misclassification error (2nd qtr);
- Fiscal Management Services (FMS) services were reported twice – reported incorrectly as Personal Care Services and correctly as an administrative expenditure – Personal Care Services over-reported by $68,156 (2nd qtr);
- A portion of the Primary Care Case Management (PCCM) waiver services related to family planning activities were incorrectly reported as physician"s services - $396,109 misclassification error (2nd Qtr); $369,181 misclassification error (including $12,734 which should have been reported as Outpatient Hospital Services) – (3rd qtr);
- Medicare Premiums payments for Qualifying Individuals were reported twice because the total was incorrectly included in the amount reported for Medicare Part B premiums and again reported on the appropriate line item for these expenditures. – Medicare Part B premiums over-reported by $2,919,852 (3rd qtr);
- Breast and Cervical Cancer Optional Payments were reported twice for the 3rd and 4th quarters due to a formula error. This resulted in multiple errors in the reported amount for several line items on the report – over-reported $3,013,432 (3rd qtr.) and $6,458,366 for the year;
- Hospital Settlement Payouts are reported as prior period adjustments. A manual adjustment must be made to current quarter expenditures to reduce the total for these payments. The Agency incorrectly added the total payments rather than subtracting the total. – Inpatient Hospital Services overstated $23,069,294 (3rd qtr) and $64,917,638 for the year;
- Inpatient Hospital Supplemental payments were incorrectly reported as Inpatient Hospital – Regular Payments. - $578,486 misclassification error (3rd qtr); and
- Three additional immaterial errors were noted which resulted in an understatement of expenditures totaling $13,945

The reporting errors identified above are also noted in the reconciliation of expenditures per the Cost Allocation System to the CMS – 64 reports. These errors also impacted the amount reported for expenditures paid with federal funds on the CMS – 64 reports. The reporting errors did not have any impact on the amount of federal funds drawn down.

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

Finding Number:	**10-710-20 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA;** **05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Condition and Context (continued):
In addition to the reporting errors identified through testing of the CMS-64 report, the following errors were found during the reconciliation of expenditures per the Agency"s cost allocation system and the CMS – 64 reports:

- Prior period adjustment was reported as current quarter expenditure. - $546,882;
- Sterilization Expenses related to Family Planning were reported twice. - $1,187,864;
- Category of Service (COS) I8 – FMS Services were reported twice, once as Medicaid Assistance Program (MAP) program expenditures and also as administrative expenditures. - $246,974; and
- Medicare premiums for qualifying individuals were over-reported in the 3rd quarter - $21,437

Corrections were made for some of the reporting errors identified above on the Agency"s CMS-64 report for the SFY 4th quarter. The total net amount over-reported after these adjustments totaled $72,563,868 (1.8% of total reported expenditures). A total difference of ($6,360,256) between total expenditures per the cost allocation and total expenditures per the CMS-64 reports was unidentified during the reconciliation.

Questioned Costs:
None

Cause:
The reporting errors were caused by the complexity of the reporting process. Information used to complete the reports is gathered from many different sources, and adjustments are made throughout the backup documentation to ensure that the expenditures are correctly classified on the reports. The Agency has compiled an Excel workbook to more efficiently pull this information together. It should be noted that this workbook contains more than 100 tabs from which information is pulled and calculated. Some information must also be pulled from hard copy reports. The errors mentioned above occurred as a result of formula errors in the workbook.

1) **Sterilization Expenses** - Sterilization expenses are included in a worksheet designed to allocate Family Planning expenditures based upon the most relevant classification. During this allocation, sterilization expenditures were erroneously included in the Family Planning expenditures twice.

2) **FMS Services** - The COS I8 is included in both the worksheet that is used to calculate the MAP expenditures reported and on the worksheet that is used to report the administrative expenditures. This amount should only have been reported one time.

3) **Medicare Part B** premiums are to include Qualifying Individual payments to certain individuals. This amount is to be reported separately from the Medicare Part B premiums. This amount has been reported twice in the 3rd quarter as it is included in both the Medicare Part B premiums and the following Qualifying Individual line items.

4) **Qualified Individual (QI) Medicare Premiums** included the amounts reported for the months of February, March, and April instead of the correct months of January, February, and March. This error resulted in an overstatement of the QI Medicare premiums.

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

Finding Number:	**10-710-20 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA;** **05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Cause (continued):

5) **Breast and Cervical Cancer Optional Payments** were reported twice in each of the 3rd and 4th quarters. These amounts were reported in each individual COS and then were added again to the total MAP expenditures for each line item. The result was a double reporting of Breast and Cervical Cancer payments.

6) **Hospital Settlement Payouts** were erroneously added to MAP expenditures instead of being subtracted to reflect the prior period adjustment status of these payments. The result was an over-reporting of Inpatient Hospital Services.

7) **Inpatient Hospital Services** contained a misclassification error which resulted in one line being over-reported while another was simultaneously under-reported. This was due to a UPL payment being reported twice. The amount was included in the Supplemental Payments twice which reduced the Regular Payments erroneously by the same amount.

8) **PCCM Waiver Adjustments** were not corrected for manual adjustments to properly classify family planning related expenditures.

In addition, the staff that complete the CMS – 64 reports do not have a complete understanding of the information which is used to determine expenditure amounts to be reported. The Agency reconciles the weekly funding requests to cost allocation without properly identifying the differences, and then reconciles the weekly funding request to the CMS – 64 report. These errors were not identified during the reconciliation because the staff did not have a full understanding of the amounts included in the weekly funding requests.

Effect:
The Agency"s lack of understanding of all support documentation used to create the CMS – 64 report and the complexity of the reporting process caused the Agency to incorrectly report expenditures for the Medical Assistance Program. The Agency is aware of the reporting errors and the causes of these errors. Adjustments to the reported expenditures will be made on the FFY2010 4th quarter CMS – 64 report (SFY2011 1st quarter).

Recommendation:
We recommend the Agency train staff responsible for the completion of the reports on the information used to compile the reports. We also recommend that changes be made to the reconciliation of expenditures reported on the CMS – 64 report to the cost allocation system so that all differences are identified and explained.

Views of Responsible Officials and Planned Corrective Actions:
Our own internal review process identified the reporting error Medicare Part B Premium payments and the Hospital Settlement Payouts reporting error in the 3rd quarter and corrections were made in the 4th quarter of SFY10 for the Medicare Premiums and the 1st quarter of SFY11 for the Hospital Settlement Payouts. We reported these errors to Legislative Audit.

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

Finding Number:	**10-710-20 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA;** **05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Material Weakness**

Views of Responsible Officials and Planned Corrective Actions (Continued):
The Agency Controller working with Medicaid and the CMS-64 Report continues to modify the report format that allows keying of data that automatically populates the CMS-64 Report. CMS instituted a new system with additional lines for the CMS 64 which results in adjustments being required for the workbook and as such a constant review of links and calculations are required. A check feature has been added to create an overall comparative of the Category of Service amount to the allocated cost in the report which will identify allocation issues as identified by Legislative Audit. The linking errors are identified, corrected and now this portion of the report is accurately reflected. Managerial staff continues to train on the process with guidance from CMS personnel with work being monitored by the Agency Controller to help ensure their understanding of the details involved in completing the CMS-64 Report.

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

Finding Number:	**10-710-21**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Sound information system controls dictate that user access to Medicaid Management Information System (MMIS) data should be restricted to only those individuals required to perform their assigned job functions.

Condition and Context:
We noted the following user access issues:

- There were 34 terminated or retired DHS employees with access abilities.
- DHS does not have adequate controls in place to determine if the 124 non-DHS entity users were active employees.

Questioned Costs:
None

Cause:
DHS management has not implemented adequate policy and procedures for authorizing and terminating user access.

Effect:
Failure to review payments and relationships could result in payments to providers who are not eligible based upon current policies. Continued payments to those providers not eligible reduces amount of funds available in the program and could have adverse affects on future program funding.

Recommendation:
We recommend the Division of Medical Services (DMS) management and other MMIS access entities work together to establish agreed upon procedures for authorizing and terminating user access. In addition, DMS management should implement controls to ensure user access is commensurate with job requirements.

Views of Responsible Officials and Planned Corrective Actions:
DMS has established additional processes to ensure that the Medicaid Data Security team is notified of employees leaving their positions. These processes consist of standard weekly reports from AASIS that are used to match against the user base in MMIS. External users to DHS are cut from their connection to the MMIS when they leave their positions. DMS had recently begun quarterly audits of the MMIS which addresses employees whom are terminated or transferred inside and outside of DHS. All authorizations for access documentation along with changes and terminations are stored in our controlled central repository through our SharePoint system.

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

Finding Number:	**10-710-22**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Sound information system controls dictate that the system change requests for Medicaid Management Information System (MMIS) should be reviewed, evaluated, justified, and authorized/approved by the appropriate level of the management.

Condition and Context:
There were 79 system change requests completed during the period of July 1, 2009 through June 30, 2010. We randomly selected 17 of those completed requests for our review. We noted the following user access issues:

- Seven or 41.2% of the total selected change request approval documentations cannot be found.
- Three or 30% of the total submitted change request approval documentations did not have the approval signature presented.

Questioned Costs:
None

Cause:
DHS management does not have adequate policy and procedures for MMIS system change controls management in place to ensure that all change requests are reviewed, evaluated, justified, and authorized/approved.

Effect:
Failure to maintain proper internal control over system change controls increases the risk of unauthorized changes to be implemented into the system. Ultimately, this practice weakens the established system controls and increases the risk of inappropriate payments to be processed.

Recommendation:
We recommend the Division of Medical Services (DMS) management establish the formal policy and procedures for MMIS change controls process to ensure that all change requests are reviewed, evaluated, justified, and authorized/approved. In addition, DMS management should follow the State retention policy to maintain the change controls management documentation for a sufficient period of time.

Views of Responsible Officials and Planned Corrective Actions:
All of the above mentioned change requests are stored electronically in the CSR system and have been forwarded to the auditors for review. The Agency is revising the formal approval process to implement additional signature requirements by a CSR Administrator at the three critical stages of the development/programming process. This procedure over MMIS system changes will strengthen internal controls over system changes and decrease the risk of unauthorized changes.

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

Finding Number:	**10-710-23**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Home and Community-Based Services: A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered and use of unlicensed staff. The full alert was published in the "Federal Register" on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG home page, Special Fraud Alerts section.

Currently, Arkansas has 5 *Section 1915(c) Home and Community-Based Services* waivers for Medicaid:

a) Division of Developmental Disabilities Alternative Community Services Waiver (ACS)

b) ElderChoices

c) Alternatives for Adults with Physical Disabilities Waiver (APD). (The provider manual for APD Attendant Care provider imposes one significant restriction on who can enroll and receive payment as an APD Attendant Care Provider. The manual stipulates that the provider shall not be an individual who is considered legally responsible for the participant, e.g. spouse or guardian or anyone acting as a guardian.)

d) Respite Care Waivers (includes Home and Community-Based Waiver for Children with Physical Disabilities and Home and Community-Based Waiver for Children with Mental Retardation or Developmental Disabilities)

e) Living Choices Assisted Living

Condition and Context:
Audit testing revealed that one of the identified providers did have an inappropriate relationship to the recipients. Total claims paid to this provider for State fiscal year 2010 were $28,305.

Questioned Costs:
$28,305

Cause:
Cause of the finding is insufficient monitoring of claims payments to APD Attendant Care Providers as well as independent review of relationships between provider and participant. The Agency relies upon field nurses" interactions with the providers and recipient/participant to determine if the relationships are appropriate.

Effect:
Failure to review payments and relationships could result in payments to providers who are not eligible based upon current policies. Continued payments to those providers not eligible reduces amount of funds available in the program and could have adverse affects on future program funding.

Recommendation:
We recommend the Agency review and strengths its procedures relating to payments made to APD Attendant Care Providers and that an independent review of relationships be performed.

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

Finding Number:	**10-710-23 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2010**
Compliance Requirement(s) Affected:	**Activities Allowed or Unallowed**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions:
The Division of Aging and Adult Services (DAAS) has modified the enrollment application/recertification to ask specifically for the name of any individual who held legal authority to act on the client"s behalf, regardless of whether the applicant fulfilled this role. If the applicant is identified as a legal representative of the client, we then require the applicant to submit to this office a copy of the legal document establishing authority for closer examination and determination.

DAAS has implemented an increased examination level of client signatures to identify provider applicants who are signing on behalf of the client. All identified potential inappropriate relationships are investigated, taking appropriate actions based on the results.

Effective immediately, the DAAS Certification Unit will begin pulling the files of the client for whom the individual is applying to serve to ensure that the applicant has not signed for the client on the assessment, nor is he/she listed as the client"s primary point of contact. If we find this to be the case, the provider applicant will be denied certification and given opportunity to appeal should he/she possess evidence to the contrary.

The Division of Medical Services Program Integrity Unit will implement data mining, on an annual basis, to identify APD Attendant Care providers who appear to be a spouse or guardian of the beneficiary and research the results to ensure that the provider is in compliance with Medicaid policy. The Program Integrity Unit will also increase the number of audits conducted each year on the Aging waivers.

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

Finding Number:	**10-710-24**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
It is the State"s responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The state outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency"s decision on his application."

Condition and Context:
A statistical sample of 284 Medicaid recipients with fiscal year 2010 expenditures totaling $694,164 revealed that 22 recipients with expenditures totaling $23,299 for services rendered were not eligible for participation in the Medicaid program. The number of recipients sampled was based on a 95% confidence level with a 3% expended error rate and a 5% tolerable error rate. Actual results of the sample produced an error rate of 3.4%. The population sampled was all Medicaid recipients with a citizenship status other than United States and was comprised of 2,497 recipients with expenditures totaling $13,999,808. The following errors in addition to insufficient evidence to support the Agency"s decision were noted:

- In two cases with paid claims totaling $1,397, the Agency failed to follow program requirements related to resource limitations. In each case recipients were over the approved criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and MS 23110 which in summary states that the Agency is responsible for determining resource value.
- In three cases with paid claims totaling $340, the Agency failed to follow program requirements related to income limitations. In each case recipients were over the approved income criteria and the Agency failed to comply with policies 42 CFR 435.913 case documentation and various MS manual policies all establishing income limits.
- In 14 cases with paid claims totaling $18,990, the Agency failed to follow program requirements related to alien status or verification of alien status. In each case the recipients either failed to satisfy the five year ban from program participation requirements or were "unqualified aliens" and therefore were not eligible for the scope of services in which they received. The Agency failed to comply with policies 42 CFR 435.139 which states that Agency must provide services necessary for the treatment of an emergency medical condition, as defined in 42 CFR 440.255(c), to those aliens described in 42 CFR 435.406(c) and MS 6780 which summarizes the federal regulations and services available to various alien categories.
- In two cases with paid claims totaling $2,443, the Agency failed to follow multiple program requirements and/or satisfy several categorical requirements. In each case there was insufficient evidence regarding multiple eligibility criteria. The Agency failed to comply with policy 42 CFR 435.913 case documentation.
- In one case with paid claims totaling $129, the Agency failed to redetermine recipient eligible as required by 42 CFR 435.916. In each case the Agency was either not able to make the determination at the time of the fieldwork or when they attempted to make the determination it was determined that the recipient was not eligible.

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

Finding Number:	**10-710-24 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
Question costs totaled $23,299. These costs were obtained from EDS/MMIS system via Business Objects interface utilizing the recipient social security number for claims paid during the fiscal year with dates of service of which the recipient was not eligible.

Cause:
Cause of the finding is insufficient knowledge of program requirements and lack of evidence to support the Agency"s decisions. Investigation of controls reveals that cause of finding is result of ineffective controls. Development of understanding and testing of controls revealed that there are not sufficient knowledgeable personnel to determine eligibility due to high turnover rates, employee"s shortages, lack of training, and in some areas insufficient support staff.

Effect:
Effect of this is that household eligibility was improperly determined resulting in payments to providers for services in which recipients were not eligible.

Recommendation:
We recommend the Agency continue to train personnel on the requirements of the program as defined in the MS manual. We also recommend the Agency review and strengthen the internal controls over record documentation.

Views of Responsible Officials and Planned Corrective Actions:
During the last year, there has been a statewide effort in counties with high employee turnover to reduce the number of overdue re-evaluations through increased monitoring and re-distribution of cases. This effort has resulted in a reduction of overdue re-evaluations and will continue in the future. Additionally, the Agency will implement the following corrective action plans to improve caseworker knowledge and application of Medicaid policies and increase program monitoring:

- Develop an error prone profile of Medicaid applications and cases to be reviewed each month by local DCO management and Field Staff.
- Develop and implement the use of a Medicaid 2nd Party Review guide form to conduct reviews of error prone applications and cases.
- Develop and implement a guide for staff to use to adequately document program requirements.

Implementation Date: June 2011

- Local management staff will continue to conduct periodic refresher training on error prone applications and cases.

Implementation Date: Ongoing

- Utilize the DCO training unit to conduct an annual Medicaid refresher training on error prone cases.

Implementation Date: Curriculum development will begin in July 2011 with a target date of June 2012 for completion.

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

Finding Number:	**10-710-24 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):

- Target certain counties with a high level of error prone applications and cases to conduct an annual area special review project in these counties.

Implementation Date: Target reviews will begin in July 2011 with an anticipated completion date of June 2012 for completion.

- Fully implement application processing by the new Access Arkansas Processing Center in Batesville. This office will process a high volume of applications and case reviews allowing staff in county offices more time to focus on accurately processing error prone cases.

Implementation Date: June 2011

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

Finding Number:	**10-710-25**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
It is the State"s responsibility to determine that applicants for Medicaid meet the eligibility criteria as specified in the approved State Plan. The State outlines the eligibility requirements for the Medicaid program in the Arkansas Medical Services Manual (MS). For certain categories of Medicaid eligibility, (e.g., TEA Medicaid), the MS manual refers to policies outlined in the TEA Cash Assistance and Financial Assistance manuals that are applicable to the specific Medicaid category. However, these manuals are not considered Medicaid manuals but are only reference manuals for the Medical Services manual. The MS manual is specific to Medicaid eligibility policies and procedures and is in addition to the approved State plan required in 42 CFR 430.10.

42 CFR 435.913 case documentation states that "The Agency must include in each application record facts to support the Agency"s decision on his application."

It is the Agency"s responsibility to oversee the program and develop policies and procedures that will minimize the risk that household eligibility is incorrectly determined and that financial penalties for non-compliance with HHS-CMS regulation may be imposed upon the State.

Condition and Context:
Initial review of 50 recipient case records revealed that the Agency failed to properly determine eligibility at the time the recipient was registered for services. The Agency was provided with detail descriptions of all errors noted. Subsequent to the fieldwork but prior to issuance of this report the Agency either performed omitted procedures or was able to obtain sufficient evidence to support decision that the recipient was ultimately Medicaid eligible.

The following errors occurred:

- In two cases, the Agency approved the recipient for services in the wrong Medicaid category. The recipient was ultimately eligible for program participation. Related policy 42 CFR 435.913 and MS 7158. The Agency subsequently verified information.
- In four cases, the Agency failed to perform the required reevaluation per policy 42 CFR 435.916. However, the Agency was able to obtain sufficient data subsequent to the audit period to verify the recipient"s eligibility for the program.
- In six cases, the Agency improperly computed the recipients income or unmet medical liability. In each of these cases the proper computation did not result in loss of program participation status.
- In 37 cases, the Agency failed to either obtain or document that it had obtained sufficient evidence to support its decision. In some instances this information was originally obtained but Agency employees failed to narrate or document otherwise that the information was available. In other cases the documentation is maintained by another Agency; effort is underway to encompass this information into recipient"s case records. In all cases, at the time of the review, information was not sufficient for auditors to reach the same conclusion as the Agency. However, subsequent review revealed that all recipients were eligible for program participation. Related policy includes various MS manual policies and 42 CFR 435.913.
- In one case, the Agency failed to verify citizenship as required by 42 CFR 435.406 and MS 6705. The Agency subsequently verified citizenship for the recipient.

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

Finding Number:	**10-710-25 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Questioned Costs:
None

Cause:
Cause of errors are insufficient number of knowledgeable staff, insufficient support staff, ineffective training of program requirements, and inadequate controls related to gathering and retaining evidence to support eligibility decisions.

Effect:
Effect of error is that internal controls appear to be ineffective to minimize the risk that household eligibility will be improperly determined. In addition the Agency"s failure to comply with HHS-CMS regulations could result in financial penalties.

Recommendation:
We recommend the Agency review and strengthen the internal controls over record documentation and retention. We also recommend the Agency continue to train personnel on the requirements of the program as outlined in the MS manual.

Views of Responsible Officials and Planned Corrective Actions:
During the last year, there has been a statewide effort in counties with high employee turnover to reduce the number of overdue re-evaluations through increased monitoring and re-distribution of cases. This effort has resulted in a reduction of overdue re-evaluations and will continue in the future. In order to address DLA findings, the Agency will implement the following corrective action plans to improve caseworker knowledge and application of Medicaid policies and increase program monitoring:

- Develop an error prone profile of Medicaid applications and cases to be reviewed each month by local DCO management and Field Staff.

- Develop and implement the use of a Medicaid 2nd Party Review guide form to conduct reviews of error prone applications and cases.

- Develop and implement a guide for staff to use to adequately document program requirements.

Implementation Date: June 2011

- Local management staff will continue to conduct periodic refresher training on error prone applications and cases.

Implementation Date: Ongoing

- Utilize the DCO training unit to conduct an annual Medicaid refresher training on error prone cases.

Implementation Date: Curriculum development will begin in July 2011 with a target date of June 2012 for completion.

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

Finding Number:	**10-710-25 (Continued)**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-0805AR5028; 05-0905AR5028; 05-0905ARARRA; 05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2008, 2009 and 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):

- Target certain counties with a high level of error prone applications and cases to conduct an annual area special review project in these counties.

Implementation Date: Target reviews will begin in July 2011 with an anticipated completion date of June 2012 for completion.

- Fully implement application processing by the new Access Arkansas Processing Center in Batesville. This office will process a high volume of applications and case reviews allowing staff in county offices more time to focus on accurately processing error prone cases.

Implementation Date: June 2011

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

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

Finding Number:	**10-710-26**
State/Educational Agency(s):	**Arkansas Department of Human Services**
CFDA Number(s) and Program Title(s):	**93.778 - Medical Assistance Program** **93.778 - ARRA - Medical Assistance Program**
Federal Award Number(s):	**05-1005AR5048; 05-1005ARARRA; 05-0905AR5048; 05-0905ARARRA;** **05-1000AR5028; 05-1005ARARRA**
Federal Award Year(s):	**2009 and 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with OMB Circular A-133 Subpart C §_.300(d), the auditee is required to "prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with §_.310." Subpart C §_.310(b)(3) notes that the schedule should "provide the total federal awards expended for each individual federal program."

Condition and Context:
The Agency incorrectly reported Medical Assistance Program and Medical Assistance Program Recovery Act expenditures on the SEFA. Total expenditures reported for the Medical Assistance Program were overstated by $5,772,063 and for Medical Assistance Program Recovery Act were overstated by $5,981,456.

Questioned Costs:
None

Cause:
The Agency reported expenditures on the SEFA based on the expenditure amounts reported on the "Quarterly Medical Assistance Expenditures for the Medical Assistance Program" reports (CMS-64). The amount reported was adjusted for known reporting errors. However, additional errors which had not been identified by the Agency were identified during the audit.

Effect:
Total expenditures for the Medical Assistance Program and Medical Assistance Program Recovery Act were overstated on the SEFA by $5,772,063 and $5,981,456, respectively

Recommendation:
We recommend the Agency report expenditures based on actual expenditures per the Agency"s financial systems or prepare complete and accurate reconciliations of expenditures per the financial systems to the required quarterly expenditure reports.

Views of Responsible Officials and Planned Corrective Actions:
The Agency agrees with the finding. The overstated amounts were 0.20% and 1.99%, respectively, of the total amounts reported. Subsequent to the original submission of the Medical Assistance Program Recovery Act expenses to the Department of Finance and Administration (DF&A), the agency discovered a reporting error of $5,437,120; however, the agency failed to properly communicate its discovery to DF&A. If this correction had been made, the overstated amount would have been 0.19% of the total reported. Reconciliations of expenditures per the financial systems to the CMS-64 reports are being done on a quarterly basis and are reviewed by the Agency Controller in Managerial Accounting.

STATE OF ARKANSAS
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY

Finding Number:	**10-150-01**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Sec. 471 Cost of Attendance, requires that the student"s Cost of Attendance agree with the appropriate budget established by the institution or is otherwise documented (professional judgment).

In accordance with 20 U.S.C. Section 1087vv (j)(also promulgated as Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Section 279, Treatment of Other Financial Assistance), when a specific component of a student"s cost of attendance is explicitly paid by another source, the tuition and fee payment should be counted as estimated financial assistance, which reduces the amount of financial need.

In accordance with 20 U.S.C. Section 1087tt (also promulgated as Higher Education Act of 1965, Title IV - Student Assistance, Part F - Need Analysis, Section 278, Discretion of Student Financial Aid Administrators), "the reason for the adjustment (to cost of attendance) must be documented in the student"s file and it must relate to the special circumstances that differentiate him, not for condition that exist for a whole class of students."

Condition and Context:
A total of 40 students were selected for testing, including 24 College of Medicine (COM) students.

- The cost of attendance (COA) per the award letters for two COM students did not match the established budgets for the specific programs. The students were not over awarded federal loans as a result of the errors.
- For five students, the Director of Financial Aid for COM raised the COA for scholarships the students received instead of reducing the amount of unsubsidized Stafford loans that were awarded to the students. The increases resulted in over awards totaling $3,050 for three of the five students. The other two students had estimated COA"s that were equal to or greater than the increase in COA and can be used to account for additional unsubsidized Stafford loans.
- For three students, the Director of Financial Aid for COM used professional judgment to raise the COA for amounts that were unsupported or not considered a special circumstance. In all cases, the students" unsubsidized loan amounts were increased to the revised COA amounts. The increase in COA created over awards for all three students totaling $2,414.

Questioned Costs:
Students were over awarded a total of $5,464. The over award amount was computed by comparing the students total loans to their correct cost of attendances plus any adjustments deemed allowable.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-01 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Cause:
The Financial Aid department of COM is not complying with regulations as they relate to adjusting financial aid for scholarships received by a student. In some cases, the Financial Aid department for COM would increase the cost of attendance for the amount of the scholarships instead of reducing the unsubsidized Stafford loan amounts. The Financial Aid department for COM does not maintain adequate supporting documentation for adjustments made based on professional judgment.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a process to ensure award letters are complete and accurate before mailing the letters to the students.

We recommend the Financial Aid department of COM discontinue increasing students" cost of attendance for non-federal scholarships received. We recommend management train staff assigned to determine financial need on the regulations related to increasing a student"s cost of attendance, including what is allowed and not allowed, and what supporting documentation should be maintained.

We also recommend management implement a second level review and approval process for professional judgment decisions and document the review in the student files.

Views of Responsible Officials and Planned Corrective Actions:
Management concurs with this finding. It was discovered that a technical problem within the student database listed the classification for these two students incorrectly therefore the award letters were based on inaccurate information. This problem was addressed and all award letters for the current year have been reviewed by the College of Medicine Student Financial Aid Office for accuracy. Fiscal Year 2012 Award Letters will be processed thru our automated financial aid software, ProSam.

The College of Medicine Financial Aid Office staff has reviewed each file for the current year to insure that student loans are decreased rather than increasing the COA to allow for nonfederal scholarships.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-01 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Eligibility**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions (Continued):
In an effort to implement the spirit of the "Dear Colleague Letter Gen-09-04" COA was increased on a case by case basis to meet what was considered increased living expenses for the three students. We believe each file reflected the amount of the increase and the rationale for the increase in the COA. In the future the documentation will be in each student"s file to better support the use of professional judgment. The College of Medicine Financial Aid Office staff has reviewed the current year files and now requires two signatures to approve the use and documentation of professional judgment.

Due to staffing limitations it has been decided to consolidate the Student Financial Aid activity under the Vice Chancellor for Academic Affairs which currently processes student financial aid for all UAMS students not in the College of Medicine. This transfer was completed on December 17, 2010.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-02**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Verification**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
The 2009-10 Department of Education Verification Worksheet requires a student selected for verification to complete and sign the worksheet and submit the completed worksheet and other required forms to the financial aid administrator.

In accordance with 34 CFR 668.58, loan funds for students selected for verification may not be disbursed to the student until verification has been completed.

Condition and Context:
During our testing of verification compliance, we noted three exceptions in testing College of Medicine (COM) students, in which the verification process was not complete prior to the disbursement of aid funds. In one case, the student"s funds were disbursed four days prior to the completion of the verification process per the date of the letter to the student from the Director of Financial Aid for COM. In the other two cases, aid funds were disbursed two and seven days prior to the student signing the verification worksheets and the date of the letter from the Director of Financial Aid for COM indicating the verification process was complete.

We also noted one exception where the number of household members varied from the number certified by the student on the verification worksheet. The discrepancy was not noted on the review worksheet nor were changes made to the student"s record to correct the error.

Questioned Costs:
None

Cause:
The College of Medicine Student Financial Aid department does not have adequate controls in place to ensure verification is complete and accurate prior to the disbursement of aid funds. In addition, due to a lack of segregation of duties, management review of day to day processing of financial aid does not exist for this office.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a control process that will ensure aid funds are not disbursed to students who have been selected for verification until the verification process is complete and all information has been verified and appropriately updated, if necessary.

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CORRECTIVE ACTION PLAN
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

FINDINGS COVERING MORE THAN ONE FEDERAL AGENCY (Continued)

Finding Number:	**10-150-02 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.007 - Federal Supplemental Educational Opportunity Grants** **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** **(Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Verification**
Type of Finding:	**Noncompliance and Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions:
Management concurs with this finding. Verification for all students selected will be completed prior to processing any student request for student financial aid. We believe the cases noted above were completed prior to the processing of aid but concur that the documentation in the files did not completely confirm this. It has always been our policy to process the aid after the verification process was completed.

Due to staffing limitations it has been decided to consolidate the Student Financial Aid activity under the Vice Chancellor for Academic Affairs which currently processes student financial aid for all UAMS students not in the College of Medicine. This process was completed on December 17, 2010.

STATE OF ARKANSAS
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF EDUCATION

Finding Number:	**10-150-03**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**84.063 - Federal Pell Grant Program (Student Financial Assistance Cluster)**
Federal Award Number(s):	**N/A**
Federal Award Year(s):	**July 1, 2009 through June 30, 2010**
Compliance Requirement(s) Affected:	**Reporting**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
In accordance with Volume 4, Chapter 1, Section 4-26 of the Department of Education Federal Student Aid Handbook, institutions submit Pell origination records and disbursement records to the Department of Education"s Common Origination and Disbursement System (COD). Institutions must report student payment data within 30 calendar days after the institution makes a payment or becomes aware of the need to adjust previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, bi-weekly or may set up their own system to ensure that changes are reported in a timely manner.

Condition and Context:
We noted that for six of the 25 students tested, Pell disbursements were not reported to the COD within the required 30 day time period. The exceptions ranged from 31 to 33 days after the payment were posted to the students" accounts.

Questioned Costs:
None

Cause:
At the time of the disbursements, the Student Financial Aid Office did not have a process in place to ensure timely reporting of Pell disbursement to the COD.

Effect:
The Department of Education has the right to withdraw funding when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend management implement a process to ensure Pell disbursements are reported to the COD within the required time period. The process should be documented and staff responsible for the reporting should be properly trained.

Views of Responsible Officials and Planned Corrective Actions:
Management concurs with this finding. It was noted that COD had technical issues the week this particular file was submitted. This was an isolated issue and did not reoccur in the Spring or Summer transmissions. There was no impact on the financials and the DOE Letter of Credit was not received until after the transmissions were reconciled.

With the implementation of ProSam the financial aid software for UAMS, the reporting/submitting process to COD is automated which assists in eliminating any possible future errors.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number:	**10-150-04**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.389 - National Center for Research Resources** **93.395 - Cancer Treatment Research** **(Research and Development Cluster)**
Federal Award Number(s):	**1UL1RR029884-01 and 2P01CA055819-15 REVISED**
Federal Award Year(s):	**07/14/2009 to 03/31/2010 and 09/29/2009 to 08/31/2010**
Compliance Requirement(s) Affected:	**Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Criteria:
Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. Also, if authorized by the federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awards, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period. Non-federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Condition and Context:
During the testing of expenses charged during and after the end of the grant period, we noted that expenses for goods were charged to the grants in question even though the expense was outside of the period of availability. The expense items noted were computer maintenance costs of $27,950, $14,513 and $53,750, and nonemployee travel of $971 on grant G1-35030 and equipment maintenance for two months of $2,783 on grant G1-34956.

Total facilities and administrative (F&A) expenses related to these charges total $44,985.

Questioned Costs:
$144,952

The expenses on grant G1-35030 that were charged after the grant"s period of availability total $97,184. The related F&A charge, calculated at a rate of 45%, would be $43,733, for a total questioned cost of $140,917.

For grant G1-34956, the expense that was charged after the grant"s period of availability totals $2,783. The related F&A charge, calculated at a rate of 45%, would be $1,252, for a total questioned cost of $4,035.

Cause:
Large purchases near the last day of the grant can include certain items that benefit a future period rather than the period of the grant. Maintenance fees are normally paid in advance of the period covered resulting in charges being posted to grants in the wrong grant year.

Effect:
The Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
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FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**10-150-04 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.389 - National Center for Research Resources** **93.395 - Cancer Treatment Research** **(Research and Development Cluster)**
Federal Award Number(s):	**1UL1RR029884-01 and 2P01CA055819-15 REVISED**
Federal Award Year(s):	**07/14/2009 to 03/31/2010 and 09/29/2009 to 08/31/2010**
Compliance Requirement(s) Affected:	**Period of Availability of Federal Funds**
Type of Finding:	**Noncompliance and Significant Deficiency**

Recommendation:
We recommend that management ensure that any maintenance agreements be reviewed prior to posting to a grant. This review should be by appropriate levels of management to ensure that the grant period charged is correct. We also recommend that any purchases made close to the end of the grant period, particularly those that are not liquidated prior to the grant"s year end, be reviewed in greater detail to ensure that the period charged is correct. Finally, we recommend that entries be posted to reclassify any unallowable costs to future periods and resubmit the Financial Status Report (FSR), as needed.

Views of Responsible Officials and Planned Corrective Actions:
Management concurs with this finding. We will review all maintenance contracts/license agreements, paying particular attention to those not liquidated until after the end of the budget period, to ensure the correct budget period is charged with this expense. The maintenance agreement amount has been removed from this budget period. The revised Financial Status Report was submitted and approved by the funding agency on 1/18/11.

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**10-150-05**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/11 and 06CH7001/12**
Federal Award Year(s):	**11/01/08 to 10/31/09 and 10/01/09 to 10/31/10**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Significant Deficiency**

Criteria:
In accordance with 42 USC 9835 (b), and 45 CFR sections 1301.20 and 1301.21, grantees are required to contribute at least 20% of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved.

In order to ensure compliance with this requirement, the Head Start Fiscal Officer reviews one month of the amounts input into the data management system for in-kind contributions for each calendar quarter to verify the accuracy of the information.

Condition and Context:
During our review of the monthly amounts for in-kind contributions, we noted differences between the supporting documentation (volunteer time sheets) and the inputs into the data management system. The differences totaled $3,755 for November 2009, $4,651 for February 2010, and $6,607 for April 2010, which could result in the in-kind amount being overstated. We also noted that volunteer time sheets for two Head Start sites for November 2009 had not been input into the system. The total in-kind contributions for these sites were $3,521 resulting in understatement of in-kind contributions.

The Head Start Program is required to contribute at least 20% of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved. Through July 31, 2010, approximately $775,727 has been input into the data management system for volunteer time. The differences noted are one percent of the total recorded and would not prevent the Head Start Program from meeting the 20% requirement.

Questioned Costs:
None

Cause:
The Head Start Fiscal Officer"s quarterly review of the monthly in-kind contributions does not appear sufficient to identify errors in input.

Effect:
The Department of Health and Human Services has the right to wholly or partly suspend or terminate the current grant award, condition a future grant or elect not to provide future grant funds, and/or withhold further awards for the program when there is reason to believe through periodic monitoring or review that the University is not in compliance with the requirements established.

Recommendation:
We recommend that the Head Start Fiscal Officer implement procedures to review monthly reports from the data management system to identify potential errors in the amounts input.

STATE OF ARKANSAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

FINDINGS COVERING PROGRAMS AUDITED BY OTHER EXTERNAL AUDITORS (Continued)

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

Finding Number:	**10-150-05 (Continued)**
State/Educational Agency(s):	**University of Arkansas for Medical Sciences**
CFDA Number(s) and Program Title(s):	**93.600 - Head Start (Head Start Cluster)**
Federal Award Number(s):	**06CH7001/11 and 06CH7001/12**
Federal Award Year(s):	**11/01/08 to 10/31/09 and 10/01/09 to 10/31/10**
Compliance Requirement(s) Affected:	**Matching, Level of Effort, Earmarking**
Type of Finding:	**Significant Deficiency**

Views of Responsible Officials and Planned Corrective Actions:
Management concurs with this finding. Head Start recently converted from a manual system of tabulating in-kind contributions to inputting the individual volunteer timesheets into the data management system used by Head Start. As such, certain internal controls need to and will be strengthened (see below). *Please note that the in-kind amounts noted on this finding are from months in the current grant year. Final in-kind contribution totals for the current grant year have not been reported as of yet to the Federal government – the final report is due to be submitted by January 31, 2011.* Given this reporting deadline, the in-kind amounts noted on this finding will be corrected in the data management system, and an accurate report will be submitted to the Federal government. (The Financial Status Report with the reviewed and verified In-kind contribution was submitted on 1/21/11.)

Internal controls that have been strengthened:

- Entry of in-kind volunteer sheets into the data management system will be limited to two individuals, ensuring greater consistency over information entered
- Every in-kind volunteer sheet will be marked as „entered" after it is input into the data management system, ensuring that every sheet is input, and no duplicate entry occurs
- Calculator tapes will be run for each center each month, and the tape will be compared to each center"s monthly report from the data management system. Any differences noted will be investigated and corrected
- Head Start Fiscal Officer will review each month"s calculator tapes compared to reports from the data management system. Checks will also be done monthly (not quarterly) to ensure that all forms representing individual center"s in-kind amounts are present and correctly input into the data management system