

**State of Arkansas
Disability Determination For
Social Security Administration**

Financial Statements and Other Information

with Independent Auditors' Report

September 30, 2018

Stan Parks, CPA

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STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

FINANCIAL STATEMENT AND OTHER INFORMATION
SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

State of Arkansas
Disability Determination for
Social Security Administration

Report on Financial Statements

We have audited the accompanying statement of receipts and disbursements of the State of Arkansas Disability Determination for Social Security Administration as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the statement of receipts and disbursements of the State of Arkansas Disability Determination for Social Security Administration as of September 30, 2018 for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of State of Arkansas Disability Determination for Social Security Administration., referred to above, taken as a whole. The accompanying schedule of expenditures of federal awards is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the accompany Supplementary Information in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and the *Uniform Guidance* we have also issued a report dated June 25, 2019 on our consideration of State of Arkansas Disability Determination for Social Security Administration's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the effectiveness of the Agency's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Uniform Guidance* in considering the Organization's internal control over financial reporting and compliance.

Stan Parks, CPA

Little Rock, Arkansas
June 25, 2019

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Receipts

Federal Grants and reimbursements	\$ 45,009,603
State Medicaid reimbursements	15,608
	<hr/> 45,025,211 <hr/>

Disbursements

Agency employees and benefits	31,874,021
Consultive exams	5,140,308
Medical evidence records	3,555,136
Occupancy costs	1,278,127
Data processing cost	329,561
Rent, transportation and office equipment	102,580
Communications	338,387
Contracted Cost	315,559
Applicant travel subsistence	221,732
Other travel expense	23,755
Supplies	368,607
Other Expenses and services	306,763
Cost allocation - State of Arkansas (Note 3)	1,170,675
	<hr/> 45,025,211 <hr/>

Excess of Receipts over Disbursements	\$ -
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STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

NOTES TO THE FINANCIAL STATEMENT
SEPTEMBER 30, 2018

NOTE 1 - Summary of Significant Accounting Policies

Organization

The State of Arkansas Disability Determination for Social Security Administration (the Agency), a component of State Government, was created by Act 14 of the Second Extraordinary Session of the 1961 Arkansas General Assembly and, accordingly, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Agency operates under the Administrative Control of the Chief Executive of the State of Arkansas and, accordingly, is subject to the Constitution, Statutes and Regulations of the State of Arkansas. The purpose of the Agency is to carry out the disability determination and hearing functions for the federal government's Social Security Administration.

Basis of Presentation

The accompanying statement of receipts and disbursements has been prepared in accordance with the cash basis and budget laws of the State of Arkansas and is not intended to present financial position or results of operations of the Agency in conformity with accounting principles generally accepted in the United States of America.

General Fixed Assets

The purchase of non-expendable property and equipment is recorded as an expense or capital outlay during the period in which purchased. No provision is made for periodic depreciation expense as required by accounting principles generally accepted in the United States of America. Property acquired by the Agency through its primarily grant funding is considered as owned by the State of Arkansas to be used in the Agency's programs for which it was purchased or in future authorized programs. However, the United States or the State of Arkansas, as grantors, has a reversionary interest in the property. Its disposition as well as ownership of any proceeds there from is subject to federal or state regulation. The Agency's operations also include computer, fax and printing equipment, which is acquired, owned and provided directly by the Social Security Administration and is not part of the Agency's revenue budget or funding expenditures.

Retirement Plan

The Agency contributes to the Arkansas Public Employees' Retirement Plan (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan. The Plan is administered by Arkansas Public Employees' Retirement System (APERS), which consists of a nine member Board of Trustees. For the Plan year ended June 30, 2018, total Net Asset Position Restricted for Pension Benefits amounted to \$8,603million. The actuarial value of plan net assets and accrued liability was \$8,416 million and \$10,694 million respectively, on total covered payroll of \$1,849 million. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to APERS, One Union National Plaza, 124 West Capitol, Little Rock, AR 72201-1015 or calling (501) 682-7855.

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

NOTES TO THE FINANCIAL STATEMENT
SEPTEMBER 30, 2018

NOTE 1 - Summary of Significant Accounting Policies - Continued

Retirement Plan - Continued

The Plan provides retirement and disability retirement benefits to full-time and certain part-time employees of the Agency as well as death and service benefits to their beneficiaries. Benefit provisions are established by Title 24 – Chapters 2 and 4 of the Arkansas Code of 1987, Annotated, and may be changed by amendment of that law by the Arkansas Legislature with concurrence of the Governor

The Agency contributed between 14.5% and 14.75% to of each participating employee’s annual qualified salary to the Plan. Contribution requirements are established by law and may be changed by the Arkansas Legislature with concurrence of the Governor. The Agency’s contributions to the Plan for the year ended September 30, 2018 equaled the required contributions and amounted to \$3,299,492.

Economic Dependency

The Agency is dependent on grant funds received from the federal government. During the fiscal year ended September 30, 2018, approximately 100% of the Agency’s revenue was provided by federal grants.

Subsequent Event Disclosure

The accompanying financial statements and related disclosures have been reviewed by management and include any required disclosures arising after the fiscal year end September 30, 2018 and through June 25, 2019, the date of the auditor’s reports. The financial statements will be available for issuance to the Provider Agencies at that time.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - Leases

The Agency was obligated under various lease agreements for office space, parking, office equipment and Agency vehicles in Little Rock, Arkansas during the fiscal year ended September 30, 2018. The lease for building facilities and related real estate used is scheduled to expire between January, 2019 and June, 2025 with a monthly base rent(s) ranging from \$618 to \$97,164 per month. Rent expense under the above lease agreements was \$1,228,698 for the year ended September 30, 2018.

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

NOTES TO THE FINANCIAL STATEMENT
SEPTEMBER 30, 2018

NOTE 2 – Leases - Continued

The minimum future obligations from these operating leases in effect at September 30, 2018 are as follows:

<u>Year Ending</u>	<u>Amount</u>
9/30/19	\$ 1,078,387
9/30/20	\$ 1,078,087
9/30/21	\$ 1,207,458
9/30/22	\$ 1,195,633
9/30/23	\$ 1,228,947

NOTE 3 - Indirect Costs

To facilitate equitable distribution of common purpose costs benefiting more than one grant or program, the Agency utilizes a statewide cost allocation plan, which is approved by the Division of Cost Allocation of the cognizant agency on behalf of the federal government. During the fiscal year ended September 30, 2018, the Agency incurred \$ 1,170,675 in indirect costs under the statewide cost allocation plan, for the State's fiscal years 2018 and 2017 at \$590,451 and \$580,224 respectively.

NOTE 4 – Excess Cash Receipts / (Expenditures) – Fiscal Year September 30, 2018

The statement of Receipts and Disbursements for the fiscal period ended September 30, 2018, indicated a zero in excess cash disbursements over cash receipts. Historically, At month end and year end September, timing differences occur when certain expenditures, especially payroll, are required to be drawn from the Provider Agency and made available to the Arkansas State Treasury before ordering / issuing the checks from the State Treasury's disbursement system. This timing difference, "Excess Receipts or (Expenditures)" in any given twelve month period ended September 30th, can occur. Normally, it is deemed insignificant, as all program years, when closed, expend 100% of funding for a specific program year. In years where the timing differences as to net excess cash receipts or (disbursements) is deemed material, a full explanation will be provided in the footnotes therein.

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INDEPENDENT AUDITORS' 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*

State of Arkansas
Disability Determination for
Social Security Administration

We have audited, 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, the financial statements of the State of Arkansas Disability Determination for Social Security Administration which is comprised of the statement receipts and disbursements for the fiscal year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered State of Arkansas Disability Determination for Social Security Administration's (the "Agency") internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether State of Arkansas Disability Determination for Social Security Administration's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

Purpose of this Report

This report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stan Parks, CPA

June 25, 2019
Little Rock, Arkansas

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

State of Arkansas
Disability Determination for
Social Security Administration

Report on Financial Statements

We have audited the compliance of State of Arkansas Disability Determination for Social Security Administration with the types of compliance requirements described in the *OMB Compliance Supplement* that that could have a direct and material effect on the Agency's major federal program for the fiscal year ended September 30, 2018. Arkansas Disability Determination for Social Security Administration's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal requirements of laws, regulations, contracts and grants applicable to each of its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of State of Arkansas Disability Determination for Social Security Administration's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 State of Arkansas Disability Determination for Social Security Administration'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 on compliance for each major federal program. However, our audit does not provide a legal determination on State of Arkansas Disability Determination for Social Security Administration's compliance.

Opinion on Each Major Federal Program

In our opinion, the State of Arkansas Disability Determination for Social Security Administration complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended September 30, 2018.

Reports on Internal Control Over Compliance

Management of State of Arkansas Disability Determination for Social Security Administration is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered State of Arkansas Disability Determination for Social Security Administration's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with the Uniform Guidance, 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 Agency's internal control over compliance.

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 on 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 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.

A significant deficiency in internal control over compliance is a deficiency, or 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Stan Parks, CPA

June 25, 2019
Little Rock, Arkansas

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

NOTES TO THE EXPENDITURE OF FEDERAL AWARDS
SEPTEMBER 30, 2018

NOTE A – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes federal grant activity of the Agency under the programs of the federal government for the year ended September 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended and does not present financial position, changes in net assets, or cash flows of the Agency.

NOTE B – Summary of Significant Accounting Policies

- 1) Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles of Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditure are not allowable or are limited as to reimbursement.
- 2) Pass-Thru entities are named and identifying numbers are presented if / when applicable.
- 3) The Agency received no non-monetary assistance in the 2018 fiscal year end.

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

SUPPLEMENTARY SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Authorized Amount</u>	<u>FY 9/30/18 Receipts</u>	<u>FY 9/30/18 Disbursements</u>
Social Security Administration–2015 Program	96.001	4-1204ARDI00	\$44,860,082	\$ 18,267	\$ 18,267
Social Security Administration–2016 Program	96.001	4-1304ARDI00	\$45,661,442	161,027	161,027
Social Security Administration–2017 Program	96.001	4-1404ARDI00	\$45,150,268	1,518,819	1,518,819
Social Security Administration–2018 Program	96.001	4-1404ARDI00	\$44,519,930	<u>43,311,490</u>	<u>43,311,490</u>
				<u>\$ 45,009,603</u>	<u>\$45,009,603</u>

Total Federal Financial Assistance all under a major program

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Summary of Auditor's Results:

Financial Statements

Type of auditors' report – Unqualified

Internal control over financial reporting:

Material weakness(es) identified? – no

Significant Deficiencies identified that are not considered material weaknesses? – no

Noncompliance material to financial statements noted? – no

Federal Awards

Internal control over major program:

Material weakness (es) identified? – no

Significant Deficiencies identified that are not considered material weaknesses? – no

Type of auditors' report issued on compliance for major program – Unqualified

Any audit findings disclosed that are required to be reported under Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). - no

Identification of major programs:

CFDA Number – 96.001 - Social Security Administration

Dollar threshold used to distinguish between type A and type B programs? - \$1,350,288

Auditee qualified as low-risk auditee? - no

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2018

There are no reportable findings or questioned cost for the year ended September 30, 2018

STATE OF ARKANSAS
DISABILITY DETERMINATION FOR
SOCIAL SECURITY ADMINISTRATION

SUMMARY OF PRIOR FINDINGS RESOLUTIONS

There were no reportable findings or questioned cost for the year ended September 30, 2017.